TRADEWINDS

MARCH 2014

Doha Round: A History

The Bali Deal

I-Trade

The Mystery of Gold

Company Analysis: Mercuria Energy

Dear Readers,

Team Trade Winds is proud to bring to you the latest edition of IIFT's trade digest. The issue covers an in depth story on the history of Doha Round and the progress made in the Bali talks. In our constant endeavour to provide you a diverse knowledge, we have come up with a brief report on the effects of commodity transaction tax in India. Also, under the head Company Analysis, we bring to you a brief profile of Mercuria Energy.

Inside the Issue

Doha Round: A History — *Page 2*

The Bali Deal — *Page 6*

I-Trade — *Page 8*

Company Analysis: Mercuria Energy — *Page 12*

The effects of Commodity Transaction Tax — *Page 15*

International Trade and the Politically-Correct Country — *Page 18*

Trans-shipment port cities — *Page 21*

The Mystery of Gold — *Page 24*

Yours sincerely,

Team Trade Winds

"In Africa today, we recognize that trade and investment, and not aid, are pillars of development."

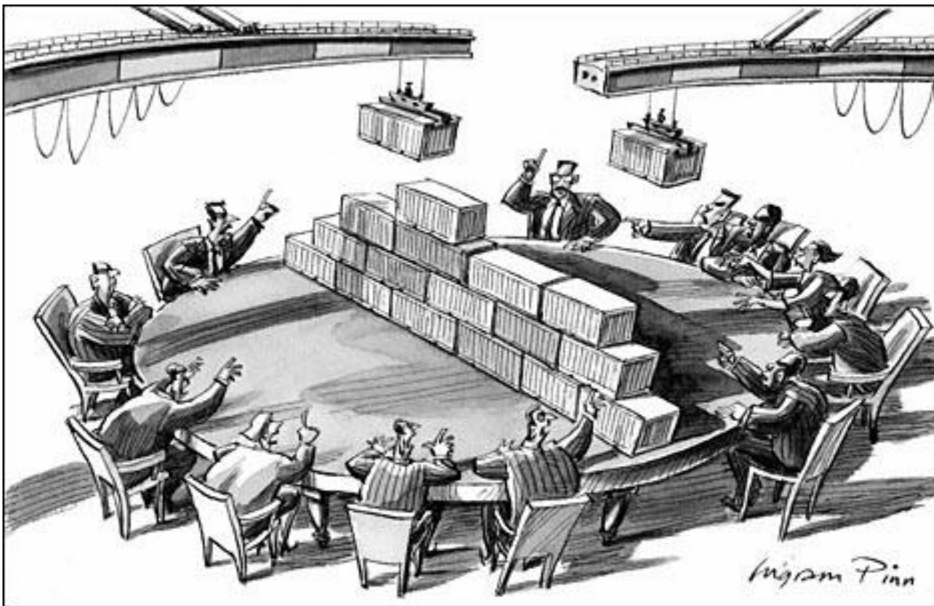
- Paul Kagame

Doha Round: A History

Shivam – MBA (IB) 2013-15

The Doha Development Round or Doha Development Agenda (DDA) is a historic trade negotiation round of the World Trade Organization. In this article, we will look at the history, issues and progress report of Doha round.

History: Before Doha



Eight rounds of negotiation occurred under GATT (the predecessor of WTO).The most significant among all the negotiations was the Uruguay round that extended trade into several new areas like services, Intellectual Property, agriculture and textiles. It was the biggest negotiating mandate on trade ever agreed in the history of trade negotiations. The final act of negotiations, signed during the ministerial meeting at Marrakesh, Morocco, concluded Uruguay round and witnessed the transition of GATT to WTO.

The first WTO Ministerial Conference was held at Singapore in 1996. It established permanent working group on 4 issues: transparency in government procurement; trade facilitation (customs issues); trade and investment; and trade & competition. These issues, referred to as “Singapore issues”, were aggressively pushed by EU, Japan and Korea but opposed by most developing nations. In the end no agreement was reached.

The second Ministerial Conference at Geneva saw the successive and repeated pushing of the aforementioned agendas by EU and its other associates, but it brought the same result as the Singapore negotiations.

The third Ministerial Conference was intended to start in Seattle in 1999 but due to several events including protests (Battle of Seattle), it never started.

With successive pushing of agendas and no results achieved, the developed nations still maintained their stand that any new trade negotiations must include the "Singapore issues" and hence all eyes were now set on the next Ministerial Conference in Doha, Qatar.

Doha round

The Round was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001. The Doha Ministerial Declaration provided the mandate for the negotiations, including discussion on agriculture, services and intellectual property, which had begun earlier in Uruguay round of negotiations.

Doha round's main objective was to commit all member nations to negotiations on opening agricultural and manufacturing markets, trade in services negotiation (GATS) and expanded intellectual property regulation (TRIPS).

It aimed to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules. The work program covered about 20 areas of trade. The Round was semi-officially also addressed as the "Doha Development Agenda" as one of its fundamental objectives was to improve the trading prospects of developing countries. The members also decided to discuss on how to address the problems developing countries face in the current WTO agreements.

Issues in Doha round

Though the Doha round of talks envisioned many promising negotiations but the apprehensions among the participating member nations posed a huge challenge for its success. There were predominantly 2 main concerns in the mind of participants about the talks and negotiations. Firstly, the negotiations when made effective would make trade rules fairer for developed nations. Secondly, the round would expand a system of trade rules that were in reality detrimental for development and interfered excessively with countries' domestic policy space.

Besides these concerns, there were wide disagreements between developed and developing member nations. Developed nations represented by EU, Japan and Korea were not in harmony with the block of developing nations represented by India, Brazil, South Africa and Mexico. The looming question in everyone's mind was that how the round would address the growing disagreements between developing and developed nations and how it would convince both parties to arrive on a consensus.

Progress Report

Low key talks continued since the ministerial meeting in Doha but progress was almost non-existent. The 2003 Cancun talks that intended to forge concrete agreement on the Doha round objectives, collapsed after four days as the members could not agree on a framework to continue negotiations.

The talks collapsed for several reasons. Firstly, differences over the Singapore issues seemed incapable of resolution. Secondly, the wide difference between developing and developed countries across virtually all topics was a major obstacle. Thirdly, a few member nations showed no flexibility in their positions and only repeated their demands rather than talk about trade-offs.

In July 2004, many significant results and decisions were achieved in Geneva talks. Firstly, WTO members agreed on the Framework Agreement which provides broad guidelines for completing the Doha round negotiations. Secondly, the Singapore issues were moved off the Doha agenda.

The Geneva round was followed by the sixth WTO Ministerial Conference in Hong Kong in 2005. Trade ministers representing most of the world's governments reached a deal that sets a deadline for eliminating subsidies of agricultural exports by 2013. However, Geneva talks failed to reach an agreement about reducing farming subsidies and lowering import taxes.

In 2008, negotiations re-started in Geneva on the Doha round but stalled after nine days of negotiations over the refusal to compromise on the special safeguard mechanism (SSM), a measure designed to protect poor farmers by allowing countries to impose a special tariff on certain agricultural goods in the event of an import surge or price fall. Since then, the negotiations have been stalled.

Blame game

Several countries have blamed each other for the breakdown of the negotiations. The United States and some European Union members blamed India and China for the failure of the talks. In response to the allegations, India claimed that its position (i.e. the U.S. was sacrificing the world's poor for U.S./European commercial interests) was supported by over 100 countries.

Attempts to revive the talks

WTO's former Director General, Pascal Lamy along with many other member nations like Brazil, UK, etc. had urged the member nations to start negotiations again. At the 2011 annual conference of the World Economic Forum in Davos, British Prime Minister, David Cameron, called for the Doha talks to conclude, saying that, "We've been at this Doha round for far too long. It's frankly ridiculous that it has taken 10 years to do this deal."

Conclusion

The future of Doha round remains uncertain. Though all countries participating in the negotiations believe that there is some economic benefit in adopting the agreement; however there is considerable disagreement of how much benefit the agreement would actually produce. This significant disagreement in the minds of member nations is causing the talks to hang in balance.

The answer to this impasse lies in the advice of Pascal Lamy to member nations. He advocated small steps by member nations in moving forward the agreed upon issues; and re-thinking and modifying the contentious issues. Once member nations adhere to this framework, it is not too long before the Doha round will conclude for once and all.

THE BALI DEAL: A BIG DEAL FOR WTO

Ujjwal Bhatia – MBA (IB) 2013-15

The World Trade Organization (WTO) reaffirmed its relevance by reaching a $1 trillion deal to boost global trade after hefty discussions. Arguably, this can be called as WTO's second major multilateral agreement since its inception in 1995 as it was able to stitch together the views of 159 members into a single comprehensive agreement in Bali, Indonesia. The negotiation for this deal commenced in the Doha round of 2001 with an aim to bring down tariffs and other trade barriers.

Deal, No-Deal?

The proliferation of **regional trade agreements** (RTAs) was understood to be a stumbling block while trying to reach a breakthrough in the multilateral meets. Also, the members split in two camps (developing and developed nations) over issues concerning agriculture and market access. There has been considerable disagreement about services trade even within the camp of developing countries, with nations like India that have an extensive and competitive services sector naturally pushing for greater openness in trade. It has often been argued that a slower pace of progress is inevitable as more amenable areas like tariff liberalisation have already been significantly dealt with in earlier rounds, and

HIGHLIGHTS

- ✓ The objectives of the deal are: standardizing and speeding up customs procedures, make trade simpler and cheaper, reduce red-tapism and promote technology.
- ✓ Estimates predict benefits in the range of $400 billion to $1 trillion by reducing costs by 10-15%, increasing trade flows and revenue collection.
- ✓ Members agreed to refrain from bringing "non-violation" cases to the WTO for dispute settlement when there is an expected loss of a particular right.
- ✓ Members agreed not to charge duties on electronic transmissions.
- ✓ Ministers reaffirmed their commitment to Aid for Trade, an initiative that assists developing countries, and in particular least developed countries for trade.
- ✓ Measures were introduced to improve market access for cotton products from least developed countries and provide development assistance to those countries.
- ✓ Clarity was provided on the issue of "tariff quota administration".
- ✓ The deal has provisions on goods in transit which are useful for landlocked countries.

fundamentally divisive areas like trade in services and agriculture remain relatively untouched. India was a prominent player in the events that transpired, and was often accused by several other nations of impeding progress, and by other developing nations of being unrepresentative of their own concerns and motivated by domestic political considerations. In simple terms, the rich world wanted greater access to developing markets for its industrial exports while the poor world wanted the rich world to give greater access to its markets to poor-world growers.

Advantage India

India was leading the pack of dissenters at the meet. The recently passed National Food Security bill in India, under which the government provides wheat and millets at subsidized rates, is one of the largest food security programmes in the world and therefore was the bone of contention at WTO. The passage of the bill meant that India stood in breach of the WTO's Agreement on Agriculture (AoA) that strives to limit subsidies to 10% of total production of a country. These are referred to as "di minis" in trade parlance. The WTO offered a 4 year "peace clause" that would protect India and others against penalties for breaching the agricultural subsidy limit for four years but the proposal was categorically denied. India, under the leadership of Anand Sharma, Minister of Commerce and Industry, ultimately won an indefinite waiver valid until a permanent solution can be reached. Also, India's concerns on courier services were addressed. In turn, India is required to meet a number of obligations which are stated as under:

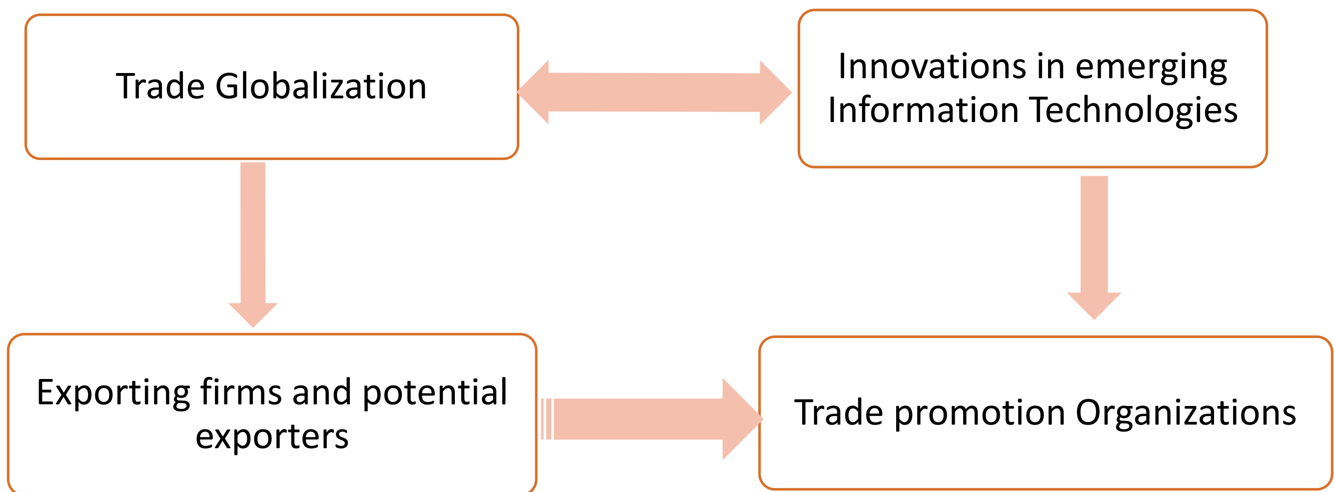
- India needs to introduce caps on the agricultural subsidies.
- India would need to simplify and standardize its custom procedures and publish the same in the form of reports to ensure uniform compliance.
- India needs to open up its subsidy programmes to regular inspections.

To comply with these restrictions, India needs to overhaul its subsidy regime. Production subsidy has to be segregated from consumption subsidy — they stand mixed up in the system currently in place. Investment in farm infrastructure, including the likes of a cold chain, to boost productivity, removal of marketing restrictions on the farmer and moving towards globally benchmarked domestic prices, even as the poor get income support — these spell the way to go. Farmers, consumers and the exchequer stand to gain from such a change. Currently, the role of Agricultural Produce Marketing Committee (APMC) is quite dubious. The government needs to ensure reforms so that the industries procure the food grains directly from the farmers eliminating the role of middlemen completely.

I-Trade

Kumar Anubhav – MBA (IB) 2013-15

With India's export standing at 18th position worldwide and imports at 10th, it is almost a matter of definition that Information Technology has to be a part of trade facilitation in terms of movement, clearance and release of goods. Thinking of IT in mechanistic terms and expecting it to alleviate trade related problems overnight is a chimerical dream. But the following interrelation diagram of forces impacting Trade Promotion Organizations displays the strong connection between trade and IT and possible way forward to synergistic excellence.



Next logical question that surfaces is that what factors actually necessitate the use of information technology in International Trade. These factors can be broadly classified into following three categories:

External Factors

With the ever increasing volume of trade related data and each trade transaction having an average of 20 parties, 40 documents, 200 data elements and re-encoding of about 70 percent of all data elements at once, reducing errors is a herculean task which can be simplified by the use of IT. During the revision of Kyoto protocol in 1999, 40 members of World Customs Organization (WCO) needed to ratify the convention within an year but it stretched to 2006 due to lack of efficient technological setup. IT was a major reason for the

revision of the protocol. The main body of convention and General Annex consisted of 120 norms out of 600 that constitute minimal requirements for the contracting parties. The three standards under "Application of Information Technology are – Customs use information technology to support customs operations when it is cost effective for trade and customs; Introduction of computer applications using relevant international standards; Use of electronic commerce methods to satisfy documentary requirements. Another push came from the side of WTO in Doha round where it bound negotiations around articles V, VII, X of GATT, 1994. These articles focused on universal access of information to enhance predictability, increasing transparency of procedures, and speeding up the movement of goods, decreasing the authority of border officials with regard to entry and exit of goods in a country.

Internal Factors

Besides the above given external factors, there are many internal forces that trigger the use of IT in trade but it is subjective in nature and thus a bit hard to define. Still it generally depends on the all-round automation taking place in the economy. Singapore demonstrated this phenomenon where there customs department automation led to change in the entire government machinery. This networking approach, to bring all countries on a single trade platform, now is being adopted by ASEAN.

Customs modernization requirement is the most important factor in this regard because they are hundreds of years old in every country as well as they deal with maximum volumes of data and parties. The customs websites even today are inefficient but can be effectively used to update information. The updating process also initiates several important reforms that come into light upon close review. This not only brings institutional changes that facilitate trade but also strengthen the controls. Modernization also helps incorporate risk management principles which significantly reduces losses.

The sudden wave of e-commerce laws entering into the countries also touches the purview of trade. These laws legalize the online transactions between private parties and the government including the use of digital signatures and emails. The application of IT is in sale of goods and services, commercial purchases, transactions with government agencies in the course of goods declaration, payment of duties and taxes, acquisition of licenses and permits, clearance of cargoes and their release from records of storage. Almost all countries are moving ahead on this path but there still needs a lot to be done when it comes to e-commerce.

Transference to India

The central board of excise and customs (CBEC) is the nodal agency under ministry of finance which is spearheading the custom's automation programme in a major way. CBEC released a "Vision and Strategy Document" in 1998, emphasizing commitment to TF through a practical and pragmatic approach. Adoption and application of information communication technology (ICT) is the major plank of the Indian Customs' initiatives to expedite the clearance of import and export cargo, and to provide a fool-proof paperless system of assessment and clearance. India has launched trade enabling policy reform. In this context, it has initiated various efforts, including the setting up of the Indian Customs and Excise Electronic Commerce/Electronic Data Interchange Gateway (ICEGATE), "eTrade" and "eBiz" under the national e-governance programme.

Various trade automation initiatives in India

Initiatives	Parent Department	Year	Coverage
Indian customs EDI systems	CBEC, Ministry of finance	1992	Specific customs location
ICEGATE	CBEC, Ministry of finance	1995	Integrated customs network
eTrade	Ministry of commerce and Industry	1997	Compatibility between various trade agencies
ACP/RMS	CBEC, Ministry of finance	2005	Compliant large traders
Port Community Systems	Indian port association	2008	Integration of all major ports and major actors at those ports

Implications

As countries modernize their customs organizations, they cannot avoid the need for computerization and automation of transactions with international commercial stakeholders. The question that follows from adopting IT in transactions with customs authorities is whether this will have an even impact on the traders and other stakeholders, or whether this will have distorting effects on the development and evolution of small-scale

traders, i.e., small-scale exporters and importers, relative to their larger counterparts. More specifically, it is important to understand the larger development impact of IT in TF, i.e., on the part of small and medium-sized traders. After all, many of common objectives of widening and deepening international commerce in development are the prospects of drawing more small-scale traders into mainstream global commerce. Implicit in some of the measures, being proposed at the WTO level, is the removal of institutional wedges between world markets and domestic entrepreneurs. On the other hand, the proposed phasing out of the customs brokers needs to be analysed in the light of the wider availability of the Internet in conducting trade transactions with government border authorities. The answer to whether the removal of these wedges, coupled with the other positive elements supportive of electronic transactions, will actually lead to significant benefits can only be found by understanding the changes empirically. In the development language, the inclusive effects of IT in TF need to be explored.

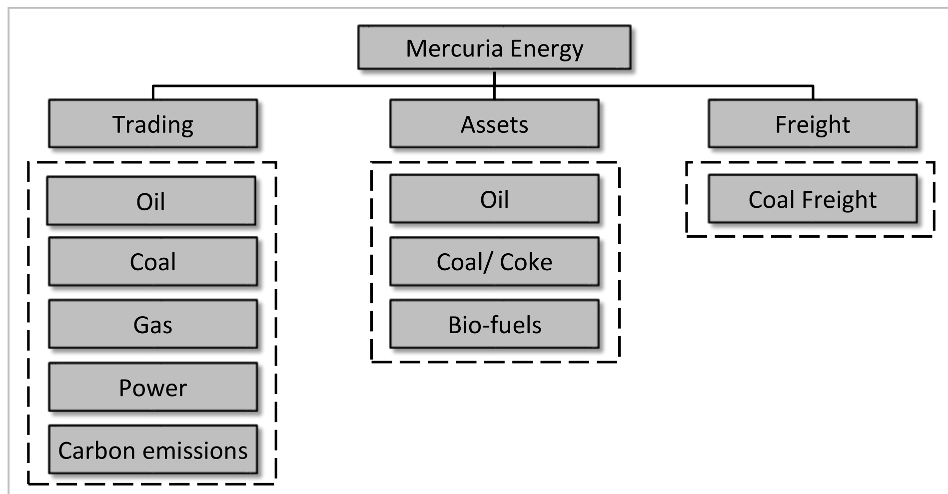
However, the drive for modernizing customs, changing standards for customs to conform to an increasingly automated global trade, and the WTO agenda to attend to trade facilitation through binding measures and obligations have essentially set the stage for considering IT in trade. Setting standards and "best practices" consistent with an electronic environment ensures that transaction costs are minimized while maximizing the flow of trade. How much these efforts have changed the climate for supporting if not reducing the disadvantages that small-scale traders face in the international trading arena needs to be further systematically studied and empirically documented. Because of the increasing use and declining costs of Internet facilities as a medium for electronic transactions, there are also questions that likewise need answers. For example, can existing institutions that have traditionally facilitated trade be abolished and traders be allowed to deal directly with government institutions to clear goods, secure necessary formalities and reduce their transaction costs? It may be important to define the mechanisms by which IT in TF has an impact on traders, especially small and medium-sized businesses, and how the context of IT in trade influences their behavior.

Mercuria Energy – Company Profile

Ashish Jain – MBA (IB) 2013-15

Mercuria Energy Group is one of the top 5 independent physical traders in the world. It was established in 1993 as J&S Trading Co. and traded mainly crude oil to Polish refineries. It changed its name to Mercuria Energy in 2004. With more than 1000 employees, it operates in 50 countries.

Business Divisions:



Oil – Upstream:

Mercuria has a capacity for nearly 5,600 boepd through its acquired subsidiaries i.e. Delta Hydrocarbons & Orchard Petroleum. It has two upstream assets of 4,500 and 1,100 boepd in Argentina and California, respectively.

Oil – Downstream:

The company currently owns 1.5 MTPA of processing capacity in Ballash & Fier refineries in Albania and is increasing its operations in downstream segment mainly in United States by acquiring shuttered refineries.

Storage Terminals:

The company owns/leases storage capacity of more than 39 million barrels in Europe, America, Africa and China that handle crude & petroleum products. All the wholly owned terminals were recently brought under the single brand name Vesta.

- The company's main focus is to increase its storage capacity for oil & oil products, and thus expanding its oil trading business line.
- With three upcoming terminals, green-field projects for storage will attract investment in the future.
- The company plans to exploit opportunities for storage requirement arising due to shutdown of refiners in the US.

Coal:

Mercuria entered into coal futures trading business in 2007 and physical trading in 2009. The company is present in coal mining as well. The company owns mines in Indonesia (Kalimantan) which was acquired through a concessional agreement in 2010.

Gas:

Mercuria entered into the gas trading business in 2007. However, it did not enter into LNG trading until 2009. The company's business model is based on short- and long-term gas supply agreements with industrial customers.

Power:

Mercuria entered into power trading in 2007. It is an active player in the European power market, especially in Poland, the UK and the Nordic markets. Its business model is based on master trading agreements, off-take agreements and short-term contracts. Through a combination of standard and tailor-made delivery schedule transactions, the company is also present in the forward market.

Bio Fuels:

Mercuria, with the acquisition of Germany-based 3B Bio-fuels, entered into bio-fuel production in 2009. The company has two operational bio-fuel plants with combined capacity of 450,000 MT in Germany & the Netherlands.

Emissions:

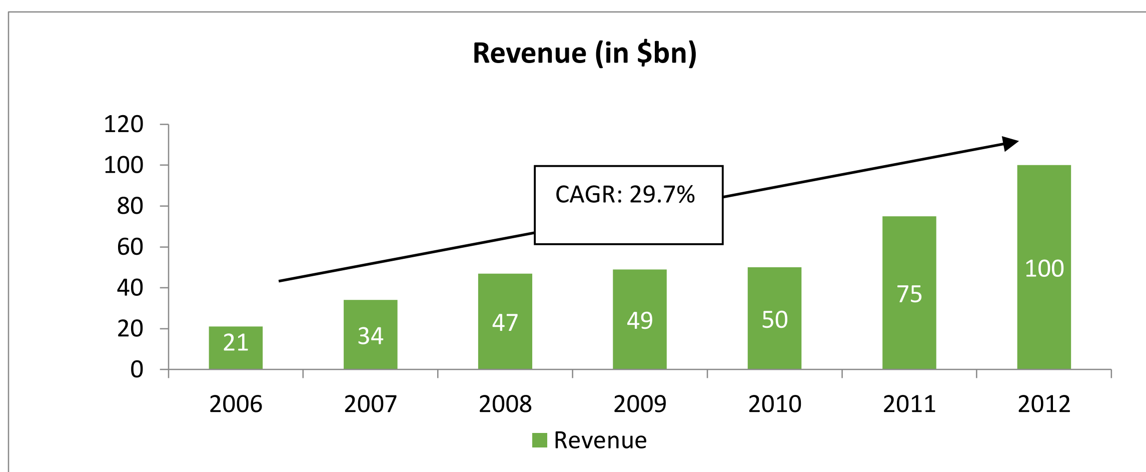
Mercuria started its emissions trading team in 2007. Mercuria Energy is involved in identification, investment, development and commercialization of projects that contribute to reducing greenhouse gas emissions. It has emissions trading and carbon projects in various sectors such as oil & gas, cement and coal mining. The company is an important trader in four major European carbon exchanges: ECX, Bluenext, Nordpool and EEX.

Base Metals:

Mercuria started its base metals trading business in May 2012. Copper, aluminum, zinc, nickel, tin and lead are the focuses of this business. Mercuria has operations in London and Shanghai.

Financials:

The company has grown at a CAGR of ~30% in last 7 years and has become one of the largest energy commodities traders in the world.



Sources: Bloomberg, Mercuria, Reuters

The effects of Commodity Transaction Tax

Ashwin Vishwanath – MBA (IB) 2013-15

"*Death, taxes and childbirth*, there's never any convenient time for any of them" is a famous quote from the classic American romantic novel, Gone with the Wind, penned by Margaret Mitchell in 1936. At a time when the nation is struggling to keep the Rupee alive, the Government has introduced the Commodity transaction tax on all exchange traded non-agricultural commodities. The tax has been introduced on the lines of security transaction tax (STT) that has been in place for equities and its derivatives for a long time. While the tax is expected to fetch additional revenue for the North Block, it drains cash out from investors and speculators who are the hub in providing liquidity to the market.

The Commodity transaction tax, which came into effect on July 1st, is levied on the transactional value in futures trading of all, but 23 agricultural commodities. Some of the exempted agricultural commodities are cotton, barley, potato, wheat and other farm produce such as cardamom and coriander. A transaction of ₹1 Crore will attract a tax of ₹1000, which needs to be paid by the seller or the writer of the transaction and is applicable only on futures transaction and not on spot trading. The current transaction cost for commodity trading excluding any tax in India is less than a third of this. The tax was proposed by the Finance Minister P. Chidambaram in the 2013 Finance Bill to augment the nation's financial resources. The tax revenue from CTT is expected to fetch the government ₹4000 crores annually. The Government also made discretion between

processed agri-commodities and non-processed agri-commodities and included processed agri-commodities under the purview of CTT.

The CTT is an additional burden on investors and traders because they already pay transaction charges, brokerage, stamp duty and also huge margins. This will discourage day traders and speculators resulting in a big drop in business, and will reduce liquidity. Intra-day traders, who benefit from narrow price movements in the value of the underlying commodity, are the biggest losers as the additional tax burden might offset any profit obtained from the marginal price differences. Long term investors and traders are the least impacted as they can easily absorb the tax loss. After the implementation of CTT, trading in Indian commodity exchanges will become 4 times more expensive and that a bulk of the trade might move outside India or to any official and illegal channels. In Illegal trading or 'Dabba' trading as it is commonly known, underground punters speculate on the price difference and make quick money without paying any taxes.

Effects

There are 22 commodity exchanges in the country of which 6 operate at the national level. The combined turnover of all these bourses was ₹17 million crores in 2012-13, which was 6% down from the previous financial year. 80% of the total revenue comes from trading non-agricultural commodities across segments such as ferrous and non-ferrous metals, bullion, and energy and carbon credits. Currently, 5 commodity exchanges, that handle trade worth 99% of India's futures business, reported an average decline of 33% in July from its preceding month. The average daily turnover (ADT) of the Multi Commodity Exchange of India Limited, India's largest commodity trading platform, was ₹48700 crores in Q1FY14 and the tax will suck at least ₹4 crores each day from the commodities traded in MCX alone. MCX reported a decline of 35.95% to ₹760379 crores in July compared to ₹1187246 crores in June 2013, in the trading of non agri-commodities. In July, the turnover in non-agri-commodity segments in agri-centric exchanges such as National Commodity and Derivatives Exchange (NCDEX), National Multi Commodity Exchange (NMCE), Reliance ADAG controlled Indian Commodity Exchange (ICEX) and Ace Commodity & Derivatives Exchange (Ace) had a sharp drop. The table shows the drop in revenue for the major exchanges, in the non-agri segment.

Exchange	Location	June 2013 in ₹ Crores	July 2013 in ₹ Crores	% Change
MCX	Mumbai	1187246	760379	-35.95
NMCE	Ahmedabad	15499	527	-96.6
NCDEX	Mumbai	17	3	-82.35

Trading in rubber, which is the star of NCDEX, has suffered a huge blow after the implementation of CTT as it has come under the purview of CTT. In India the entire income from natural rubber is treated as agricultural income and is taxed under Agricultural Income Tax Act of the various State Governments. So, the big question is whether rubber is an agricultural commodity or not? Most of the rubber growers in all major rubber producing countries are tiny landholders and rubber cultivation is their sole livelihood. Although natural rubber (NR) is an industrial raw material, rubber cultivation is basically an agricultural operation. CTT imposed on rubber will increase hedging costs for farmers who grow rubber. It is most likely that rubber has been brought under the ambit of CTT as it is used for Industry use and not consumed by humans directly.

Although the market and its participants are affected by the levy of CTT, over the long term they will be able to absorb the marginal tax of 0.01%. Most importantly, CTT is unlikely to affect genuine hedgers, such as producers, consumers and manufacturers, as they will continue to take positions in the commodity markets to feed their business. The Commodity Transaction Tax was levied by the Central Government to bring the commodity market on par with the securities market where a Security Transaction Tax is levied. Annual CTT revenues of ₹4000 crores will help the government to reduce its fiscal deficit and it will also help the government track the flow of money into and out of the commodities market.

International Trade and the Politically-Correct Country

Amitabh Anand – MBA (IB) 2013-15

Let us start with defining what is trade? A teacher in class will tell you - ‘exchange of goods or services between interested parties is called trade’; an article on Wikipedia will tell you - ‘Trade, also called goods exchange economy, is the transfer of ownership of goods from one person or entity to another by getting something in exchange from the buyer’. I think these are clear enough definitions of trade, to both the expert and the layman. Now, let us proceed further and try to establish some of the factors that affect trade.

Imagine you are a trader with a cartload of goods that you are taking to a market to sell. What is your biggest concern before you embark on the journey? Is it the doubt that you might not get the best price for your goods? Is it the fear that you might not reach the market with your goods at all? Is it the fear that you might not be allowed to sell your goods once you get to the market? Or is it the fear that the market might not be there when you reach?

I believe the questions above capture the gist of all that threatens trade. The market is, and so is the trade, influenced by the prices on offer, supply chain, permissions and trade security. Of these, the last two in turn are directly affected by the political environment of the country. Prices too are not immune to the charms of the politician and the bureaucrat.

If there is no security about the structure of the market, meaningful and lucrative trade cannot happen. Thus, the political situation in a country is the single biggest factor influencing trade in any country, or across countries.

There are numerous examples of countries losing out on the opportunity of reaping the benefits of cross-border trade because of their brittle political set-up. Everyone knows the

story of Hugo Chavez and how he used the Venezuela's oil reserves as a blatant tool of bargain in his attempts to implement the Socialist-inspired changes which he desired to propagate, with Venezuela at the epicenter of the revolution. The plight of Venezuela today is that inflation is hovering at around 42% and the currency has devalued more than 75% against the USD. Had the government in Venezuela been a little more pragmatic and a lot less Chavist, the country could have seen the same levels of economic progress as the average middle-east Asian oil-rich country. I would like to insert a caveat here stating that I am talking only about economic growth, not economic equality. The same holds true for Cuba, another fanatically Socialist regime. If trade figures are examined, Cuba and Venezuela carry out a bulk of their trade between each other while ignoring such major trading destinations as the US, Europe and parts of Asia. The official reason is the dissonance in the political ideologies. The Socialist regimes are loath to trade with the developed world for want of ideological commonalities. The regime in these countries is ready to deep-six lucrative business opportunities while the economy goes into a tailspin and the populace cringes at the prospect of rising prices and economic hardships.

Similar is the case with North Korea which has shut its borders, both literally and figuratively, to the outside world. The DPRK has consistently, for the past numerous years, ignored overtures of peace and trade by the West. It continues to live out on Chinese largesse and World Bank aids, a story that runs eerily similar to that in Pakistan, another country plagued by fickleness in the political setup.

Closer home, India is experiencing something on similar lines. The recent brouhaha over FDI in multi-brand retail and the aviation sector have meant that despite Government commitments, foreign companies are averse to commit to investments in India because of fears about the future of these policies. Also, as each state in India is allowed to devise its own strategy in the structure and levels of FDI in multi-brand retail, the investor has no surety about the market and its future prospects. Similarly in the aviation FDI story, with the Government is dilly-dallying on the various terms and conditions that need to be met. This unnecessarily protectionist attitude towards an economy that is struggling to find its feet is doing us more harm than good.

A cursory examination of data about trade and investments will reveal that no country with an unstable government has been able to leverage its resources for international trade. These countries have, for years, remained in a state of destructive decadence while the politically-stable countries have moved ahead on the roads of globalization and traded their

expertise with one and all to satisfy the needs of its people. Robert Mugabe’s Zimbabwe has seen an average inflation rate of 1,181.27% from 1999 until 2013, reaching an all-time high of 66,212% in December of 2007 and a record low of -7.70% in December of 2009 while the politically serene country of Switzerland has never let inflation wander out of the 8% mark in the last 30 years. Here the inflation data is quoted to show the vagaries or steadfastness in the political set-up and its subsequent impact on trade and economic growth.

To draw an analogy with football, how talented a player you are scantily matters if the referee keeps shifting the goal-post during the game. The government of a country plays the same role as that of a referee in ensuring a level-playing field for all contenders and any vacillations on the government’s part translates into the Butterfly Effect for trade, but at a much faster pace. Thus, I would like to reiterate that for beneficial trade, a country must have a stable political set-up. To paraphrase, once you have planted a forest, you can rest assured that the birds will find their way to build their nests.

Trans-shipment port cities

Soumya Pritish – MBA (IB) 2013-15

If waterways have been the lifelines of trade, national as well as international, then ports have been the hearts which have pumped life into trade throughout history. Their immense importance is accurately justified by the development of towns and cities and sometimes, even civilisations with thriving populations of traders, around them. The port cities like Lothal of the Indus Valley Civilisation, Xel Ha of the Mayan Civilisation and Ostia, the port city of Rome have played an important part in integrating economy of the then known worlds. The ports of today have taken this task of their ancestors to a higher level by integrating the whole globe into a single unit, where the price of a commodity, like rice, in a country, is affected by the produce of a country half way around the globe.

Among the functions of a port, **trans-shipment** is one of the most important facilities provided. The term trans-shipment basically refers to the function of acting as an intermediate destination in the course of a container or goods being directed towards another port. Such ports can be called **trans-shipment ports**. They have historically provided a lot of benefits, both legal as well as illegal, for the trading fraternity. On one hand, while they have acted as refilling points when the two ports are far apart, or as centres for consolidating smaller shipments into bigger ones or vice versa and thus have added to the economy as a whole. On the other hand, they have supported various illegal activities, such as being involved in the transport of goods that are illegal. But with time, the good intentions of governments and the strengthening of the international agencies, these illegal activities have successfully been reduced to a bare minimum.

Probably, the main reason for the success of these port cities is the function of arbitraging the flow of goods from one country to another. It takes advantage of the difference in the costs involved in the direct transactions between two countries or ports from the costs due to the whole transaction process which involves an intermediary in between. Another reason has been higher taxes and limits on import of goods. To get the trading advantage these ports are declared as free trade zones, with no taxation on goods being transacted.

With globalisation, trade relations have improved, leading to drastic reductions in trade barriers like taxations and quotas. Also the creation of international organisations, like World Trade Organisation, and alliances like European Union, etc. have led to the direct trade between two countries becoming much easier than it used to be. Thus, till a few decades ago, the traders would not have minded the longer routes of going through an intermediary port, it is no more an economical option in many cases. With the development of the technologies involved with ships, their speed and capacity to store necessities has increased. So it is not necessary for them to have halts in between the routes for the replenishment of their supplies. Although, the requirement of consolidating and distributing smaller and larger shipments into bigger and smaller shipments, respectively is still there, this function depends a lot on geography. Also, countries have started to develop free trade zones within their own geographies and have taken steps to curb any illegal activity associated with the trade between two economies further putting pressure on the port cities.

All of the above mentioned factors combined face competition from alternate transportation modes. This plays a very significant role in the present scenario, and is likely to be more pronounced in the future, along with further relaxation of trade barriers, strengthened international organisations and removal of various bottlenecks. This may lead to the reduction in the trade through these trans-shipment ports. The integration of Hong Kong with Chinese economy has led to the decrease of the share of the shipments from its port at a significantly low of 30%. But ports like Singapore, Tanjung Palpas of Malaysia, Goia Tauro of Italy, Algeciras of Spain have dependencies on trans-shipment trades ranging from 80 to 95 %, with dependency of Salalah of Oman being a whopping 99.5%. With the future seemingly not in favour of these centres of trade, are they going to lose their importance & fall to the status of medium or small level ports from once being major pillars of international trade ?

Most of these ports have the advantage of being located at strategic locations, which is not going to change any time soon in the near future. In order to use this benefit, a majority of traders based along these port cities would certainly continue to operate from there. But with the dynamic world scenario, one cannot forecast with certainty, the possibility that they wouldn't relocate to better locations and in turn effect the volumes of trade.

But this must not mean that the days of Singapores and Hong Kongs of the world have gone by. It is just that they have been presented with a complex situation that they have to counter, by developing their strengths, concentrating on value addition to the products traded and searching for gaps in the various processes of trade, to fill in, and thus maintain their position in the global economy. One of the major gap can be the higher personal and corporate taxes in many countries of the world. They can attract traders from these countries or maintain operating traders inside the boundaries of their economy by providing tax incentives. Easier availability of credit, improvement in the trading infrastructure, to levels above that of the normal technologies in the rest of the world, providing incentives for trade entrepreneurs, etc. all will lead to serve the cause.

So the question is that of a period of transition that these port cities have to appropriately answer. But still the road ahead is tough, full of hurdles, and only a well-directed, persistent effort can help them survive.

The Mystery of GOLD

Siddharth Mehta –MBA (IB) 2013-15

Where do people turn to when everything else is falling apart? The simple answer lies in the shining metal that has been the centre of attraction of mankind for centuries. Gold prices are at the highest when there is crisis and investors are confused about where to invest their hard earned money. Gold prices hit the $ 1700 mark when the Euro zone crisis was at an all-time high. Since then there has been an improvement in the world economy and the recent data from the US Jobs and housing report is a bit assuring.

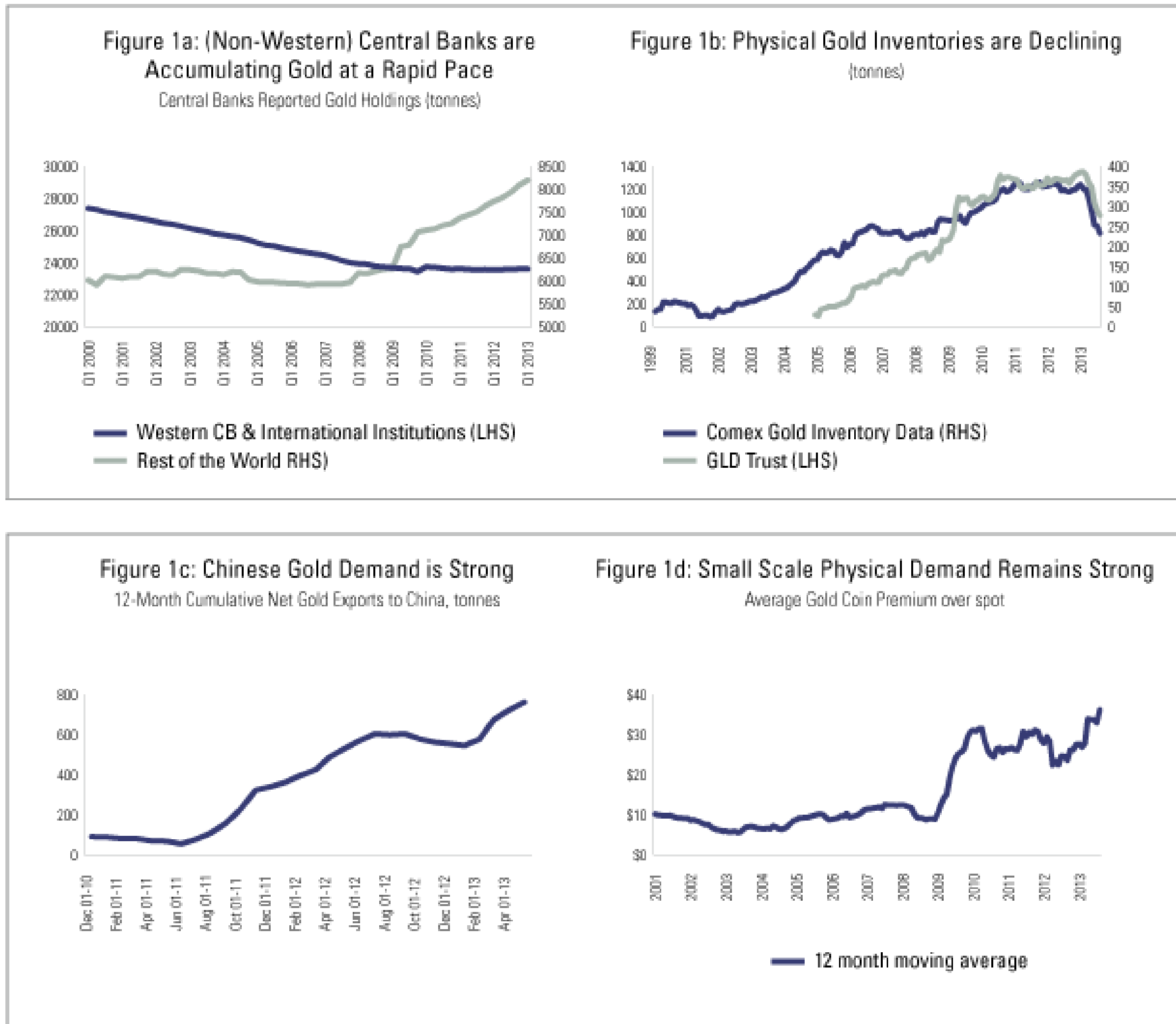
Gold prices have been dropping continuously since January 2013 and there was a sharp decline in the prices when Ben Bernanke hinted that the era of cheap global money is going to end and signs of withdrawal of QE were given. But gold prices have started to bounce back to hit one month high as investors in the precious metal continued to take heart from signals from that any retreat from monetary stimulus will be gradual.

A sweeping victory for Shinzo Abe's Liberal Democratic Party in upper house elections in Japan also held out the prospect of an extension of loose monetary policy in the world's third-largest economy. Monetary stimulus has been charted out as a key element of Abenomics to boost demand in Japan.

A recent report by Barclays has pointed to weak demand for gold in the long run. The recent strength of the greenback against the major emerging market currencies has made it less attractive. The recent rally can be attributed to investors covering short positions in the market expecting further price cuts.

Another interesting trend that has come to light is that Non-Western Central Banks have been increasing their gold holdings at a rapid pace going from 6,300 tonnes in Q1 2009 to

more than 8,200 tonnes at the end of Q1 2013 while physical inventories are declining and physical demand from large and small scale buyers remains solid. So on a long term physical demand for gold seems robust and one of the theories is that the decline was engineered by a bullion bank that flooded the COMEX (paper market), only to then redeem physical gold from the various available sources at depressed prices.



Source: World Gold Council, Bloomberg, Hong Kong Census and Statistics Department
Average premium calculated as the average premium for the following 1oz. coins, as reported by the Certified Coin Exchange (CCEX): American Eagle, Maple Leaf, Krugerrand, Philharmonic, Panda, Isle of Man and Kangaroo.

One of the major problems with gold today is that too much paper gold exists for the amount of physical gold available. Demand from emerging markets who do not settle for paper gold has perturbed the status quo. So it seems that gold will keep shining in the portfolios of the investors in the near future.