

FTA & Gujarat

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Purpose & Advantages of FTAs

- Concept of FTA is to help India globalise successfully on its own terms- pace, items, sectors, emphasis. (unlike WTO framework)
- Imp tool for development - Investment, Jobs, trade, R&D, Technology transfer, training and Upgradation of human skill, new innovation and new products.
- Used to drive competitive conditions, domestic reforms in both countries eg subsidy removals,

Global Trade

World's Top 10 traded products

Rank	Commodity	Value in US\$('000)
1	Mineral fuels, oils, distillation products	\$2,183,079,941
2	Electrical, electronic equipment	\$1,833,534,414
3	Machinery, nuclear reactors, boilers	\$1,763,371,813
4	Vehicles other than railway, tramway	\$1,076,830,856
5	Plastics and articles thereof	\$470,226,676
6	Optical, photo, technical, medical	\$465,101,524
7	Pharmaceutical products	\$443,596,577
8	Iron and steel	\$379,113,147
9	Organic chemicals	\$377,462,088
10	Pearls, precious stones, metals, coins	\$348,155,369

International Trade

Rank	Country	International Trade
		Bill USD, 2011
	World	27,567
	European Union	4,475
1	United States	3,825
2	China	3,561
3	Germany	2,882
4	Japan	1,596
5	France	1,263
6	United Kingdom	1,150
7	Netherlands	1,091
8	South Korea	1,084
9	Italy	1,050
-	Hong Kong	945
10	Canada	910
11	Singapore	819
12	Russia	809
13	India	792
14	Spain	715
15	Mexico	678

Composition of Trade

Imports

	FY07	FY08	FY09	FY10	FY11	FY12*
Petroleum crude& products	57.1	79.7	91.5	86.8	105.9	73.5
% to total	30.8	31.9	30.6	30.2	30.1	31.4
% YoY	29.8	39.6	14.8	-5.1	22.0	47.7
Capital goods	30.8	49.8	48.5	44.5	49.9	29.4
% to total	16.6	20.0	16.2	15.5	14.2	12.6
% YoY	26.8	61.9	-2.8	-8.2	12.2	21.3
Gold & Silver	14.6	17.9	22.8	29.6	35.6	31.2
% to total	7.9	7.1	7.6	10.3	10.1	13.4
% YoY	29.1	22.1	27.8	29.8	20.2	72.8
Pearls precious stones	7.5	7.3	16.6	16.2	31.3	14.0
% to total	4.0	2.9	5.5	5.6	8.9	6.0
% YoY	-18.1	-2.0	126.5	-2.6	93.3	-5.8
Chemicals, related products	13.8	18.7	29.2	23.5	27.4	16.8
% to total	7.5	7.5	9.8	8.2	7.8	7.2
% YoY	21.6	34.8	56.7	-19.7	16.8	11.2
Electronic Goods	15.9	20.2	23.4	21.0	21.5	16.9
% to total	8.6	8.1	7.8	7.3	6.1	7.2
%YoY	20.3	26.7	15.8	-10.3	2.5	26.2
Food & related items	4.9	5.3	5.8	10.0	10.0	6.5
% to total	2.7	2.1	1.9	3.5	2.8	2.8
% YoY	50.5	8.8	8.3	72.9	-0.3	29.2
Other non-POL items	33.8	42.7	52.2	46.8	56.1	38.5
% to total	18.3	17.1	17.4	16.3	15.9	16.4
% YoY	37.3	26.2	22.4	-10.4	19.9	
Other commodities	6.6	8.2	9.3	9.3	14.6	7.0
% to total	3.6	3.3	3.1	3.2	4.1	3.0
% YoY	-16.5	24.1	13.4	-0.4	56.9	
TOTAL IMPORTS	185.1	249.8	299.3	287.6	352.3	233.8
% YoY	24.1	35.0	19.8	-3.9	22.5	32.7

Exports

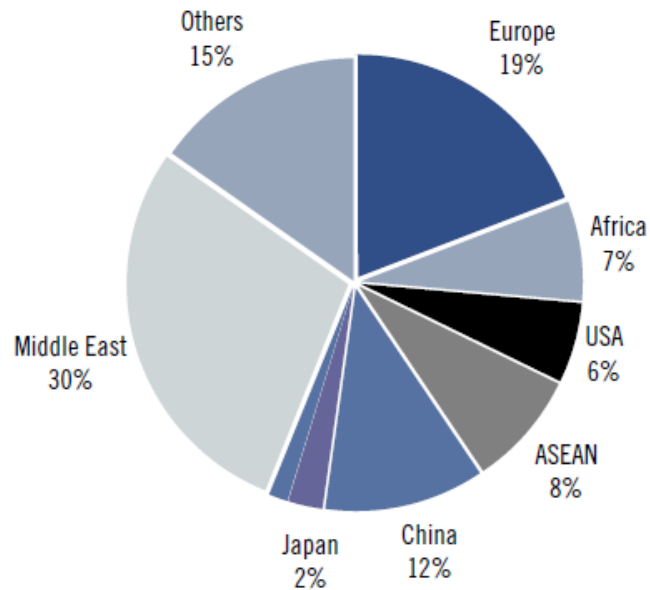
	FY07	FY08	FY09	FY10	FY11	FY12*
Engineering goods	29.5	37.2	47.0	38.1	68.8	37.2
% to total	23.3	22.8	25.7	21.4	27.3	25.2
%YoY	36.3	26.4	26.3	-18.9	80.5	41.4
Petroleum, crude prods	18.7	28.4	26.9	28.0	42.0	30.5
% to total	14.8	17.4	14.7	15.7	16.7	20.6
%YoY	60.4	52.0	-5.3	4.3	49.9	72.7
Gems & Jewellery	16.0	19.7	28.0	29.0	36.6	23.8
% to total	12.6	12.1	15.3	16.3	14.5	16.1
%YoY	2.8	23.3	42.2	3.6	26.2	58.5
Agri, allied products	12.7	18.4	17.6	17.7	24.7	14.5
% to total	10.0	11.3	9.6	10.0	9.8	9.8
%YoY	24.1	45.5	-4.8	1.1	39.2	64.7
Chemicals & related	12.1	15.6	17.3	17.4	21.5	12.3
% to total	9.6	9.5	9.5	9.7	8.5	8.3
%YoY	18.1	28.3	11.3	0.4	23.7	28.8
Textiles (incl RMG)	17.4	19.4	20.0	19.9	23.4	13.4
% to total	13.7	11.9	10.9	11.1	9.3	9.1
%YoY	5.9	11.9	3.2	-0.9	17.6	29.1
Ores & minerals	7.0	9.1	7.8	8.7	10.7	4.1
% to total	5.5	5.6	4.3	4.9	4.2	2.7
%YoY	13.6	30.4	-14.4	11.0	23.0	-10.1
Other manuf goods	6.9	7.6	7.4	7.5	10.0	9.1
% to total	5.5	4.7	4.0	4.2	4.0	6.2
%YoY	14.8	9.8	-2.8	1.6	33.4	
Other commodities	3.1	4.0	7.5	8.6	10.5	3.0
% to total	2.4	2.5	4.1	4.8	4.2	2.0
%YoY	22.5	30.5	86.9	15.2	21.1	-53.3
TOTAL EXPORTS	126.3	163.0	183.1	178.3	252.0	147.8
% YoY	22.5	29.1	12.3	-2.6	41.3	40.6

* Apr- Sept.
Source: CMIE ,RBI, CIRA

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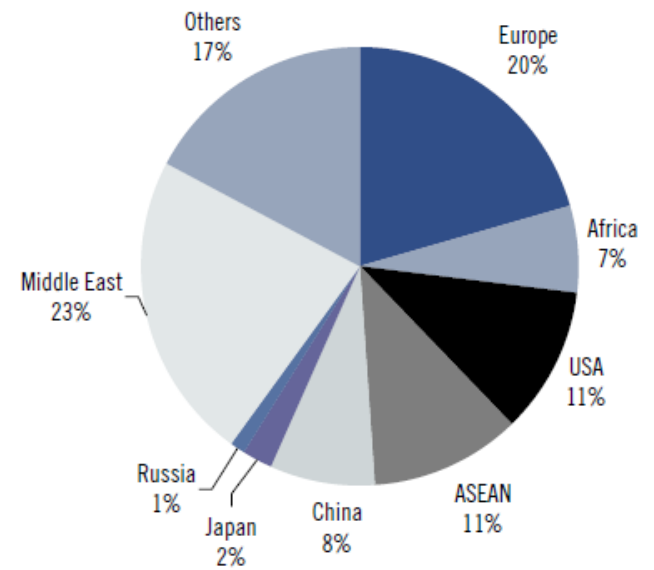
Direction of Trade FY 2011

Imports



Source: DGCI&S, CMIE, CIRA

Exports



Source: DGCI&S, CMIE, CIRA

India's share of World Exports (> 5% share product categories)

Sl. No.	Product Code	Product Label	2005	2006	2007	2008	2009	Change in Share 2009/2008
1	71	Pearls, Precious Stones, Metals, Coins, etc.	8.2	6.5	6.6	5.7	10.1	4.4
2	50	Silk	12.5	11.4	10.5	10.2	9.7	-0.5
3	57	Carpets and Other Textile Floor Coverings	9.0	9.6	8.7	8.4	8.4	0.0
4	13	Lac, Gums, Resins, Vegetable Saps and Extracts nes	11.4	10.6	9.5	9.7	7.9	-1.8
5	52	Cotton	5.5	6.8	8.5	8.6	7.7	-0.9
6	53	Vegetable Textile Fibres nes, Paper Yarn, Woven Fabric	4.8	4.2	4.6	6.1	6.3	0.2
7	63	Other made Textile Articles, Sets, Worn Clothing, etc.	7.0	6.4	5.7	5.4	5.5	0.1
8	54	Manmade Filaments	2.5	2.6	2.9	3.7	5.1	1.4
9	67	Bird Skin, Feathers, Artificial Flowers, Human Hair	3.4	4.4	5.0	5.0	5.1	0.1
10	14	Vegetable Plaiting Materials, Vegetable Products nes	5.1	4.5	4.8	5.4	5.1	-0.4
11	09	Coffee, Tea, Mate, and Spices	4.7	5.0	5.2	5.3	5.1	-0.3
12	26	Ores, Slag, and Ash	6.8	4.8	4.8	4.5	5.0	0.5

Source : Calculated from National Centre for Trade Information (NCTI) data based on UN-ITC Trade Map Data 2009.

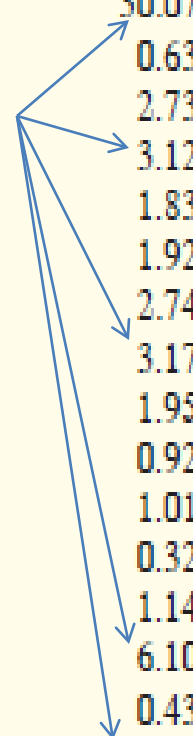
Export Profile: Low value Addition, many continue to be labour intensive

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Imports & Inflation

Items	Weight of the Item in WPI (2004-05=100)	Share of the Imported Item in Total Imports	
		2010-11	2011-12 (April-May)
1	2	3	4
Petroleum, crude & products	10.26	30.07	32.16
Machine tools	8.93	0.63	0.60
Iron & steel	6.36	2.73	1.94
Transport equipments	5.21	3.12	1.95
Vegetable oils fixed (edible)	3.04	1.83	1.45
Fertilizers	2.66	1.92	0.89
Coal, coke & briquettes etc.	2.09	2.74	3.02
Organic chemicals	1.95	3.17	2.70
Artificial resins, plastic materials etc.	1.86	1.95	1.41
Manufactures of metals	1.31	0.92	0.78
Inorganic chemicals	1.19	1.01	0.88
Pulp and waste paper	1.02	0.32	0.27
Non-ferrous metals	1.00	1.14	1.09
Electronic goods	0.96	6.10	6.15
Pulses	0.72	0.43	0.28
Gold	0.36	9.61	14.67

> 50% of all imports



Protection

- Exchange rate devaluations have protected Indian Industry eg 2008 39, expected 36, instead at 57 today when customs tariffs haven't changed much.
- Besides CVD on Imports also protects against lack of domestic reforms, no urgency (DTC, GST, Mining leases, labour, elec quality & prices, port tariffs, Port efficiency)

Agriculture & Services

- Calibrated approach. Agric subsidies continue, lower interest rates, lower elec, fert subsidies, seeds, MSP etc. (cotton, oil seeds, milk)
- Services: Retail, Banking, Insurance, IT, Doctors, lawyers, consultancy, education, health, entertainment, transport etc- all dragging & used for negotiations.

Impact: Dimensions we could look at

- Specific bilateral trade engagement
- Investment patterns & trade patterns linkages
- Employment growth,
- Tech improvements,
- Growth in R&D,
- Value addition, new product development.

India's business environment

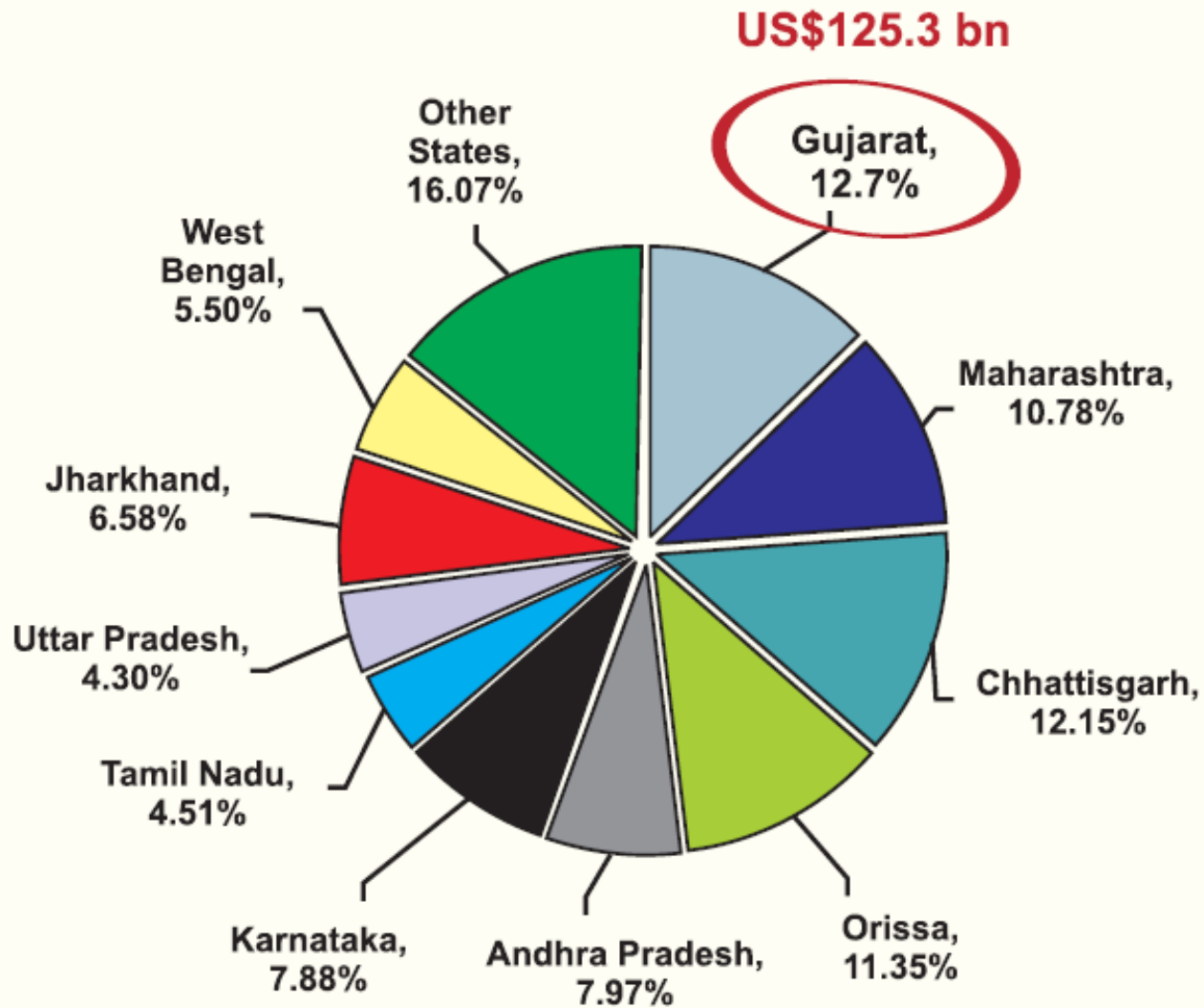


- **Runaway Inflation** for nearly 3 years – now IRAN (Oil>\$140/bbl !!)
- **Fiscal deficit** – undoing all previous gains & prudent measures
- **Exchange rate volatility** – 21% in 4 months => imports, P&L m2m, B/sheet, (e.g. China Yuan)
- **Interest rate unpredictability**- qrtly ?
- **Labour costs** esp for SMEs is hurting – availability affected by NREGA, loan waiver, rising city costs. MixedOutcome?
- **Unsure of when large Infra projects** will happen – power, roads, gas pipelines, Land, environ, speed)
- **Urgent reforms missing**, dysfunctional polity & parliament- 12 important Bills
- **Very slow approval** – scam, audit psychosis. Coal India in court with UK shareholder!

- Capex cycle broken, economic growth slowed down, mood somber. Takes time to revive...
- Infra spend reduced from 13% to just 8% now.
- Recruitment has significantly slowed down in several sectors esp Pharma, BFSI, Engr, Chemicals, Textiles...
- Policy Yo-Yos – e.g. Coal, Cotton exports

- **Rising general costs of inputs** esp water, energy, electricity, effluent disposal, wages, raw materials, Tech staff costs (from Mgrs to workers, from Hire & Fire, attrition to attract & Retain)
- Rising Costs, reduced profitability (proof is reduced taxes !).
- Very competitive China, Brazil, Russia, Turkey
- **FDI by Indian companies going abroad now increasing substantially – we need jobs here ! (GAAR, telecom, Gas Pricing, NELP, Vodafone)**

Gujarat: A leading Investment Destination



Gujarat leads in Exports

Gujarat exports \$55-60 bill out of India's \$ 220 bill in 2010-11 ~ 25%

Sl. No.	State			<u>(April-September)</u>		Share(%)	<u>Growth rate* (%)</u>	
		2008-09	2009-10	2009-10	2010-11	2009-10	2009-10	2010-11 (Apr-Sept.)
1	Maharashtra	44,661	43,351	20,275	23,405	24.3	-2.9	15.4
2	Gujarat	40,268	38,771	16,341	24,593	21.7	-3.7	50.5
3	Tamil Nadu	18,538	16,083	7899	8404	9.0	-13.2	6.4
4	Karnataka	12,295	9092	4206	5011	5.1	-26.0	19.1
5	Andhra Pradesh	9896	8558	4594	6620	4.8	-13.5	44.1
6	Kerala	4752	5842	2783	2647	3.3	22.9	-4.9
7	Haryana	4791	5678	2653	3575	3.2	18.5	34.8
8	Uttar Pradesh	7570	5523	2762	3848	3.1	-27.0	39.3
9	Delhi	8466	5187	2575	2933	2.9	-38.7	13.9
10	West Bengal	5582	4197	1826	2821	2.3	-24.8	54.5
11	Rajasthan	3313	3338	1434	1853	1.9	0.8	29.2
12	Orissa	3351	3230	1233	2736	1.8	-3.6	121.9
13	Punjab	3015	2732	1260	1904	1.5	-9.4	51.1
14	Goa	1781	2481	557	1074	1.4	39.3	92.7
15	Madhya Pradesh	2945	2357	916	1147	1.3	-20.0	25.2
Total exports		1,85,295	1,78,751	80,950	1,05,352	100.0	-3.5	30.1

US \$ Million

Source : DGCIS.

* Growth rate in US \$ terms

Gujarat's Exports in perspective

- Gujarat's Exports in 2010-11: Rs 240,000 crs
- Industrial output in 2010-11 : Rs 600,000 cr.
- Exports / Output \sim 40% !



Gujarat: Huge investments but predominantly domestic.

- Accenture study shows FDI does not necessarily flow where domestic industry invests. Gujarat is regarded as a place where there is lot crony capitalism between large domestic industry and Government. Major oil companies hesitate to come to Gujarat, an opinion shared by some MNCs operating in the State as well.
- In order to get maximum benefit domestic economy must reform at same pace or less we become a nation of traders. Today lot of investments are going out of India every year mainly because it is a challenge when it comes to land, environment, specific sectoral issues esp in Infrastructure.
 - Power- added issue of fuel linkages, Coal India issues, mining lease issues,
 - Telecom- less said the better when it come to spectrum allocation.
 - Ports-
 - Roads-
 - R&D labs-
- **FTAs alone cannot drive this benefit but can facilitate.**

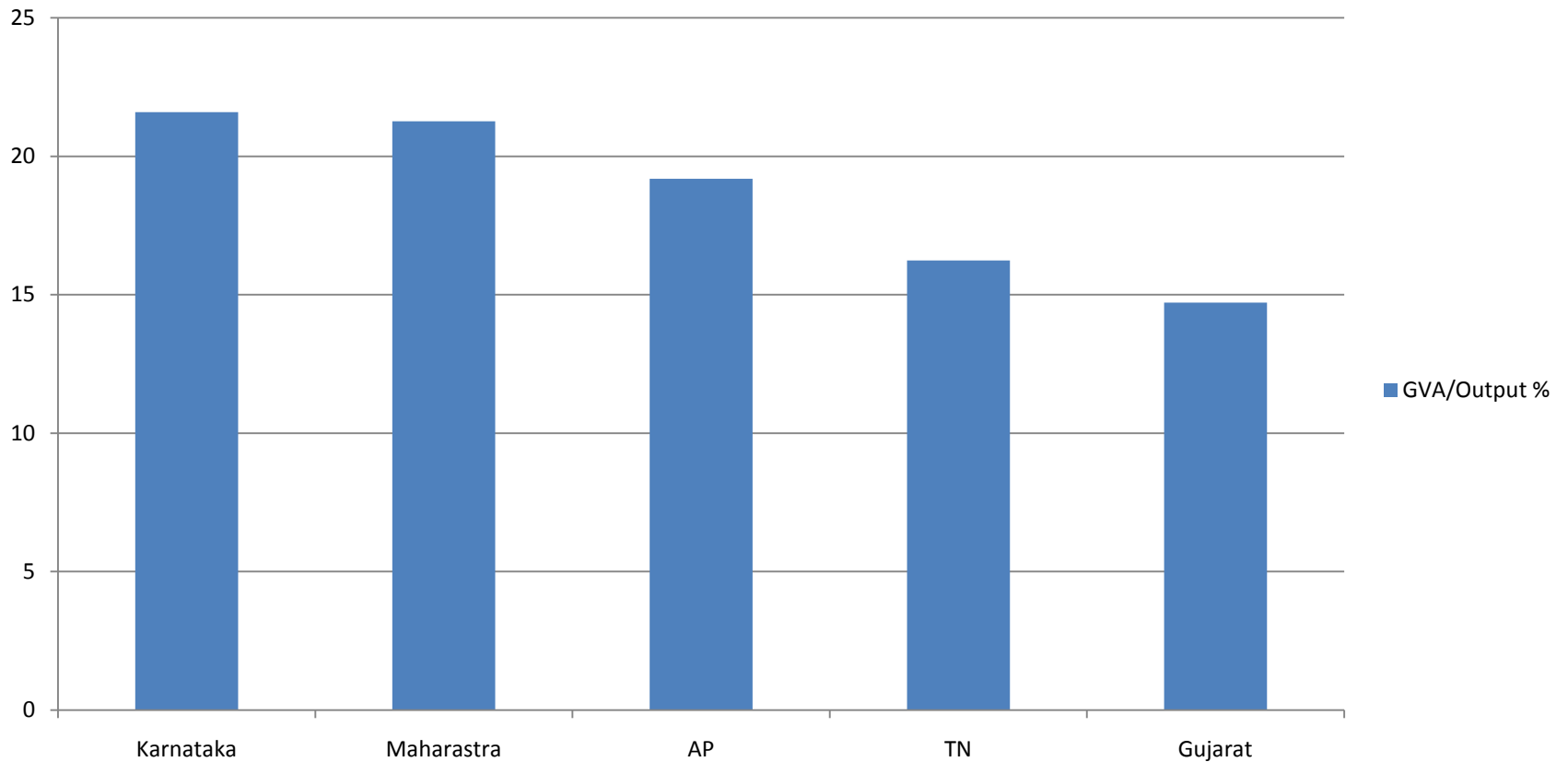
Diff to measure FTAs direct contribution to development and global integration under present circumstances of overriding macro factors.

- **Domestic conditions must improve:** Eg when we have a case like Vodafone which is largely been perceived as a poor grade retrograde action, GAAR rules, downgrade by Rating agencies, high currency risk country, domestic macro environment led by inflation control measures incl liq mob ups, surging interest rates etc. inability to reform like tax reforms like GST and DTC held up for so long, just too many eGOMs, committees for everything.
- **Report: India 1st to drop out of BRICs-** the loose association of fast growing economies.
- **State level import export data by origin-** when???

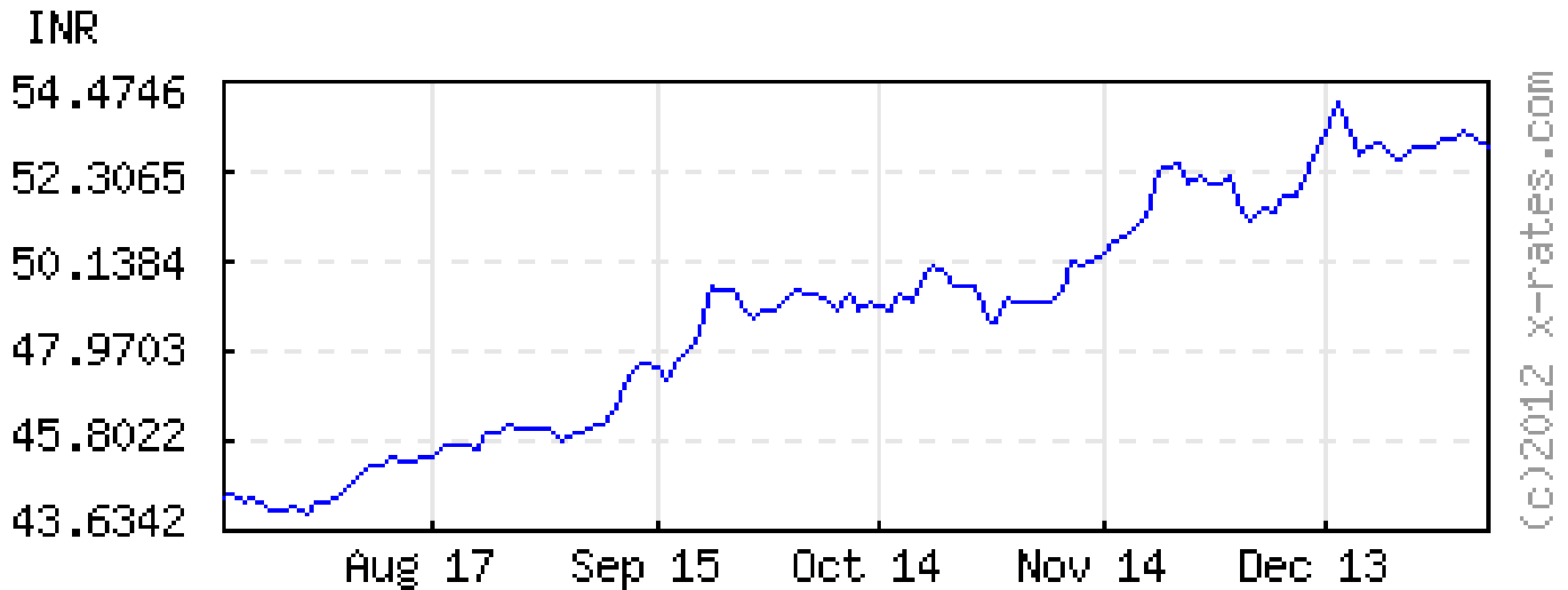
Gujarat-

Highest Investment
Lowest Value Add/ unit of output

GVA/Output %



Exchange Rate Movement - 2011



21% in 4 months, then rose in Jan/Feb and dropped again in April, May.