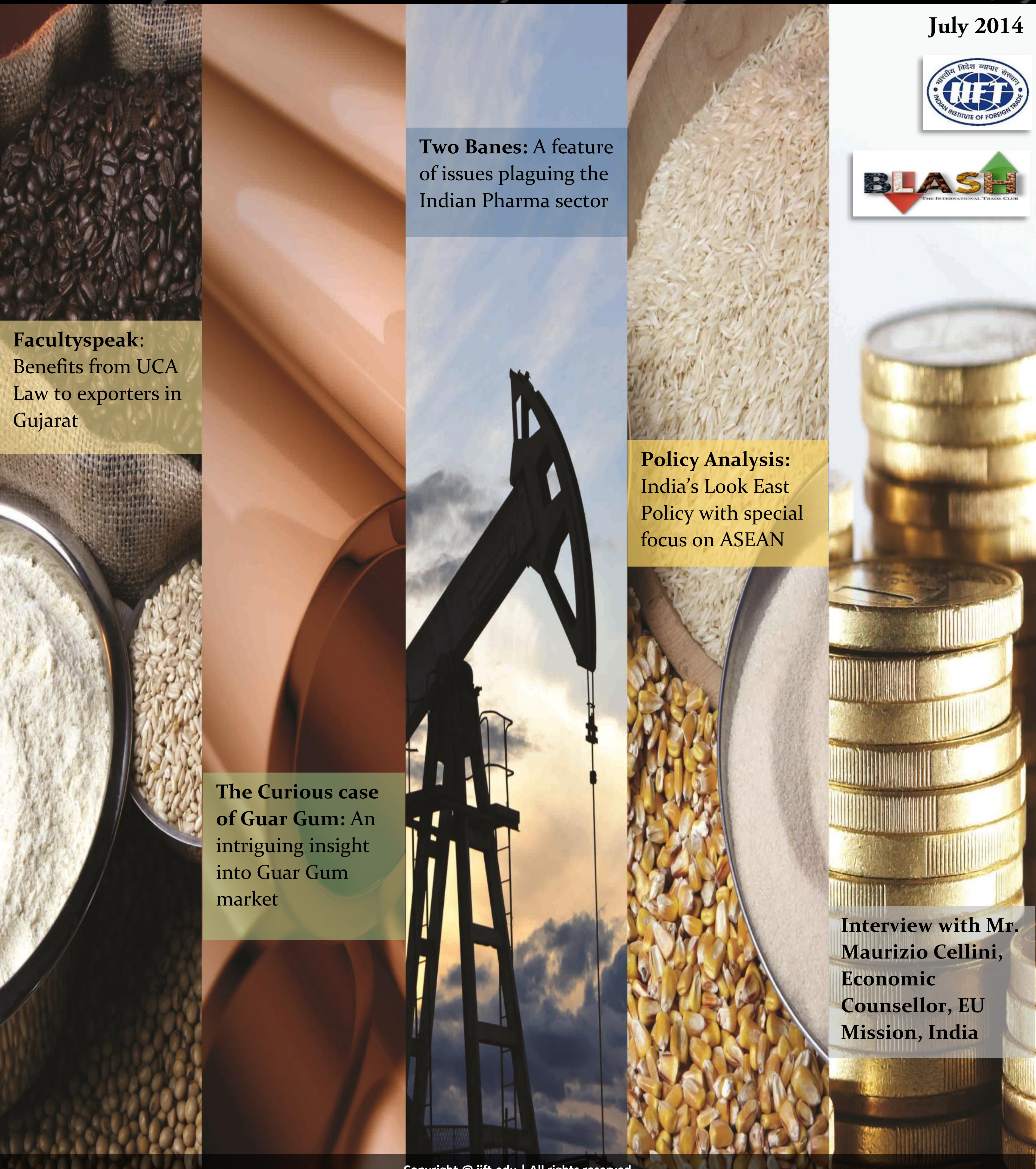
TRADEWINDS

July 2014



Facultyspeak: Benefits from UCA Law to exporters in Gujarat

Two Banes: A feature of issues plaguing the Indian Pharma sector

Policy Analysis: India's Look East Policy with special focus on ASEAN

The Curious case of Guar Gum: An intriguing insight into Guar Gum market

Interview with Mr. Maurizio Cellini, Economic Counsellor, EU Mission, India

Dear Readers,

We are making constant efforts to provide an improved learning experience for you. As part of our endeavors we now introduce a new column in our edition with an article from our faculty. This will give a new dimension to this magazine. We begin with Dr. Tamanna Chaturvedi analyzing how India can take advantage of the UCA law in USA with focus on Gujarat.

We are also delighted to introduce another column where we have Mr. Maurizio Cellini's (Economic Counsellor, EU Mission, India) views on the future of trade partnership of India and EU. We thank our senior coordinator, Nikhil Indla for taking up this initiative. We hope this will provide a different dimension to our magazine.

This edition also covers articles on GI, commodity analysis and the Trans Pacific Partnership. We would like to thank all the contributors for providing the articles.

Inside the Issue

Yours sincerely,

Team Trade Winds

"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

UCA law brings new Export Opportunities for MSME units in Gujarat

-Dr. Tamanna Chaturvedi

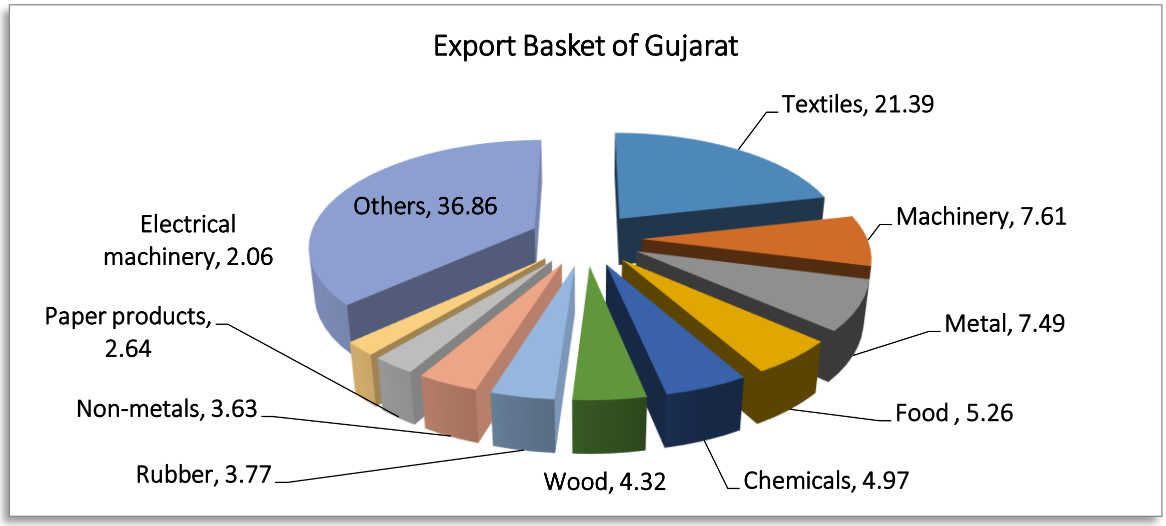
Gujarat, which accounts for about a quarter of India's total exports, is mulling a five-year export policy to focus on value-added exports in sectors such as textiles, agriculture and dairy. The move by the top exporting state in the country comes on the back of sagging efforts by the centre to boost dwindling exports. The first state in the country to have an export policy, Gujarat plans to increase the share of exports from the state from 25% to 30% in five years. The state already has potential in the textile sector, as nearly 23% of the state gross domestic product comes from textile and related industries. Other areas that Gujarat contributed to India's exports in 2011-12 include 70% in the gems and jewellery sector, 30% in pharmaceuticals, 20% in textiles, 12% in engineering and 18% in chemicals. The state has 41 minor and intermediate ports and 55 SEZs, involved in sectors like biotechnology, power, handicraft, gems & jewellery. Gujarat also has a comparative advantage in many commodities, like spices and seeds, mineral and metals and cotton.

MSMEs in Gujarat

Group	**MSME Units (02/10/2006-31/03/2013)**			
	Micro	**Small**	**Medium**	**Total**
Textiles	49071	5388	184	54643
Machinery and parts except electrical	10673	895	14	11582
Chemicals and chemical products	3302	782	46	4130
Wood products	1458	141	9	1608
Rubber and plastic products	2952	685	32	3669
Basic metal industries	8906	1097	50	10053
Paper product and printing	2332	395	32	2759
Electrical machinery and apparatus	2538	267	11	2816
Transport equipment and parts	1052	232	2	1286
Leather products	2796	614	14	3424
Other	5701	758	73	6532
Total	**144321**	**13818**	**647**	**158786**

Export Basket of Gujarat

Development of small scale sector is spread across different industrial sectors. However, the trend when compared with large industries presents a different picture. Textile including hosiery and garments accounts for the largest number of SSI units, followed by other sectors. This can be observed from the following chart:



Textiles: Gujarat's textile sector has been exploring newer subsectors like technical textile sector. This sector is expected to grow spurred by the huge growth or growing requirement in automotive applications, medical textiles, and geo-textiles, agro-textiles used for crop protection and protective clothing for fire fighters, bullet-proof jackets and space suits. Also, with a new textile policy in place, Gujarat is set to see robust growth in garment exports in the next five years, informed Federation of Indian Export Organizations (FIEO).

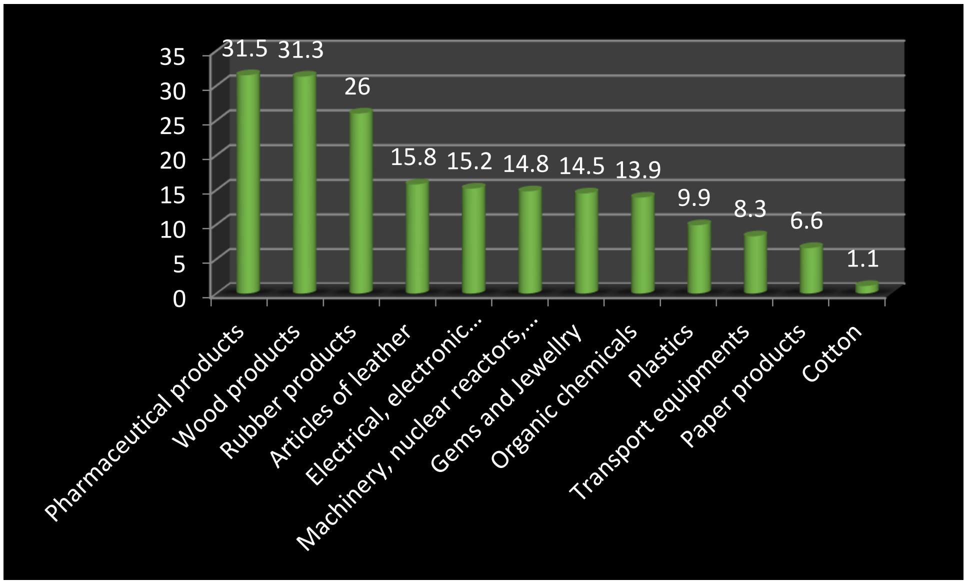
Gems and Jewellery: Gujarat accounts for over 70% of total Gems and Jewellery exports of India. Almost 80% of cutting and polishing of diamonds is done in Gujarat and 90% of total diamonds in Gujarat are processed by about 10,000 diamond units located in and around Surat.

Plastics/Chemical/Petrochemical sector: Gujarat's chemicals and petrochemicals industry offers a wide spectrum of opportunities for the investors both from India and abroad. Gujarat is known as the 'Petro Capital' of India. The State contributes 62% of country's petrochemicals production and 51% of country's chemicals production. Gujarat contributes 15% of the total national chemical exports.

Can exporters from Gujarat ignore US market?

The US market has been one of the prime export markets for most of the products exported from the state of Gujarat. Out of the total exports of these items from India, US capture a prominent share for most of these. This includes pharma, wood products and rubber articles where US absorbs almost 30% of the total exports from India. Another set of products includes leather, electrical items, machinery, gems and jewellery and organic chemicals where in 15-16% of the total exports from India goes to the US market.

India's export to the US (% share of US in total product export from India)



Source: ITC, 2013

Growing competition in the US market

It is a proven fact now that US is an important export destination for exporting units from Gujarat. However these units have been facing stiff competition from other competing players in the US market. For instance; the analysis for three prime export items i.e. Textiles (cotton), gems and jewelry and chemicals, India's share in total imports of the US has been miniscule as depicted in the table below.

India's position in total imports of US

Product line	Competing players in US
Cotton (52)	China (23.9%), Pakistan (12.2%), Indonesia (4.5%), India (3%), Thailand (1.8%)
Gems(71)	Mexico (15.35), Israel (13.3%), India (11.4%), China (5.8%), Thailand (2.2%)
Organic Chemicals	Ireland (21.5%), China (12.2%), Singapore (9.1%), India (4.1%)

Source: ITC, 2014

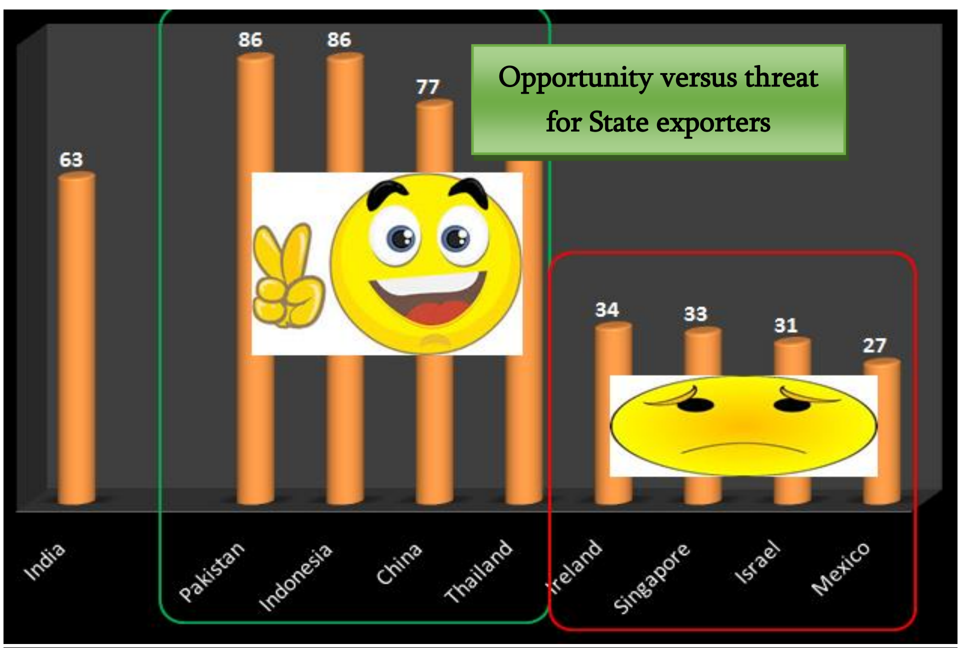
Advantage India: Survival of the fittest!!

In such a scenario, when exporting units from the state of Gujarat are facing such a stiff competition from not only developed economies like Canada and Mexico, primarily due to the presence of free trade agreement NAFTA and also developing neighboring Asian economies including China, Thailand and Indonesia, UCA law comes as a way out to strengthen the position of India in the US market.

How would UCA law help exporters from Gujarat in the US?

UCA which stands for unfair competition act is the new law which has come up in the US market. The law clearly states that the US companies will be sued, if they are found undertaking any business transaction with the overseas companies which are found using pirated version of the software. Therefore, there is an obvious shift witnessed in preferences of the US buyers from buying ONLY from the IT complaint firms. It follows that they will chose to trade with countries where usage of pirated software is minimum.

Figure below gives an analysis of piracy rates in competing countries of products which carry export importance to the state. It is witnessed that the piracy levels as compiled by Business Software Alliance indicates that these levels are much higher in competing countries like China, Pakistan, Indonesia and Thailand



Source: BSA report 2013

Hence the product lines exported to US by these countries holds a fair chance of grabbing the market share in the US. Table highlights the tariff lines at 6 digit HS codes that would enjoy preferential advantage for exporting units from the state. However, exporters from the state needs to be aware from competing players like Canada, Mexico, Israel etc. which not only enjoys the preference amongst the US buyers due to RTAs but also since the piracy levels are much lower as compared to India.

Opportunities for Gujarat exporters in US market against competing players
(In descending order of priority)

Textiles				Gems and Jewellery		Chemicals
China	**Pakistan**	**Indonesia**	**Thailand**	**China**	**Thailand**	**China**
'5208	'5208	'5208	'5208	'7117	'7113	'2933
'5210	'5205	'5206	'5210	'7113	'7103	'2936
'5209	'5210	'5205	'5206	'7102	'7117	'2931
'5211	'5209	'5211	'5205	'7116	'7102	'2932
'5212	'5211	'5209	'5209	'7112	'7116	'2903
'5207	'5206	'5202	'5212	'7101	'7112	'2922
'5205	'5202	'5210	'5211	'7105	'7104	'2916
'5204	'5212	'5212	'5202	'7103	'7101	'2941
'5206	'5201	'5203	'5204	'7104	'7105	'2934
'5202	'5207	'5207	'5201	'7110	'7108	'2914
'5203	'5203	'5204	'5203	'7114	'7115	'2935
'5201	'5204	'5201	'5207	'7118	'7114	'2924
				'7106	'7106	'2921
				'7115	'7110	'2918
				'7107	'7111	'2930
				'7111	'7118	'2917
					'7107	'2901
					'7109	'2909

Source: IIFT Analysis
(Description of these HS codes is available in the annexure)

A word of Caution…..state importers beware!

This opportunity exists for the exporters ONLY if the exporting companies including the suppliers throughout the value chain are IT complaint. Therefore you may or may not be an exporter but your IT compliance will decide the stake of the final Indian exporter supplying to the US market and therefore any loss in the business at any stage in the value chain will impact all the concerned players. Hence exporters/traders are cautioned against using any pirated versions themselves and also against procuring without confirming the IT compliance.

And how do you legalize?

There are various ways of going about it one of these is registering your legal software at Verafirm. This is a unique platform which provides a brand identity by self-declaration of your software. You get digital certificate confirming you are Verafirm verified or Verafirm certified company using genuine hardware and software. One can go at www.verafirm.org to get the benefits of a self-guided tool, to manage and monitor software inventory for multiple publishers in one place and help in devising a scalable IT policy for the company for better efficiency and productivity and last but not the least is digital certificate to become UCA compliant.

For more information, please contact:
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Annexure: Product list having export opportunity for State Exporters
Description of HS Codes

'5201	Cotton, not carded or combed
'5202	Cotton waste (including yarn waste and garneted stock)
'5203	Cotton, carded or combed
'5204	Cotton sewing thread
'5205	Cotton yarn (not sewing thread) 85% or more cotton, not retail
'5206	Cotton yarn (not sewing thread) less than 85%cotton, not retail
'5207	Cotton yarn (not sewing thread) put up for retail sale
'5208	Woven cotton fabrics, 85% or more cotton, weight less than 200 g/m2
'5209	Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2
'5210	Woven cotton fabrics, less than 85% cotton, mixed with manmade fibers, w
'5211	Woven fabric of cotton, less than 85%,mxd with man made fibre, weight >200
'7101	Pearls,
'7102	Diamonds, not mounted or set
'7103	Precious & semi-precious stone,
'7105	Dust&powder of precious or semi-precious stones
'7106	Silver, unwrght or in semi-manuf. form
'7107	Base metals clad with silver
'7108	Gold unwrought or in semi-manufactured forms
'7109	Base metals or silver, clad with gold,

'7110	Platinum, unwrought or in semi manufactured forms
'7111	Base metals, silver or gold, clad w plat
'7112	Waste & scrap of precious metal
'7113	Articles of jewellery & parts thereof
'7114	Articles of goldsmith's/silversmith's wares & pts
'7115	Articles of precious metal or metal clad with precious metal
'7116	Articles of natural or cultured pearls, precious/semi precious stones
'7117	Imitation jewellery
'7118	Coin
'2933	Heterocyclic compounds with nitrogen hetero-atom; nucleic acids & thei
'2936	Pro vitamins & vitamins, natural/reproduced by synthesis
'2932	Heterocyclic compounds with oxygen hetero-atom(s) only
'2903	Halogenated derivatives of hydrocarbons
'2922	Oxygen-function amino-compounds
'2941	Antibiotics
'2934	Heterocyclic compounds, nes
'2914	Ketones & quinones, & their derivatives
'2935	Sulphonamides
'2921	Amine-function compounds
'2918	Carboxylic acids & their derivatives
'2930	Organo-sulphur compounds
'2917	Polycarboxylic acids, their anhydrides, halides etc & their derivative
'2901	Acyclic hydrocarbons
'2909	Ethers, ether-alcohols, ether-phenols & peroxides & their derivatives
'2926	Nitrile-function compounds
'2912	Aldehyde;cyclic polymer of aldehyde; paraformaldehyde
'2905	Acyclic alcohols and their derivatives
'2937	Hormones; their derivatives; steroids nes
'2915	Saturated acyclic monocarboxylic acids & their derivatives

Tête-à-Tête with Mr. Maurizio Cellini

-Economic Counsellor, EU Mission, India

What should India do to attract more investment from the EU?

I think there are two aspects: the regulatory aspect and the business climate in general. India's regulations act as obstacles. For instance, it allows only 26% FDI in the insurance sector. 26% is too small a stake. It raises issues of control.

Then there is the general business climate. Doing business in India is very difficult. The local bureaucracy, getting licenses, judicial delays, infrastructural problems and other systemic problems make India a complex market. Indian companies manage it but it becomes very difficult for European companies.

India needs to address these issues not just to attract more investment but to support Indian business as well.

The recent tragedies at garment factories in Bangladesh has brought labor issues to the spotlight. How does the EU balance its commitment to labor rights and to trade with developing countries?

It is a fine balance between the two. On the one hand trade is important. On the other hand EU is committed to certain principles: human rights, labor rights and good working conditions.

The best way is dialogue. We are working with local authorities. We are sharing our expertise with them. We are providing them aid. We will keep trade open and continue with the Generalized System of Preferences. We will maintain the balance.

The EU, especially Germany, is moving to renewable energy in a big way. What are the prospects for trade in green technologies?

Fossil fuels are increasingly expensive, volatile in terms of price and availability and a major source of environmental pollution. There is also a growing environmental consciousness. We see the green economy as a great economic opportunity. Hence we are shifting more to renewable energy.

As for trade, there are exploratory talks underway for a multilateral trade agreement that will eliminate all duties on Green Technologies and fully liberalize trade on green goods. Its effectiveness will depend on the number of countries joining this agreement. It is called the Green Goods Initiative and the EU is very supportive of it.

What export promotion schemes does the EU have?

The EU has export credits schemes, though they are primarily administered at the national level. However, in some sectors, like ship building, there are OECD wide agreements to regulate export credits across countries.

India is marked by severe regional disparities. How is trade within the EU helping in addressing its disparities?

Europe has always had severe regional disparities, and especially after the Central European countries have joined the EU. The EU has specific policies addressing inter regional disparities.

In fact, the EU provides aid at a national and regional level to help develop backward areas in the union. We support projects for infrastructure, training, and modernization to create new business opportunities in these regions and help them to catch up with richer regions in the Union. In addition, the same common market (which is the corner stone of the EU) is also a powerful tool to integrate these regions in the EU and world economy. It is built upon the principles of free movement of goods, services, people and capital.

India is planning to introduce a GST to promote intra-national trade. Does the EU have any taxation policies that support trade within the EU?

Taxation is a preserve of national Governments. We have varying taxes. Ireland, for example, has very low corporate taxes. The EU, especially after the crisis, has broad fiscal targets. But within, the national Governments decide taxation policy.

What are the plans for EU's aid program for India?

Like many other donors in the recent years, the EU has reduced funds for the traditional aid programs for India, but we keep some specific programs like irrigation, education, health care etc.

India has plans to increase the share of manufacturing in its GDP. How can the EU help better integrate India into the global supply chain?

The EU and India decided to start negotiations for an ambitious free trade (FTA) agreement back in 2007. The India-EU FTA will better integrate India into the global supply chain. We have a very real opportunity in this regard. Negotiations are underway and we expect something concrete to emerge in the 2nd half of this year or next year.

Conducted on 03/04/2014 at the EU Delegation, Delhi by:

Nikhil Indla,
Senior Coordinator,
BLASH-The International Trade Club at IIFT

Geographical Indications

-Abhishek Singh – MBA (IB) 2013-15

From Mexico's Tequila to Darjeeling's Tea, from Scotch to Havana, geographical indications (GIs) are a common feature of everyday life. They not only provide a way for business to leverage the value of their geographically unique products, but also inform and attract consumers.

Going by the classical definition, *"A geographical indication is a sign used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are essentially attributable to that place of origin."*

Typically, such a name conveys an assurance of quality and distinctiveness which is essentially attributable to the fact of its origin in that defined geographical locality, region or country.

Though typically, a GI consists of the name of the place of origin of the product, some non-geographic names, such as "Cava", "Argon Oil" etc. and symbols commonly associated with a place also exits in the form of GI.

Majority of the GIs are applicable to agricultural products because they are influenced by specific local and geographic factors like soil, climate etc. However, their use is not limited to agricultural products. Handicrafts serve as a classical example which are influenced by local traditions and art.

Geographical Indications are one of the oldest forms of Intellectual Properties. Under Articles 1 (2) and 10 of the Paris Convention for the Protection of Industrial Property, GIs are covered as an element of Intellectual Property Rights. They are also covered under Articles 22 to 24 of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which was part of the Agreements concluding the Uruguay Round of GATT negotiations.

Why GIs?

- **To market products:** Brand recognition is an essential aspect of marketing. Geographical indications convey information about the origin-bound characteristics of a product. They therefore function as product differentiators on the market by enabling consumers to distinguish between products with geographical origin-based characteristics and others without those characteristics.
- **To develop an area/rural development:** Because GI products tend to generate a premium brand price, they contribute to local employment creation, which ultimately may help to prevent rural exodus. In addition, GI products often have important spin-off effects, for example in the areas of tourism.
- **To preserve traditional knowledge and traditional cultural expressions:** GI protection recognizes the cultural significance of TK and TCEs and can help preserve them for future generations. In addition, through the added value of a GI scheme, producers are less tempted to replace traditional processes by possibly less costly ones.

How to obtain protection for a geographical indication?

There are three main modalities of protection for GIs:

- ***Sui generis*** **systems:** A system applicable specifically and exclusively to GIs. Such systems establish a specific right, a sui generis right, over GIs, separate from a trademark right or any other IP right
- **Collective and certification marks:** a common feature of these types of marks is that they may be used by more than one person, as long as the users comply with the regulations of use or standards established by the holder.
- **Laws focusing on business practices:** Geographical indications may be protected through certain laws that focus on business practices, such as laws relating to the repression of unfair competition, consumer protection laws or laws on the labeling of products

How are geographical indications protected abroad?

There are four main routes for protecting a GI abroad:

- by obtaining protection directly in the jurisdiction concerned
- through the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (a means of obtaining protection for an appellation of origin originating in one Member State in the territories of all other members through a single registration called “an international registration”)
- through the Madrid System for the International Registration of Marks (in which the GI concerned is protected in the country of origin as a collective or certification mark)
- by concluding bilateral agreements between States or commercial partners

India, as a member of the World Trade Organization (WTO), enacted the Geographical Indications of Goods (Registration & Protection) Act, 1999 has come into force with effect from 2003. There are over 200 registered GIs in India including Darjeeling Tea, Mysore Silk, Madhubani Paintings, Kashmir Pashmina, Bikaneri Bhujia etc.

Countries have realized the potential of GIs. Though mere registration of GIs does not ensure the brand success or preservation of traditional knowledge and culture or development, its execution is the key to success. Nevertheless, GIs have become the subject of generalized interest. It is clear that legal protection of GIs should not be an isolated aim, and that it is not the unique prerequisite for a successful GI. However, it is also evident that failure to adequately protect GIs as Intellectual Property can throw overboard even the most balanced, development-oriented GI scheme.

India's Look-East policy with a special focus on ASEAN

Amitabh Anand – MBA (IB) 2013-15

India's Look-East policy was formulated and initiated in 1991, coinciding with the first wave of liberalization in India that was kick-started by erstwhile Prime Minister P.V. Narsimha Rao and the end of the Cold War between US and erstwhile USSR. Subsequent Prime Ministers like Atal Bihari Vajpayee and Manmohan Singh actively pursued this policy of engaging South-East Asian countries in trade relations. This has helped India in sustaining domestic economic growth and has also helped India bolster its position as a regional powerhouse in Asia. Both these outcomes are crucial in ensuring that India is able to keep a check on the growing influence of People's Republic of China within Asia.

India has gained by this policy but many experts still feel that a lot needs to be done to achieve the potential of trade in this region. In the current times, when India's GDP growth has been slowing, there is a renewed need for India to realign its trade aspirations with the Look-East policy. While the slowdown is indeed partially cyclical and partially vitiated by external factors such as a global slowdown, growth cannot be restored to above 8 percent levels without a fresh spate of reforms. Also, if India is to actually achieve consistent double digit growth levels and control its current account deficit, due consideration must be accorded to the current levels of trade with ASEAN countries. In looking east, India can explore newer markets for its products and services that are already so competitive and much sought-after throughout the globe.

Reasons for renewing focus on the Look East policy

Some of the reasons why India needs to lay greater emphasis on trade with East Asia, specifically ASEAN, are both economic and political. Five of them have been discussed in the subsequent text.

Firstly, real wages in China have been rising steadily. Even a cursory look at data related to real wage growth in China clearly shows that China's competitive advantage in labor-intensive activities is fast waning and India must step in to grab this opportunity.

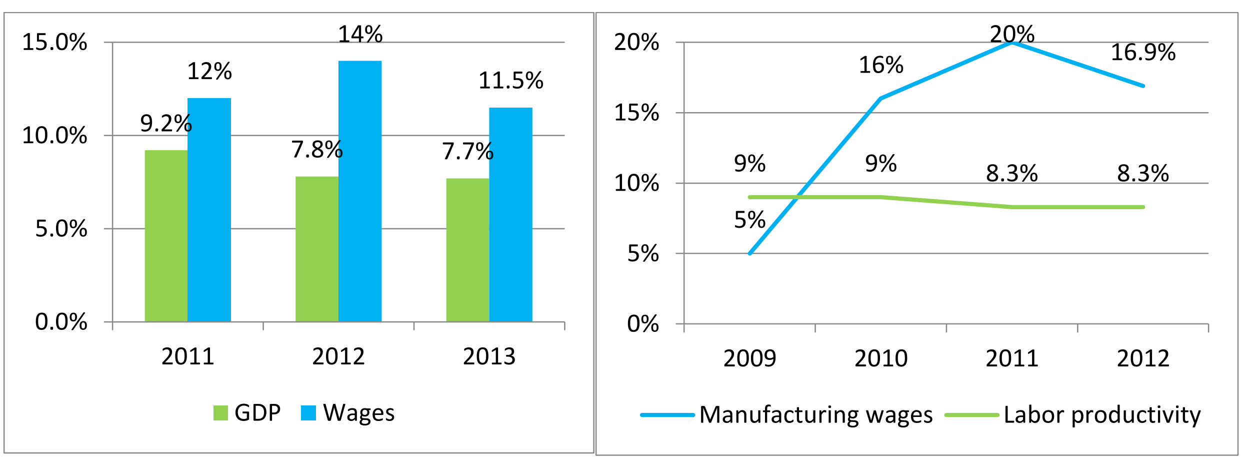

Figure: GDP, wage growth and labor productivity data for China

As is pretty evident from the data presented, real wage growth in China has been in double digits despite falling GDP growth. Also, the labor productivity has been falling and these factors have combined to cause Chinese export growth to fall to 7.9% in 2013 compared to 20% in 2011.

Labor-intensive industries will start to move away from China to other labor-surplus countries. Although geographical proximity can benefit Vietnam, Laos, Myanmar and Cambodia, India stands to gain at the expense of China because of a large domestic market, industrial depth, urban centers and sophisticated financial services that are comparable to China and in some cases, even better than those offered by China. However, to truly exploit this advantage, India must start negotiating with ASEAN for trade on favorable terms and also develop infrastructure along its East coast so that trade relations with ASEAN can be developed at a healthy pace.

Secondly, East Asia has seen a massive liberalization of trade in services which is expected to drive the growth of this region over the next few decades just as trade in manufactures drove growth in this region in the past three decades.

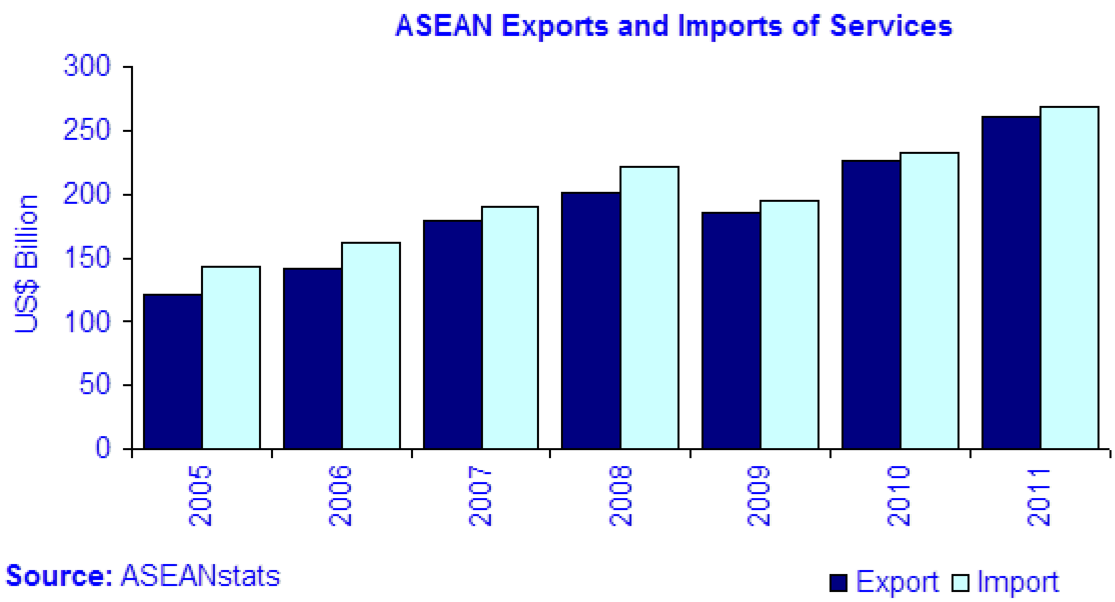

Figure: Export and Import of services for ASEAN over the years

India has already established itself as a major player in the services sector. Services account for over a third of Indian exports. It is high time this advantage is leveraged for capturing a greater share of the ever-expanding services pie in ASEAN countries. China already has a trade-in-services agreement with the ASEAN countries and India recently negotiated a similar agreement. Access to the market in the ASEAN region will help India bring more revenues by exporting services and also allow the domestic services region to diversify its portfolio. This will provide this sector with a greater cushion to combat the effects of a slowdown in the developed economies.

Thirdly, the ASEAN-India FTA (AIFTA) which came into effect on January 1, 2010 has opened up a host of business opportunities for Indian traders. The initial framework for AIFTA was signed on October 8, 2003 in Bali, Indonesia and the final agreement was inked on August 13, 2009. India has also expressed its intent to engage ASEAN by hosting the ASEAN-India Commemorative Summit in December 2012.

Fourthly, rising tensions between Japan and China have caused a lot of Japanese investors to move their money away from China. The great Indian economic story has been an enticement to investors across the world and Japanese investors are not immune to the strong basics of the Indian economy. While a lot of investment has gone to Thailand, which is a natural choice, recent natural calamities like frequent floods have reduced the desirability of Thailand as an investment destination and have shifted focus to India.

And finally, the decisive steps that Myanmar has taken towards the establishment of democracy have opened new opportunities for India to engage ASEAN using Myanmar as a land bridge to the region. Although India has had commercial relations with the military junta of Myanmar, it has been able to keep a cleaner slate than China and the people are naturally more inclined to engaging with India than China. Many countries are eyeing the opportunities that Myanmar may present in the near future and India has to move quickly to exploit the advantages that emanate from a shared border with the country.

Present trade with ASEAN and future possibilities

Given below is the data regarding India's region-wise imports for the years 2011-12 and 2012-13.

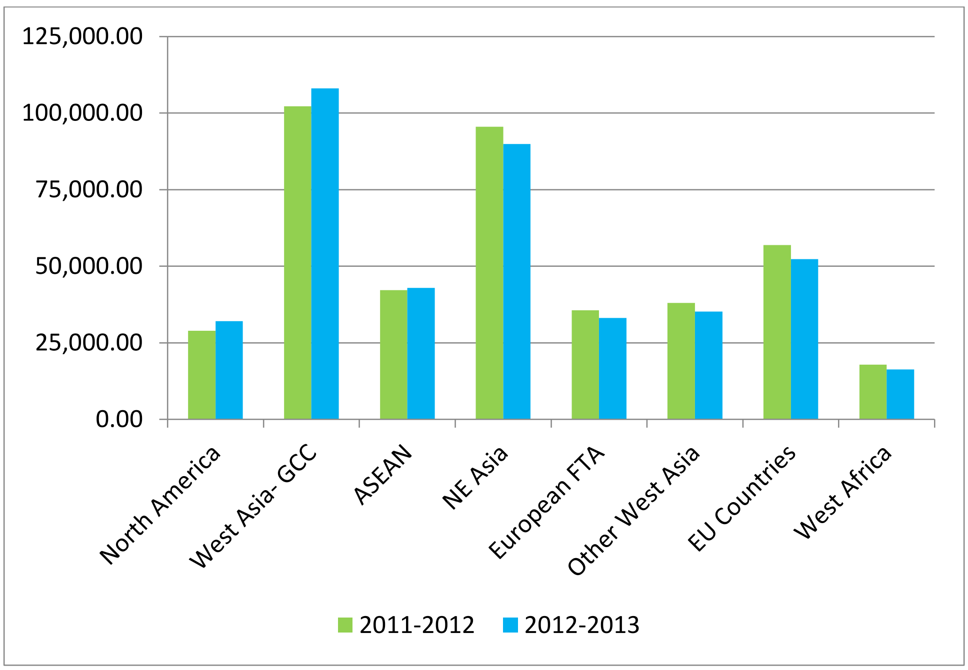

Figure: India's region-wise imports

ASEAN's value of exports to India has shown only a very marginal increase of 1.68% from USD 42,158.84 in 2011-12 to USD 42,866.36 in 2012-13. India's imports from West Asia-GCC, North-East Asia and EU countries are greater in value than those from ASEAN. This is a clear indication of the fact that India has not engaged ASEAN in its markets.

Exports to the ASEAN region have actually fallen 10.17% from USD 36,744.35 in 2011-12 to USD 33,008.21 in 2012-13. This shows that India has failed to exploit the ASEAN region as a destination for its exports. The fall in exports to ASEAN has coincided with the reduced pace of growth of the Indian economy. If India has to return to its pre-2009 levels of growth, it must strive to increase its trade with the ASEAN region.

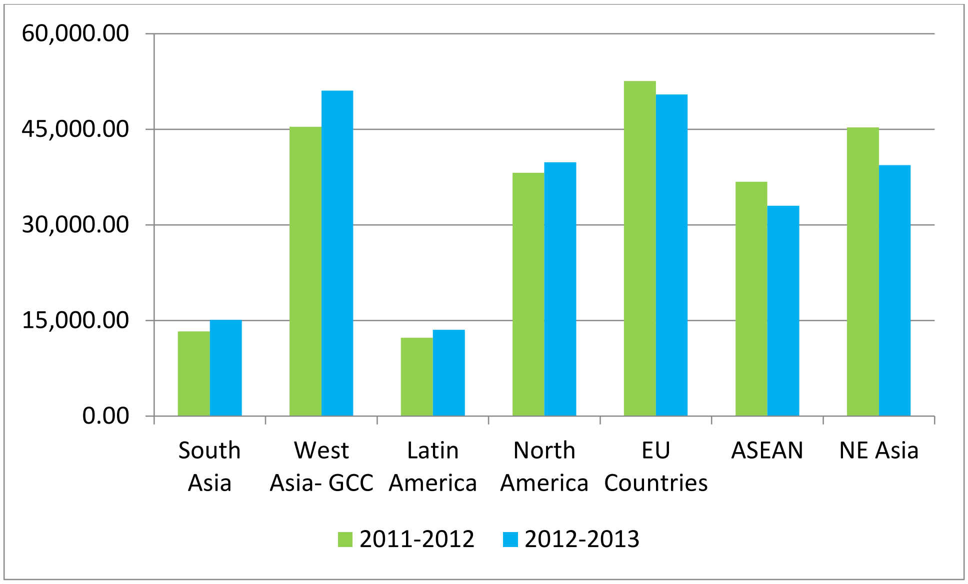

Figure: India's region-wise exports

India's access to East Asian markets can increase drastically if the Regional Comprehensive Economic Partnership were to become a reality, especially as the agreement will also cover trade-in-services. The partnership, which includes ASEAN members along with Australia, China, India, Japan, New Zealand and South Korea, would be the largest free trade agreement in the world and will provide India with an external motive to implement the much-needed trade reforms at home and encourage India to lower trade costs (per container, India's trade costs are more than double those in East Asia). Such an arrangement will ensure that, for the first time, Indian services will be able to compete with Australia, Japan, and New Zealand on a level-playing field.

The growth potential of a free-flowing trade arrangement with ASEAN has the potential of altering the contours of global trade and politics. Increased engagement with India as a trading partner will bring the ASEAN countries much closer to India. This can substantially bolster India's standing in world politics. Mutual trade reliance might also prove to be a reason for forwarding India's case for a permanent membership of the UN Security Council, support for which Indian has been lobbying for over the years. Thus, in looking east, India will be able to remedy a lot of ills that have stalled economic and political growth for the country. ASEAN might well prove to be the shoulders on which India can stand tall and make the world notice its political and economic powers and usher in the next wave of reforms that can take India to the heights that it is capable of reaching. The sooner the government realizes, the better it will be.

Two Banes: A feature on issues plaguing the Indian Pharma sector

Ujjwal Bhatia – MBA (IB) 2013-15

Despite being one of the sunshine sectors of a new and aspiring India, the Indian pharmaceutical industry has been in news for all the wrong reasons. The sector has earned bad reputation primarily due to two issues. Firstly, USFDA audits at the manufacturing facilities of companies like Wockhardt and Ranbaxy have found them lacking as far as sanitary standards are concerned. Secondly, the IPR (intellectual property rights) protection regime of India is under scanner after recent Supreme Court rulings in favour of Indian companies against their western counterparts. In this article, the aforementioned issues have been analyzed in light of the recent developments.

The sorry state of sanitation

The US Food and Drug Administration (USFDA) lists out specific standards to be followed at the manufacturing facilities of drug companies exporting their products to US. The USFDA conducts regular audits at these facilities to ascertain that the standards are being met punctiliously. The six elements on which the plants are evaluated are: materials, equipment and facilities, production, laboratory, packaging and labeling. The past year has seen a spate of inspections from the US regulator on the plants of Indian drug-making companies. The country provides about 40% of the generic and over-the-counter drugs U.S. consumers take, and so the FDA has been placing more personnel and more emphasis on Indian drug plants. Recently, the FDA issued bans on the production facilities of Sun Pharma, Ranbaxy Laboratories and Wockhardt and several other companies like Dr.Reddy laboratories and Lupin Pharmaceuticals are being scrutinized. The rationale given by FDA for blocking some of the facilities are:

- **Wockhardt:** The plants of Wockhardt in Maharashtra were slapped with an import ban after inconsistencies were found in drug-test results. Apart from that severe sanitary violations like soiled uniforms, mold undergrowth in raw-material storage area and urine spilling over open drains also led to the ban.
- **Ranbaxy:** Failure to meet the current good manufacturing practices (CGMP) led to a $500 million fine and an indefinite import ban for Ranbaxy facilities in Punjab and New Jersey.
- **Sun Pharma:** India's biggest drug-maker by value faced the FDA heat for its Gujarat plant after issues like bottling mix up, improper sealing of containers, lapses in temperature-control were flagged during the FDA inspection.

As shown by the accompanying info graphic, India-based drug manufacturing sites, including those of multinationals, account for the highest number of import alerts issued by the USFDA over the past five years. While time and cost are crucial to the generic drug business, companies often tend to bypass or take a casual approach towards various processes and procedures leading to systemic lapses. A stringent quality control regime needs to be followed to ensure that Indian pharma exports remain competitive.

THE MOST PAINFUL

Country-wise break-up of the US Food and Drug Administration's import alerts over violation of good manufacturing practices

	2009	2010	2011	2012	2013	
India	2	-	7	2	19	
China	9	8	3	3	7	
UK	2	-	-	1	0	
Australia	1	-	-	-	2	
Canada	-	-	1	2	-	
Germany	7	-	1	-	1	
Japan	-	-	-	-	2	
South Africa	-	1	-	-	-	

Source: US FDA

IP protection: A bone of contention

US has launched a tirade against India for being inhospitable to western pharma companies and has labelled it as an unfriendly country in reference to its stringent patent regime. It accuses India of bias and failing to recognize product innovation. Western drug-makers, including Pfizer, Novartis, Roche and Sanofi, covet a bigger share of the fast-growing drugs market in India. But they have been frustrated by a series of decisions on patents and pricing, as part of India's push to increase access to low-cost healthcare. Recently, US International Trade Commission (USITC) threatened to issue sanctions against India and withdraw all the benefits of the Generalized Scheme of Preferences (GSP) which could hurt Indian exports. However, after several American companies like Abbott, Boeing and Honeywell came out in favour of India's patent regime, USITC decided to hold status quo.

India argues that its patent laws and regulations are perfectly in tune with the guidelines laid down under TRIPS (Trade related aspects of intellectual property rights) by WTO. The Indian law states that ever greening of patents is only permitted under the condition that the change in the molecular composition of the drug leads to increased therapeutic effect. Only changing the chemical composition is not a substantial ground to permit the extension of patent rights to a firm. Also, with a responsibility to provide low-cost healthcare to 1.25 billion people, it becomes difficult for India to allow market mechanisms to fix drug prices, especially for essential and life-saving drugs. Fears regarding loss of revenue for drug manufacturers and stifling environment for innovation are largely misplaced as several US pharma companies have worked out promising product and pricing strategies to succeed in the Indian market. The sales growth of different pharma players in India can be assessed from the table below:

Wholesale Sales Value (in Rs. crores)			
Company	**12 months ending April 2009**	**12 months ending April 2013**	**Growth (in %)**
Abbott Healthcare	1724.7	2710	57.1
Pfizer	837.6	1714.7	104.7
Abbott India	694.6	1416.1	103.9
Merck	272.7	475.1	74.2
BMS India	59.5	94.9	59.4
Total	***3589.1***	***6410.8***	***78.6***

(Source: AWACS)

The main institution for the global governance of health is the World Health Organization (WHO), which has strongly endorsed India's patent law and its compliance with the TRIPS agreement. The key to ensure continuous growth in Indian market is to follow the strategy of differential pricing. Essential and life-saving drugs should be provided at a subsidized price in case of procurement by the government and market prices can be allowed for sale in over the counter or retail market. Careful policy intervention, stringent oversight by the drug regulator and friendly business environment are the need of the hour to sustain the pharma growth story.

The Curious Case of Guar Gum

-Gautam Guliani, MBA (IB) 2013-2015

In March 2011, Guar gum was suddenly in news. As a traded commodity, its prices had soared from a price of ₹4950 per quintal in March 2010 to ₹8500 per quintal. That was a whopping increase of 72% on YoY basis. And this was not the end. It reached a staggering high of ₹98350 in March 2012. It now trades at ₹12645 spot price.

Before we look into the reasons for such a phenomenal growth in prices, we should understand what Guar gum is. Guar or Cyamopsis tetragonoloba is a drought resistant crop grown mainly in Rajasthan and parts of Haryana. Guar gum, which is extracted from the Guar seeds is used as an emulsifier, thickening agent and also as an additive in the food industry in manufacture of products such as soups and ice cream. Apart from these, the demand for Guar gum was created by the shale gas exploration process of hydraulic fracking. With a threefold rise in shale gas exploration by USA, there was a huge demand for Guar gum. India, being a major exporter of Guar gum, cornered about 80% of the world trade, as the climate was conducive in very few regions and climates. Of the total export, about 60% was being bought by the oil industry and 40% by the food industry.

<u>The Guar Gum Bubble</u>

In 2011, the prices of Guar gum started rising exponentially by about 1000% on strong global demand by the oil industry. The trading was hitting upper circuit every other day. The Forwards Markets Commission (FMC), the chief regulator of forwards and futures markets in India, found excessive speculation as the main reason for it. The trading volumes were far in excess of the open interest highlighting the same. Such was the speculation that the trade multiples in guar futures reached 700. It meant that twice the size of annual production of the crop was being traded in the futures market on a single day.

The USA oil companies, on fears of a weak monsoon had stockpiled the Guar gum, thus increasing the prices even more. This attracted a lot of speculators and non-commercial players, who managed to gain a sizeable share of the futures market by using related entities. The bulk of these traders were also financed by NBFCs, linked to financial conglomerates. In order to cover the demand of futures delivery, the sellers rushed to the spot market to cover their position, which increased the spot market rates as well.

There was also hoarding and a false shortage created in private warehouses which were financed by private banks. A huge presence of the banks was that they had designated these loans to agricultural sector which ensured that they met the priority sector lending norms. There were also major edible oil companies, which were not involved in Guar gum value chain, who cornered huge profits by manipulating the prices of future guar contracts. All these reasons caused the FMC to step in and rein in the prices. It failed to do so and thus suspended the futures trading of Guar contracts on March 27, 2012.

Source: ACE

The ban along with a weak monsoon and a huge inventory stockpile by the oil companies caused the prices to crash in 2012 to ₹20000 per quintal. The farmers bore the brunt of this as they had taken huge loans to expand and bought seeds at hundred times the price they were trading a year earlier. There was also an increase in the production area which tried to negate the limited supply. Guar provided better returns to farmers than other cash crops, and it also was less labor intensive, used less fertilizer and helped improve soil fertility.

After about a year of ban, the FMC removed the bans on trading of Guar futures on May 14, 2013. This was favorable for the Indian farmers as it helped them hedge their positions and also with a strong monsoon, there was an opportunity. There were also other substitutes which were being looked into by the oil companies as Guar was becoming too expensive and uncertain. Thus companies such as DuPont looked for cheaper and more stable alternatives like locust bean, derived from carob tree grown in the Mediterranean region. The huge price bubble created also forced the drilling companies, such as Halliburton and Schlumberg Ltd. to launch polymer based thickeners in order to reduce the dependency on Guar gum. Also new technologies, such as water-less fracturing, is a cause of concern as the production acreage is increasing and huge loans are mounting on the farmers on low Guar prices.

After a period of gloom, Guar gum is again back in demand with low prices on a strong produce. The demand is now being led by China, Germany and Latin America. China is expected to double its demand from last year. Positive signs are that it is the food industry which is creating this demand, which is much more stable in the long run as the oil industries are switching to cheaper alternatives. But the highs seen in 2011-12 are not expected to be repeated and thus a stable market can be developed. Thus it is imperative that the Indian government focuses on cash crops like Guar but also ensures that there is no excessive speculation on them.

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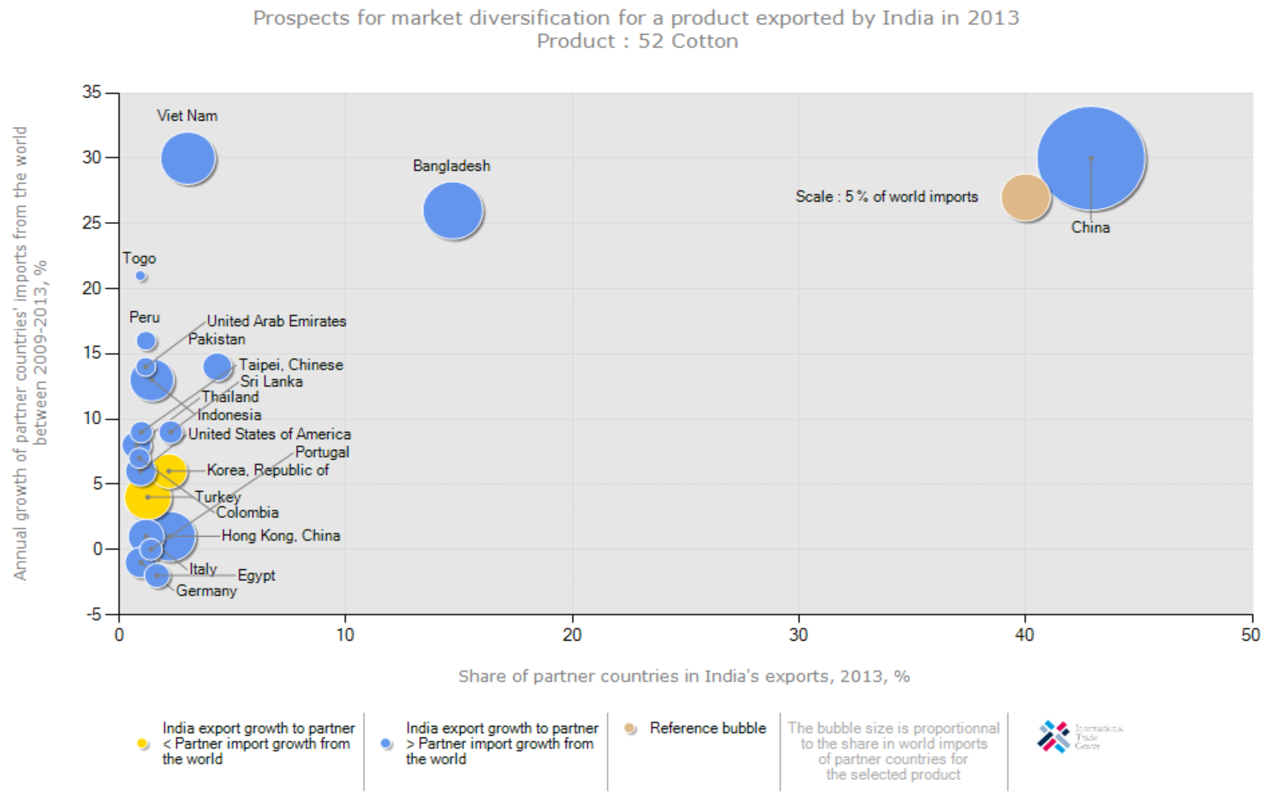
Commodity Analysis of Cotton

Samarth V. Singh & Rahul Sharma –MBA (IB) 2013-15

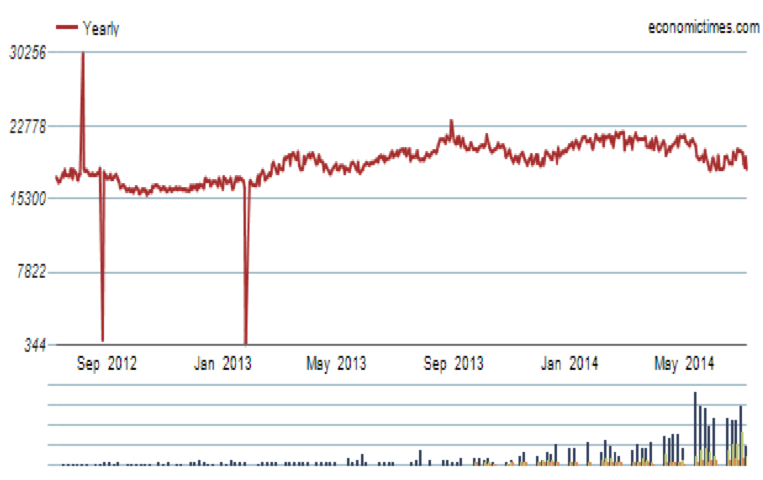
The predominance of cotton in the Indian Textile industry makes it one of the most important commodities produced in the country today. The Indian Cotton Industry provides sustenance to millions of farmers and also to the workers involved right from processing to trading of cotton. But the importance of cotton to India could be traced back to 3,200 BC: archaeological evidence shows that cotton was widely spun and weaved by the people of the Harappan civilization. It is also known that there was a flourishing cotton trade between the Indian, Egyptian and Roman civilizations ever since 4th century BC. However, it was under the British East India Company and during the industrial revolution, that the cotton industry received a major boost in India, with the aim to support the textiles industry in the UK. In 1854 James Landon established the Broach Cotton Mill: the first successful cotton mill in Bombay. The first steam-driven cotton mill also went into production in 1856. 79 cotton mills were in operation by 1883, as Bombay took the industrial lead. Establishment of cotton industry was thus an initiation of a new history.

Today the cotton industry, apart from providing one of the basic necessities of life, also contributes majorly to industrial output, employment and the export bill of the country. It contributes about 14 percent to the industrial production, 4 percent to the GDP and 14.42 percent to the country's export earnings. Being the second largest cotton producer and exporter of cotton in the world, India grows all four species of cultivated cotton starting from Gossypium arboreum and herbaceum (Asian cotton), G.barbadense (Egyptian cotton) and G.hirsutum (American Upland cotton). It also produces a large number of cotton varieties and hybrids. Though the number of varieties in cultivation exceeds 75, 98 percent of the production is contributed by about 25 varieties only.

In order to boost cotton trade, the Government of India had liberalized raw cotton exports since July 2001, before which it followed the system of allocation of cotton "export quota" in favor of different agencies and traders. Ever since then, exports of cotton from the country are under Open General License (OGL). Exports of cotton have grown steadily ever since with the figure being approximately 10 million bales (1 bale = 170 kg) for the last two years. China has been the biggest importer of cotton from India up to the limit that Indian exports have largely been dependent on China. An unstable Rupee last year had forced China to decrease the cotton import from India and, instead, import cotton yarn. The decrease in exports to China, however, was largely offset by a huge spurt in demand from Bangladesh and Pakistan –arising due to a weaker rupee and increased orders from the United States and Europe as the global economy picks up. Bangladesh and Pakistan are the 2nd and 3rd largest importers of Indian cotton respectively.



Another reason for the increased imports by Pakistan and Bangladesh are that their spinning mill owners prefer high quality Indian cotton compared with that from the US or Brazil - the transportation cost and time in case of Indian cotton being much lower. As per the International Cotton Advisory Committee's projections for the year 2014-15, India's cotton exports are like to fall by around 20 percent. Decrease in global trade and increased local consumption in India are considered to be the main factors behind this. Even the Chinese government has maintained a huge stock of cotton this year and wants local users to use more of the home product. China and Bangladesh together make up for 60 percent of Indian cotton yarn exports too. Global recession increased the dollar prices and hence the cotton yarn producers in India preferred to export rather than to sell locally.



On spotting the potential in cotton yarn trade, it began to be traded on the Multi Commodity Exchange from 2004. Speculated interest further increased its prices. As a result, in 2013, the cotton yarn export reached an all-time high of approximately 830 million kg. Futures trading in cotton has given the farmers and traders an opportunity to hedge their price risk. Now, as the speculated interest in a commodity rises, so does the price. In the case of cotton, it also fluctuates a few times a year making it hard for buyers and brands to fix a profit margin.

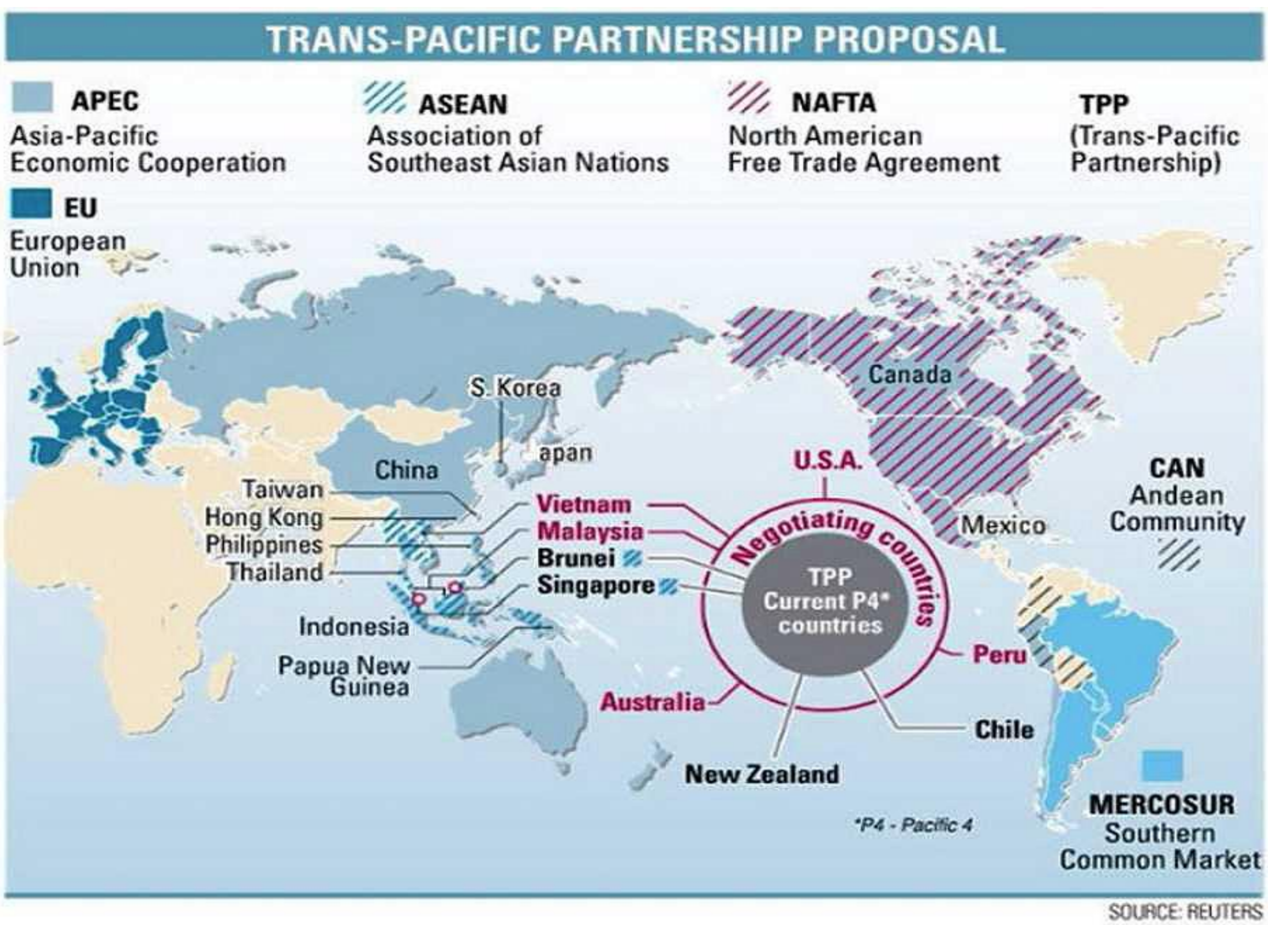
Even though India has largely been self-sufficient and a net exporter for most of the time, it still imports cotton in some amount almost every year - generally after March when the supply season draws to an end. Also, the mills cannot afford higher prices because they may not be in a position to pass it on to their customers in which case they tend to import. India usually imports raw cotton mainly from the United States, Brazil, Pakistan, Egypt and other African countries. However, cotton imports have been on an alarming rise over the last few years. In FY 2013/14, the net cotton imports stood at approximately two million bales (1 bale = 170 kg). The main reasons for this are the high local prices and transport costs, especially for the Southern States which source raw cotton from Western India. It becomes more attractive for the producers to source cotton from some of the African nations as transportation is viable since imported material lands in southern ports. Some West African nations also provide a cost advantage of 5 percent over the cotton brought from Gujarat. Also, importing cotton from Africa provides the advantage of the 90-180 days credit facility which puts them in a better spot when it comes to payments.

Trans Pacific Partnership

– Nikhil Indla, MBA (IB) 2013-15

The Trans-Pacific Partnership is a trade pact being negotiated among 12 Pacific Rim countries. The TPP is an ambitious effort to shape a comprehensive agreement that would not only reduce tariffs and other barriers to open markets, but also establish standards on a variety of issues affecting trade and international competition.

The Trans-Pacific Partnership is a proposed expansion of the 2005 Trans-Pacific Strategic Economic Partnership Agreement (TPSEP or P4), a trade agreement among Brunei, Chile, New Zealand, and Singapore. Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam are at present negotiating this treaty. Philippines, Laos, Cambodia, India, South Korea and Taiwan have expressed interest in this agreement.



This agreement has received an impetus with the stalling of the Doha round of trade talks at the WTO notwithstanding the agreement on streamlining customs procedures.

Together these countries account for 40% of the global GDP and 40% of the world trade. This agreement is expected to increase trade, investment and improve living standards in the Asia Pacific region. Japan's government estimates the economy will expand by 0.66% as a result of the elimination of tariffs. When we include non-tariff deregulation, the economic benefit will be much larger, probably to the tune of 2% to GDP.

However, the Trans-Pacific Partnership is more than just a free trade agreement between the Pacific Rim nations. The proposed pact will actually set down rules in as many as 21 different fields, including intellectual property, investment, labor standards, environmental standards and the general facilitation of trade. If the TPP becomes reality, it is likely to create a new trading order in the Asia-Pacific region.

The TPP has wider strategic implications. Tensions are rising between China and Japan over disputed islands called the Senkaku islands in Japan and the Diaiyou islands in China. China’s unilateral declaration of an Air Defense Identification Zone (ADIZ) over the South China Sea that covers islands disputed with other East Asian countries has made the South East and East Asian countries nervous. There is a perception that America is not fully committed to supporting the security architecture in the Asia Pacific region. A successful deal will convince America’s allies that its “pivot” or “rebalance” to the Asia-Pacific is not mere rhetoric.

There are many hurdles to reaching this agreement. There is domestic opposition in the US to this pact. The automobile industry in particular is concerned about the proposed 2.5% reduction in duties on automobiles and 25% cut in duties on trucks. The textile industry is concerned about competition from countries like Vietnam. The sugar industry has also expressed its concern about the pact. Opponents say that the pact will widen the US trade deficit and promote corporate interests at the expense of the middle class. They deride the pact as “NAFTA on steroids,” a reference to the North American Free-Trade Agreement, which took effect 20 years ago. Critics blame that deal for chasing thousands of US jobs to Mexico, where companies found lower-wage workers.

Hence there is political deadlock in the US Congress regarding the “Fast Track” authorization to negotiate trade deals. Fast Track authority means that the President can negotiate the trade agreement and the entire agreement will be put to a simple yes/no vote in Congress. Many lawmakers in President Obama’s own Democratic Party, especially from manufacturing states are opposed to this pact. If the Republican Party comes to power in the 2014 Congressional mid-term elections as is widely expected, then President Obama may not have the authority he needs to take this agreement forward.

There are concerns about Intellectual Property rights (IPR). The U.S. has been pushing stronger copyright protections for music and film, as well as broader and longer-lasting applicability of patents. It would also make the approval process more difficult for generic drug makers and extend protections for biological medicines. This has been opposed by several countries and public health organizations. Many countries are also opposed to US proposals on Digital Rights Management (DRM) and Internet Service Provider (ISP) liability for copyright violations by users on their networks.

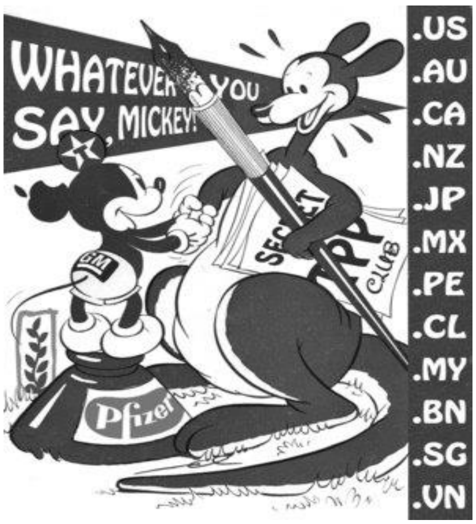
The US expects higher standards on environmental and labor regulations in order to ensure a level playing field. Developing countries are concerned that their policy making authority will be curtailed. However, many in the US believe that they will be unable to monitor and enforce these regulations with their trading partners.

Japan is unwilling to open up its protected agricultural sector due to domestic political pressures. Rice farmers, as well as beef, poultry and pork producers, have mounted firm resistance to the pact, which would dramatically decrease import tariffs. However, progress has been made in this regard. US has already agreed to let Japan keep its tariff on rice, wheat and sugar in exchange for Japan taking non-tariff measures to increase the imported quantities. On beef, Japan seems to have gotten away by agreeing to lower tariffs by 9% in the distant future. Negotiations are still ongoing about the tax restrictions on pork.

Malaysia is concerned as it may be required to modify its Bhumiputra policy that provides affirmative action for the majority ethnic Malays. It was concerned about the impact on the palm oil sector as well. However, these concerns have been addressed.

Another big issue is that these trade agreements may give investors unnecessary power to sue foreign governments over policies they dislike, including health and environmental regulations. Philip Morris, a tobacco major, for example, is trying to overturn Australian rules that require cigarette packs to be sold only in plain packaging

The secrecy around the negotiations is causing concern. Trade negotiations are usually conducted in private. It is believed that secrecy encourages meaningful dialogue. TPP partners have signed confidentiality agreements that restricts public access to negotiations. However, given the wide ranging scope of the agreement, there are demands for the negotiations to be conducted transparently.



These are problems that can be overcome through patient diplomacy. However, there is one glaring lacuna in the agreement: the absence of China. China is suspicious of this treaty. It sees it as a tool to contain its rise. Its fears are not irrational. For instance 60 senators of the US Senate have asked for the final agreement to address currency manipulation, which wouldn't directly affect China as a non-member, but could create a framework for broader action. Nonetheless the provisions of this agreement are based on market principles and are unlikely to work with China's command economy. Beijing has instead been pushing a Regional Comprehensive Economic Partnership (RCEP) within the Association of Southeast Asian Nations (ASEAN) as a perceived "strategic counter to the US-led TPP.

China stands to gain considerably by joining the TPP. Most immediately, it would add China to a growing coalition of countries co-operating to increase trade and investment across dimensions that have been frustrated in traditional multilateral forums. It will give China an opportunity to shape the agreement to address its needs and concerns. Its economy is slowing and debt growing. The TPP's focus on services, investment and government procurement, among other trade issues, would dovetail nicely into China's current efforts to reform its economy.

China joining the TPP would offer immediate reputational benefits, and plant the seeds for boosted economic activity once an agreement is reached. Given China's ambitions, abstaining from the TPP would not only be a conspicuous omission, it could also sow the seeds for slower investment and services trade activity in the future, given stronger policy incentives elsewhere.