

The New Trade Routes INDIA

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Talking up success

Low-cost, high-volume business models developed at home also work in Africa
Page 3



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Powerful allies: Wen Jiabao, Chinese premier, left, and Manmohan Singh, India's prime minister, mark 60 years of diplomatic relations between the two nations last December

Getty

Bumpy road ahead on the way to a deal with Europe

Free trade

The two sides are edging closer to an agreement, writes Amy Kazmin

For nearly four years, India and the European Union have been engaged in protracted and sometimes painful negotiations on a comprehensive free trade deal to apply to both goods and services, and facilitate more European investment in India.

Now the two sides believe they are getting closer to an agreement, with negotiators hoping that a deal – more ambitious than India has entered into before – could be completed this year.

This would pave the way for substantial growth in what is already one of India's most important economic relationships.

Bilateral trade in goods and services between India and the EU was estimated at €72bn (\$103bn, £63bn) in 2009, a figure that could rise to an estimated €160bn by 2015 if the pact is completed.

Karel de Gucht, the EU trade commissioner, told the European Parliament in a debate this month that the deal would be "not only of great economic value, but of major strategic importance", laying a framework for the growth of the relationship.

But, with both Brussels and New Delhi keeping the precise details of the deal a closely guarded secret, the talks have aroused serious concern in both Europe and India.

In February, Corporate Europe Observatory, a research and campaigning group, sued the European Commission over its conduct of the free trade talks.

The lawsuit accused the commission of violating rules on transparency and democracy by refusing to disclose details of the negotiations publicly, despite sharing them with powerful European business groups.

"The lack of transparency, public debate and democratic process surrounding the negotiations and privileged access granted to business interests must be resolved," the group said in a statement that was supported by nearly 100 Indian and European organisations and prominent individuals.

Worries about the deal's substance are particularly intense among health charities, which say the EU is pushing India to adopt more stringent intellectual property norms.

The charities believe these rules hinder the ability of India's pharmaceutical industry to produce newer generation, affordable drugs for HIV/Aids and other life-threatening diseases afflicting the developing world.

Nearly 80 per cent of the HIV drugs purchased by donors such as the Global Fund for HIV/Aids, TB and Malaria are sourced from India.

Led by Médecins Sans Frontières (MSF), the Nobel Prize-winning health group, charities have mounted an intense campaign to try to prevent any change in India's intellectual property regime, particularly as it would affect the generics drugs industry.

The EU, in the face of the protests, has backed away from some of its demands, including its request for protection of multinational drug companies' clinical trial data, which Indian companies use to get their own low-cost generic copies approved.

"We are fully aware of the specific role played by India as regards access to affordable medicines in the

developing world," Mr de Gucht told the parliament, insisting that the deal will "not undermine the capacity of India to promote, produce or export generic medicine."

However, Mr de Gucht said a more robust intellectual property rights framework would help India to "encourage innovation and research, including... the development of new medicines" and he acknowledged that more stringent intellectual property rights remain "an important objective" for the EU in the trade talks.

Leena Menghaney, a New Delhi-based lawyer and health access campaigner with MSF, says the measures still being demanded by the EU would shift the balance in the Indian court system towards global pharmaceutical companies over generic producers in their frequent legal skirmishes, with negative consequences for public health.

It would also allow for customs authorities to seize generic drug consignments being exported while disputes are being resolved, delaying access to the medicines even if the generic companies win the case.

"It would have a chilling effect on generic production and exports, and government policymaking," Ms Menghaney says. "It would open the door for pharmaceutical companies to sue to the government if they don't like your policies."

Indian officials have told



A trade deal would be 'of great economic value and major strategic importance'

Karel de Gucht, EU trade commissioner

activists they are trying to resist these EU demands, but – with Manmohan Singh, the prime minister, pushing hard for a compromise on IPR to help bring the talks to a close – many are fearful of the outcome.

However, Anwarul Hoda, a professor at the Indian Council for Research on International Economic Relations, says Mr Singh's government was unlikely to make any big concession on such an emotive issue as access to affordable medicine.

"The government will not try to commit suicide by agreeing to anything major on pharmaceuticals," Mr Hoda says. "If they come out with a major surprise that changes the regime, there is going to be difficulty."

Intellectual property is not the only sticking point. India is resisting pressure from the EU to lower tariffs on wine and spirits, an area of big interest for European drinks companies, and also on imported cars.

Opening up service sectors, including the retail business, is also of keen interest to Europe, but problematic for India, given the sluggish pace of its domestic reform.

Given this, it remains to be seen whether Brussels and New Delhi can finally achieve a consensus acceptable to both sides, or whether talks will finally hit a wall.

As Mr de Gucht told the European Parliament: "We are really in what I would call the end-game of these negotiations... We are in the last stretch to the finish. But the road ahead will still be rather bumpy."

World beats a path to Delhi

The country has ambitious plans to raise its annual exports from \$246bn to \$500bn in the next three years, writes James Lamont

India is reinvigorating its trading relationships in an attempt to regain lost ground after decades of isolation, inward-looking policies and red tape.

Twenty years after Manmohan Singh, now prime minister but then the finance minister, introduced reforms to free an economy stifled by state control, his government is accelerating its opening to new markets.

The 79-year old premier penned his postgraduate thesis, *India's export trends and the prospects for self-sustained growth* in the 1960s. Only now is the world's second fastest-growing economy earning a larger share of world trade. Its bilateral trade with China was worth \$60bn (\$42.5bn, £37bn) last year; with the European Union, it is nearer \$100bn.

Export earnings are rising and represent a growing share of gross domestic product. This progress is in spite of failure at the World Trade Organisation to agree a framework to assist developing countries in the Doha round of talks and fears of protectionism after the financial crisis.

In 1990, India's trade to GDP ratio was about 15 per cent. Now it stands at upwards of 35 per cent. The country has built new export sectors in services and manufacturing, especially in engineering products, petroleum, gems and jewellery, pharmaceuticals and IT outsourcing services.

Merchandise exports in the past fiscal year leapt nearly 40 per cent to \$246bn, outstripping government forecasts. The Congress party-led government dreams of \$500bn in annual export revenues within three years, representing growth of 30 per cent a year.

In April alone, exports rose almost 40 per cent year-on-year. However, they are expected to slacken later in the year, as the global economy faces rising energy prices.

Improving export performance is good news for the current account in a country that is also importing more. Forecasts for the current account deficit have narrowed from above 4 per cent of GDP to nearer 3 per cent for this fiscal year.

When seen from afar, India's economy often appears to run on a powerful domestic engine of local consumption by its 1.2bn people. That has largely powered the nation to its current 8.6 per cent economic growth, but policymakers are hoping export performance will help sustain high levels of growth for Asia's third-largest economy.

Successful export sectors with better infrastructure also offer the prospect of better quality industrial and manufacturing jobs.

Last year, the leaders of some of the world's most powerful countries visited Delhi, bringing with them record-breaking trade delegations. For US President Barack Obama, UK Prime Minister David Cameron and French President Nicolas Sarkozy, India represents an opportunity for their companies to adapt to low-cost business models that can help them supply global markets.

India is not just reaching out to the powerful, it has also launched an armada of smaller trade

engagements. Anand Sharma, the commerce minister, has taken his negotiating zeal to Australia and New Zealand as part of a push east, as well as to the Middle East, Africa and Latin America.

This month, Mr Sharma signed a Comprehensive Economic Cooperation Agreement with Australia, calling it a "truly liberalising" pathway to closer integration between the two countries. Alongside a string of agreements came bold projections and a deal for the supply of Indian mangoes from next month. Bilateral trade with Australia is expected to double within three years to \$40bn.

For Australia, a key exporter of

'Its policies of trade and investment liberalisation are reintegrating India into the world economy'

George Osborne, UK Chancellor of the Exchequer

coal, copper and nickel, India is its third largest market after China and Japan. Over the past five years, trade has grown at nearly 30 per cent a year, and is increasingly led by India's globalising private entrepreneurs.

The same trend is now found in almost every corner of the globe, including Africa and Latin America. The ambition is big. Trade negotiators are surprised by their Indian counterparts announcing ambitious timetables to notoriously complicated arrangements.

India, famously protectionist in the past and renowned for formidable tariff and non-tariff barriers, is negotiating bilateral trade agreements with the European

Union, Israel, New Zealand, the US, South Africa and Japan.

India has already chalked up a number of such agreements. Two of the biggest are with the Association of Southeast Asian Nations (Asean) regional grouping and with South Korea.

The commerce ministry is at full stretch. Rahul Khullar, commerce secretary, admits he does not have the negotiators required for the level of proposed activity. Staffing levels in his department were frozen 30 years ago and he describes India as a "late-comer" to the bilateral race.

Countries that have neglected their trade and investment relationships with India are rushing to catch up. The UK is one. Its trade with India is less than Ireland's, an oddity Mr Cameron and his team have vowed to change.

"India's policies of trade and investment liberalisation are reintegrating it into the world economy, allowing it to regain an influence it had three centuries ago," says George Osborne, the UK chancellor.

This activity follows the lack of progress at the World Trade Organisation's Doha trade talks. Since their collapse in 2008, India has argued for their resuscitation. A leading negotiating country, India, with Brazil and South Africa, was once viewed as one of the more recalcitrant of the big nations as it sought to protect farmers with import tariffs.

However, Mr Singh's government has been at the forefront of efforts for the talks to resume, and it has pushed the case for opening up services, and has voiced its fears of growing protectionism in the wake of the global financial crisis.

Economists fear failure to agree the Doha round could lead to

curbs on fast growing large economies such as India's.

India still needs to make itself more appealing to international trade and investment. It features well down on indices for the ease of doing business, anti-corruption measures and transparency.

The World Bank observes that, although India has steadily opened up its economy, its tariffs continue to be high compared with other countries and its investment rules are still restrictive. It maintains caps on foreign investment in many sectors, most controversially the retail sector, while vested interests make it hard for new entrants to prosper.

Immediate priorities are to balance a fast-growing deficit with China, now India's biggest trading partner, and to ease notoriously underdeveloped relationships in the south Asian region.

However, India is earning plaudits for being a rapid globaliser. Its share of world exports multiplied to 1.3 per cent of GDP, from 0.3 per cent in 1993.

Equally, its partners complain it has a long way to go to reshape a "highly protectionist" economy, that maintains agricultural tariffs of 30 to 40 per cent, periodically implements anti-dumping measures, and is plagued by delays.

"According to the World Bank's rankings, it takes eight documents per shipment to export goods [in India] versus four in Singapore; 17 days versus five in Singapore and a cost of \$1,055 per container versus \$456 per container," says Rohini Malkani, economist at Citigroup.

Keeping up this forward momentum depends on India's ability to improve its infrastructure over the next five years and the buoyancy of the world economy to ward off protectionism.



Inside Agriculture The country needs to modernise its out-of-date farming infrastructure **Page 2**

Drug industry India is aiming for a role as the world's pharmacy while expiring patents give the sector a boost **Page 2**

Opinion It is time to show leadership skills in trade discussions **Page 2**

Export base The government has a bold strategy to win customers **Page 2**

Technology IT outsourcing look to emerging markets for sales **Page 3**

Regional barriers South Asia's shuttered borders stifle potential and the trade difficulties with Pakistan are mirrored elsewhere **Page 4**

Supply chain The country is poised to become a regional leader in manufacturing but it is on a different path from China **Page 4**

Asian powerhouses agree to differ

Trade deficit Beijing and New Delhi have issues to resolve, writes James Lamont

China has emerged in recent years as India's largest trading partner.

When Wen Jiabao, China's prime minister, crossed the Himalayas at the end of last year to visit New Delhi, he brought a trade delegation estimated to number 400 people.

They left three days later with a list of agreements, from finance to fish factories, worth by some estimates \$14bn (£9.85, £8.6bn), and the promise to raise bilateral trade to \$100bn a year by 2015.

But the scale of trade with China had been evident before the visit. Two months before, India's Reliance Power ordered \$10bn of power generation equipment from the Shanghai Electric Group in a deal financed by Chinese banks. One of the biggest contracts between India and China, it highlighted the possibilities between the Asian power-

houses. Anil Ambani, the Indian billionaire and chairman of Reliance ADA, described the deal without hyperbole as "the largest order in the history of the [Indian] power sector".

Mr Wen sees more coming. He wooed his Indian counterparts with talk of the arrival of the "Asian century", and of the opportunities that lie ahead for the world's two fastest growing large economies to transform global trade and development.

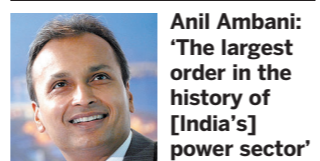
For Chinese and Indian leaders, fast growing economies and greater prosperity mark a return to an era, in the 17th and 18th centuries, when their economies were at the centre of global trade. Today, China and India account for nearly 40 per cent of the world's population. They represent two of the three largest economies in Asia, and play a crucial role in the buoyancy of global trade and finance.

Just how the two countries manage their emergence as leading international powers and industrial hubs is being watched keenly by the rest of the world. Mr Wen believes the two can grow simultaneously without friction between them – over trade

or borders – spilling over into conflict, as it did nearly 40 years ago.

"There is enough space in the world for the development of both China and India and there are enough areas for us to co-operate," he told India's business leaders.

Manmohan Singh, India's prime minister, echoes those sentiments. But many Indians, who are fearful of China's rise, will need more convincing. Trade between



Anil Ambani: 'The largest order in the history of [India's] power sector'

the two countries, currently worth about \$60bn, is skewed heavily in China's favour.

Bilateral trade has grown at more than 30 per cent a year in recent years. However, about 70 per cent of India's exports to China are raw materials that then come back as higher-value finished goods that undercut its own small and medium-sized businesses.

The imbalance rankles. New Delhi has repeatedly pressed Beijing to address

the issue, and remove what it views as non-tariff barriers that prevent Indian companies prospering in the neighbouring country.

Multinational companies such as Tata Consultancy Services say that China is one of the most challenging countries for them to do business in.

Last year, the trade deficit was about \$16bn in Beijing's favour, which Indian officials say is "politically unsustainable" and identify it as a point of frustration in a relationship central to Asia's stability.

Duvvuri Subbarao, governor of the Reserve Bank of India, says China's policy of keeping a weak renminbi has "hurt" India, and is partly behind the rise in Chinese exports to India in the past decade.

Among the measures that Anand Sharma, India's trade minister, has pushed for to redress the balance are abolition of restrictions on Indian exports to China, including information technology, Bollywood films and fresh food.

"We would like to diversify our export basket," says Mr Sharma. "These efforts, matched by greater market access for Indian goods in China where we

have competitive advantage, will help to strengthen our bilateral economic relations."

Chinese officials also have complaints. They say India puts restrictions on their goods, denies their workers visas and bars investment in strategic infrastructure areas. India has put tariff barriers on toys, chocolate and telecoms in the past three years to defend itself from dumping. It has highlighted security concerns surrounding Chinese telecoms equipment and, this year, it banned the export of iron ore.

Nonetheless, the volume of trade is only likely to increase. So long as western demand remains weak, China will seek new export markets. Its companies want a role in India's infrastructure development, which Mr Singh says should attract \$1,000bn over the next five years.

China is pushing hard. It has offered to accelerate talks aimed at negotiating a bilateral trade agreement, similar to a free-trade agreement. But India, wary of the speed and magnitude with which trade is increasing, will want to tread cautiously until lopsided trade flows are righted.

The New Trade Routes: India

Nation aims for role as global pharmacy

Drug industry

Expiring patents will aid the sector, says Amy Kazmin

India's commerce ministry is aiming to carve out a role for the nation as the world's pharmacy.

Once known for making low-cost copycat drugs for its price-sensitive domestic market, India's pharmaceutical industry has emerged as a global force, supplying low-cost, quality off-patent medication.

It increasingly sends drugs to western markets such as the US as well as to developing economies.

India's pharmaceutical exports grew robustly during the financial crisis and were estimated at \$10.3bn (£7.3bn, €6.3bn) in 2010-2011, up more than 10 per cent on the previous year and nearly double the level of five years earlier, the

commerce ministry says. But in a fragmented global generics market currently estimated at \$85bn a year, India's government, and its pharmaceutical companies, believe there is plenty of room to grow, especially as numerous blockbuster drug patents expire in the next few years.

India aims to increase drug exports to \$25bn by 2013-14, aided by pressure on fiscally strained developed countries to cut healthcare costs.

"Developing countries are facing fiscal problems, and wherever public health is a major charge on the national exchequer, solutions will have to be found," India's commerce ministry wrote in a recent strategy paper. "An integral piece... will be increasing reliance on high-quality generics, instead of patented or brand-name drugs. This is an opportunity we cannot miss."

Once focused mainly on

the domestic market, Indian companies have become adept at filing applications to sell their low-cost generics in western markets – almost immediately after they go off patent, or by challenging the patent.

New Delhi-based Ranbaxy, bought by Japan's Daiichi Sankyo in 2008, expects to get six months of US sales exclusivity – a privileged granted to the first generics company successfully to challenge a drug patent – for its version of Pfizer's blockbuster cholesterol-lowering drug Lipitor.

Ranbaxy's performance in the past year has benefited from six month exclusivity periods for generic versions of GlaxoSmithKline's anti-herpes medicine Valtrex, and a generic version of Eisai's Aricept for Alzheimer's disease.

"There is well-oiled machinery that cranks out these applications to sell drugs," says an India-based investor in the

pharmaceutical industry. India has more than 100 pharmaceutical manufacturing facilities approved by the US Federal Drug Administration – more than any country outside the US.

Many of these companies have warehouses in Malta, where they ready generic supplies for shipment to the



Vasant Kumar: Emerging markets are growing in importance

EU when drugs go off-patent there.

Indian drug companies are also looking to emerging markets, such as Russia, Latin America and the Middle East.

Bino Pathiparampil, an equity analyst with Mumbai-based India Infoline Capital, says: "They are making big gains [in such territories], although from a very low base."

Multinationals such as Merck, Abbott Laboratories, Sanofi-Aventis, and GlaxoSmithKline – once bitterly resentful of Indian copycats – now see the country as an increasingly important part of their global supply chain.

Recently, India has seen a series of takeovers of locally owned drug companies by pharmaceutical companies.

Multinationals are also forging manufacturing, sales, marketing and research tie-ups with local companies. One such is Merck's partnership with Gujarat-based Sun Pharma to develop, make and sell branded generic drugs to emerging markets.

"Big pharma players are more open to work with emerging market players," says Vasant Kumar, president of Scriplogix, a New York-based consultancy. "They need to keep costs under control, and emerging markets are becoming more important in their portfolio."

However, India has yet to establish itself as a base for innovative pharmaceutical research.

Local research firms such as Jubilant, TCG, the Tata Group's Advinus, and Dr Reddy's Aurigene, are promoting themselves as partners to do contract work for big companies seeking to reduce costs.

But the business is held back by concerns about intellectual property rights and companies' reluctance to outsource such a crucial function.

"Leakage is rampant," says the industry investor, who adds that companies looking to outsource "don't want to take a chance".

Some Indian companies say they have a few promising molecules in development. But research spending by most Indian drug companies is a pittance, the highest levels being between 5 and 10 per cent of sales – insignificant compared with large multinationals.

Aspirations still trail behind grievances

Guest Column

PRADEEP S. MEHTA

Until the advent of the British Raj, India had a healthy trade surplus with the rest of the world. Its trade openness was commensurate with its share in global trade.

Today, India is witnessing a revival of this phenomenon, as shown by the huge growth from a less than 1 per cent share of international trade in the early 1990s to more than 3 per cent.

During British rule, although India had significant trade openness, its share of global trade fell. After independence in 1947 until the 1980s, trade policy was tilted toward import substitution, without much thought about developing export competitiveness.

In the mid-1980s, a liberalisation policy was initiated by Rajiv Gandhi, then prime minister. In the early 1990s, Manmohan Singh, then finance minister, now prime minister, gave it a push.

Policies aside, in practice Indian politicians also preach that exports are good and imports are bad. This was ingrained in foreign trade policies for a long time when consumer welfare was almost absent.

Only in the past 25 years has India practised a considered policy of trade-led growth without being shy about a trade deficit.

It is a myth that trade and investment liberalisation policies were adopted by default – it was a well-designed shift

without which India could not have achieved the kind of growth it has enjoyed for the past two decades.

Even after taking into account the fact India is still less open to trade than other countries, the impact of its current openness on growth in general, and poverty reduction in particular, is much more significant.

Numerous studies on links between trade, development and poverty have shown this.

So, why do politicians not show more interest in domestic trade liberalisation in general and trade multilateralism in particular?

Rather than the politics of aspiration, Indians excel in the politics of grievance. Three state governments were thrown out recently because of a vegetable price rise, particularly for onions. Consumers gave their verdict: onions could not be imported because of government insouciance and rent-seeking by politically influential traders.

Agricultural trade policy provides an illustration of the political economy of India's trade liberalisation. There is no policy as such. A recent example is Bangladesh's decision not to import wheat from India as it had entered into forward contracts with Russia, as India was late in making an offer because of bureaucratic inertia.

While the trade ministry deals with international

trade issues, it is mainly bothered about revenue generation from trade, not domestic commodity prices.

Price control is the job of agriculture and consumer affairs ministries – they receive political flak from consumers or producers whenever commodity prices rise or fall. Coalition government makes things more muddled. The end result is a lack of coherence.

This political economy of domestic trade liberalisation is reflected at the multilateral level too.

India's average tariffs on agricultural and industrial goods have fallen to 40 and 20 per cent respectively (a decrease of more than five times). It is an irony that instead of turning this into an advantage, our trade ministers are consistently playing the politics of grievance at the WTO.

India's position in the Doha round of the WTO has not changed since its launch in 2001. The only difference between the positions of the present trade minister and his predecessor is that, while the predecessor was more concerned with backward links (in rural hinterlands in particular), the present minister is more interested in future ones.

Given India's role in the new quad of WTO talks (the old quad of Australia,



Rajiv Gandhi, who began a policy of liberalisation during the mid-1980s

EU, Japan and US was replaced by the EU, Brazil, India and US in 2003), and its role in highlighting the development discourse with the G20, it should invest its political capital in concluding the Doha round.

If India wishes to raise her demographic dividend this is a must. Otherwise, there will be a huge socio-political backlash, as youth is more interested in the politics of aspiration.

This was seen in last year's election in Bihar, the most impoverished state, where the young supported continuation of the existing regime, which appeared to be progressive in creating more jobs.

It is more or less clear the Doha round of trade negotiations is mortgaged to the US demand on emerging economies to reduce industrial tariffs on specific sectors and products. Fortunately India, with Brazil and China, is showing some flexibility.

In a continuing debate at the Consumer Unity & Trust Society (Cuts) trade forum, it was hinted these countries should work together to reach a meaningful deal. The time has come for India to show her leadership quality.

The writer is secretary-general of Cuts International. With additional contributions by Bipul Chatterjee, deputy executive director of Cuts International

Stringent curbs hold back crop sales abroad

Agriculture

The country needs to modernise its ancient farming sector, writes Amy Kazmin

Until the middle of the previous decade, India was a marginal cotton exporter, barely producing enough to meet its own needs, selling its tiny surpluses on the global market.

That all changed in about 2004-05, as Indian farmers began using genetically modified cotton seeds resistant to the pests that often ravaged crops. Cotton production – and exports – soared. In 2009-10, India exported 8.3m 170kg bales of cotton, making it the second biggest cotton exporter after the US.

India's rapid emergence as a large cotton exporter highlights the country's potential to become a significant force in global agriculture commodity markets, if it can modernise its antiquated farming sector.

With more cultivable land than any country other than the US, and a wide range of agro-climates, India is a big producer of a wide range of crops, including wheat, rice, sugar and tropical fruits such as mangoes, and high-value items including spices, tea and coffee.

For all their potential, agriculture exports remain relatively small, restrained by tight export controls – mainly intended to hold down domestic food prices – and weaknesses at farm-level and in the post-harvest distribution system.

"There are a lot of regulatory

aspects that hinder export potential, either in the form of restrictions or in the form of duties," says Ayan Bhattacharya, a New Delhi-based agriculture consultant. "It changes a lot, depending on the stock situation in the country."

India exported \$17bn (€12bn, £10bn) worth of agricultural products in 2009-10, plus \$2.5bn worth of marine products, accounting for about 8 per cent of the country's total exports, according to the ministry of commerce.

The government has set a target of increasing those exports to a combined total of \$27bn in three years as part of an overall push to double total exports to \$500bn by 2013-14.

But experts say India is unlikely to emerge as an agricultural export powerhouse in the near future, given the political sensitivities of selling food, especially as the country has been wrestling for several years with spiralling food price inflation.

"India will always potentially be an exporter," says Anwarul Hoda, professor at the Indian Council for Research on International Economic Relations, and a former member of the country's influential Planning Commission.

"However, because of its demographic situation, and also because of the large fluctuations in production from year to year due to climatic factors, it is very difficult to envisage India as a long-term, consistent exporter of major agricultural foodstuffs."

Since 2007, India, the world's second largest wheat producer, has banned all export of the grain. Wheat stocks are expected to be more than 65m tons by the end of June, well over double the level the country has set as its



Growing pains: agriculture exports are restrained by controls meant to hold down domestic food prices

buffer crop requirement in case of poor harvests.

Much of that accumulated grain, some of which is several years old, is said to be rotting because of a lack of proper storage facilities. Yet, despite farmers' clamour to export some of what they expect to be a bumper wheat harvest this year, the Congress-

'No matter how intelligently the government strikes a balance, the opposition will still scream'

led government is reluctant to allow foreign sales.

Even if New Delhi does give the go-ahead, the quantities are expected to be relatively small, given the sensitivities over food price inflation.

It makes little difference that food price inflation has stemmed, not from rising grain prices, but

from prices of higher value crops, such as milk, eggs and fresh fruit and vegetables.

"The government is on the back foot because of the price rises," says Mr Hoda. "If it is seen to be an exporter, everyone will say 'You are not contributing to controlling inflation'."

Besides wheat, the export of rice – except for upmarket basmati rice – sugar, pulses, and oil seeds are also all restricted, either through outright bans, quantitative restrictions, or duties that render the commodities uncompetitive in the world markets.

"Balancing the interests of consumers and producers is always a difficult task," said Mr Hoda. "No matter how intelligently the government strikes a balance, the opposition will still scream."

India's agriculture productivity is far below its potential, hindered by poor infrastructure, low investment, poor quality seeds and unscientific farming techniques.

Just about 40 per cent of Indian farmland is irrigated, while the bulk of land depends entirely on

the annual monsoon rains. Average yields for most crops in India are well below world levels.

In addition, much of the produce that Indian farmers grow is lost to spoilage because of a lack of proper storage facilities and refrigeration, while poor roads and a highly fragmented marketing distribution networks slow the journey to market.

"About 30 to 35 per cent of what we cultivate goes to waste," says Mr Bhattacharya. "If conserved, it would have been a massive quantity."

Yet experts suggest these weaknesses suggest that India has plenty of room to improve its performance, something that experts say could follow from more open, consistent policies on exports.

Mr Hoda says: "Government policies should be so shaped that it becomes more predictable. But, with a large segment of the population below the poverty line, and the inability of the government to provide domestic food aid, there is a difficulty."

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Government has bold strategy for new markets

Export base

Despite a strong currency, trade is booming, writes James Lamont

India's exports have defied a strengthening rupee and rising interest rates to record a strong performance over the past year. Exports were badly affected by the global financial crisis, threatening hundreds of thousands of jobs in sectors such as textiles and diamond polishing. In the 2010 financial year, exports shrank.

But they have since recovered strongly, as demand for India's petroleum products and engineering skills has risen.

Demand from new markets has encouraged the

government it can pursue a bolder export-led growth strategy in a country that has so far relied heavily on domestic consumption.

Recent data show India's export performance in rude health. In April, exports grew 34 per cent to \$23.9bn. The best performing sectors were engineering, gems and jewellery, electronic goods, and petroleum and its products – broadly reflecting the past year's top exporting areas.

The country has steadily increased its share of world exports over the past 20 years.

Today, they benefit from robust demand in fast-growing Asian economies, in particular China, and the Middle East. Stronger demand from the US and Europe has also helped.

Exports far outstripped government forecasts for the last financial year, ris-

ing almost 40 per cent year-on-year to hit \$246bn. It was one of the best years on record. The government had earlier forecast exports of nearer \$200bn.

Rohini Malkani, economist at Citigroup in Mumbai, says India's export base has changed markedly in the past decade. Capital-intensive engineering goods and petroleum products have come to the fore, as the country's reputation for low-cost engineering skills and has grown and refining capacity has developed.

These sectors now represent almost half of exports. Traditional lines, such as textiles, leather goods and agricultural produce, have had a declining share. Agriculture now accounts for only 7 per cent of the export basket.

Engineering goods such as auto components and machinery represent 25 per

cent of total exports. The sector is receiving increased foreign investment, as multinationals place India more firmly in their global supply chains.

Ms Malkani says: "The composition of exports has shifted from labour-inten-

Some economists predict the economy may dip from last year's 8.5 per cent growth

sive, traditional items to capital-intensive manufactures and petroleum products. This is reflective of supportive policy, growing demand, and a build-up in refining capacity."

The destinations of exports have changed as well. With demand slack in the

west, exports have shifted from Europe and the US to the Middle East, Asia and other emerging markets.

India has benefited from higher spending power in the Gulf and the large expatriate Indian business community in the region. The Middle East now accounts for almost a quarter of exports, particularly food and construction.

China has also contributed strongly to export demand, particularly for metals. Bilateral trade has risen to \$60bn. By China's own estimates, it now takes 7 per cent of exports, up from just 1.5 per cent a decade ago.

The unexpectedly strong export performance has emboldened the Indian government to make ambitious forecasts in spite of constraints surrounding export infrastructure, notorious bureaucratic delays and

uncertainty in global export markets.

In the short term, the Reserve Bank of India, already one of the world's most aggressive tighteners of monetary policy, is expected to raise lending rates.

Some economists predict India's economy may dip from last year's 8.5 per cent growth.

This month, New Delhi said it was aiming for \$500bn in export revenue in the year to March 2014, an achievement that would require exports to grow 30 per cent a year between now and then.

The export drive has an emphasis on manufactured products. It will be led by sectors such as engineering, jewellery, chemicals, textiles, and will target Latin America and Asia alongside traditional markets.

Some analysts urge cau-

tion, saying April's figures tend to represent an annual peak and the pace of export growth may slacken.

"While the government's target of doubling exports to \$500bn by the 2014 fiscal year is ambitious, the renewed thrust is positive," says Ms Malkani.

Nonetheless, the commerce ministry has embarked on a series of bilateral trade negotiations to push for greater trade, and open up India's rapidly expanding economy.

"We have no option but to focus on higher export growth and devise a strategy for rapidly increasing merchandise exports," says Anand Sharma, commerce minister.

"We will proceed via preferential trade agreements and free trade pacts to ensure that our industry and exporters have a better access in these markets."

Lessons learnt at home foster success in Africa

Foreign investment
High-volume, low-cost models translate well, says Akanksha Awal

Africa is one of the most promising frontiers for India's multinational companies. Many business leaders on the subcontinent consider Africa in terms of the scale and the challenge of their home country.

India's young population, a growing middle class, its cultural and linguistic diversity, as well as regulatory uncertainties are also Africa's realities.

Many Indian companies believe the lessons they have learnt in supplying the Indian market of 1.2bn people are directly applicable to success in Africa, in markets from mining to telecoms.

The country and the continent have similar markets and similar challenges in terms of poor infrastructure and low-income populations. Indian businesses are keen on using their experiences at home as a blueprint for expansion in Africa.

The parallels between the Indian and African economic and social structures are perhaps best illustrated in the offices of Bharti Airtel, India's largest cellular network operator.

Bharti entered the continent via a \$10.7bn (£7.5bn, \$6.5bn) acquisition, one of the biggest foreign invest-

ments by an Indian company last year. Its plans for Africa are based on the same low-cost high-volume model it has followed at home.

"There are similarities in the evolutionary paths of many African countries with India's own path, which makes it easy for Indian companies to adapt to African market realities," says Manoj Kohli, chief executive of Bharti Airtel. He adds: "Given the similarities in consumption trends and income levels between India and several African countries today, the low-cost business models developed to cater to Indian customers stand a better chance of succeeding in Africa than the models developed in US and Europe."

Africa today has a growing middle class of 331m people, according to the African Development Bank. The continent has benefited from high commodity prices since 2008, while investments in infrastructure have helped fuel domestic growth.

With growth rates forecast to average 7 per cent over the next 20 years, according to Standard Chartered bank, the continent presents lucrative opportunities to cater to a large consumer base with rising disposable incomes.

"The levels of risk in investing in Africa can be high, but levels of profitability are high too, with competition in some sectors comparatively low," says Aren Sita, area managing

partner of Ernst & Young Africa, in its *Africa Attractiveness* survey.

Indian businesses have acquired or invested in at least 79 companies in Africa since 2005. Squeezed out of their domestic market by the tough competition, the continent presents "low hanging" opportunities for Indian businesses.

Rajagopal Kishore Kumar, head of Vedanta's Anglo-Zinc operations in Zambia, says: "All sectors that are doing well in India - namely health care, primary and secondary education, IT, small and medium-sized manufacturing and value-added products - will have significant growth opportunities in Africa too." India has emerged as the continent's joint third-largest source of foreign direct investment, together with France, according to FDI Intelligence, a Financial Times publication.

Asia's third-largest economy is also the continent's fourth-largest trading part-

ner behind the EU, China and the US, according to the WTO. Trade between India and Africa, currently at \$45bn, is set to grow 66 per cent to \$75bn in the next five years, the Indian government estimates.

Indian investments have been spread across sectors, from coal mining and consumer products to telecoms and agriculture.

But unlike China, India's investments in Africa have thus far escaped local and international criticism. This is because India has managed to avoid some of the strategies followed by their Chinese counterparts in two distinct ways.

First, investments have mostly been led by private enterprise, not state-funded entities.

Second, they have tried to include more value-added activities while training local staff.

Mr Kishore Kumar says Vedanta has investments in excess of \$3.5bn spread across Namibia, Zambia



Talking business: companies such as Bharti Airtel aim to export the low-cost, high-volume model pioneered in India Bloomberg

and South Africa. He says his company takes pains to hire and train local staff by running global leadership programmes and vocational training centres in the countries where it operates.

A 2006 World Bank study corroborates this view. Indian employers in Africa are more likely to hire

locally and train local staff than Chinese employers, it says.

Moreover, India has been careful to cast its investment in Africa as development co-operation.

"India does not regard Africa simply as a supplier of natural resources. It is at pains to stress its difference

from China on that score," says Alex Vines, author of a 2010 report on India's Africa engagement for Chatham House, the think-tank.

But the government could do more to strengthen the India-Africa relations, say the country's businessmen.

Mr Kishore Kumar argues there is scope to improve

overall relations. He says: "India must negotiate a priority status in trading relations as well as push for transparency on policy guidelines on economic empowerment programmes."

"This will enable business houses to come forward to develop resources and capability in Africa."

IT outsourcing eye emerging market growth

Technology

The financial crisis has forced an industry sea change, says James Fontanella-Khan

India's flagship information technology and outsourcing industry, which built a \$60bn (£42bn, £37bn) business largely by targeting Europe and North America, is setting its eyes on new shores.

Three decades after some tech-savvy guys in Bangalore stunned the world by setting up back offices for western multinationals, IT majors are now aggressively trying to export their business model in fast-growing emerging markets.

Tata Consultancy Services (TCS), Infosys Technologies and Wipro, India's largest IT software services exporters, have been investing to expand operations in Latin America, China, the Middle East and Africa.

TCS, one of the first to build a presence outside India, expanded its workforce by 69,234 to more than 225,000 last year to service its emerging markets operations. The company has a strong foothold in Latin America, where it has 8,000 staff, as well as in China.

"Developing markets... have to invest in technology, so that's going to create a lot of opportunities for us," says N. Chandrasekaran, TCS chief executive.

TCS, which generated more than \$8bn in revenues in the year to March, making it the top IT player, expects emerging markets to contribute "upwards of 20 per cent for the group" by 2015 in terms of overall revenues, compared with 7 per cent two years ago, adds Mr Chandrasekaran.

What is the rationale for this expansion? The global financial crisis triggered the shift in mentality, says Milan Seth, partner and technology analyst at Ernst & Young in India.

The crisis led to big clients, such as US and European financial services companies, being forced to cut their IT spend.

At the same time, rising unemployment after the credit crisis led several western governments, in particular the US, to turn

up the rhetoric against outsourcing jobs to India.

Before the financial crisis, western markets contributed nearly 90 per cent of Indian IT companies' revenues. The overall health of the global economy injected an element of complacency among big groups, which failed to hedge exposure to big US and European companies.

"Nobody could have factored in the crisis and the impact it would have on the developed world. IT companies were behind the curve in realising that there were big opportunities in other markets similar to India," says Mr Seth.

Worse than the crisis was the anti-outsourcing backlash that arose in US in the aftermath of the recession. An inflammatory comment by Chuck Schumer, the New York Democratic senator, who likened India's Infosys to a "chop shop", shocked India's IT sector.

The protectionist alarm bells signalled a political reality when Washington raised the costs of visas for Indian professionals working in the US, despite a formal protest by New Delhi.

Nasscom, India's IT software services industry lobby, says the protectionist measures would increase annual US visa costs for the Indian IT industry by \$20m-\$25m per year.

A senior executive at one of India's largest groups says: "The US will remain important, but the crisis and the current wave of protectionist measures made it clear that we cannot depend on them only."

Andrew Bartels, vice-president and principal analyst at Forrester, an IT-focused research company, says the shift from western to emerging markets for IT services companies will be the biggest story of the next decade.

"Opportunities still exist in continental Europe, where companies and governments pressed by flat or declining revenues may find their promise of cost savings appealing," says Mr Bartels.

"However," he adds, "the best growth opportunities are likely to be in emerging markets, with a proposition of offering companies and governments the means to acquire world-class IT resources without having to build them themselves."

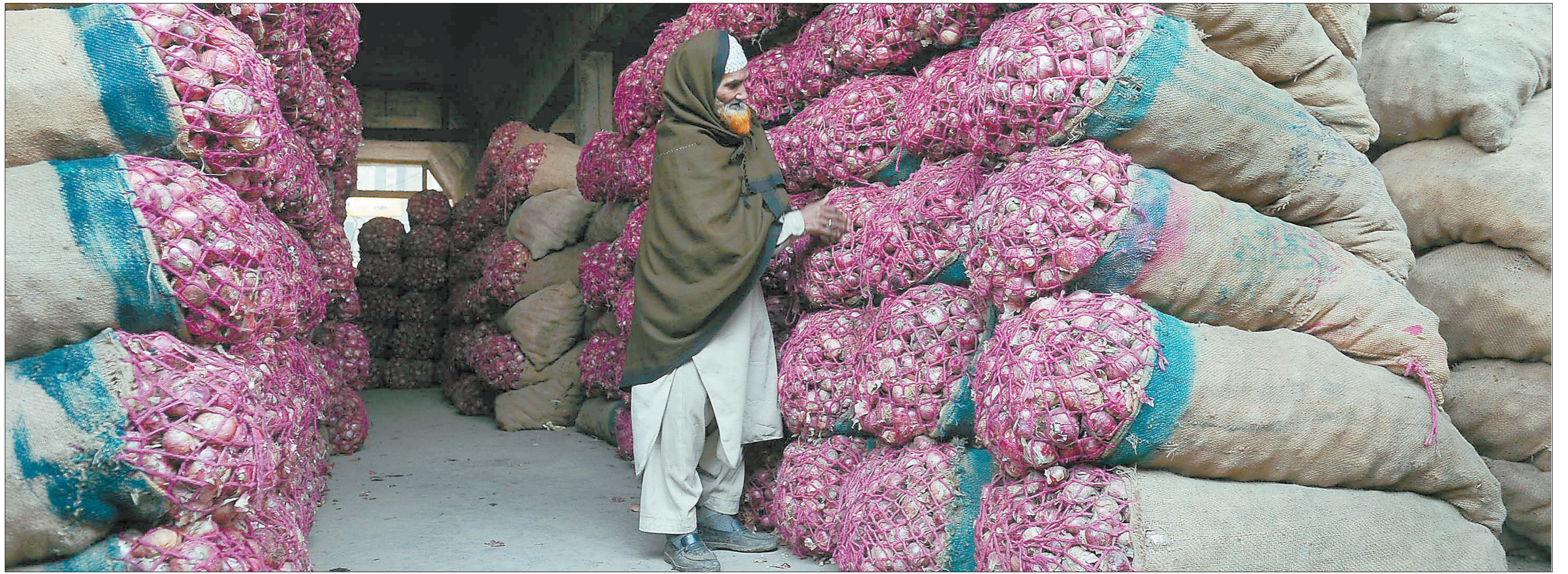
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The New Trade Routes: India



Bags of opportunity: rising prices of staple food stuffs meant onions were shipped from Pakistan to India this year, adding to the trickle of trade between the long-standing rivals

Getty

S Asia's shuttered borders stifle potential

Barriers

Pakistan and India's trade difficulties are mirrored elsewhere, says James Lamont

When the price of onions skyrocketed in India this year, relief came from an unexpected quarter in a region known for trade barriers.

To cool the overheating local market, onions were shipped in from neighbouring Pakistan, with which India shares a trickle of trade dominated by chemicals, textiles and primary products.

The nuclear armed countries have fought three wars in the 64 years since Pakistan was split out of British India. The resulting stand-off has left bilateral

trade at a paltry \$2bn (€1.4bn, £1.2bn) a year and stifled economic growth on both sides.

Farmers in India's Punjab state complain that Partition in 1947 cut off ancient trade routes to central Asia, and redirected once booming land-based trade through the port of Mumbai.

Pakistan's role in easing India's onion crisis gave a hint of what might be possible if relations thaw, and trade opened up between India's 1.2bn and Pakistan's 180m people.

If restrictions between the two countries were removed, the World Bank estimates that bilateral trade would quickly rise to \$10bn.

Manmohan Singh, India's prime minister, has for years been a courageous proponent of greater trade and investment with Pakistan. He views an improved economic relationship as holding promise for better political ties, and resolution of

the disputed territory of Kashmir. But distrust, and Pakistan's militant threat, makes any progress halting.

"India and Pakistan face enormous challenges but also enormous opportunities," Mr Singh told his counterpart Yusuf Raza Gilani on the sidelines of the cricket World Cup recently.

He added: "If we do not allow ancient animosities to affect the possibility of working together in the contemporary setting of our region and the world, I dare say we can write a new chapter in the history of development co-operation in this subcontinent of ours."

The lack of trade between India and Pakistan mirrors other regional difficulties.

South Asia is one of the world's least economically integrated regions. There have been attempts at liberalisation, but it still boasts some of the world's highest trade barriers.

"Despite benefits of geography – density and distance – south Asia's true growth potential has not been realised because of the lack of market integration within and across countries," says Sadiq Ahmed, a World Bank economist.

Only about 5 per cent of the

'We can write a new chapter in the history of development co-operation in this subcontinent'

region's total trade is among its nations, despite their proximity, shared history and English. Intra-regional trade in Africa is nearer 15 per cent, over far greater distances. In east Asia, trade within the region amounts to 50 per cent of total trade.

Likewise, official capital flows across the region are slight, with much going undeclared.

South Asia's shortcomings exist in spite of big ambitions. The South Asia Free Trade Agreement was envisaged to raise intra-regional trade to \$40bn by 2015 from \$11bn in 2007, shortly after it was agreed. The region has blueprints for a Customs Union in 2015 and an Economic Union in 2020.

The failure to liberalise is traditionally blamed on high tariffs, political differences – including open warfare – and mismatched economies. Trade between India, the region's dominant economy, and the likes of Sri Lanka, Bangladesh and Nepal has been blighted by inefficient customs and border procedures, outdated infrastructure and high transport costs.

"Notwithstanding attempts made to liberalise trade, south Asian countries maintain a

great many barriers against each other," says Jeevika Weeraweha of Sri Lanka's University of Peradeniya.

"These include high customs duties, non-tariff barriers such as technical and health certifications and standards, and also quantitative restrictions."

The World Bank has long expressed concern that, alongside such constraints, the region's economic prospects are further dimmed by not investing in better roads, rail and communications networks.

The result is that south Asian countries are less able to benefit from expanding global trade, and economic growth across the region is held back. Meagre trade hampers political integration and has not helped landlocked nations such as Nepal and Afghanistan. Lack of engagement has also allowed China to expand in the region.

Nepal, blighted by a long

political crisis, could double its gross domestic product if it harnessed its hydroelectric resources and traded with energy-hungry India.

India has intensified its regional trade engagement, and is investing in its border infrastructure, modernising ports, airports and customs facilities.

Mr Singh, on a visit to Kabul this month, has pressed for greater trade with Afghanistan alongside New Delhi's development programme, worth about \$2bn.

The commerce secretaries of India and Pakistan have met to agree petroleum and pipeline trade. India has signed an agreement to supply electricity to Bangladesh and build a transmission line between the countries. Such steps hold promise that it will not take the next crisis such as spiralling onion prices to prise open the region's shuttered borders.

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'Frugal engineering' heads push into manufacturing

Supply chain

The nation is not yet ready to rival China, says James Fontanella-Khan

When it comes to manufacturing, India is always behind China.

Most electronic appliances and gadgets seem to have the "Made in China" label these days. From iPhones to the latest flat-screen TVs, most have been partially produced in a factory in Shenzhen or Chengdu.

However, this is changing, as India, already known as the IT back office of the world, is now creating hubs for global manufacturers of small cars, wireless telecoms equipment and low-cost innovative products that are developed for a broader emerging markets consumer.

In the infrastructure and engineering sector, global groups such as Germany's Siemens and South Korea's LG Electronics have spent billions of dollars expanding their operations in the country and developing products that are now being exported globally.

Siemens, which employs 17,000 people at its local subsidiaries, plans to invest about €1bn (\$1.4bn, £874m) to develop and adapt products for the needs of the Indian market.

The German group says it is working on 42 products that will be produced and sold in India and exported to other emerging markets. "We are looking at addressing the basic needs of the Indian market," says Mukul Saxena, head of corporate technology at Siemens's Bangalore lab.

He adds: "In rural and urban areas, from energy to healthcare and industry, we are focused on providing high-end and cost-efficient solutions."

"In India at the moment, you have 300m people who have no electricity, so we look at ways we can give

people small decentralised power plants that are able to meet their everyday electricity needs," says Mr Saxena. "We look for similar solutions in other sectors too."

The story of India's rise as a key contributor to the global supply chain of consumer goods is very different from the one that has elevated China to "factory of the world" status, says Rakesh Batra, a partner and head of manufacturing strategy at Ernst & Young in India.

"In comparison to China, India is evolving very differently when you look at things from the global supply chain perspective," says Mr Batra. "India is putting less emphasis on the hardcore manufacturing that you see in China, but it's taking a leadership position in research and product development."

"Many foreign companies move to India to sell their products, but they soon realise that such a strategy

doesn't work, because Indian consumers want products that work for them," says Mr Batra. "That has pushed many global players to develop India-specific products, which later they realised they could sell to other developing world markets in Africa and Latin America."

In many ways, India is becoming the world centre for what is known as "frugal engineering" – low-cost products that are also resistant to tough environments such as Indian or African roads and weather – and robust quality standards, according to several manufacturers and analysts interviewed.

Ford, which has invested more than \$1bn in building a state-of-the-art plant in Chennai in southern India with a production capacity of 200,000 cars and 250,000 engines, says its operation there is increasingly manufacturing cars for export to emerging markets, where costs of production are

often much higher than in the subcontinent.

"Here [in Chennai], we have been able to do what wasn't possible elsewhere [in the world]: produce a robust and modern car in a super-competitive environment," says Michael Boneham, managing director of Ford India. "India wasn't on our radar for a while, but now we recognise it as a hub for small and fuel-efficient cars."

India is also becoming an increasingly popular destination for global manufacturers that are looking at ways to de-risk from China, which remains a highly regulated market and a place where intellectual property rights are often infringed, says Ramesh Srinivas, a director and supply chain analyst at KPMG in India.

"Although India's manufacturing sector is behind China's, we have noticed that a lot of our clients are asking us to look at ways of reducing their China exposure and they are seriously considering setting up in India," says Mr Srinivas.

"Nobody is running away from China, but they are hedging their production."

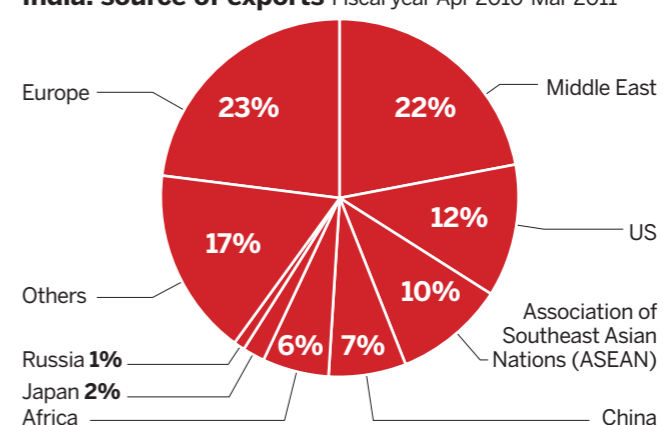
India has a long way to go before it can seriously compete with China, as a number of bureaucratic and political hurdles make it a tough place to build a solid manufacturing base, industry executives say.

However, an increasing number of states – such as Tamil Nadu and Karnataka in the south, Gujarat in the west and some smaller ones in the north – have proved that India, like China, has what it takes to become a global centre for manufacturing.

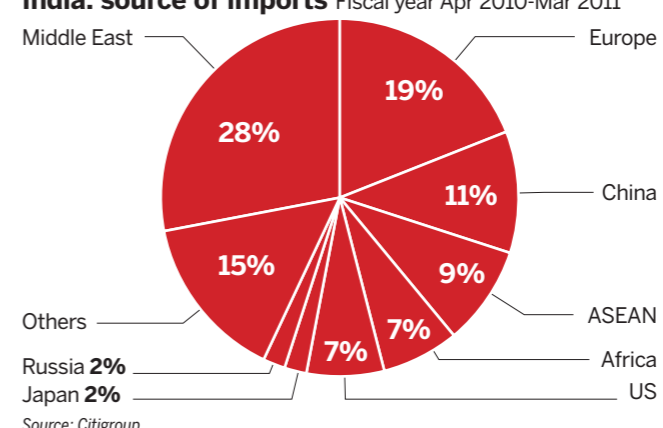
A senior executive with a foreign company notes: "China alone will not be able to sustain the world's rising demand for goods and services. And, sooner or later, the value of its currency will have to appreciate."

"India needs to get its act together, so it can be ready to take business away from China when the time is right."

India: source of exports Fiscal year Apr 2010-Mar 2011



India: source of imports Fiscal year Apr 2010-Mar 2011



Source: Citigroup