The Doklam stand-off between India and China multiplied possibilities of a trade war between the two Asian powers. The strain in relationship has forced industry leaders in both countries to ask one hard, simple question about the future of this bilateral affair: Can either country afford a trade war with its neighbour?

Reactive dyes
The colour of money
What makes India its biggest exporter

Electronic cash registers
Ringing in profits. Literally!
Growth in organised retail is driving imports
The recent Modi Cabinet rejig was certainly not a last-ditch effort to save the next General Elections. A popular political outfit led by a seasoned statesman, and dominant in close to 68% of India’s regional territories, is not affected with the “sitting on the fence” syndrome as far as populism goes. And the moves made have largely been debated. Controversial they’ve been by design perhaps. But bearing enough firepower to be discussed… demonetisation, verbal and physical spats with neighbouring nations (even across international forums), GST implementation (considered premature by many), demonetisation, shuttling bureaucrats, delays in FTP release, and so many more.

The recent Cabinet rejig is one amongst such much-discussed acts. More so for the exim community.

During a time when exporters were waiting for some encouraging news in the form of post-GST Drawback Schedule and FTP revisions (the new Drawback rates are out now and there’s nothing much to celebrate about if you were hoping for anything “extra”; the FTP isn’t out still!), what happened was far removed from what was expected. (Pure Modi-style!) Our Commerce & Industry Minister was given charge of the Defence Ministry. I’m not speaking of some bureaucrat’s reputation being built bigger; just amused at how even this political move has drawn a straight line connecting “trade” with “war”. Literally! Not that we are expecting a trade war. Are we?

In terms of good neighbour-bad neighbour episodes, India is all over the Asian map at present. And despite all the “I’ll shoot you” threats that Trump has been giving China for months now (we know he’ll do nothing much there), Indian exporters and importers are more worried about how an India-China trade war will hurt them. The highly dramatised military standoff between India and China at Doklam plateau (Sikkim) saw India retaliating to the Chinese military and verbal belligerence with trade tactics. Almost immediately, it imposed anti-dumping duties on 93 Chinese products! Whether there will be a Chinese counter-trade attack is to be seen. If that happens, it could mean China losing a few winks and India suffering insomnia.

Why the damage differential you ask? In value terms, India imports from China almost 5x of what it exports to that nation.

But there are three schools of thought as far as such a trade war goes.

School of thought #1 – India shouldn’t worry
First, such a trade war will mean minor disturbance in the immediate term and will have a positive impact on India in the long run.

What is interesting is that while India predominantly exports “raw materials and intermediate goods” to Chinese, mostly meant for B2B buyers (which it could as well to manufacturing hotspots like Vietnam, Mexico, Thailand, Poland, Canada, markets across EU, USA, etc.), what it buys from China are mostly “finished” goods, a big proportion of which is for B2C buyers.

The advantage of being in India’s shoes in such a situation is threefold.

One, as a supplier of raw materials, you are either at a geographical advantage or in control of a factor that may be exclusive to you and there is a good
chance of discovering buyers for your raw materials elsewhere (who will process the materials to manufacture goods for consumers across other parts of the world).

Two, as a buyer of finished goods, the products being rolled out of Chinese factories would be customised for the typical Indian consumer. And that may not actually suit the wants of consumers across other foreign markets.

Three, in the long run, if China does place a ban on exports to India, ‘Make in India’ should flourish. Call this the magic of import substitution industrialisation!

School of thought #2 - India should worry
This one is driven by fear. Again, three aspects.

One, agreed that there are no alternatives to many Made-in-China products in the Indian market yet. Indian exporters, manufacturers and consumers who buy industrial machinery and other consumer goods from China could get hurt by a trade war between the two.

Two, there are only two differences between China Inc. and the Communist Party of China – how we write them and how we pronounce them. There is no doubt that Chinese investment being suspended as a by-product of the trade war could imply non-creation of millions of jobs in India and temporary suspension of billions of dollars worth of investment in our country’s infrastructure. (By infrastructure, I mean both factories, offices and roads.)

Three, India may be one-sixth of the world, but it also has that big a population and is that well interconnected with Global Inc. China is known to be a market that’s guided by a vision of self-interest, and always on the offense. With a trade war could come a hurricane called “cyber-terrorism” that is least expected but could do much damage to a growingly connected India, or even some form of a China-influenced sanction from WTO.

School of thought #3 – Why even bother thinking?
This ideology is that such a trade war is “just another storm in the same ol’ tea cup!”.

For some, trade wars mean a fancy economic term that’s minimal in influence. For them, the Suez canal closing for a month will have a far greater impact on India’s exports and imports than a real year-long trade war with say, China. It’s hard to counter that argument going by how diplomacy often gets the better of such bitterness.

But actually, even imagining the perils of a trade war may be a trivial task. Trump has been threatening China and Mexico forever. There is no trade war yet. India and Pakistan have forever been quarrelling. Yet we’re seeing more goods crossing the borders each year. Capitalism gets the better of geopolitics. The problem however is – if there is a “visible” trade war, it will be damaging (despite the benefits). Let me take you back to the 1930s, when the US Tariff Act of 1930 (the Smoot-Hawley Tariff Act) was passed and implemented by USA. Tariffs on imports were raised across 890 product categories (in comparison to the previous Tariff Act of 1922). Within two years, the value of imports to and exports from US fell by 40% each, and world trade dipped by about 65% in four years. China is to the world today what US was in 1930s – there are some rough similarities from a world trade perspective. And given that mankind has grown mature since the Smoot-Hawley Tariff Act episode, I doubt if China will want to experiment with a trade war.

Almost the same argument holds for India.

The idea is clear. It’s not whether India can afford a trade war. India shouldn’t.

Indian exporters and manufacturers who buy industrial machinery and other goods from China could get hurt by a trade war between the two nations.

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India-China Trade: What’s at Stake?

India and China have seen many ups and downs in their bilateral relationship. But the debate on OBOR and the Doklam standoff brought the two to the brink of a trade war. Is it time India works towards reducing its dependence on China or is ‘better together’ the way ahead? The Dollar Business analyses.

H.E. DATO’ HIDAYAT ABDUL HAMID, HIGH COMMISSIONER OF MALAYSIA TO INDIA

Discusses the India-Malaysia trade ties and how RCEP can go a long way in helping both nations.

V. NARAYANASAMY, CHIEF MINISTER, PUDUCHERRY

Talks about the government’s plans to convert Puducherry into an investor’s paradise.

Editor’s Column

Letters to The Editor: Readers’ feedback that hit our mailbox in September 2017.

Monologue: People Speak

Anur Agarwal on the Indian economy. Wilbur Ross on NAFTA or much more.

Trade Wrap

Australia-Peru FTA, UK’s post-Brexit plan, Indo-Japan partnerships, HSD exports to Myanmar or more.

Import/Export

ECR AND BUS TERMINALS

With the push for digital, importers find new opportunities.

Secret Ingredient

Reactive Dyes

Indian exporters are making the most of the growing global demand for reactive dyes.

Policy Monitor

PDEXCIL. Pursuant to K. Vanya, Chairman, on the role of the powerloom sector in India’s exports.

TDB Forum

Questions about foreign trade that hit our mailbox in Sept 2017.

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Borderline

Editor’s Column
WE VALUE YOUR FEEDBACK, WHETHER CRITICISM OR APPRECIATION.
AND HERE ARE A FEW THAT HIT OUR MAILBOXES IN SEPTEMBER 2017

I have been a subscriber of your magazine and your services for some time now. I am glad to say that I am satisfied with both the quality of your magazine and your services. I find the topics covered in The Dollar Business to be both informative and analytical. Keep up the good work and continue to educate the foreign trade fraternity with your impeccable articles.

RANJITH RAYABHARI
Managing Partner, Adarsh Eco Friendly Specialty Papers
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The Dollar Business editorial team should be proud of the good work it has been doing. You have motivated me to aim higher in foreign trade, and I am sure there are many readers like me who feel encouraged by your magazine. We need more platform like yours that can voice our concerns. The revamped website is user friendly and I hope it will continue to benefit many businesses like ours.

PARAPURATH PRADEEP
Proprietor, Whitenair Technologies
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I am really delighted to read the articles in your magazine. Each issue of the magazine has stories that can help the foreign trade community. Your website too has plenty of useful data. It appears very useful a medium of information for exports from not just India but even to those overseas looking at India as a market for imports.

CHINTAN SAMPAT
Partner, Oman Trade
9773003XXX
exports@omantrade.co.in

I came across The Dollar Business website while searching for foreign trade-related data, and I must say this is a very useful site. I am interested in the latest Customs Notifications and their interpretations and will be grateful if you could carry more interpretations on your website.

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The character of trade has been highly inequitable. Exports from South Africa have been driven particularly by raw materials. This dominance [of raw materials] has adversely impacted us.

JACOB ZUMA
SOUTH AFRICAN PRESIDENT
On South Africa’s trade with its BRICS partners
Source: Bloomberg

We should push for an open world economy, promote trade liberalisation and facilitation, jointly create a new global value chain, and realise a global economic rebalancing.

XI JINPING
CHINESE PRESIDENT
On developing an open economy
Source: Reuters

I have trust in the UK economy after Brexit. Even after Brexit, the UK will continue to be an attractive and compelling place for business people, I am convinced of that.

SHINZO ABE
PRIME MINISTER OF JAPAN
On Japan-UK relations after BREXIT
Source: The Guardian

You can argue that anything that makes for more trade is useful, but I don’t think that’s the point. The point is, is it an appropriate agreement? Did it fairly distribute the benefits? And we don’t think that it did.

WILBUR ROSS
US COMMERCE SECRETARY
On the United States rationale for renegotiating the NAFTA
Source: Washington Post

For upgrading mutual cooperation, I urge the creation of a BRICS rating agency to cater to the financing needs of sovereign & corporate entities of developing countries.

NARENDRA MODI
INDIAN PRIME MINISTER
On the way ahead for BRICS cooperation
Source: PTI

Global economy is improving faster than what we thought and that is a positive trend. The domestic public investment is certainly going to be quite high because the revenue trend seems to be positive.

ARUN JAITLEY
INDIAN FINANCE MINISTER
On the Indian economy
Source: PTI

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The situation in Doklam was defused just in time for the Indian Prime Minister Narendra Modi to attend the 9th Annual BRICS Summit that was hosted by China early last month. The conclave, attended by the five member nations – Brazil, Russia, India, China and South Africa, aims to strengthen cooperation and trade between the countries. This edition of the international trade summit comes at an important juncture in the China-India trade relationship. China has been aggressively pursuing its One Belt One Road (OBOR) initiative in a bid to become the world’s next superpower. India, which also aspires for the same position, regards OBOR as a threat to its economy and sovereignty. Having been at loggerheads over these projects for months, the summit presented the perfect opportunity to mend bridges.

As a part of the Summit, the five nations signed four agreements, namely the BRICS Action Agenda on Economic and Trade Cooperation, BRICS Action Plan for Innovation Cooperation, an MoU between the BRICS Council and the New Development Bank on Strategic Cooperation and a Strategic Framework of BRICS Customs Cooperation. They also discussed the issues of security and terrorism. Interestingly, for the first time, China acknowledged the violence caused by Pakistan-based terror groups LeT and JeM. This was a victory for India, even if only a symbolic one.

BRICS SUMMIT
Are we moving ahead?

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AUSTRALIA-PERU
Exploring alternatives

The South American nation of Peru is taking its first steps towards an ambitious trade deal with Australia. The deal covers goods, services, and investments. The first round of negotiations took place in June. Another set of negotiations was held in late August. Leaders of both countries are hoping to reach an early agreement. They hope to bring it into effect sometime in 2018. While Australia has not been by any means a major trade partner for Peru [it is currently in 25th place], both countries have been working towards strengthening trade partnerships in the region for some time. Both have also been trying to diversify their traditional export basket. Australia and Peru, who are signatories to stalled TPP, are hopeful that agreements like this will help tackle tariff and non-tariff barriers across the region and nullify the impact of US’s decision to withdraw from TPP.

JAPAN-UK
Planning for tomorrow

The British Prime Minister has had a tough couple of months. Theresa May has been taking fire from EU officials, Remainers, and even her own party. Under this immense pressure, May continues her search for economic allies with a steady resolve. Her latest ray of hope, Japan. While her latest trip to Japan did not succeed in concluding a trade deal, reports him that the Asian giant and UK are all set to sign an FTA, almost immediately after Brexit is finalised.

Expectations were high when May made a visit to Japan, in August. She is reported to be pushing for an FTA similar to the EU-Japan FTA. A move that she hopes to replicate in most countries that have an FTA with EU.

TPP
Handing out a lifeline

If you thought that months after the US pulled out from the TPP, the ambitious trade deal had no chance of revival, you would be wrong. The agreement is getting a new lease of life, and that too for the second time in the last four months. Although over the last few months some countries have been discussing regional deals similar to the TPP, steps towards a full-scale revival of the deal have also taken place. Officials from 11 member countries recently met in Sydney for a three-day meeting to discuss the possibility of amendments to the TPP. Trade ministers from TPP group will present their proposal for the future of the deal to leaders at the APEC summit in Da Nang, Vietnam in November.

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MYANMAR

A friendly neighbour

India is taking steps towards strengthening its relationship with neighbouring countries through various routes, including hydrocarbon exports. The first ever delivery of high-speed diesel (HSD) to Myanmar was made by Numaligarh Refinery Limited to Myanmar’s Parami Energy Group, early last month. This trial consignment weighed 40 kilolitres. Numaligarh Refinery is expected to export around 5,000 MT of HSD per month to Myanmar. India is also looking to export gas directly to Myanmar through a proposed trilateral pipeline between India, Myanmar, and Bangladesh.

According to an ICRA report, Indian diesel exports have increased in the first nine months of FY2017. India hopes that the success of this trial consignment could open the doors for increasing its petroleum exports and expanding its reach to its neighbouring countries.

INDIA-JAPAN

Making new friends

While the recent BRICS Summit saw India and China stepping back (temporarily?) from their feud, Indian PM Narendra Modi has been quick to cozy up with another Asian giant – Japan. The recent visit by Japanese Prime Minister Shinzo Abe to Gujarat is being talked about in the media as India’s move to strengthen an alternative alliance. India hopes to counter growing China-Pakistan relations with its own friend in high places.

The visit, on the occasion of the Indo-Japan Summit, saw the two nations sign 15 deals covering key areas like disaster risk management, North-East connectivity, skill development, civil aviation, infrastructure development and sports.

The announcement that generated the most buzz was the construction of a bullet train between Gujarat and Maharashtra. The 508-km-long Mumbai-Ahmedabad High-Speed Rail project is estimated to cost around Rs 1.1 lakh crore with Japan loaning India almost 81% of the amount at a 0.1% interest rate, to be paid back over the next 50 years.

The project is expected to be up and running by 2022. Apart from this, India also hopes to set up six additional bullet train corridors in the near future.

While India and Japan’s trade has been on the downward trend over the last few years, Japanese FDI in India has been growing. To date, around $25.7 billion worth of FDI inflow has been seen, which the Modi-led government hopes to further increase with the latest round of MoUs and agreements.

INDIA-CHINA

Strange frenemies

It is not every day that India and China take a stand together. So when they do, it must be something of utmost importance. The nations submitted a joint proposal to the WTO against the ‘trade-distorting practices’ of developed countries like UK and US. The proposal counters the efforts by some countries to target the subsidies of the developing countries like UK and US.

During the launch of the initiative, the government had stated that the move would help tackle the issue of illegal money and undeclared income. With nearly all of the money being returned, people are questioning not only the implementation but even the raison d’etre of the initiative. The move has detrimentally impacted the economy and led to many people losing their jobs. It has also cost the RBI a massive Rs 7,965 crore to print new notes. While India’s economy and is expected to slowly regain its original strength, critics continue to express concern about government’s tendency of rolling out half-baked initiatives.

DEMONETISATION

An exercise in futility?

Was it worth the effort? That is what everyone is asking. The latest RBI Annual Report has been the cause of many discussions and deliberations. According to the report, approximately 99% of the demonetised currency has been returned to the banks. Prompting people to ask if only a tawdry 1% of India’s cash was ill-gotten. Critics are of the opinion that the entire exercise has done nothing more than help convert black money into legal tender.

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The rhetoric of banning imports from China, citing their longstanding support to Pakistan has been gaining currency over the years. India and China – the two Asian behemoths have had their differences earlier too, including fighting a border war. But economic relationship between the two has always remained strong. However, with the recent Doklam standoff, conflicts at the WTO level and rather acerbic expressions on both sides, their relationship has hit a new low. That raises a question for India. Is it time to reduce its dependence on China and focus on self sufficiency? *The Dollar Business* analyses what really is at stake when it comes to Sino-Indian trade.
WALK INTO STORES ACROSS INDIA AND YOU WILL FIND THE UBQUITOUS ‘MADE IN CHINA’ LABEL ON PRODUCTS ACROSS THE SPECTRUM, FROM LOW-COST LUNCH BOXES AND CUTLERY SETS TO HIGH-END MOBILE PHONES AND TELEVISIONS! AND THIS TRADE IS NOT A ONE-WAY STREET. WHILE YOU MAY NOT FIND MANY INDIAN PRODUCTS IN CHINESE SUPERMARKETS, INDIAN COMMODITIES LIKE IRON ORE HAVE MADE THEIR PRESENCE FELT IN CHINESE FACTORIES. ‘HINDI CHIYABHI KHIYABSI’, YOU JUST THOUGHT? HAVE NO ILLUSIONS GOOD SIR, THE TWO COUNTRIES HAVE BEEN ON STILL’, YOU JUST THOUGHT? HAVE NO ILLUSIONS CHINESE FACTORIES. “HINDI CHIYABHI KHIYABSI”, YOU JUST THOUGHT? HAVE NO ILLUSIONS.

Corridor (CPEC) has been a cause of bonhomie with Pakistan with the development of China-Pakistan Economic cooperation by China helped thwart pandering to their local constituencies by demanding a complete ban on imports from China and politicians on both sides pandered to their local constituencies by supporting a trade ban without looking at the economic fallout of a break in bilateral trade. While good sense and the impending BRICS Summit which was being hosted by China helped thwart a complete breakdown in bilateral ties, it has forced many to ask the question, what really is at stake when it comes to Sino-India trade relationship? Can either party afford a total breakdown?

**FACT OF THE MATTER**

The numbers and facts indicate that presently India and China can ill-afford a breakdown in trade and current bilateral relationship between the two nations is still viewed as one with great economic potential. This is the bitter truth that the two sides did fight a brief border war in 1962 that led to seasing of bilateral ties. But, in a case of ‘all is well that ends well’, bilateral ties were soon revived and grew stronger by the day, so much so that China became one of India’s biggest trading partners. China mass manufacturing capabilities with virtues of cost-effectiveness have frequently acted as a lifeline to India’s trade and manufacturing fraternity that looks to China to procure various supplies needed for India’s growing production requirements.

Of course, the balance of trade has been in favour of China and has caused a lot of heart burn in India. If one takes a closer look at the trade balance between the two, the trade imbalance comes to light. While India’s bilateral trade with China is $71.5 billion worth of Chinese products, it manages to ship only $10.2 billion worth of Indian-made items in return. This leads to the billion-dollar question: Can the two afford a breakdown in trade?

An interesting fact here is that while Chinese exports to India are dominated by value-added products such as electronic equipment, mobile phones, plastics, machinery, etc., India’s exports to China, in contrast, are primarily raw materials like ores, cotton and mineral fuels, etc. Not quite a case of ‘Make in India’?

Despite successive Indian government’s calls to encourage the idea of import-substitution and achieve self-reliance in manufacturing domestically, India’s imports from China consist of machinery and electrical goods

China’s ambitious One Belt One Road (OBOR) initiative and its growing bonhomie with Pakistan with the development of China-Pakistan Economic Corridor (CPEC) has been a cause of concern for India. India has expressed its scepticism about China’s OBOR initiative at various fora. Many in India believe OBOR is China’s means of achieving its geopolitical goal of emerging as an alternate power center to US by expanding its economic footprint across regions.

While there has been simmering discontent on the Indian side for sometime now, the Doklam standoff near the Sikkim-Tibet-Bhutan trijunction brought matters to a pass with the rhetoric from both sides getting increasingly vitriolic. Many in India took to social media demanding a complete ban on imports from China and politicians on both sides pandered to their local constituencies by supporting a trade ban without looking at the economic fallout of a break in bilateral trade. While good sense and the impending BRICS Summit which was being hosted by China helped thwart a complete breakdown in bilateral ties, it has forced many to ask the question, what really is at stake when it comes to Sino-India trade relationship? Can either party afford a total breakdown?

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China’s ambitious One Belt One Road (OBOR) initiative has been an issue of debate between the two countries, with India expressing concerns that the initiative can become a threat to the sovereignity of the participating nations.
India’s imports from China are worth over $61 billion, while its exports are around $10 billion. Hence, a trade ban would hurt China more than it would hurt India.

ATUL KUMAR SAXENA, PRESIDENT, INDIAN IMPORTERS CHAMBER OF COMMERCE & INDUSTRY

TDB: What makes China such a behemoth in exports?

Atul Kumar Saxena (AKS): China has quite methodically employed the business model that Japan has been successful in practising. Across various markets around the globe, the Chinese products are characterised with the 3A advantage - affordability, accessibility and availability. Apart from being cost-effective due to the economies of scale, the Chinese products are customised because the Chinese manufacturers have their fingers on their customers’ pulse. They carry out a lot of research prior to product development and market expansion. All in all, effectively armed with such advantages, Chinese manufacturers and exporters are ruling various world markets.

TDB: Will issues like the Doklam standoff affect trade ties?

AKS: Keeping the political rhetoric aside, I feel supplies of Chinese products to India are governed mainly by MAs. And, products that fulfill those criteria will always keep coming in from China. One cannot deny the fact that products and materials made in China as well as Chinese investment are present in every country. But, that scenario can’t be altered or replaced overnight. Issues like the Doklam standoff doesn’t bother a trader much, as for him/her economic interdependence is still there. Issues like the Doklam standoff is in the interest of both nations. Dr. Zorawar Daulet Singh, Fellow at the Centre for Policy Research, too believes that over the years the two nations have developed a pattern of interdependence. That sounds all nice and good, but who is more dependent on the other is the question that needs to be answered.

TDB: Keeping the political rhetoric aside, I feel supplies of Chinese products to India are governed mainly by MAs. And, products that fulfill those criteria will always keep coming in from China.

AKS: China views BRICS as a platform to challenge US global economic hegemony. In Asia, US has a cordial relationship with Japan, South Korea and India and China doesn’t have south east Asian countries in particular having such favourable relations with US. So, with BRICS, China believes it can build an alternative global trade framework, moving beyond the influence of US, and amongst all the member countries, China finds Russia and India’s role to be the key to achieving that mission. China shares its boundaries with India and Russia and it knows very well that a standoff with either of these countries would not be beneficial in the long run. Given such wider geopolitical ramifications of BRICS, I feel the decision to end the standoff served multiple objectives for both China and India.

TDB: Who stands to lose more if there is any stalemate in Indo-China bilateral trade?

AKS: From the trade point of view, it’s China that stands to lose more than India because China exports more to India. I am sure Chinese President Xi Jinping knows the priority of his nation well. However, a complete breakdown in bilateral trade can’t happen because both countries are signatories to World Trade Organisation (WTO) organisation. And, even if India imposes non-tariff barriers, and countervailing duties like anti-dumping duties on imports from China, it would make China that would be affected more because India imports value-added products from China in large numbers.

TDB: How practical is the ‘boycott Chinese products’ rhetoric from certain sections in the country?

Dr. Zorawar Daulet Singh (ZDS): This is not practical if you have developed a pattern of interdependence, which in some sense we have. In the ideal state, every country would like to make all the things it consumes and buys. But, that has not happened in India, and is a wider policy dilemma. The government has been trying to improve the infrastructure to increase manufacturing in India, but that does not mean that you can turn back the clock on the India-China relationship which is actually a win-win in many cases as it allows you to source material at a price which is more competitive than its substitutes that are available both here and in other countries. During the crisis, many spoke about a boycott of Chinese products. But, I don’t think that is a very viable solution because the economic cost to India itself will be very high. But, I agree with those who feel that there needs to be a more balanced relationship between the two nations. For instance, the large trade deficits can be negated. But for that you would have to double down on the economic relationship, not to dilute it or sever it but to actually invite those Chinese companies that have been operating as suppliers from afar to come to India through market-seeking FDIs.

TDB: What’s your opinion on the government’s argument against joining China’s One Belt One Road initiative?

ZDS: I think India’s stance on One Belt One Road (OBOR) is not sustainable. OBOR, being an extremely vast project, is still amorphous and leaves a lot of room for other actors to shape the process. There is space for revision and adaptation in the OBOR policy framework while maintaining the sovereignty and other critical issues. For instance, despite being a part of Eurasian Economic Union which has a different geopolitical vision, Russia is engaging with OBOR.

So, India joining OBOR does not mean endorsement of a Chinese or any other geopolitical vision. Co-existence of many geopolitical visions is possible. Both India and China have competing influences in the South Asian region. They should work together to produce more prosperous and sustained development across South Asia.
TDB: What kind of opportunities can India explore to re-calibrate its trade deficit with China? Dr. Liu Zongyi (LZ): I think the India-China bilateral relationship improved significantly only after former Indian Prime Minister Atal Bihari Vajpayee visited China in 2003. Keeping up with the growth prospect, during his visit to India in 2010, Chinese Premier Wen Jiabao accompanied by then Indian Prime Minister Manmohan Singh, promised to work towards increasing the bilateral trade to $100 billion by 2015. However, in 2015, the trade between the two countries went into a stagnation mainly because of the global economic crisis and the Indian government’s political and economic barriers to the flow of Chinese investments to India. Even at a later stage, Chinese President Xi Jinping while visiting India promised to invest $20 billion in India. Both India and China agreed that Chinese companies will set up a few industrial parks in Gujarat and Maharashtra. But, the industrial parks didn’t come up as expected. Only a handful of Chinese private investments were green flagged by India citing various reasons.

TDB: What kind of opportunities can India explore to reduce its trade deficit with China?

LZ: The trade deficit is huge from India’s point of view. But, there is a huge potential for investment and exports in the agriculture, IT and pharmaceutical sector in China. The quality of the Indian agricultural products however is not up-to-the-mark in comparison to similar products from other Asian countries. So, India needs to improve the quality of the agricultural as well as pharmaceutical products to gain access to the Chinese market. In fact, both China and India can collaborate to remove these quality-related issues.

In addition, the manufacturing sector in China is now moving towards value-added product manufacturing. So, there is an opportunity emerging for India to attract labour-intensive manufacturing from China.

TDB: What kind of impact have Chinese initiatives like String of Pearls, CPEC and OBOR had on the bilateral trade?

LZ: China is very active in South Asia presently, but the activities are mainly in the infrastructure and these activities do not emanate from explicit geopolitical ambitions. China also carries out maritime activities in the Indian Ocean, but the main objective of those activities is to safeguard China’s own investments and exports. China has built ports in Sri Lanka but these ports will not only benefit China but also help South Asian countries, including India. At the Colombo Port, 80% of the goods handled are from India.

A sector with high import dependency for India is solar energy. India’s import dependency in case of photosensitive semiconductor devices [HS Code: 85414011] that are used extensively in the $2.48 billion worth sector is huge.

Making the case worse is the fact that India’s domestic manufacturing capabilities in this segment is nothing to write home about. Narender Surana, MD, Surana Solar Ltd. tells The Dollar Business, “The cost of solar energy will go up by at least 75%, if we were to use India-made solar cells.” Surana also cautions against putting any safeguards duties such as anti-dumping on solar modules because protectionist measures might prove to be disastrous for India’s long-term solar programme.

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China has emerged as a popular sourcing destination for manufactured goods with countries in both the West and the East, including India, looking towards China for imports.

“INDIA AND CHINA CAN COLLABORATE IN VARIOUS AREAS” 

DR. LIU ZONGYI, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL STRATEGIC STUDIES AND CENTRE FOR ASIA-PACIFIC STUDIES, SHANGHAI INSTITUTES FOR INTERNATIONAL STUDIES (SIIS)

TDB: How would you describe the growth of the China-India bilateral relation since 2003? Dr. Liu Zongyi (LZ): I think the growth of the China-India bilateral relations is sustainable and rests on foundations of mutual respect, mutual understanding and cooperation. Throughout its history, the two countries have managed to build a relationship of mutual benefit.

TDB: How will barriers and restrictions in bilateral trade impact the economies of China and India? Yifan Zhang (YZ): Barriers in the bilateral trade can have detrimental effects, as both the countries will lose opportunities to learn from each other. For instance, China can learn from India how to improve output from its information technology and services sectors. Similarly, India can gain insights on infrastructure and skill development from China.

TDB: How will FDI inflows from China benefit India? YZ: In recent years, thanks to its Go Global Strategy aimed at promoting Chinese investment abroad, China has emerged as one of the largest investors around the world. Chinese companies are investing in various developing countries. This is an opportunity for India to attract FDI from China to augment domestic capital, technology, innovation, skills and improve infrastructure. All these factors should contribute to accelerating the pace of India’s economic growth.

TDB: Is there any significant change in the Chinese economic growth model? YZ: China has entered the so-called ‘New Normal’ phase of economic growth. The pace of growth has now shifted from high to medium-high trajectory coupled with structural optimisation. The change happened because the previous investment-driven growth model proved unsustainable. Hence, the Chinese government is trying to move from input-driven growth to innovation-driven growth. The change is significant and will impact bilateral trade.
This means while China loses in terms of its resource exports, it also stands to gain at a disadvantage when it comes to sourcing of goods at a competitive price. Well, this seems to bring us back to what in tennis parlance is ‘Love all’.

THE INVESTMENT ANGLE With China’s economy increasingly showing signs of maturity, it is but normal that the growth rate will stabilise to showing signs of maturity, it is but normal that the growth rate will stabilise to show a disadvantage when it comes to sourcing of exports, Indian industry too will be at

TDB: With the end of the Doklam standoff and the subsequent BRICS Summit in China, is the worst over for India-China bilateral trade relationship?

SK: The standoff at Doklam can be termed as “one of the worst” in the bilateral relationship between India and China. But there is no guarantee that a similar situation may not arise in the future. The fundamental problem in the India-China bilateral relationship is that both have not agreed on the definition of the Line of Actual Control. Let alone the entire territorial issue. Any misperception on the border could once again trigger such incidents.

TDB: What are the key concerns of India on OBOR?

SK: One Belt One Road (OBOR) is an initiative by China to overcome its “new normal” relative decline in growth rates by exporting its excess capacities to the regions included in OBOR. India is, in a way, a participant in OBOR to the extent of being the second-largest contributor to the Asian Infrastructure Investment Bank. India has endorsed the Bangladesh-China-India-Myanmar Economic Corridor (CPEC) projects, which are not entirely infrastructure-based. These projects have provisions for deploying troops in the Kashmir region. If China is concerned on its sovereignty related to Taiwan and Tibet, India wonders why Beijing is adopting double standards while addressing sovereignty concerns of India.

TDB: While exports from China to India are dominated by value-added products, India’s exports to China, on the contrary, are primarily raw materials. What reasons do you attribute to this qualitative imbalance?

SK: India’s manufacturing sector is growing at present but its share still stands at less than 20% of the GDP compared to manufacturing sector comprising over 40% of the GDP of China. So, China has an edge when it comes to exporting consumer durables and low-end finished products to India. In such a scenario, India ends up exporting raw materials like iron ore to China. As a matter of fact, exports of iron ore to China constitute nearly 60% of the total volume of iron ore exports from India. China, in return, exports finished goods to India. So, India needs to focus on expanding its manufacturing base.

TDB: What are your expectations from RCEP?

SK: Although, India is a part of the Regional Comprehensive Economic Partnership (RCEP) negotiations, it has some concerns which I believe must be addressed before real progress is made in finalising the RCEP deal. The Trans-Pacific Partnership (TPP) has been blocked by the Trump Administration. RCEP offers better prospects for its member nations including India. As the stand-off between India and China is over, we can soon expect some progress in this direction.

TDB: Why is there a new emphasis on India-China bilateral trade relationship?

SK: Apart from the political and boundary-related tensions, China has turned towards a more consumer-driven economy. What effect will this have on bilateral trade?

SG: China’s turn towards a more consumer-driven economy will necessarily impact India, given that India’s export basket vis-a-vis China is biased towards resources and raw materials. Rather than restrategise regarding its resource exports, India should focus on making the most of its comparative advantages, especially in the area of light manufacturing as China loses its cost advantage and graduates to a higher value-added, consumption-driven economic model. Vietnam and Bangladesh are already going down this path.

TDB: The trade deficit with China is a cause of concern for India, which stood at $11 billion in FY2017. What can India do to make its trade relationship with China more balanced?

SG: Rather than reducing dependence on Chinese imports, the emphasis on India’s part should be to boost its capacity to export more into the Chinese market. There are three important avenues to do so. Firstly, certain areas of Indian export specialisation such as pharmaceutical exports and IT-enabled service exports are far better placed to compete with China. Secondly, China ages and becomes a more high-tech consumer for India, India will never participate in CPEC, India must raise its game to their consensus that economic engagement be ring-fenced within the framework of the India-China Strategic Economic Dialogue. Secondly, as China ages and becomes a more high-tech consumer for India, India will never participate in CPEC, India must raise its game.
TDB: Did exports to China from your sector suffer due to the recent Doklam standoff?

Ashok G. Rajani (AGR): Available data shows some decline in our exports and a marginal increase in imports. However, we feel that these trends are more of a demand-supply position and cannot be correlated to the political situation.

TDB: With bilateral trade skewed in favour of China, would a total ban on imports from China for your sector be more of India’s loss than that of China?

AGR: For the apparel industry, exports from China are nominal. The same holds true for exports as China doesn’t figure in the top 10 export destinations for India as far as our industry is concerned. In June 2017, India’s apparel exports to China stood at $19.4 million, while imports of apparel from China stood at $5.5 million. So, under present circumstances, we don’t see any major impact on exports to China.

TDB: What are India’s sourcing options beyond China?

AGR: The exposure of Indian garment industry to China is limited which is evident from the nominal, export and imports to and from China. As an industry, we constantly explore the opportunities available outside India and based on an assessment of all the investment-related factors of that country, investment decisions are made. It is an ongoing process and any decision regarding leveraging the manufacturing capabilities of manufacturing hubs based elsewhere is done after weighing in all the factors necessary before making an investment.

TDB: The India-China border standoff should not threaten RCEP deal is the widely held view. What’s your take on this?

AGR: RCEP is a mega trade deal that aims to cover goods, services, investments, economic, technical co-operation and intellectual property rights. We welcome the RCEP deal. We recognise it as one of the most important deals for India. India has already implemented an FTA with the ASEAN, Japan and Singapore and has signed agreements with Australia and New Zealand are underway. So, a mega trade deal like RCEP will only benefit India and since the border standoff has been resolved we don’t foresee any impact on RCEP.

TDB: Despite growing political differences, China continues to be one of the largest trade partners of India. How can the two benefit from each other’s experience?

William J. Antholis (WJA): On a broader perspective, India and China complement each other’s strengths and weaknesses. India’s service sector can be of a great value to China whose main focus has always been on manufacturing. China can teach India about export-oriented manufacturing.

TDB: What can India do to improve its exports from the manufacturing sector?

WJA: Globally, manufacturing has become so diversified that supply chains are spread across a range of countries. The manufacturing sector in India needs to develop a better understanding on how its industries can fit into various supply chains. The counterparts in the manufacturing sector in India need to discover their prospective partners in the supply chain.

TDB: Do you think any fallout in the relationship between India and China will have an adverse impact on the global trade and economy?

WJA: Both nations are now in an elite circle of nations in trade negotiations. Their interests diverge – both in terms of their negotiating priorities and in terms of their view of international organisations. This already makes it difficult for them to coordinate policy. A further fallout of relations between the two countries would only make a difficult situation worse.
Malaysia and India have always maintained a strong trade relationship. The much-accomplished ties are now being backed by an increasing number of trade agreements. In an exclusive interaction with The Dollar Business, H.E. Dato’ Hidayat Abdul Hamid, High Commissioner of Malaysia to India, discusses the ways and means to further strengthen the economic relationship between the two countries.

**TDB: What are the highlights of MICECA, the treaty that was initiated in 2011 between Malaysia and India?**

**HAH:** The implementation of MICECA has contributed significantly to the expansion of two-way trade and investment between India and Malaysia. However, it is yet to reach its fullest potential. Of course, there are several implementation issues that require both countries to discuss and review in detail – to help make the agreement reach its fullest potential. We believe that officials from both countries are working hard in addressing some of these issues despite their focus being on the effort to conclude the ongoing RCEP negotiations.

**TDB: In FY2016 Malaysia-India trade witnessed a sharp decline, which recov- ered slightly in FY2017. What contribut- ed to this fluctuation?**

**HAH:** Take it as a blessing in disguise. Every challenge offers a new opportuni- ty. In 2016, most countries were hit by falling commodity prices, currency vol-atility and uncertainty in future trading arrangements – not to mention other external factors such as Brexit, changes in monetary policy of developed nations, etc. And during the unfavourable times, our countries came closer. I think the private sector, including SMEs, played an important role in boosting trade. Initiatives such as a business forum and private sector-led trade missions should be encouraged to promote networking and closer cooperation between busi- ness people and companies – this will maintain the upward trend in trade.

**TDB: What is MICECA?**

**HAH:** MICECA, the treaty that was initiated in 2011, refers to the Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) and ASEAN-India Free Trade Agreement (AIFTA) are two important determinants of our trade rela- tions. Soon, we are likely to have another comprehensive Economic Partnership (RCEP). These engagements are crucial to ensure our relations remain healthy.

**TDB: Malaysia PM Najib Razak has been vocal about the need for early conclu- sion of RCEP talks. How do you see RCEP impacting trade relations?**

**HAH:** We have seen an upward trend in trade between India and Malaysia. The implementation of AIFTA in 2010 and MICECA in 2011 are some of the major drivers. Other FTAs will further contribute to the expansion of two-way trade. The conclusion of RCEP will take our trade relations to the next level as the trade agreement is important when we talk about ASEAN-India economic rela- tions, of which Malaysia is a part. Collectively, the 16 RCEP countries account for almost 50% of the global population, with a combined GDP of $22.8 trillion or 34.5% of the world’s GDP. It is hoped that through RCEP, we will achieve a modern, comprehensive, high-quality and mutually beneficial economic part- nership. Early implementation of RCEP will enable the business sectors from both countries to tap the huge potential that all 16 partner countries have. Malaysia hopes that the negotiations can be completed this year.

**TDB: What assistance does Malaysia provide to foreign companies?**

**HAH:** There are many Indian compa- nies that have investments and set- ups in India. Today, many Malaysian companies have developed expertise and specialisation in many areas – and we could complement what Indians are good at and work together. In the past, some Malaysian companies have faced tough challenges due to bureaucratic delays and other reasons. But, many of them have found the right synergy and good partners. I must mention that Ma- laysian companies have been attracted to India because of the similarities in laws and governance. Additionally, the fact that all 16 partner countries are working hard in addressing some of these issues despite their focus being on the effort to conclude the ongoing RCEP negotiations.

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**TDB: Singapore is looking for new markets to boost its trade.**

**HAH:** Singapore has been vocal about the need for early conclusion of RCEP talks. How do you see RCEP impacting trade relations?**

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**TDB: Malaysia adopted GST a couple of years back. How do you see GST im- pacting India’s economy?**

**HAH:** GST implementation is said to be the biggest economic reform in India. But, every change has its own uncertain- ties and challenges. We believe it will help improve tax compliance and gener- ate more revenues for the government. Unfortunately, the change will not come overnight and it takes persistent efforts to be implemented effectively. Based on our experience, the benefits of GST will far outweigh the initiation pains.

**TDB: Malaysia and India are popular tourist destinations. However, tourists flow from Malaysia to India is still very low. How can this be changed?**

**HAH:** There are many Indian compa- nies that have invested in Malaysia. The Malaysian government is a pro-business government. We not only facilitate their entry, but also provide all the neces- sary assistance required. The Malaysian Investment Development Authority (MIDA) is a one-stop agency for foreign investors. Malaysia offers liberal invest- ment policies, stability in politics and economy, a pro-business government, a business-friendly environment, well- developed infrastructure, great connectiv- ity, harmonious industrial relations, excel- lent MICE facilities and much more. In addition, Malaysia has a huge trained and educated workforce, a sound and re- silient banking system and offers strong IP protection.

**TDB: The Andhra Pradesh Econom- ic Board and Malaysia-based MIGHT Technology Nurturing Sdn Bhd have signed an MoU to develop a technology park in Amravati. What expertise does Malaysia bring to the table?**

**HAH:** Initiatives like these will broaden India-Malaysia economic cooperation. Malaysia’s experience in building Pu- trajaya, our new Federal Government Administration Centre and many such modern sustainable townships, technol- ogy parks with modern facilities could be shared with India to produce better and grander cities.

**TDB: What is MICECA?**

**HAH:** MICECA is one of the four initia- tives that were introduced in 2011. The other initiatives are the ASEAN-India Comprehensive Economic Partnership Agreement (AFTA), the ASEAN-India Free Trade Agreement (AFTA) and the ASEAN-India Comprehensive Economic Area (AICEA). The implementation of AIFTA in 2010 and MICECA in 2011 are some of the major drivers. Other FTAs will further contribute to the expansion of two-way trade. The conclusion of RCEP will take our trade relations to the next level as the trade agreement is important when we talk about ASEAN-India economic rela- tions, of which Malaysia is a part. Collectively, the 16 RCEP countries account for almost 50% of the global population.

**TDB: Why was Malaysia’s 7th largest trading partner since 1998. Trade with India accounted for 3.3% of Malaysia’s total global trade in 2016 – amounting to $11.7 billion (RM 48.7 billion), an increase of 4.0% (in RM terms) from 2015. Malaysia and India are also signatories in several bi- lateral and regional cooperation agree- ments. The Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) and ASEAN-India Free Trade Agreement (AIFTA) are two important determinants of our trade relations. Soon, we are likely to have another multilateral pact, the Regional Compre- hensive Economic Partnership (RCEP). These engagements are crucial to ensure our relations remain healthy.

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Imports of electronic cash registers (ECRs) and point of sale (PoS) terminals has become a lucrative business, especially over the last year, thanks to the acceptance of retail automation, implementation of GST and the government’s thrust on making India a digital economy. An analysis of whether it makes sense to import these products in volumes. And from which supply markets.

One of the aims of demonetisation, as announced by the government in November 2016, was to promote a digital and cashless economy. As a result, PoS terminals became one of the tools necessary for retailers to keep up with the high-tech mode of transactions. “The importers actually struck a deal with the banks to supply PoS terminals to the banks and imported them in large numbers,” says Bhaskar Venkatraman, Group CEO and Director of Millennium Retech Ventures Pvt. Ltd., a PoS terminal manufacturing company. “The supply of ECR and PoS terminals is mostly dependent on imports. So, the growth in retail will surely have a positive impact on the imports. In the last three years, we have seen a 25-30% growth in business.”

GROWTH TRIGGERS

The question now is what triggered such a massive import influx and will the imports business still be worth the investment in the next five years? Demonetisation is said to be a major reason for the sudden rise in imports of PoS terminals.

The India Brand Equity Foundation (IBEF) estimates that the share of organised retail sector will grow to 24% in FY2020 from the 8% in FY2015. The projection indicates a high adoption rate of new systems, processes and technologies by Indian retailers. More specifically, the report also states that the transformation from manual accounting to machine-led systems will gain momentum. These numbers certainly indicate that importers of ECRs will continue ringing in profits in the near future.

CHINA-MADE ECRs ARE 20-30% CHEAPER THAN ECRS FROM OTHER COUNTRIES

“Most ECRs are being manufactured in China,” says D. Baskaramoorthy, Vice President – Sales & Services, Possilex Technology India Pvt. Ltd., a PoS terminal manufacturing brand from Taiwan. “The supply of ECR and PoS terminals is mostly dependent on imports. So, the growth in retail will surely have a positive impact on the imports. In the last three years, we have seen a 25-30% growth in business.”

While ECRs are used for cash payments, the growth of debit and credit card machines have also become quite ubiquitous. And since domestic manufacturing in this sector is lacklustre, rather non-existent, it is no surprise that import requirements have been on the rise, with China, Vietnam and Malaysia being the sourcing destinations of choice for importers. Together they fulfilled 88% of India’s demand for imported ECRs and PoS terminals in FY2017.

RISING IMPORTS

At the global level, China holds a significant share of the exports pie. In CY2016, China accounted for 30% of the world’s exports of ECRs, by value — followed by Vietnam with a 14% share. In India too China’s dominance is rather overwhelming, though Vietnam has been giving it a stiff competition of late. Although China shipped 50% of the total ECRs imported by India in FY2017, Vietnam continues to capture a significant share by fulfilling 35% of the import requirement.

Profit estimates for electronic cash register (ECR) imports

| Cost ($/Unit) | 90.00 |
| Freight & Insurance ($/Unit)** | 2.47 |
| CIF ($/Unit) | 92.47 |
| CIF (Rs./Unit)** | 5,946.75 |
| BD (%) | 5.94675 |
| CIF + BD | 5,946.75 |
| Cess (0%) | 0.00 |
| CIF + BD + Cess | 5,946.75 |
| HST(18%) | 1,070.41 |
| Final Cost | 7,017.16 |
| Selling Price in India# | 8,420.59 |
| Profit | 1,403.43 |
| Profit Margin | 16.07% |

*Stated electronic cash register model: H55 Code: 47020100 ** Freight and insurance cost from Ningbo Port in China to Chennai Port in India; Minimum Order Quantity (MOQ): 100 units;***Assuming USDINR at 64.31. 1. Wholesale Price (1000 Intelligence Unit). Note: Profitability is based on estimated costs which may vary during a different time period, resulting in profit fluctuation. Factors like brand value, supply chain-related costs like warehousing and logistics, additionally vary during a different time period, resulting in profit fluctuation. Profitability has been calculated based on time-bound projections.

A QUANTUM LEAP

Looking at the numbers, one can say without a doubt that last fiscal has proven to be quite the turning point for importers – in FY2017, India’s imports of ECRs registered a y-o-y growth of 288.20%. Although importers are not expecting such a large-scale increase in the coming years, they are confident that the growth in imports will remain healthy and steady in the near future. “One shouldn’t expect such a gigantic uptick in imports next year. But, the growing adoption of ECRs and PoS terminals in the domestic retail market will keep the numbers strong in the future,” says D. Baskaramoorthy. Vice President – Sales & Services, Possilex Technology India Pvt. Ltd., a PoS terminal manufacturing brand from Taiwan. “The supply of ECR and PoS terminals is mostly dependent on imports. So, the growth in retail will surely have a positive impact on the imports. In the last three years, we have been witnessing 25-30% growth in business. And, in FY2018, we expect a 35% y-o-y growth,” adds Baskaramoorthy.

RISK FACTORS

Risk factors and currency fluctuations have to be considered while importing. Like brand value, supply chain-related costs like warehousing and logistics, additionally vary during a different time period, resulting in profit fluctuation. Factors like brand value, supply chain-related costs like warehousing and logistics, additionally vary during a different time period, resulting in profit fluctuation. Profitability has been calculated based on time-bound projections.

One of the reasons importers are optimistic about the future is because of GST, which has made ECRs and PoS terminals more relevant than ever before. “To file a GST return, retailers must keep their accounts in order, making these devices even more indispensable,” explains Baskaramoorthy. "Sounds logical! However, the key factor which will drive domestic demand for ECR and PoS terminals going forward is the growth of the Indian retail sector, both the organised and unorganised retail segments, and the adoption of retail automation products by retailers. As per a 2016, Federation of Indian Chambers of Commerce and Industry (FICCI) and PwC report, the domestic retail sector in India is likely to double to $1.1-1.2 trillion by 2020 from $630 billion in 2015, growing at a CAGR of 12%.

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THE DRAGON RULES

At the global level, China holds a significant share of the exports pie. In CY2016, China accounted for 30% of the world’s exports of ECRs, by value — followed by Vietnam with a 14% share. In India too China’s dominance is rather overwhelming, though Vietnam has been giving it a stiff competition of late. Although China shipped 50% of the total ECRs imported by India in FY2017, Vietnam continues to capture a significant share by fulfilling 35% of the import requirement.

Price is the only factor which is keeping China ahead of other sourcing destinations, feel importers. “Products from China are 20-30% cheaper compared to products from other countries,” says Mohit Kaushik, CEO of Swaggers Technologies, a Delhi-based ECR importer whose business has been witnessing a dramatic growth because of GST.

However, while comparing the quality of imports from China and Vietnam, Baskaramoorthy says that companies from Vietnam and Taiwan focus on quality whereas the Chinese ones stick to the volume game. “The companies in Vietnam and Taiwan invest a lot on research and development. Hence, they can offer products at a lower price like the Chinese,” he adds.

In China, Guangzhou and Zhejiang are the leading sourcing destinations. Importers usually take trips to these cities to finalise the deals. A trip which they say is worth the cost involved.

Overall, importers say that importing these machines is usually challenge free, barring the usual procedure-related issues with Customs and issues related to efficiency at ports. GST (18% GST) too has not been a major deterrent to the import of these machines.

Although large-scale importers are not facing any issue with Bureau of Indian Standards (BIS) certification, for medium and small-scale importers like

Growing up, you may remember walking to the local kirana store, where along with the comforting smell of spices and soaps you would be greeted by the sight of a calculator and a meticu-
However, if you hire a consultant to get the certification, the cost of a BIS certification is Rs.45,000. Anil Kumar Samineni (AKS): “The traders who are still not initiated in retail automation are a challenge to ECR imports with its usage among small retailers. The acceptability of ECRs and PoS terminals is maturing fast,” says Venkatraman. “At the end of the day, the clients need continuous support for their machines. The importers are confident of new and versatile products in the market. Some importers also provide after-sales service to their clients. Venkatraman feels the domestic ECR and PoS terminals is growing at a healthy rate of 15-20% year-on-year.”

In addition, the retailers who are ahead of the curve are switching to full fledged PoS systems. Newer forms of PoS have also emerged in the market such as devices to convert any computer to a PoS or tablets with the software and facilities to send an electronic bill to the customers. The importers are confident of new and continued opportunities for both basic and as sophisticated models. With the absence of domestic manufacturing and the growth in popularity of credit and debit cards, importers feel that cashless India just might be the ticket to becoming cash-rich! Good idea.

**IMPORT’ONOMICS**

**ELECTRONIC CASH REGISTER (ECR)**

TDB: Has demonetisation turned out to be a growth driver for electronic cash registers and point of sale terminals?

Anil Kumar Samineni (AKS): I think the growth isn’t driven by demonetisation, rather by the growth of the organised retail sector. Large-format stores such as Spencer’s, More, etc., have penetrated across tiers with stores equipped with retail automation products. This trend has also motivated other retailers from the unorganised segment to switch to electronic cash register (ECRs) and point of sale (PoS) terminals. Another factor that has played its part is the changing mindset of retailers. From the unorganised segment to switch to electronic cash register (ECR) and/or point of sale (PoS) terminals at their stores. Everyone wants to switch to retail automation. ECR and PoS terminals enhance the profile of any retailer. We have been importing retail automation products, including ECRs, for five years and have witnessed a 20% year-on-year growth. I expect to see an even higher growth rate in the years to come.

**The domestic ECR and PoS terminals is growing at a healthy rate of 15-20% year-on-year.**

**OPPORTUNITIES GALORE**

Anil Kumar Samineni, Director, Park System.

**RETAIL AUTOMATION IS DRIVING GROWTH**

**THE FUTURE LOOKS VERY PROMISING**

TDB: What makes China a destination for sourcing retail automation products?

AKS: It’s the price that makes the difference in the case of these devices. Chinese-made ECRs are 30% cheaper than those manufactured in other countries. On an average, we import 2,000 ECRs annually from China. Our buying cost is around Rs.90 per unit.

TDB: We understand profits can range between 30% to 40%. Isn’t that high?

AKS: It’s not a huge margin. It includes various operational costs including after-sales service. The net margin is lower at about 20%. If you don’t get that kind of margin, you won’t be able to operate. The clients need continuous support for updating their billing system.

TDB: Your outlook on the future?

AKS: I believe demand for retail automation products will continue to grow as the market matures. In addition to ECRs, importers should look at PoS systems that boast of more advanced technology. These machines are the future.

Dinesh Bhatia, Director, Grandmaster Innovations Pvt. Ltd.

TDB: What are the things one should keep in mind while importing retail automation products from China?

Dinesh: One can’t be very careful. Almost all manufacturers in China claim to offer quality products. The importer should visit the manufacturers to check from the venders for all the equipment acquired a difficult task.

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**RETAIL AUTOMATION IS DRIVING GROWTH**

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TDB: Has GST impacted the demand for ECRs and PoS terminals in the domestic market? Dinesh Bhatia (DB): Although most importers are of the view that GST has impacted ECRs negatively, my personal view is that GST, in a way, poses a challenge to ECR imports with its multiple tax slabs. For example, in case of an ice-cream vendor, GST is different for chocolate ice-cream and vanilla ice-cream. So, it’s very difficult to calculate them on ECR. However, we are in discussions with our manufacturer in China about recalibrating the ECR to accommodate various slabs of GST. GST has also spurred the growth in the import and sale of PoS machines in certain retail segments. Changing the billing system is easier for PoS terminals.

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Since V. Narayanasamy took over as the Chief Minister of Puducherry in June 2016, he has been on a mission to attract investments to this beautiful union territory situated on the southern coast of India. In an exclusive interaction with The Dollar Business, Narayanasamy talks at length about the progress his government has made thus far to make Puducherry an investor’s paradise.

**INTERVIEW BY NILADRI S. NATH**

**TDB: You became the Chief Minis- ter of Puducherry in June 2016. What steps have you taken to further indus- trial development since then?**

VN: As far as industrial development in Puducherry is concerned, we have opened a new chapter of progress. The Union Territory of Puducherry has substantial potential for industrial and tourism development. To realise that potential, within five months of forming the government, we formulated the new Industrial Policy.

In addition, we have launched a single window clearance system in all government departments. In fact, a committee has been constituted under the chairmanship of the Minister of Industries and Commerce M.O.H.F Shahjahan, to facilitate clearance of the proposals for setting up industries in Puducherry. We have also started interacting with industrialists, not only from India but also from Malaysia, Singapore, Dubai, Abu Dhabi and Germany to attract investments at various platforms. All they have shown interest in setting up industries in Puducherry. We are also reviewing some proposals which have been already sub¬mitted for setting up industries. Simulta¬neously, we have started allotting land to enterprises and given them clearances to departments when it comes to obtaining permissions or licenses, has process applications of 177 industry enterprises and given them clearances to set up industries in Puducherry.

**TDB: What is the Puducherry’s export projection for FY2018?**

VN: In FY2017, the 31 export oriented units (EOUs) operational in Puducherry had shown a lot of interest in setting up IT SEZs in Puducherry.

**TDB: How is Industrial Guidance Bu- reau (IGB) helping attract investments to Puducherry?**

VN: Since April 2016, Industrial Guid¬ance Bureau (IGB) of the Government of Puducherry, which acts as a facilitator between the industries and the concerned departments when it comes to obtaining clearances, permissions or licenses, has process applications of 177 industry enterprises and given them clearances to set up industries in Puducherry.

**TDB: Why is the government’s strategy for further de¬veloping this sector?**

VN: We will be formulating a five-year tourism policy soon. We want to focus on three types of tourism in Puducherry — heritage, pilgrimage and leisure. We are already leveraging the leisure tour¬ism potential. In addition, we want to promote heritage tourism by preserving and renovating the old French architec¬ture with an aim to attract tourists from abroad. We also have beach nourishment project to restore beaches. Pilgrimage tourism also has potential, thanks to Aurobindo Ashram. We are investing in infrastructural development in all four regions i.e. Puducherry, Karaikal, Yanam and Mahé. We have already submitted a proposal of Rs.192 crore to the Ministry of Tourism for FY2018 to promote tour¬ism in Puducherry. The proposal has been approved and Rs.108 crore has al¬ready been sanctioned.

**TDB: Could you highlight some of the transportation and logistical develop¬ments in Puducherry?**

VN: We have worked towards connect¬ing Puducherry to 14 major destinations across India like Delhi, Bengaluru, Mangalore, Mumbai, Kolkata, etc., through rail networks. We are also working to¬wards setting up East Coast Railways that will help link Chennai, Mahabalipu¬ram, Puducherry and Cuddalore.

In addition, the government has sanc¬tioned a national highway connecting Velluppuram, Puducherry, Cuddalore and Karaikal. The 250-km four-lane stretch will add to the industrial developmental activity in the Union Ter¬ritory. We would like to see Puducherry connected by air with more destinations like Hyderabad, Bengaluru, Coimbatore, Tirupati, Cochin in near future under the new ‘Ude Dehi Ka Aan Nagraj’ (UDAN) scheme. We have also written to the Ministry of Road Transport and Highways to connect Puducherry with two proposed industrial corridors i.e. Mangalore-Mangaluru and Visakhapu¬tam-Chennai Industrial Corridor.

Logistics is also set to improve as soon as the Puducherry Port starts function¬ing as a satellite port of the Chennai Port. Only about 15% work on the Puducherry Port is remaining. In the first year of its operation, we expect the Puducherry Port will handle 10 lakh tonnes of cargo. Further, the Port’s cargo handling capac¬ity is expected to go up to 10 lakh tonnes from 2018 onwards.
**WE ARE EXPORTING TO MORE THAN 20 COUNTRIES**

While the science of Ayurveda has always been revered in India, it is now fast becoming a part of the global health lexicon. And not to say home-grown Ayurveda companies like Adara Ayurveda have been amongst the leading agents of change. Nikhil Pradeep, Director, Adara Ayurveda takes The Dollar Business through the company’s origins and future expansion plans.

TDB: Could you tell us about the origins of the brand? What was the inspiration behind developing a brand based on Ayurveda?  
NP: Adara in Greek means “outer and inner beauty”. We decided on this name because Ayurveda provides holistic healing of the body, mind and soul. Adara is a 133-year-old customer facing brand of the Kerala Ayurveda house. It brings everything from therapist training to manufacturing of products, all under one roof. Our mission is to create centres of Ayurvedic excellence that will offer holistic Ayurvedic wellness to every individual by drawing on our centuries of learning and our constant research to improve and innovate. We offer the best of authentic and affordable Ayurveda services and products to our customers.

TDB: Adara manufactures all of its products locally. What have been the advantages and challenges associated with in-house manufacturing?  
NP: We manufacture over 500 products at our own manufacturing units. The biggest advantage of keeping our production in-house is the continuous learning that it offers. This makes it possible for our manufacturing team to send feedback to the R&D team during each step of the development cycle, and that allows us to see what works and what doesn’t in a time-efficient manner. Having such feedback available immediately allows us to make improvements in the products, raw materials and process optimisations, while addressing issues that may have been overlooked earlier. This also helps us find, control, and eliminate barriers to our product’s evolution. The other big advantage of in-house manufacturing is knowledge protection. The combination and blending of the raw materials makes a huge difference in manufacturing. The challenges include the lack of skilled labour in the domestic industry and the high cost of the same.

TDB: Could you tell us about the company’s international business? How has demand for Ayurveda exports changed over the years?  
NP: We export our products to over 20 countries including Sri Lanka, Indonesia, Russia, Philippines, Maldives etc. There has been a surge in demand for Ayurveda products and services all over the world. A common intent to go back to nature and use natural materials and methods of ancient times is helping Ayurveda grow across the globe.

TDB: While Ayurveda is a traditional product, Adara also uses an e-commerce platform for sales. How has the response been?  
NP: To expand our reach and business opportunities, we started our own e-commerce website where all our products are up for sale. We focused on our returns and digital media is one platform where we have been getting a good response for both products and franchise expansion.

TDB: As an exporter, what challenges do you face and how easy or difficult has the process of exports been?  
NP: When we started off, we wanted to provide the best quality products at a reasonable price. So, we got our products and raw materials tested by a third-party inspector. That was a tedious and expensive job. Also, the packaging materials for exports is completely different from that of the domestic market and the materials are very difficult to procure. Although there are ample opportunities for exports, there are many challenges in this sector. The lack of knowledge on international and specific regulations of importing countries governing imports of such products, including quality, intellectual property rights (IPR) issues is a major challenge. The other issue is the lack of credible documentation of therapeutic values of medicines and their formulation, and that is a major constraint for export, particularly to countries like US and EU.

TDB: Can you tell us about Adara’s domestic business operations for both services and products?  
NP: Since our inception, almost a year ago, we have come a long way. We have now started operations in Trivandrum, Ballari (district), Bengaluru, Varkala and Gurgaon. We have signed up for five more wellness centres that will be operational before the end of the year. We have also tied up with major Ayurveda colleges and hospitals for the supply of products’ knowledge.

TDB: Ayurveda, though an age-old practice, has a growing market in India as well as internationally. How important is R&D to the business?  
NP: Ayurveda is an ancient “living system” of healthcare. Even though most of the ingredients and subsequent products are available in various texts, we have been trying to improve the quality of our products through R&D. Good R&D, including that on high-yielding variants of raw materials, is critical for long-term success. The government has to help the industry by providing more R&D infrastructure and funding, as Ayurveda has been the mainstream system of healthcare in India right from the Vedic ages.

TDB: With many big brands now taking the Ayurveda route, how has it impacted the market? Do you plan to expand your product portfolio?  
NP: The estimated revenue in the organised sector, in 2016, was between Rs.6,000 crore and Rs.10,000 more. So, it is good to see more and more big brands taking the Ayurveda route, as it helps improve the sector, both in terms of revenue and quality of the products and services. Everyone in the industry has taken the role of both competitors and collaborators. We too are expanding and are launching at least one overtime counter product, every 3-4 months.

TDB: How do you see the company growing over the next five years? Are you even planning to expand your services internationally?  
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India is popular for textiles. Even those that come in bright-colours. It is not a surprise therefore that India is one of the largest producers and exporters of reactive dyes that give fabrics their many hues. What makes India a clear exports leader in this segment? The Dollar Business analyses.

**BY ANISHAA KUMAR**

**REACTIVE DYES**

India’s association with colour and dyes is well-known and date back centuries. While cotton was discovered in India around 6000 BC, the trace of natural dyes that were used to colour the fabric goes back roughly to 1200 BC. Come today, and India has grown to become one of the largest exporters in the world, of both cotton apparels and reactive dyes that give them their vibrant colours!

The global market for dyes (including pigments and dye intermediates) is at present worth around $23 billion – while the dye and pigment market is valued at $16 billion, dye intermediates market is worth about $7 billion. Dyes are of various kinds – from direct dyes and disperse dyes to reactive dyes – but it is the reactive dyes segment where India has really taken giant strides when it comes to exports.

According to a report by US-based Global Industry Analysts Inc., the reactive dyes segment is one of the fastest growing segments of dyes across the globe, with the Indian reactive dyes market growing rapidly at a CAGR of 4.3% over the last few years. In fact, the paint and dye industry has been an important contributor to India’s exports basket, with export of reactive dyes growing at a decent pace. In FY2017 the exports of reactive dyes (HS Code 320416) increased 5.93% y-o-y to $565.97 million from $534.28 million in FY2016.

Reactive dyes are popularly used in the tanning industry as they possess the property to attach to a fabric and hence give a richer and stronger colour to the fabric on which they are applied. In fact, they are the most commonly used dyes for colouring cotton fabrics. And, not to say the growth of textiles and apparels sector is further helping the industry.

Reactive dyes are available in several varieties and types such as Mordant Exhaust (ME) as well in a broad range of colours – orange, brown, blue, green, violet, yellow, red, black, etc., with the most popular in exports being blues, blacks and reds which contributed $226.50 million, $126.62 million and $96.76 million respectively to India’s exports in FY2016.

**THE SECRET INGREDIENT OF PROFITS**

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**THE STORY SO FAR**

The exports from the industry has witnessed a remarkable growth over the last few years, with exports of reactive dyes reaching a whopping $565.97 million in FY2017. In fact, between FY2013 and FY2017, exports reported a jump of 53.7%. In FY2015, exports had touched $643.60 million mark. But, it dropped to $534.26 million in FY2016. According to exporters, the poor performance was because of changes in the business environment and a drop in prices of the product, globally. Hence, in FY2016, while exports volume went up 7% y-o-y, value of exports dropped 17% y-o-y.

“Exports of reactive dyes has been constantly growing over the last few years. The growth, although not rapid, has been steady. And that is a good thing,” comments Bhupendra Patel, President of Gujarat Dye-stuffs Manufacturers’ Association.

Further, the product category has been very successful in penetrating into India’s non-traditional exports markets. Last year, India managed to export reactive dyes to about 90 countries. While exports to Turkey, Bangladesh, Thailand, Singapore and Pakistan made up 52.59% of the total exports, exports to Americas constituted an alluring 19.11% share, with Honduras, Brazil and Mexico being the largest markets of Indian dyes.

**BATTLE HALF WON**

Although India has achieved a great deal in this product category, the battle is only half won. India’s presence in US and Europe, the two largest markets for reactive dyes, is still quite negligible. In FY2017, Indian exports to US and EU were $9.16 million and $52.02 million, respectively, which is only 0.81% of India’s total exports of the product.

This, exporters say, is because of the ever-increasing regulations imposed on dyes – like Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) – by EU authorities. Agrees Monil Shah, Partner, Roop Dyes and Intermediates when he says, “REACH has been an obstacle not because the policy...”
is complicated, but because obtaining permits and dealing with the regulatory burden is onerous, many small- and medium-size companies are opting out. This has hampered India’s exports to the region. “The market is very competitive, which is why many Indian traders are unwilling to risk the certification process,” a reason why exports to EU is low, explains Dakshesh Machhar, Director, Jay Chemicals. REACH requires importers/buyers to get the product tested, but the practice has been the reverse. Interestingly, Indian exporters are paying for the test from their pocket as they live under a constant fear of losing the market share,” states Patel. That said, on the positive side, the government has been very helpful. It provides financial assistance of 30% of the cost of getting a lab test done.

SINE QUA NON

Besides subsidising the lab/certification costs, the government has been providing support to exporters in form of incentives and duty drawback. While export-oriented units in India currently receive a 2% reward under Merchandise Exports from India Scheme (MEIS), exporters of reactive red, yellow and blue dyes are entitled to a 3% duty credit scrip under MEIS. Alongside, they also receive a duty drawback of 1.5%. The Foreign Trade Policy 2015-2020 slashed the MEIS benefit from 5% to 2%. Due to this, exporters have a mixed opinion of the new FTP. However, there are exporters like Rajpop, Vice President, Ria Dyes and Chemical, who are indifferent towards the benefit. “We want the government to support the domestic industry in order to propel exports, with or without subsidies,” says Rajpop. Another area where exporters need support is from the government is the current ban on dye importers in Europe registering as manufacturers. “We want the government to provide financial assistance to exporters,” says Patel.

DYE EXPORTERS RECEIVE A 2-% BENEFIT UNDER THE MEIS SCHEME

THE INDUSTRY NEEDS TO INNOVATE

Dakshesh Machhar: “The dyestuff industry has been in existence for over 150 years. The world over, ecological and environmental issues are at the top of the agenda, be it governments or the apparel brands. Similarly, everybody in our industry is also trying to produce the dyes in the safest way possible. And now, the industry is moving towards Zero Discharge of Hazardous Chemicals (ZDHC). More and more apparel and textile brands are demanding this approach and insist that dye producers adhere to it.”

“THE INDUSTRY NEEDS TO INNOVATE”

Dakshesh Machhar
DIRECTOR,
JAY CHEMICAL INDUSTRIES LTD.

TDB: What challenges do manufactur- er-exporters of reactive dyes face?

Dakshesh Machhar (DM): In the recent years, the Indian government has become more stringent with regards to the implementation of environmental regulations. So, companies are now obliged to follow strict regulations, which has a direct impact on the company’s overall expenses. While there are efficient plants that are being set up by the industry with assistance from the government, waste treatment remains a concern as it is expensive. Waste management is something that will remain associated with this industry, with or without assistance from the government.

TDB: What do you see the future of reactive dyes market like?

DM: There is a renewed focus on the environment. So, companies are now obliged to follow strict regulations. While there are efficient plants that are being set up by the industry with assistance from the government, waste treatment remains a concern as it is expensive. Waste management is something that will remain associated with this industry, with or without assistance from the government.

TDB: How do you see the future of the reactive dyes industry in India?

DM: While global demand for reactive dyes is growing, there are many markets that remain untapped. Exporters of reactive dyes too feel that both old and new companies must step in with innovative ideas to increase production – which will also boost competitiveness. No doubt, the opportunity is huge. And with a stable growth rate, a leadership position, and several untapped markets, Indian exporters of dyes seem well poised to reap the benefits of this vibrant market.

TDB: Are you content with the current duty drawback rates and MEIS benefits that the industry is entitled to?

DM: What the industry now needs to do is to focus on innovation. Incentives under MEIS, whether 2% or 3%, are not sufficient to keep investing in innovation and technology. On top of that, these incentives keep on decreasing every year, the safest way possible. And now, the industry is moving towards Zero Discharge of Hazardous Chemicals (ZDHC). More and more apparel and textile brands are demanding this approach and insist that dye producers adhere to it.

The Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation demands that reactive dye importers in Europe register and declare each product, which is expensive. Depending on the product and the volume, the cost can vary between ₹20,000 to ₹80,000 per substance. As far as our company, we have implemented ‘Advance Care’, an initiative where we emphasise on ‘Renew, Reuse, Recycle’. We are already working on ‘zero liquid discharge’ at one of our main manufacturing locations.

TDB: How do you see the future of the reactive dyes market like?

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OPPORTUNITY IN THIS SECTOR IS HUGE

BHUPENDRA PATEL
PRESIDENT, GUJARAT DYE STUFFS MANUFACTURERS’ ASSOCIATION

stringent regulations. Has the govern- ment done anything in this regard?

BP: The Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) requires the dye buyers/users to get the products tested before importing it. However, instead of buyers/users conducting the test, manufacturer- ers in India are getting the registration and testing done for the fear of losing the market share. This is one way to keep the buyers attracted, but it chews into our margins. To stabilise the situa- tion, the government has stepped in and bears 50% of the testing costs. However, I still feel that the government can do a lot more by also bearing the registration and licensing expenses, etc.

TDB: Does the market have space for new entrants?

BP: The opportunities in the reactive dye market are enormous. Currently, our emphasis is only on certain areas. But the market is big and there are many untouched areas that can yield opportunities for entrepreneurs and new entrants. The one point for new entrants to keep in mind is that the dyestuff industry has a very high turnover every year. A new player in the industry must have a thorough understanding of eco-friendly technologies.

TDB: How has the market evolved over the years?

BP: India has been a leader in this segment for a long time. The reason is simple – both technology and raw materials are easily available in India. At present, it is estimated that the global market is growing at a rate of around 4% annually. And India is well placed to keep up with the growth. This trend is expected to continue. In the future, I believe, the market will become more challenging because of the increasing use of synthetic fibre in cloth-
"LOWERED INCENTIVES HAVE HURT EXPORTS"

The decentralised powerloom sector is the backbone of India’s textile business. It not only contributes about 60% to India’s fabrics export, but also provides employment to over seven million people. The Dollar Business caught up with Purushottam K. Vanga, Chairman of Powerloom Development and Export Promotion Council (PDEXCIL), to understand what the Council is doing to boost exports from the sector.

INTERVIEW BY ANISHAA KUMAR

TDB: How has the sector been performing over the last couple of years?

Purushottam Vanga (PV): The powerloom sector produces fabrics like cotton, polyester, rayon, etc., as well as blended fabrics. Although the sector is mostly decentralised, it contributes about 60% to total fabric exports from India. Until the Foreign Trade Policy 2015-2020, the Council had been helping its members by conducting seminars and workshops for weavers, small entrepreneurs, etc., to make them aware of government schemes and future opportunities. However, we are hopeful that with the support of the government and intervention by EPCs, sectoral growth will take a positive turn.

TDB: How is Powerloom Development and Export Promotion Council (PDEXCIL) helping its members?

PV: Since 1995, PDEXCIL has been helping its members by conducting seminars and workshops for weavers, small entrepreneurs, etc., to make them aware of government schemes and future opportunities. The Council also organises activities such as international buyer-seller meets, reverse buyer-seller meets, etc., to encourage small powerloom operators to export. In fact, these activities have led to increased exports from the sector.

Additionally, the Council helps its members participate in both international and national trade fairs at a highly subsidised rate. This helps the entrepreneurs to upgrade their technology, marketing powerloom products and addressing sectoral concerns by taking them up with the concerned authorities. However, the Council does on a regular basis.

TDB: In April 2017, the government launched PowerTex India scheme. Can you tell us more about the scheme?

PV: The new scheme has combined all the existing schemes under one umbrella and also has some additional components. Some of the prominent schemes are In-Situ Upgradation of Plain Powerloom Group, Workshop Scheme (GWS); Pradhan Mantri Credit Scheme for Powerloom Weavers; Solar Energy Scheme for Powerloomers (SESPN) and facilitation and upgradation of Powerloom Service Centres (PSCs). Through these schemes, the government is assisting small powerloom weavers to grow and is developing this sector as a whole.

TDB: Speaking about the SESPN scheme under PowerTex India, to what extent will it ease the burden of power costs?

PV: Not only for the powerloom sector but for most sectors the future lies in renewable energy. The Solar Energy Scheme for Powerloomers (SESPN) will help an entrepreneur tackle high power tariff. The power tariff varies from place to place. For instance, places like Surat where subsidy on power isn’t available, the scheme is a good solution, but, in the short run it may not make business sense for many other states as there are upfront costs involved. For example, if installation of a solar energy unit costs Rs.20 lakh and the government subsidised the cost by 50%, the weavers still ends up spending Rs.10 lakh. States like Maharashtra already enjoy 50% subsidy on electricity and millers pay only Rs.3 per unit. So, in these states, considering the cost of installation against the per unit cost of power, the scheme does not make business sense. But, in the long run, solar energy will become viable. Shifting to solar power is necessary. We have asked the government to install a few units in Bhiwandi and Siracula to see if weavers can truly understand how solar energy could be beneficial for them in the future.

TDB: Some time back, a delegation from PDEXCIL had raised concerns about the poor condition of the powerloom sector in Maharashtra. Could you share some of the concerns?

PV: Maharashtra has the highest number of powerloomers in the country, roughly 13 lakh powerloomers. They employ about 30 lakh workers, directly and indirectly. As this is an important region, PDEXCIL considered it important to raise the issues with the concerned authorities. Maharashtra has both developed and underdeveloped clusters in terms of infrastructure and technology. For instance, places such as Ichalkaranji and Solapur have come up well in terms of technological development and marketing their products, whereas some important clusters such as Bhiwandi and Malegaon are yet to technologically upgrade and most of the looms there are conventional. PDEXCIL wants the authorities to address these issues and give a fillip to the sector in the region.

Schemes such as In-Situ Upgradation of Plain Powerloomers, Yarn Bank Scheme, etc., are the outcome of the PDEXCILs interventions. PDEXCIL is not only working with the government but also making small entrepreneurs aware about the support systems available to them from the government through seminars, road shows, etc.

TDB: Countries like China, Vietnam and Bangladesh are strong competitors in the export market. What must India do to stay ahead in the game?

PV: Cheap labour plays a crucial role in this sector and India, China, Vietnam, Bangladesh, etc. have an abundance of cheap labour. At the moment, India is amongst the top players, but, looking at China’s mammoth share in the global market, it is apparent that there is an enormous opportunity waiting to be exploited. However, we also need to be aware that countries like Vietnam, Indonesia, Cambodia, Thailand and Bangladesh are emerging as well-honed competitors to India.

The availability of raw material has given India an edge over the rest. But, availability of cheap labour and raw material alone will not help us stay competitive. India has to employ state-of-the-art technology with better infrastructure, for the sector to produce better and more competitive products. Skill development is also very crucial. I am glad that the government has introduced various schemes such as Pradhan Mantri Kaushal Vikas Yojana, and the Integrated Skill Development Scheme to address this issue.

India has the advantage of a good brand image, something that has been developed over a long period of time. What we now need is technology to leverage this brand image.

TDB: How has GST effected the sector?

PV: Powerloom is a decentralised sector with mostly marginal weavers, and since the conversion of yarn into fabrics is just an interim process, there was no incidence of tax. However, with the implementation of GST this is no longer the case. We also need clarification on a few issues. Earlier cross-border trade with Nepal was considered domestic trade, but we are not sure whether this will be the case under the GST regime. We also don’t know how much tax must be paid for blended fabric as it is a combination of several fabrics with different tax slabs.

TDB: How do you envisage the future of Indian powerloom sector?

PV: The powerloom sector has the potential to be a growth industry, powered by solar energy, but we need support from the government in the form of favourable policies. The present government has been proactive by bringing us on board. If this kind of commitment continues, India’s share in the international market will scale new heights. The sector produces 56-57% of the fabrics in the country, and the number is growing. But, despite our contribution, people aren’t aware of the sector. With the help of new schemes, the sector is being encouraged and centralised and it will be able to improve its stature in both the domestic and international markets.

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**Ask a Question**

In the world of export-import, each shipment counts. And you cannot afford to make any “uninformed investment”. So, if you have any doubt or a question, ask us. Our team of experts at The Dollar Business Intelligence Unit will be happy to answer your queries. Your question(s), if approved, will also be published on www.thedollarbusiness.com, and/or in the forthcoming issue of The Dollar Business.

**Q**

I want to export charcoal. What is its HS Code and what are the countries that buy acacia wood charcoal? [Rajesh, Rajesh Enterprise, Ahmedabad, Gujarat; +91-9896010000, rajeshlakhani675@gmail.com]

**A**

Dear Rajesh: We assume you are interested in exporting wood charcoal. The HS Code for wood charcoal is 44029090. This code is applicable to charcoal that falls under ITC HS Code: 72081000. The Basic Customs Duty on this product is 12.5%. An additional 3% education cess is also levied, bringing the total tax incidence to 12.875%. Sadly, the product is not eligible for preferential tariff under India-Korea Comprehensive Economic Partnership Agreement (CEPA).

According to various factors and is its HS Code and what are the countries that buy acacia wood charcoal according to various factors and is available at biz.org. In case our assumptions about the intended export product isn’t exact, please write to us. The Dollar Business Intelligence Unit would like to hear from you.

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**Q**

I want to import HR steel coil. Is customs duty on imports from South Korea lower than other countries due to India-Korea CEPA. Also, could you please provide me details on Minimum Import Price (MIP), anti-dumping duty and Bureau of Indian Standards (BIS) certification for the same. Further, how much do I have to pay to government as import duty and taxes? [Rahul, Rahul’s Enterprises, [email protected]]

**A**

Dear Rahul: Hot rolled steel coils are imported under various HS Codes. The minimum import price (MIP) and anti-dumping duty vary from variant to variant. Let us assume you want to import hot-rolled steel coil that falls under ITC HS Code: 72081000. The Basic Customs Duty on this product is 12.5%. An additional 3% education cess is also levied, bringing the total tax incidence to 12.875%. Sadly, the product is not eligible for preferential tariff under India-Korea Comprehensive Economic Partnership Agreement (CEPA). Coming to the next part of your question, the Directorate General of Anti-dumping & Allied Duties (DGAD) has fixed the assessable value of hot-rolled steel coil imported under this HS Code from South Korea at $478/MT. For more information, you may want to visit the Central Board of Excise and Customs website (cbicgo.gov.in). The BIS standard for hot-rolled steel coils vary according to various factors and is available at biz.org. In case our assumptions about the intended export product isn’t exact, please write to us. The Dollar Business Intelligence Unit would like to hear from you.

Continued on page 49
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Thank you for your time and consideration.

Best regards,

[Your Name]
goods and Services Tax (GST) Council will meet in New Delhi on October 6. This would be its 22nd assemblance since the roll out of the new tax regime on July 1, 2017. Chaired by Finance Minister Arun Jaitley, the Council is said to be deliberating on the findings of the Group of Minister (GoM) on technical glitches and procedural problems on GST Network (GSTN) portal as well as issues faced by India’s EXIM community. Given the complexity of the new tax structure, not surprisingly, over two dozen issues have been identified in GSTN by a five-member GoM headed by Bihar Deputy Chief Minister Sushil Kumar Modi so far. And not to say, they all need immediate attention if the taxmen really want the exporting fraternity to gain from the implementation of GST.

The MSME sector, which is regarded as the backbone of the Indian economy, accounts for about 45-50% of India’s exports. No doubt, GST is expected to bring a paradigm shift in the functioning of these growth engines. But then at what cost? That’s something worth pondering. The high cost of compliance associated with GST is making their businesses unviable. Hence, there is an urgent need to ease the burden of compliance on micro, small and medium enterprises (MSMEs). And it’s not a difficult task. All that the government needs to do is increase the threshold of GST’s Composition Scheme.

The Composition Scheme should be made available to MSME taxpayers having an annual turnover of up to Rs.1.5 crore from the current turnover threshold of Rs.75 lakh. If this happens, it will not only come as a great relief to the MSME sector that has been grappling with many challenges that GST has thrown at it but will also make the Composition Scheme more attractive whilst benefitting the exchequer through improved compliance.

GST has also narrowed the ambit of duty credit scrip only to payment of basic customs duty, whilst earlier the utilisation of the scrip was allowed for the payment of customs duty, excise duty and service tax. This decrease in the avenues of utilisation is bound to have wide ramifications on exporters. Also, MEIS and SEIS scrips, which used to attract 5% VAT now attract 18% GST because the scrips fall under the residual category. This issue must also be addressed, otherwise GST will sharply reduce the incentive aspect of these scrips. If utilisation does not get integrated with GST, the premium on these scrips is also bound to go down drastically.

Further, the ‘pay-first-and-get-a-refund-later’ mechanism under GST has been a cause of concern amongst exporters, particularly MSMEs, who are already burdened with high cost of credit and are on the constant lookout for working capital financing options. Although exports have been zero-rated under GST, to claim input tax credit on inputs required to manufacture exported goods an exporter is either required to pay Integrated Goods and Service Tax (IGST) [which can be claimed as refund once the product has been exported] or export under a bond or a letter of undertaking (LoU). In both the cases, MSMEs end up on the losing side – whilst it’s difficult for them to obtain a bank guarantee, paying IGST means stretching the working capital cycle. It’s like getting caught between the devil and the deep sea! The industry hence expects the government to pull it out of the situation through some policy instrument, preferably in incentives. If that is not possible immediately, it should at least allow exports of goods and services without paying IGST till the time they come up with the mechanism to offset losses arising out of the new tax regime.

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