

India's Trade Relations To Improve Further

The Indian National Congress led United Progressive Alliance (UPA) won a second term in Parliament with an increased majority in the General Elections for the 15th Lok Sabha or the House of the People. The outcome will usher a new wave of confidence globally in the Indian economy, which will likely reflect not only in the revival of the domestic economy, but also in the growing external trade relations.

A stable government, which is expected to pursue economic reforms actively, will certainly help India attract fresh foreign investments and improve its trade relations with other countries. The global slowdown has made a direct impact on India's exports and imports, and we believe that a stable and reform-oriented government will be in a position to push the right policies that can turn this crisis in to an opportunity.

India's Civil Nuclear Energy: \$175 Billion Opportunity

India's power deficit entails an estimated investment of up to \$150 billion by 2012. To meet the growing demand, the government plans to add 90GW over the same period to its existing generation capacity of 145GW.

India will become a lucrative market for nuclear energy equipment makers as soon as The United States-India Peaceful Atomic Energy Cooperation Act of 2006 between India and the U.S. starts to show the benefits of investments coming in to the country. Nuclear energy makes up only 3% of total installed capacity in India and its domestic uranium reserves are also limited. India's Atomic Energy Commission estimates that domestic resources could support only 10 GW of installed nuclear capacity, signifying the potential of a multifold ramp-up.

Now, with the new government in place, various countries are expected to sign nuclear agreements with India on similar lines as that of the Indo-U.S. Nuclear deal. Canada's International Trade Minister Stockwell Day recently hinted that Canada is very close to having an agreement with India on civil nuclear energy. Canada has already signed an memorandum of understanding (MoU) with India in January this year for next-generation nuclear reactors.

Such civil nuclear energy cooperation agreements with countries will pave the way for new joint ventures, civil nuclear research and development initiatives and technology sharing arrangements as India looks to combine foreign and homegrown expertise.

Favourable policy initiatives could see global energy companies such as Areva SA, Alstom SA and Électricité de France (EDF) of France; the U.S.-based General Electric Co., Russia's state-owned nuclear company Rosatom State Nuclear Energy Corporation and Toshiba Corp., a diversified Japanese conglomerate, among others vying to enter India's nuclear energy market, estimated to be worth up to \$175 billion over the next 20 years. India plans to build about 25-30 new reactors to raise its nuclear capacity by more than 10 times from the present capacity.

Apart from that, companies from the U.S., France, Russia, Sweden and other European countries are competing to get a share in India's defense purchases, which are estimated to be about \$30 billion market in the next 10 years. A mega order from India worth \$11 billion for supplying fighter-jets is already on the table.

Expecting a Fresh Boost to India's Exports

The newly appointed Commerce and Industry Minister Anand Sharma has stated that India expects to maintain its exports at \$160 billion during the current fiscal year. He has hinted that the upcoming budget and trade policy review would incorporate some steps that will give a boost to exports.

India's exports during the period April 2008 - March 2009 (financial year) stood at \$168.70 billion (Rs.7669.35 billion) as against \$163.13 billion (Rs.6558.63 billion) registering a growth of 3.4% in Dollar terms and 16.9% in Rupee terms over the same period last year. India's imports in the same period was \$287.76 billion (Rs.13,055.03 billion) as against \$251.65 billion (Rs.10,123.12 billion), registering a growth of 14.3% in Dollar terms and 29.0% in Rupee terms over the same period last year.

India is already in advance stages of negotiations for a free trade agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). It is also preparing for economic cooperation agreements with South Korea and Nepal. The new government is expected to act soon on these agreements.

It is also expected that the government would further relax foreign direct investment (FDI) norms for certain sectors such as retail, insurance and aviation. Any such move will accelerate the foreign investment inflow in to the country. The foreign direct investment inflows in 2008-09 stood at \$27 billion, up from \$24 billion in 2007-08 despite the global recession.

India's Key Trade Partners

In terms of exports from India, the top ten countries include the U.S. (11.98%), United Arab Emirates (U.A.E.) (11.15%), Singapore (5.00%), China (4.67%), Hong Kong (3.71%), Netherland (3.67%), the U.K. (3.57%), Germany (3.33%), Saudi Arab (3.12%) and Belgium (2.64%), as per the export values during the first nine months of the fiscal year 2008-09. On the other hand, the top ten countries exporting to India include China (10.27%), Saudi Arab (7.24%), U.A.E. (6.57%), the U.S. (5.90%), Switzerland (4.59%), Iran (4.29%), Germany (3.52%), Nigeria (3.44%), Kuwait (3.36%) and Australia (3.22%).

India-U.S.

India's trade with the U.S. was severely impacted due to recession in the U.S. economy. India's trade with the U.S. dipped by 23.47% to \$8.2 billion in the quarter January-March 2009 compared with \$10.69 billion in the corresponding period last year, according to the U.S. International Trade Commission. India's exports to the U.S. declined by 22.63% to \$5.22 billion during this period, while India's imports were down by 24.9% to \$2.96 billion.

Lower demand in the U.S. for natural pearls, precious and semiprecious stones and pharmaceutical products from India impacted the exports. The U.S. contributed about 12% of India's total exports of \$168.70 billion in the fiscal year 2008-09. In the year 2008, India's total exports to the U.S. stood at \$25.86 billion, while imports from the U.S. were at \$17.33 billion.

India-European Union (E.U.)

As a region, the European Union (E.U.) is India's largest trading partner with total bilateral trade worth more than \$70 billion in 2008-09. The participation of European companies in building India's power generation capacity will help achieve the €100 billion (\$140 billion) trade target by 2013 set at the Ninth India-European Union Summit in Marseille, France last year.

India is currently negotiating a free trade agreement (FTA) with the EU as well as with the European Free Trade Association (EFTA), which includes Switzerland, Norway, Iceland and Liechtenstein. The next round of talks with the E.U. is tentatively scheduled for July 2009. The congress-led UPA government is expected to explore better prospects of Indo-E.U. trade relations.

The 27-member E.U. is also the largest investment partner of India. The E.U. investments in to India more than doubled to €5.4 billion (\$7.73 bln) in 2007 compared with €2.5 billion (\$3.58 bln) in 2006. This figure, however, dropped sharply to €852 million (\$1.22 bln) last year due to recession in the European economies.

Among the E.U. countries, Germany has brought the maximum foreign direct investment FDI in to India during 2004-07 accounting for about 20% of the total E.U. investments in the country, according to Eurostat, the European statistical office.

On the other hand, Indian investments in the E.U. countries have also picked up in the recent years, reaching to €2.4 billion in 2008 (\$3.43 bln) from €879 million (\$1.25 bln) in 2007 and almost nil in 2004. Still, there is ample scope to enhance the investment inflows in to India from the E.U., as the other three BRIC countries (the group of four emerging economies including Brazil, Russia, India and China) receive much higher FDI inflow from the E.U. compared with India. Brazil, Russia and China had registered FDI inflow of €88 billion (\$126 bln), €52.2 billion (\$74.7 bln) and €32.7 billion (\$46.8 bln),

respectively, from the E.U. during 2006, while India had attracted only €12.3 billion (\$17.6 bln) in the same period.

India - Africa

Africa as a region has now become one of the important trade partners of India with rapid increase in bilateral trade in recent years. The trade between India and Africa has moved up to \$36 billion in 2007-08 from \$3 billion in 2000-01. India plans to double the trade with this region in the next five years.

India, the largest importer of rough diamonds in the world, sources most of its requirement from Africa. India also has a duty free preferential tariff scheme for 49 least developed countries (LCDs) including 33 African countries. The potential areas of co-operations between the two regions include Information Technology (IT), Telecom, agriculture, agro-processing, irrigation, mining, power, pharmaceuticals etc.

Indian companies have started making investments in the region. Bharti Airtel Ltd, India's largest mobile operator, has recent announced an exclusive discussion with Africa's largest mobile operator MTN Group for a share swap deal that might lead to a merger. This deal worth \$23 billion will be India's highest valued cross-border deal ever.

India - Russia

India's bilateral trade with Russia, one of the country's long time strongest trade partners, is targeted to be almost double at about \$10 billion by 2010 from \$5.3 billion in 2008.

The two countries had signed a number of agreements in the fields of nuclear energy, space research and military technical cooperation etc. in December last year, when the president of the Russian Federation, Dmitry Medvedev visited India.

Apart from energy, space research and military technical cooperation, the two countries can potentially work together in other sectors also such as IT, tourism, pharmaceuticals, metallurgical industry, among others.