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EXCLUSIVE INTERVIEWS

H.E. DATO' HIDAYAT ABDUL HAMID
High Commissioner of
Malaysia to India

V. NARAYANASAMY
Chief Minister, Puducherry

WILLIAM J. ANTHOLIS
Director & CEO, Miller Center,
University of Virginia

TIMOTHY CHESTON
Research Fellow, Harvard University

YIFAN ZHANG
Faculty, Department of Economics,
Chinese University of Hong Kong

...AND MANY MORE!



INDIA-CHINA TRADE WAR BREAKING TIES?

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

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LETTER FROM THE EDITOR-IN-CHIEF

CAN INDIA AFFORD A TRADE WAR NOW?

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



There are only two differences between China Inc. and the Communist Party of China – how we write them and how we pronounce them. Chinese investment being suspended as a result of the trade war could imply suspension of billions of dollars worth of investment in India's infrastructure.

Steven Philip Warner
President (VMPL) & Editor-in-Chief,
The Dollar Business
steven@thedollarbusiness.com

www.thedollarbusiness/blogs/steven

@SPWarner

www.tumblr.com/blog/steven-p-warner



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

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.

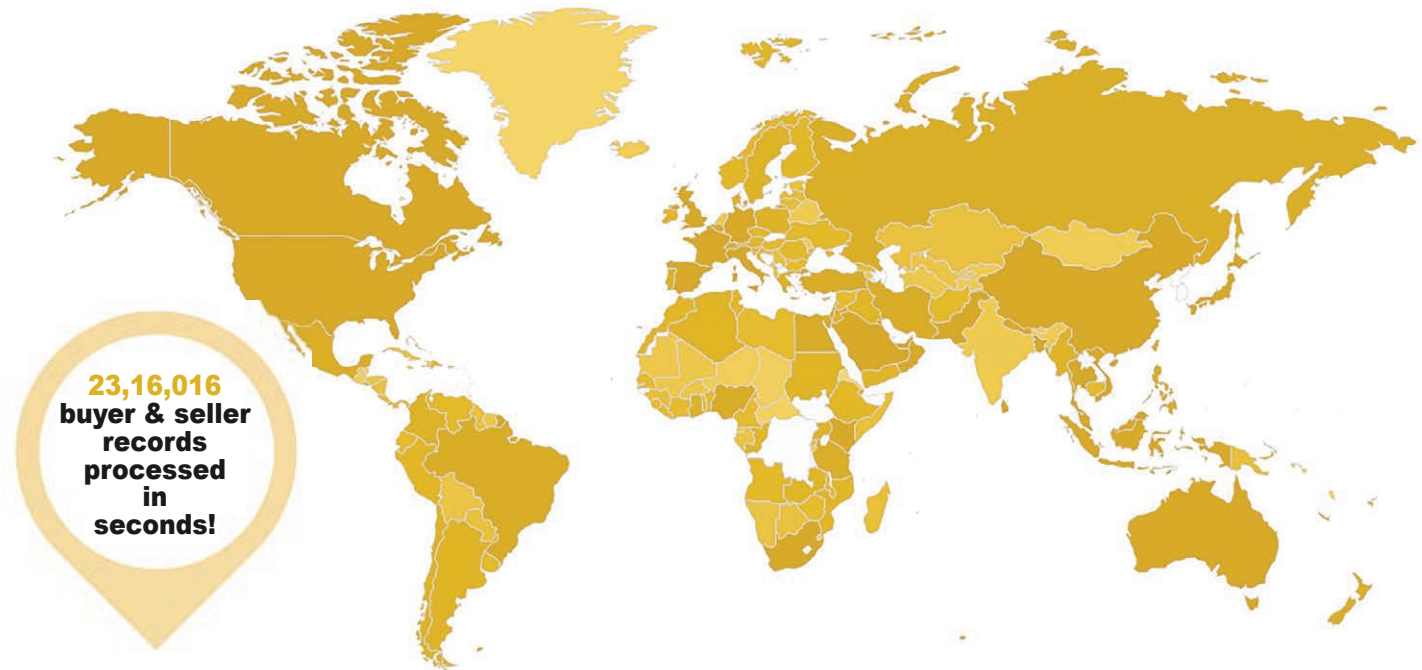
Almost the same argument holds for India.

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

There are enough headwinds for our importers and exporters for now. And we can't have them suffer on margins and production plans, just because your visiting foreign diplomat burnt his tongue with the Indian masala tea served with honest intent. Who will win from a trade war that India engages in? That only time will tell. What we do not need time for is to conclude on who will lose.

J.P. Warner

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FOR EDITORIAL/CONTENT
 Email: editorial@thedollarbusiness.com

FOR ADVERTISEMENT
 Email: ads@thedollarbusiness.com

FOR SUBSCRIPTION
 Email: subscription@thedollarbusiness.com . +91-40-67609999

For queries / comments you can send us an SMS at +91-888-633-1947

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INDIA-CHINA TRADE **WHAT'S AT STAKE?**

India and China have seen many ups and down 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.



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inbox

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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
9885362XXX
adarshpaper@gmail.com



said, it will be very helpful for our business if you could carry more stories on bakery products, food ingredients and coconut products.

GAURAV

Partner, G. P. Impex, Bangalore
8147751XXX
gpimpexbangalore@gmail.com

The Dollar Business is a well-detailed publication, with good insights into the world of exports and imports. I am a subscriber and each month I look forward to reading the magazine. The information on the website is also very useful for the foreign trade community, and the EXIMAPS feature is outstanding. It will be useful if you could carry some

more stories related to the logistics sector.

R. JAYAKUMAR

Gomas Systems
9590280XXX
r.jayakumar@gomassystems.com

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 exporters 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.

RAMAKRISHNAN BALAKRISHNAN

Coromandel International Limited
8978566XXX
ramakrishnanb@coromandel.murugappa.com

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
9246246XXX
whitenair@gmail.com

It's after a long time that I found a good magazine related to international trade. The Dollar Business offers good data and analyses and is definitely an excellent resource for importers and exporters. I also find your website to be very informative and helpful for exporters like us. I look forward to reading each issue of the magazine with great interest.

MOHAN DAS

Travancore-Co
9447977XXX
mohandas@travancore-co.com

The September issue of the magazine looked great! In fact, all the issues that I have read have been outstanding. The Dollar Businesses is a highly informative magazine and your selection of topics is impeccable. That

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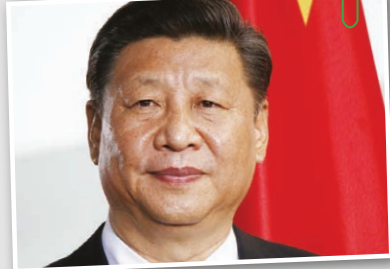
The character of trade has been highly inequitable. Exports from South Africa have been driven particularly by raw materials. This dominance [of raw materials] has adversely impacted us.

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



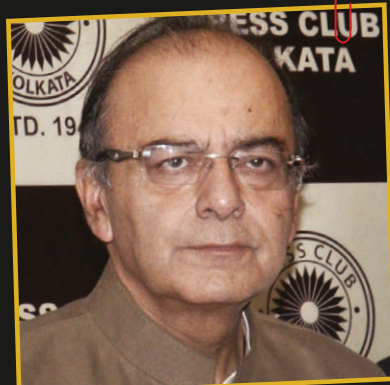
For upgrading mutual cooperation, I urge the creation of a BRICS rating agency to cater to the financing needs of sovereign & corporate entities of developing countries.

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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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.

JAPAN-UK

Planning for tomorrow

The British Prime Minister has had a rough 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 steely resolve. Her latest ray of hope, Japan. While her latest trip to Japan did not succeed in concluding a trade deal, reports hint 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.



Theresa May | Prime Minister of UK



BRICS SUMMIT

Are we moving ahead?

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.

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.



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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 tri-nation 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-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 while letting the developed countries retain their huge farm subsidies. Is it really too much to ask for a level playing field? Let's hope the two Asian giants can force the issue.



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 cosy 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 hubbub was of 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.

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.

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'être* 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.



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INDIA-CHINA TRADE WAR

WHAT'S AT STAKE?

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.

TDB INTELLIGENCE UNIT

Walk into stores across India and you will find the ubiquitous '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 Chini bhai bhai still", you just thought? Have no illusions good sir, the two countries have been on the verge of a trade war for months now.

Over the years, the India-China relationship has received its fair share of attention. Both have made the right noises about cooperation and open trade. However, 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 to achieve 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?

war in 1962 that led to seesawing 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's 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 imports \$61.3 billion worth of Chinese products, it manages to ship only \$10.2 billion worth of India-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,

(an idea many believe to be past its sell by date) – the paradox is that much of the country's key foreign exchange earning sectors are dependent on China for various components to produce these India-made, export-worthy products! So, should Indian exporters be wary of a trade war with China?

LET'S TALK NUMBERS

The numbers do indicate that there may be cause for concern! If one were to pick any key sector of the total 25 sectors en-



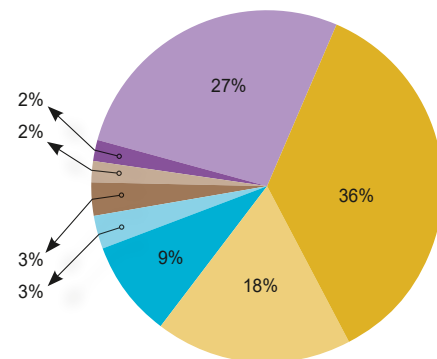
INDIA'S IMPORTS FROM CHINA IS DOMINATED BY VALUE-ADDED PRODUCTS

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 despite the bitter truth that the two sides did fight a brief border

India's imports from China

India's major imports from China consist of machinery and electrical goods



● Electrical machinery ● Machinery & articles thereof
● Organic chemicals ● Plastic & articles thereof
● Floating structures ● Iron & steel
● Optical, medical, etc. ● Other

Source: TDB Intelligence Unit & Ministry of Commerce, Govt. break-up for FY2017



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 sovereignty of the participating nations.

"ECONOMIC RELATIONSHIP SHOULD BE A WIN-WIN FOR BOTH NATIONS"



TIMOTHY CHESTON, RESEARCH FELLOW, CENTER FOR INTERNATIONAL DEVELOPMENT, HARVARD UNIVERSITY

TDB: India has been focusing on strengthening its domestic manufacturing sector. How important is a strong Indo-China economic relationship in this context?

Timothy Cheston (TC): Past research found that a country is more likely to start entering the production of those products which its neighbouring countries are competitive at producing and that is true in India's case too. India's challenge though is the rising inequality amongst the states within India. The products which are being exported from India are not being produced across the country, but in small pockets of a few rich states equipped with specialised knowhow required to manufacture these products which are complex in nature. However, other states remain stuck with low manufacturing capability and make do with the slow trickle of knowledge spreading from the richer states. We expect the states, particularly those with strong social and business relationship with high-income countries, to percolate that knowhow to other parts of India.

On paper, the economic relationship between India and China should be a win-win for both. India could benefit significantly from attracting the knowhow of its neighbour to spur its entry into new product segments. As growth slows in China, China will be increasingly looking to serve the rising demand for goods and services in high-growth states in India.

TDB: What's your outlook on India's economic growth?

TC: India's economic growth is likely to outpace China's growth over the coming decade. However, India has a significantly lower per capita income which is less than half of China's per capita income. So, it will take several decades for India, at the

predicted growth rate for both countries, to surpass China's per capita income level.

Having said that, we believe the next decade belongs to India. India will be the fastest growing economy in the coming decade, according to our measure of economic complexity. Economic growth will result from the diversification of manufacturing knowhow particularly into more specialised expertise which will facilitate the production of a wider variety of products of increasingly greater complexity. India ranks as the 48th most complex economy in the world based on the Economic Complexity Index by the Center for International Development at Harvard University. Our analysis predicts India should soon have a higher per capita income as per its current complexity level.

TDB: The 2025 Global Growth Projections by Harvard's Centre for International Development talks about a decline in China's export complexity. Will this impact global trade?

TC: The initial dip reported in China's exports, which is smaller than the decline in India's exports, is largely driven by global declines in oil prices and China's presence as a net importer of oil as compared to the significant share of refined petroleum in India's exports. Significantly, China's complexity also declined. China's exports showed the greatest declines in jewellery, gold as well as textiles. Machinery and electronics exports have also declined slightly. This has allowed regional neighbours to increase their share. A slowdown in China's exports and its resulting economic outcome will undoubtedly redefine the contours of the global economy.

visaged under 'Make in India', be it leather, pharmaceuticals, chemicals, textiles and garments, automobile or its components or electrical machinery – they all represent a high degree of imports from China. Simply put, for meeting the requirements of all our necessary and critical imports, China's factories in most cases have so far been the 'one stop solution' for Indian firms – both big and small. China, on the other hand, mostly imports raw materials and intermediate goods from India.

William J. Antholis, Managing Director and CEO of the Miller Centre at the University of Virginia, sums up the

India-China trade relationship. "India and China complement one another's strengths and weaknesses," he says. Similar views are shared by Saakshi Kulkarni, Director, India-China Business Council (ICBC), who states, "Given the very fact that China is India's largest trading partner, a strong trade relation 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.

ADVANTAGE INDIA?

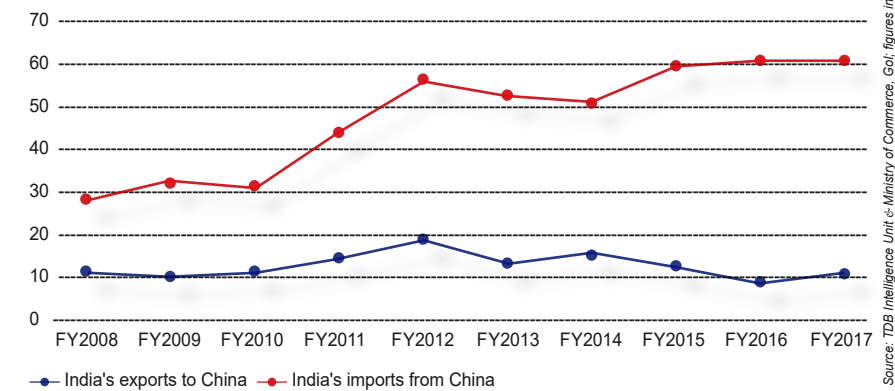
While there is no denying the fact that Indo-Sino trade relations are indeed characterised by many win-wins, the huge imbalance in trade suggests that while India is more dependent on China, China may have more to worry than India. Considering that while China exports a significant volume of finished goods meant for Indian consumers, India's exports to China are primarily raw materials meant for businesses. Can China find a market as large as India for its consumer goods? Won't be an easy task we think, considering that a number of these products are customised keeping the In-

dian consumer and Indian regulations in mind. And what about India? Can India find a market for commodities worth \$10 billion in turn. Again a difficult task, but considering that these products are mostly meant for businesses, chances are exports will be hit but not too hard.

This is one part of the story. The other is: Will consumers and businesses in India be hurt by a trade ban? Surely, they will. China, as they say, is the factory of the world, and it will be difficult to find a sourcing destination that can supply India with the diverse products that it needs at prices that it can afford. Experts believe that while the talk of boycotting Chinese

India-China merchandise trade

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.



"POLITICAL STANDOFFS WON'T AFFECT TRADE TIES BETWEEN INDIA AND CHINA"



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

TDB: What makes China such a behemoth in exports?

AKS: China has quite methodically employed the business model that Japan has been successfully practising. Across various markets around the globe, the Chinese products are characterised with the 3A-advantage – affordability, acceptability 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 3As. 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 sector of the Indian economy. This scenario can't be altered or replaced overnight. Issues like the Doklam standoff doesn't bother a trader much, as for him/her economic interests remain paramount. Despite prevailing tensions, India's trade with Pakistan continues. My honest view is that such issues won't affect trade ties between India and China.

TDB: Do you think BRICS summit, held at Xiamen in Chi-

na, acted as a catalyst in defusing the Doklam standoff?

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 like South 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) framework. And, even if India imposes non-tariff barriers, and countervailing duties like anti-dumping duties on imports from China, it would be China that would be affected more because India imports value-added products from China in large numbers.

Interview by Ahmad Shariq Khan

"CO-EXISTENCE OF MANY GEOPOLITICAL VISIONS IS POSSIBLE"



DR. ZORAWAR DAULET SINGH, FELLOW, CENTRE FOR POLICY RESEARCH, NEW DELHI

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 actually 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: How should the government work towards attracting Chinese FDI to India?

ZDS: The government should consult industry and sectoral

stakeholders to make trade agreements with the Chinese companies sustainable. Involving various stakeholders is necessary because finding a common ground while signing trade agreements is critical. Negotiations between the two countries are always driven by various priorities. It's important to address the spill-over effect of such trade agreements beforehand.

Having said that, I don't think India is ready for any free trade agreement (FTA) with China. But, an investment agreement is something that the government should be looking at far more seriously to attract Chinese FDI to the domestic market.

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 a competing influences in the South Asian region. They should work together to produce more prosperous and sustained development across South Asia.

Interview by Anishaa Kumar

goods is good political rhetoric, it's a mistaken belief that it will be good for India's manufacturing sector. According to Singh, any talk of boycotting Chinese goods would not hold the test of reality. "Boycotting Chinese goods is not viable because the economic cost to India itself is much more, it is more destructive to the Indian economy than theirs as trade allows India to source material at a price which is more competitive compared to its substitutes that are available both here and in the West," says Singh

Atul Kumar Saxena, President, Indian Importers Chamber of Commerce & Industry (IICCI), believes that for Indian importers leveraging the manufacturing capabilities of production hubs not based

in China is not viable in the short run. He says, "Replacing China as a sourcing destination will make our costs go up by three-four times and in today's gloomy business scenario, no trader would wish for that." Dr. S. K. Mohanty, Professor at Research and Information System for Developing Countries (RIS), adds, "China is a global player in the manufacturing sector and this reality cannot be overlooked." While trade bodies and researchers have their opinions on the challenges associated with breaking up trade ties with China, *The Dollar Business* also reached out to industry leaders across the spectrum, to gauge their opinion on the importance of China in their line of operations. They almost

unanimously pointed towards the fact that the absence or reduction in supplies from China would increase production costs. M. Rafeeqe Ahmed, Chairman of Council for Leather Exports (CLE), says that as modern machinery is required for capacity building and technological up-gradation of leather sector, CLE has even been requesting Chinese machinery manufacturers and component suppliers to set-up their units in India.

Vaibhav Soni, CEO of Dynamic Engineers Private Limited, a leading fan manufacturer says, "We import quite a few critical components for our fan assemblies from China. We prefer Chinese suppliers because they offer us different designs and cutting-edge technology."

Another sector with high import dependency on China 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.



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 relationship so far?

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 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 promised. The Indian government rejected a lot of the proposals. Only a handful of Chinese private investments were green signalled 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 valued-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 economic in nature 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, imports 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.

Interview by Niladri S. Nath

"A DYSFUNCTIONAL BILATERAL TRADE WILL SLOW DOWN BOTH ECONOMIES"



YIFAN ZHANG, FACULTY, DEPARTMENT OF ECONOMICS, CHINESE UNIVERSITY OF HONG KONG

TDB: India's trade deficit with China has grown to more than \$50 billion in 2016. What are the reasons for that?

Yifan Zhang (YZ): The main issue is the structure of trade. From China, India imports finished products such as electronics and machinery. This is not surprising, as China has emerged as the "factory of the world". Meanwhile, India majorly exports raw materials to China. Another reason is that India has not been able to fully integrate itself into the Asian supply chains. As a result, China imports parts and components from Japan, South Korea and Southeast Asia, but not India, through the global supply chain of multinational companies.

TDB: How will barriers and restrictions in bilateral trade impact the economies of China and India?

YZ: Barriers in the bilateral trade or a complete ban on the Indo-China trade will prove detrimental, 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 could gain insights on infrastructure and skill development from China.

I think the end-consumers will end up paying more if bilateral trade is severely restricted. Under a less competitive environment, companies in both countries will not feel fully moti-

vated to innovate. That scenario will negatively influence their production efficiency. A dysfunctional bilateral trade will slow down the economic development in both countries.

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.

Interview by Anishaa Kumar

This means while China loses in terms of exports, Indian industry too will be 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 what is being called the 'new normal'. This would mean a consumer-led economy rather than a domestic investment driven economy. It will also mean that going forward wages will rise and China

would lose its low-cost labour advantage. And as has been seen in other mature or maturing economies, this would mean China will now seek to increase its overseas presence, either through the foreign direct investment (FDI) route or by entering into joint ventures to take advantage of low-cost economies across the globe.

Indeed, China has already been aggressively investing in pursuance of this strategy and as such has been investing in India too. Considering that India is on the cusp of rapid industrialisation, Chinese investments offer a win-win situation. It gives Indian industries capital for

infrastructure development and technology upgradation while giving China access to a large consumer market without having to deal with tariff and non-tariff barriers.

As per a Department of Industrial Policy & Promotion (DIPP) report, India received \$60 billion as FDI in FY2017, of which a good chunk came from China and went to sectors like automobiles (60%), metallurgical industries (14%), electrical equipment (4%), industry machinery (4%), and power (3%) industries. Many of the current government's flagship projects such as the various industrial corridors and the multi-billion

“THERE IS NO GUARANTEE A SIMILAR SITUATION MAY NOT ARISE IN FUTURE”



DR. SRIKANTH KONDAPALLI, PROFESSOR IN CHINESE STUDIES, JAWAHARLAL NEHRU UNIVERSITY

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

Dr. Srikanth Kondapalli (SK): The standoff at Doklam can be termed as “one of the worsts” 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 (BCIM) economic corridor of OBOR, although progress on BCIM is slow due to India's security concerns.

The main concern of India on OBOR is related to the violation of sovereignty in Kashmir by China with the China Pakistan 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. As 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.

Interview by Ahmad Shariq Khan

“TRADE SHOULD BE RING-FENCED FROM POLITICAL AND BOUNDARY ISSUES”



SOURABH GUPTA, RESIDENT SENIOR FELLOW, INSTITUTE FOR CHINA-AMERICA STUDIES (ICAS), GEORGETOWN UNIVERSITY

TDB: What impact will China's geopolitical ambitions and initiatives like CPEC and OBOR have on India-China bilateral trade relationship?

Sourabh Gupta (SG): They will not have any impact on India-China bilateral trade per se. India will not be punishing specific Chinese companies that conduct business in other South Asia countries under the aegis of CPEC or OBOR. In fact, some of the Chinese state-owned enterprises (SOEs), which operate in the infrastructure space and may participate in CPEC and OBOR, are also likely to have independent operations in Indian industrial parks. In fact, a number of MoUs between Indian state government agencies and Chinese companies have already been signed.

On the other hand, to what extent CPEC and OBOR will have an impact on improving the economic environment and potential of other South Asia countries – and thereby impacting India – will depend on the rollout and implementation of the projects in these countries. The impact may not be immediate and we will have to wait and observe.

TDB: China's economy is rebalancing itself to become more consumer-led. 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-à-vis China is biased towards resources and raw materials. Rather than re-strategise regarding its resource exports, India should focus on products where it could enjoy latent comparative advantages, especially in the area of light manufacturing as China loses its cost advantage and graduates to a higher-wage, 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 \$51 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 hobbled by cumbersome tax and regulatory processes in China. These hindrances should be reduced as best as possible within the framework of the India-China Strategic Economic Dialogue. Secondly, as China ages and becomes a more high-

cost producer economy, cost-conscious manufacturing sectors will seek to migrate to new localisation opportunities within Asia. Vietnam and Bangladesh have already benefitted from such opportunities. India too must take advantage of this.

Finally, India must make itself a welcoming destination for Chinese investment, especially in sectors such as power, telecom equipment, automotive and electronic components, textiles and clothing, etc., where China is looking to transfer some of its productive capacity abroad. Industrial parks in India where such Chinese capital is invested could thereafter become a base for exports to China.

TDB: What role has the BRICS Summit played in defusing the tension between the two countries?

SG: The end of the Doklam standoff and the successful BRICS Summit have somewhat restored the tenor of ties, particularly bilateral economic ties which the Chinese too have every interest in safeguarding. Going forward, both sides should commit to their consensus that economic engagement be ring-fenced from China-India political and boundary-related tensions. China and India have working groups on infrastructure, energy, high-technology and resource conservation, as part of their Strategic Economic Dialogue. The activities within these working groups need to be deepened, and the existing MoUs that have been signed between Indian state government agencies and Chinese investors should also be hastened to their shovel-ready rollout stage.

TDB: How can two nations strengthen trade cooperation?

SG: China and India must engage each other on trans-boundary connectivity initiatives – in South Asia and beyond. While India will never participate in CPEC, India must raise its game and be much more forthcoming in cooperating with China on the Bangladesh-China-India-Myanmar (BCIM) sub-regional connectivity initiative.

Down the line, coordination can also be envisaged in infrastructure projects in Nepal and Bangladesh. Moreover, India and China must ensure that the Asia Infrastructure Investment Bank (AIIB) and the New Development Bank (also known as BRICS Bank) operate on 'lean, clean, and green' principles and meet high standards of loan disbursement and development outcomes. Finally, India must be far more forthcoming in making deeper trade liberalisation offers, both at-the-border and beyond-the-border, to China and other trading partners in the context of the RCEP negotiations.

Interview by Niladri S. Nath

'Smart Cities' projects have been major recipients of Chinese FDI. Many Chinese companies have also expressed interest in setting up manufacturing facilities in India. A trade ban will obviously put these projects in jeopardy, not something that India would want at a time when the economy is sluggish and private investment has been hard to come by.

RCEP MATTERS

The other big factor that one needs to keep in mind when talking about trade restrictions is the mega-trade agreement – Regional Comprehensive Economic Partnership (RCEP) – that India is negotiating and which China is a driving force behind. In today's global trade environment, free trade agreements are increasingly playing a big role in bringing down trade barriers. And RCEP is important for India because not only does it include China as a party but also includes the

ten-member states of the Association of Southeast Asian Nations (ASEAN) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand). RCEP therefore has the potential to bring home a market whose total combined GDP is more than \$17 trillion and collectively account for 40% of world trade. India could gain a lot if it negotiates a fair deal in the services sector, which is its major strength. And being a party to RCEP would mean China doing away with the present roadblocks that it has put for India's services exports when it comes to mobility of talent in the services sector.

Trade restrictions from either side will be the end of the dream of enhanced access to China as well as other countries who are members of RCEP. Again not something India would want, nor for that matter would China.

All said and done, both are facing economic and social challenges, and this would be as bad a time as any to jeopardise their hard earned positions in the world of trade.

TIT FOR TAT

While we have established that it makes little sense for either country to break trade ties, the two also justified grievances against each other when it comes to trade. China makes use of non-tariff barriers (NTBs) such as sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) to discourage Indian exports into the market.

Chinese authorities claim that this is because of the low-quality of Indian products. This is at a time when, on the contrary, India has been enjoying a positive balance of trade with many advanced and open economies like US. Of course, China has also gone to town

about the anti-dumping duties that have been imposed by India on many Chinese products. But these small skirmishes are part of the negotiation tactics that countries usually employ. Nothing that a small dose of diplomacy cannot overcome.

BETTER TOGETHER

Diplomacy did win the day during the Doklam standoff. And now that matters are returning to normal, the industry hopes to see mature decisions on both sides to leverage the enormous potential that the two countries have. K. K. Lalpuria, Executive Director, Indo Count Industries Limited, a leading exporter of home textile products feels that soon there will be win-wins taking shape out of the Indo-China trade basket. He believes a fair bit of the crisis was posturing for the benefit of restive domestic audiences on both sides, and soon economics will trump over rhetoric. D. K. Sareen, Exec-

utive Director, Electronics and Computer Software Export Promotion Council (ESC), adds, "While China is strong in hardware, India has an edge in software. The two can together capture the trillions of dollars-worth embedded technologies market. Several such trade complementaries can be tapped if the two nations work in the spirit of partnership."

A SHARED FUTURE

The significance of bilateral trade between India and China is clear. With both economies targeting an annual growth rate of more than 8%, they need to find markets which are also growing at the same pace to absorb their products and services.

For sustainable growth of both economies, it is essential that their huge markets remain open for trade to each other. Yifan Zhang, Associate Professor at the Chinese University of Hong Kong agrees

that both countries will lose from a trade war. "Economic theory tells us, moving from trade to autarky causes efficiency losses," he adds. Consumers, Zhang says, will be the ultimate sufferers from a broken trade relationship as they will bear the burnt of the loss in efficiency by paying higher prices.

The case for maintaining bilateral relationship is strong. Yes, with countries the size and complexity of India and China there will be differences in opinion and domestic political compulsions that may force certain decisions, but it is time to separate politics from economy for the benefit of both countries.

Both China and India are precariously positioned in terms of their respective economies, and will be ill-advised to allow politics to define the contours of trade. They say this is the Asia's century. But then, what is Asia without China and India bonhomie? **TDB**

"INDIAN GARMENT INDUSTRY HAS LIMITED DIRECT EXPOSURE TO CHINA"



ASHOK G. RAJANI, CHAIRMAN, APPAREL EXPORT PROMOTION COUNCIL (AEPC)

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's?

AGR: For the apparel industry, imports 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 the apparel 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 already has implemented an FTA with the ASEAN, Japan and South Korea and negotiations for similar pacts 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**

Interview by Ahmad Sharif Khan

"STATE AND LOCAL LEADERS CAN HELP STRENGTHEN BILATERAL TRADE"



WILLIAM J. ANTHOLIS, DIRECTOR AND CEO, MILLER CENTER, UNIVERSITY OF VIRGINIA AND FORMER MANAGING DIRECTOR OF THE BROOKINGS INSTITUTION

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 another'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 stakeholders of 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. So, a further fallout of relations between the two countries would only make a difficult situation worse.

TDB: How do you see the India and China relationship developing in the future?

WJA: Many important initiatives within India and China have come from state and local leaders. On one hand, diversity makes it harder for each of the nation's capitals to manage bilateral relations. On the other hand, local leaders can forge relations with one another and take advantage of complementary strengths. We've seen that with western China's tech centres partnering with south India in the service sector. I expect those local-to-local ties to continue. **TDB**

Interview by Anishaa Kumar

“RCEP WILL BOOST BILATERAL TRADE”

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.

INTERVIEW BY ANISHAA KUMAR



TDB: Malaysia and India have always shared strong economic ties. What has been the cornerstone of these ties?

H.E. Dato' Hidayat Abdul Hamid (HAH): India-Malaysia bilateral trade relations have been developing at a rapid clip. Being amongst the fastest growing nations in the world, India has been an important economic partner for Malaysia. Based on our 2016 records, India was Malaysia's 7th largest trading partner as well as the 7th largest export destination. In the same year, Malaysia was India's 11th largest trading partner.

In 2016, India was Malaysia's largest export destination in the South Asian region, a position it has maintained

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 bilateral and regional cooperation agreements. 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 Comprehensive Economic Partnership (RCEP). These engagements are crucial to ensure our relations remain healthy.

TDB: Malaysian PM Najib Razak has been vocal about the need for early conclusion 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 relations, 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 30.7% of the world's GDP. It is hoped that through RCEP, we will achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership. 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 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 recovered slightly in FY2017. What contributed to this fluctuation?

HAH: Take it as a blessing in disguise. Every challenge offers a new opportunity. In 2016, most countries were hit by falling commodity prices, currency volatility 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 business people and companies – this will maintain the upward trend in trade.

TDB: In 2016, World Bank reported that 97% of business establishments in Malaysia are SMEs. India too has a

large SME sector. In what ways can the two work together to boost trade?

HAH: SMEs play a very important role in driving the Malaysian economy. I think more collaborative efforts, smart partnerships and cooperation should be initiated between Malaysian and Indian SMEs for them to network and explore the economic opportunities available. Mentorship and regional value chain programmes should be introduced to these SMEs so that they can avail the benefits under MICECA and AIFTA. Relevant agencies in Malaysia and India can also work together in sharing their experience in promoting this segment.

TDB: Do Malaysian companies face any problem while operating in India?

HAH: There are many Malaysian companies 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 Malaysian companies have been attracted to India because of the similarities in laws and governance. Additionally, the way of life as well as culture and tradition of our peoples are quite similar. Indian and Malaysians traders have been doing business together for many years.

TDB: What assistance does Malaysia provide to foreign companies?

HAH: There are many Indian companies that have invested in Malaysia. The Malaysian government is a pro-business government. We not only facilitate their entry, but also provide all the necessary assistance required. The Malaysian Investment Development Authority (MIDA) is a one-stop agency for foreign investors. Malaysia offers liberal investment policies, stability in politics and economy, a pro-business government, a business-friendly environment, well-developed infrastructure, great connectivity, harmonious industrial relations, excellent MICE facilities and much more.

MICECA HAS CONTRIBUTED SIGNIFICANTLY TOWARD EXPANSION OF TWO-WAY TRADE

In addition, Malaysia has a huge trained and educated workforce, a sound and resilient banking system and offers strong IP protection.

TDB: The Andhra Pradesh Economic 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 Putrajaya, our new Federal Government Administration Centre and many such modern sustainable townships, technology parks with modern facilities could be shared with India to produce better and grander cities.

TDB: Malaysia adopted GST a couple of years back. How do you see GST impacting India's economy?

HAH: GST implementation is said to be the biggest economic reform in India. But, every change has its own uncertainties and challenges. We believe it will help improve tax compliance and generate 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: Both Malaysia and India are popular tourist destinations. However, tourists flow from Malaysia to India is still very low. How can this be changed?

HAH: India is a popular destination for Malaysians. To encourage visitors, more direct flights should be established. This was seen when Air Asia introduced direct flights to Bhubaneswar and Kochi from Kuala Lumpur. It led to an increase in visitors to Odisha and Kerala. **TDB**

RINGING OF THE CASH REGISTER. SWEET SOUND.

Imports of electronic cash registers (ECR) 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.



BY NILADRI S. NATH

Growing up, you may remember walking to the local *kirana* store, where along with the comforting smell of spices and soaps you would be welcomed by the sight of a calculator and a meticulously handwritten bill. Not any more.

Welcome to digitisation. Today, retail stores and even small neighbourhood stores are moving towards electronic cash registers to tally up bills. Hand-written receipts are being replaced by itemised printed bills. These machines are also a familiar feature at most restaurants and smaller eateries where they are used to print cash receipts or tokens to manage orders. Electronic cash registers (ECRs) are steadily becoming a standard feature across all retail formats, and across tiers.

While ECRs are used for cash payments, with the growth of credit and debit card payments, ECRs with PoS terminals, the hand-held 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 imports of these machines have been on the rise, with China, Vietnam and Malaysia being the sourcing destinations of choice for importers. Together they fulfilled 98% of India's demand for imported ECRs and PoS terminals in FY2017.

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, Posiflex 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.

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.

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 hi-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 Retch Ventures India Pvt. Ltd., a Chennai-based importer of ECR and PoS terminals.

After demonetisation came the Goods and Services Tax (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%.

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.

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 ECR, 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 37% 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 Technology, 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't offer products at a lower price like

Profit estimates for electronic cash register (ECR) imports

Margins can range from 8% to 20%, depending on the variant

Cost (\$/Unit)*	90.00
Freight & Insurance (\$/Unit)**	2.47
CIF (\$/Unit)	92.47
CIF (Rs./Unit)***	5,946.75
BD (0%)	0.00
CIF + BD	5,946.75
Cess (0%)	0.00
CIF + BD + Cess	5,946.75
IGST (18%)	1,070.41
Final Cost	7,017.16
Selling Price in India#	8,420.59
Profit	1,403.43
Profit Margin	16.67%

*Standard electronic cash register model; HS Code: 84705010; **Freight and insurance cost from Ningbo Port in China to Chennai Port in India; Minimum order quantity (MOQ): 100 units;***Assuming USD/INR at 64.31; # Wholesale Price (TDB Intelligence Unit); Note: Profitability ignores brand equity.

Important disclaimer: Profitability has been calculated based on time-bound indicative prices (prevalent during the third week of September 2017). Prices may vary during a different time period, resulting in profit fluctuation. Factors like brand value, supply chain-related costs like warehousing and logistics, administrative costs, sales and advertising costs, etc., have not been included in the cost of procurement. Margins have been calculated considering government policies (announcements, notifications, etc.) as on September 26, 2017. Risk factors and currency fluctuations have to be considered while importing. Calculations have been provided for informational purposes only; The Dollar Business takes no responsibility for any loss resulting from investments in the said commodity/product. Though all efforts have been made to ensure the accuracy of the content stated herewith, the same should not be considered a statement of law or used for any legal purposes. Prior permission is required before calculations stated herein are published or quoted in a third party web or print property.

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

the Chinese," he adds.

In China, Guangzhou and Shenzhen are the leading sourcing destinations. Importers usually take trips to these cities to finalise the deals. A trip which they say is worth the costs 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% IGST) 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

Mumbai-based Rais Pardesi, Owner of Real PoS Technology, the cost of getting a BIS certification is a crucial factor. "The manufacturer and importer bear the cost of BIS certification equally. The actual cost of a BIS certification is Rs.45,000. However, if you hire a consultant to get the certification done, the cost goes up to

Rs.1,20,000," he explains.

In addition, according to Dinesh Bhatia, Director of Grandmaster Innovations Pvt. Ltd., importers usually face documentation related issues with manufacturers and exporters in China while applying for BIS certification. However, importers say that these challenges seem

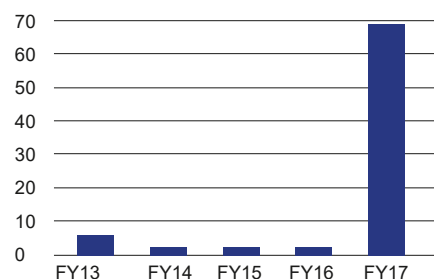
minor compared to the opportunities they offer.

OPPORTUNITIES GALORE

The domestic market for ECRs and PoS terminals is maturing fast, says Venkatraman. "The acceptability of ECRs and PoS terminals has increased tremen-

Import of ECRs from China

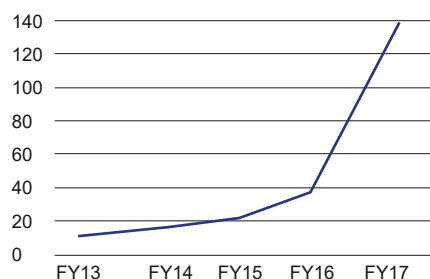
India's import from China increased 1,139.46% between FY2013 and FY2017



Source: TDB Intelligence Unit & Ministry of Commerce, Govt. figures in \$ million; HS Code: 84705010

India's import of ECRs

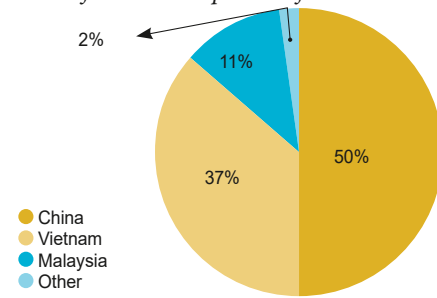
Import of electronic cash register witnessed a 288.20% y-o-y growth in FY2017



Source: TDB Intelligence Unit & Ministry of Commerce, Govt. figures in \$ million; HS Code: 84705010

India's largest sourcing markets

China has been the sourcing destination of choice for Indian importers of ECRs



Source: TDB Intelligence Unit & Ministry of Commerce, Govt. break-up for FY2017; HS Code: 84705010



The domestic ECR and PoS terminal market is growing at a healthy rate of 15-20%, year-on-year.

dously in the unorganised retail sector. Earlier, there was a lot of reluctance in using these machines amongst small retailers. They were under the impression that these devices were only for big retail houses. There was also a lack of effort on their part to understand the operations and utility of these devices. But things have changed for the better. We don't have to educate them anymore, they now know about the benefits these machines can bring to their business," he adds.

Interestingly, some importers are also importing various components of ECRs and assembling the machine in the country to cater to the local markets. They import completely knocked down (CKD) and semi-knocked down (SKD) units, mainly from China.

BIG POTENTIAL

Not only is the potential huge, the margins are equally attractive in this busi-

ness. Importers make anywhere between 8% and 30% in profits, depending on the region and market competitiveness. Some importers also provide after-sales service to their clients.

Venkatraman feels the domestic ECR and PoS terminals market is growing at a healthy rate of 15-20%, year-on-year. "The traders who are still not initiated into retail automation are now upgrading themselves to ECRs to have better control over their businesses," he adds.

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 thereby saving on paper and space. The importers are confident of new and continued opportunities for both basic as well 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 their ticket to becoming cash-rich! Good idea. **TDB**

"RETAIL AUTOMATION IS DRIVING GROWTH"

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/or point of sale (PoS) terminals. The transformation started a few years ago and it is now reaching its peak. The implementation of GST has also played its part. But it's the changing mindset of retailers that is the main driver of demand for retail automation products. No doubt, GST and demonetisation have added to the numbers. But, proliferation of organised retail has been the main driver of growth.

TDB: Which retail segment was the first to move to ECRs and PoS terminals?

AKS: I think hospitality and food and beverage sectors were the early adopters



Anil Kumar Samineni
DIRECTOR,
PARK SYSTEMS

of ECRs and PoS terminals. The trend is catching on and almost all the retailers now want ECR and PoS terminals at their stores. Everyone wants to switch to retail automation. ECR and PoS terminals enhance the profile of any retailer. I 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.

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

AKS: It's the price that makes the difference in the case of these devices. China-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 \$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. **TDB**

"THE FUTURE LOOKS VERY PROMISING"

TDB: How 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 imports of ECR positively, 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.

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

DB: One needs to be very careful. Almost all manufacturers in China claim to offer quality products. The importer should visit the manufacturers to check



Dinesh Bhatia
DIRECTOR, GRANDMASTER
INNOVATIONS PVT. LTD.

if they can meet their requirements. Another important aspect is getting the BIS certification. The documentation process is quite cumbersome. The manufacturers in China must provide numerous documents during the process of getting BIS certification. In most of the cases, the Chinese companies source manufacturing equipment from multiple vendors in China or from other countries and that makes sourcing quality certificates

from the vendors for all the equipment acquired a difficult task.

TDB: What margins can one expect in ECR import business?

DB: The margin varies from product to product. It ranges between 20% and 30%. The margin includes after-sales service. However, the margin could be lesser in a highly competitive and price-sensitive market like New Delhi.

TDB: Do you think the market will grow even faster in the future?

DB: The future looks promising. In my opinion, almost 90-95% of the domestic retail market is unorganised and most of that market functions without proper billing solutions. So, it's a huge opportunity. Going forward, we are aiming at a 25-30% year-on-year growth in our business. Over the past seven years, demand has been growing steadily thanks to increasing awareness. The new generation of retail marketers wants to be organised. They understand the importance of good billing infrastructure. This will make the demand see an upward trend. **TDB**

“INDUSTRIES HAVE STARTED COMING TO PUDUCHERRY”

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 Minister of Puducherry in June 2016. What steps have you taken to further industrial development since then?

V. Narayanasamy (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. They all have shown interest in setting up industries in Puducherry. We are also reviewing some proposals which have been already submitted for setting up industries. Simultaneously, we have started allotting land to 22 companies in the Karaikal region for setting up manufacturing units.

The Export Facilitation Centre under Pondicherry Industrial Promotion De-

velopment and Investment Corporation Ltd. (PIPDIC) started functioning in a full-fledged manner just a year ago. The Centre is helping exporters find new markets and is offering export incentives. In October, we are organising an investors' meet in Chennai.

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

VN: In FY2017, the 31 export oriented units (EOUs) operational in Puducherry clocked exports worth Rs.864.83 crore, a 43% increase from Rs.489.59 crore in FY2016. The government's export projection for FY2018 is Rs.1,200 crore from 69 units. These numbers don't include handloom and gems & jewellery exports. So, the figures will grow even bigger in coming years. We expect exports from the basic drug manufacturing sector to increase to Rs.500 crore in FY2018 from Rs.350 crore in FY2017 – which will fuel growth. Also, exports are likely to grow from manufacturing units of companies like L&T and MRF in Puducherry.

TDB: Puducherry got its first industrial policy in 1997. However, over the last 20 years, industrial activities haven't reached the desired level. What are the reasons for that?

VN: I think the industrial development in Puducherry slowed down from 2002 onwards due to the withdrawal of Cen-

tral Sales Tax (CST) and Puducherry General Sales Tax (PGST) exemptions. The income tax holiday had been withdrawn in 2001. As a result, most of the companies that had set up their base here migrated to other states. The previous governments didn't pay adequate attention to the industrial development. On top of that, after the implementation of Goods and Services Tax (GST), the pace has slowed down again.

TDB: The new industrial policy launched in 2016 identified nine priority sectors and 15 thrust areas to trigger growth. What has been the progress?

VN: There are some encouraging developments taking place on those fronts. Halal Industry Development Corporation, an agency under the Ministry of International Trade and Industry (MITI) of Malaysia, is setting up units for manufacturing and export of halal foods from Puducherry. A Dubai-based company has also shown interest in investing Rs.20,000 crore to set up cluster to manufacture pharmaceutical products.

The government is interested in developing a 25-acre IT SEZ or IT park under public-private partnership (PPP) mode. Land for this is readily available in Mettupalayam in Puducherry. More land is available at Karaikal and Sedarapet-Karasur regions, which are under PIPDIC. Recently, I addressed a southern



council meeting of the Confederation of Indian Industry (CII) in Puducherry. A section of the CII members at the meet had showed a lot of interest in setting up IT SEZs in Puducherry.

TDB: How is Industrial Guidance Bureau (IGB) helping attract investments to Puducherry?

VN: Since April 2016, Industrial Guidance 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 processed applications of 177 industry enterprises and given them clearances to set up industries in Puducherry.

These projects are in various stages of implementation with an investment outlay of Rs.459.58 crore. The products which will be manufactured in these units are auto components, LED bulbs, PVC wires and cables, leather goods, pharmaceutical formulations, hydraulic

motors, compounds of plastics, etc.

In addition, 839.77 acre and 596 acre of land have been allotted in Sedarapet-Karasur Industrial Estate and Polagam (Karaikal) Industrial Estate, respectively, for setting up multi-sector manufacturing units.

TDB: The potential for tourism in Puducherry is enormous. What is the government's strategy for further developing 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 tourism potential. In addition, we want to promote heritage tourism by preserving and renovating the old French architecture 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

31 EOUs IN PUDUCHERRY CLOCKED EXPORTS WORTH RS.864.83 CRORE IN FY2017

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 tourism in Puducherry. The proposal has been approved and Rs.108 crore has already been sanctioned.

TDB: Could you highlight some of the transportation and logistical developments in Puducherry?

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

In addition, the government has sanctioned a national highway connecting Villuppuram, Puducherry, Cuddalore and Karaikal. The 250-km four-lane stretch will add momentum to the industrial developmental activity in the Union Territory. 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 Desh Ka Aam Nagrik' (UDAN) scheme. We have also written to the Ministry of Road Transport and Highways to connect Puducherry with two proposed industrial corridors i.e. Chennai-Bengaluru and Visakhapatnam-Chennai Industrial Corridor.

Logistics is also set to improve as soon as the Puducherry Port starts functioning 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 to handle 4 lakh tonne of cargo. Further, the Port's cargo handling capacity is expected to go up to 10 lakh tonne 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.



NIKHIL PRADEEP
DIRECTOR,
ADARA AYURVEDA

TDB: Could you tell us about the origins of the brand? What was the inspiration behind developing a brand based on Ayurveda?

Nikhil Pradeep (NP): Adara Ayurveda has an interesting story. In the late 1800s John Henry Garstin, the Private Secretary to the then Governor of Madras (Chennai), was visiting the ruler of Travancore, His Highness Moolam Thirunal Maharaja. Garstin was suffering intensely from diabetic blisters. The Dewan of Travancore, T. Rama Rao, advised Garstin to undergo treatment from one of the young palace physicians, the Kottaram Vaidyan, Vasudevan Unni.

Garstin was impressed and recommended the Governor to start the first ayurvedic pathshala (School of Ayurveda). It was set up at the Kashayapura (Ayurveda Manufacturing area) of the Travancore Palace and our founder, N. Vasudevan Unni was appointed as the superintendent and head physician. In 2016, we developed a consumer-facing brand, Adara, for authentic Ayurveda products, therapies, and holistic wellness treatments.

TDB: The company has seen a steady

growth over the years. What would you attribute this success to? What makes Adara stand out amongst the competition?

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 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 pos-

sible 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 franchisee 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 in the domestic market and the materials are very difficult to procure. Although there are ample opportuni-

ties 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 im-

INVESTMENT IN R&D IS CRITICAL FOR THE GROWTH OF THE INDUSTRY.

portant 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.10,000 crore and Rs.15,000 crore. 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 over-the-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?

NP: Ayurveda offers immense opportunities in various fields of health and wellbeing. We aim to take the number of centres to 500, over the next five years. We are also planning to open our own Ayurveda college to improve the quality of education and for our own in-house requirements. We would love to expand our services abroad, but the domestic market is so vast that we have not found time to negotiate with foreign investors who have approached us.

BRIGHT HUE OF PROFITS

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

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 dyes 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 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 Mild 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 blacks, blues and reds which contributed \$226.50 million, \$126.62 million and \$96.76 million respectively to India's exports in FY2016.

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 the 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 Dyestuffs 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

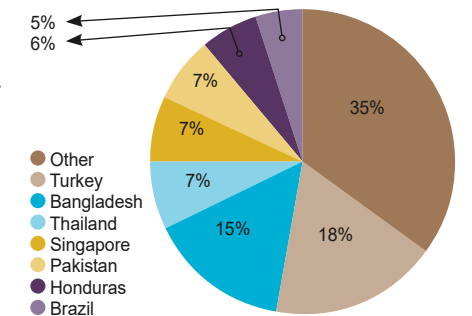
INDIAN REACTIVE DYES MARKET HAS BEEN GROWING AT A CAGR OF 4.3%

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 10.81% 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

Indian exports destinations

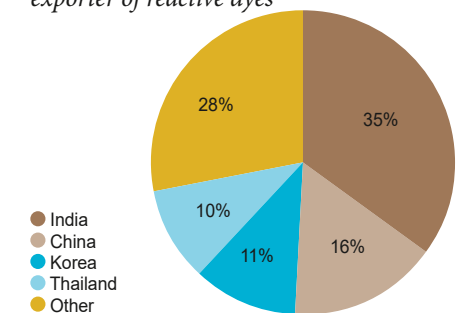
Turkey and Bangladesh are the biggest destinations for Indian reactive dyes



Source: TDB Intelligence Unit & Ministry of Commerce, Govt. HS Code: 320416; break-up for FY2017

World's largest exporters

India is by far the world's largest exporter of reactive dyes



Source: TDB Intelligence Unit & UN Comtrade; HS Code: 320416; break-up for CY2016



Profit estimates for export of reactive dye

Profit margins vary with type and colour of the reactive dye

Cost of Production (INR/Kg)	371
FOB Value (INR/Kg)	400
Operating profit	29
Operating margin (%)	7.25%

Reactive Turquoise Blue 5G; HS Code: 320416; FOB ICD Sabarmati; MOQ: 25 Kg; The cost of production excludes government subsidies (like duty drawback of 1.5%) and incentives (like 3% reward under MEIS).

Important disclaimer: Profitability has been calculated based on time-bound indicative prices (prevalent during the third week of September 2017). Prices may vary during a different time period, resulting in profit fluctuation. Factors like brand value, supply chain-related costs like warehousing and logistics, administrative costs, sales and advertising costs, etc., have not been included in the cost of procurement. Margins have been calculated considering government policies (announcements, notifications, etc.) as on September 20, 2017. Risk factors and currency fluctuations have to be considered while exporting. Duty drawbacks have not been factored in while calculating indicative profitability. Calculations are provided for informational purposes only; *The Dollar Business* takes no responsibility for any loss resulting from investments in the said commodity/product. Though all efforts have been made to ensure the accuracy of the content stated herewith, the same should not be considered a statement of law or used for any legal purposes. Prior permission is required before calculations stated herein are published or quoted in a third party web or print property.

is complicated, but because obtaining certificates under the norm is expensive. Big companies can afford it, but for medium-size companies like ours it's difficult to recover the money spent on certifications."

Certification can cost anywhere between €20,000 and €80,000, per substance. This is what is hampering India's exports to the region. "The market is very competitive, which is why many

DYE EXPORTERS RECEIVE A 2-3% BENEFIT UNDER THE MEIS SCHEME

Indian traders are unwilling to risk the investment; 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 50% of the cost of getting a lab test done.

SINE QUA NON

Besides subsidising the lab/certification costs, the government has been extending support to exporters in form of incen-

tives and duty drawback. While exporters of reactive dyes, in general, currently receive a 2% reward under Merchandise Exports from India Scheme (MEIS), exports of reactive red, yellow and blue dyes is 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 Rajgopal, 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 the incentives," says Rajgopal. Another area where exporters need sup-

port from the government is the current banking system. Shah explains, "While doing business with some countries, we can transact only through select banks. For instance, while dealing with Iran, we can only go through UCO bank. This imposes a limitation."

Shah also adds that India needs to sign strong free trade agreements to boost exports of reactive dyes. "Look at countries like China, a major competitor in this segment, that has strong trade agreements with major markets like Italy, Germany, etc. These free trade agreements provide a duty-free import status in these markets. We should also push for such agreements with countries where there is business potential."

Currently, importers in major mar-

kets, both in Asia and Latin America, pay around 6.7% import duty, which makes Indian dyes less competitive.

VIBRANT FUTURE

Profit margins, exporters say, depend on several factors such as colour, specification, etc. Shah explains that competition has compromised profit margins for exporters. He says, "In Ahmedabad alone, there are about 650 factories that manufacture and export the product. At the moment, manufacturers work at 5-8% and traders at 3-5% margins."

According to the National Information Centre, the total consumption of dyes and pigments in India has gone up by as much as 80.95% in the last eight years, touching 304,000 metric tonne

(MT) in FY2016. It also reveals that the country's production capacity can be increased by another 23%. Well, more production also means more exports from the country at competitive price!

Despite a few challenges, exports of reactive dyes remain a lucrative business. 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 benefits of this vibrant market. **TDB**

“OPPORTUNITY IN THIS SECTOR IS HUGE”

TDB: How has the export performance of reactive dyes industry been?

Bhupendra Patel (BP): Over the last couple of years, exports volume and value haven't increased much. But it isn't negative. It is stable and we're happy about it. China has also been exporting reactive dyes since the mid-1990s, but India has been stronger than China in this product category. India and China both face the same pollution problem. But, we have an advantage over them because the industries in India are in clusters and testing facilities are easily available in one place.

TDB: What makes Indian reactive dyes popular in the international market?

BP: The dyes industry in India is very diverse. We produce a huge array of colours with different specifications. Also, our small-scale industry is larger than that of China. The Chinese produce dyes in volumes, in large facilities. So, when customers want dyes in large quantity they order from China. But this sector isn't about volumes. It's about quality and variety which our small-scale industry produces, giving us an edge over China.

TDB: In the recent years, exports to EU and US have been bogged down by



Bhupendra Patel
PRESIDENT, GUJARAT DYESTUFFS
MANUFACTURERS' ASSOCIATION

stringent regulations. Has the government 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, manufacturers in India are getting the registration and testing done for the fear of losing their market share. This is one way to keep the buyers attracted, but it chews into our margins. To stabilise the situation, 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: How important is R&D for the industry's growth?

BP: R&D is crucial for the industry's growth because it is an important driver of innovation. For instance, take the colour yellow – it requires R&D efforts to create different shades of yellow which react differently on different fabrics. Further, R&D ensures we keep on progressing and evolving, in terms of various colours, raw materials used, 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 exporters to keep in mind is that the dyestuff industry has a renewed focus on the environment. So, a new player in the industry must have a thorough understanding of eco-friendly technologies. **TDB**

“THE INDUSTRY NEEDS TO INNOVATE”

TDB: What challenges do manufacturer-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 effluent 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 has the market evolved over the years?

DM: 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 this growth rate.

In the future, I believe, the market will become more challenging because of the increasing use of synthetic fibre in cloth-



Dakshesh Machhar
DIRECTOR,
JAY CHEMICAL INDUSTRIES LTD.

ing fabrics. If it happens, the consumption of reactive dyes will be impacted.

TDB: Over the years, regulations on exports to EU have increased. Can you explain the situation and how your company is addressing this issue?

DM: 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 Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation demands that reactive dye importers in Europe register and evaluate 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 for 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: 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 reducing every year. Each company has its own way to remain competitive, for us it is innovation that plays an important role. **TDB**

“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 modified the schemes and reduced certain incentives, exports from the sector were constantly growing. The current trend isn't encouraging, but I am hopeful that with the support from 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 about various government schemes, the export scenario, etc. 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, through these activities, 109 small producers have forayed into exports.

Additionally, the Council helps its members participate in both international and national trade fairs at a highly subsidised rate. Other than that, encouraging members to upgrade their technology, marketing powerloom products and addressing sectorial concerns by taking

them up with the concerned authorities are some things that 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 Powerlooms; Group Workshed Scheme (GWS); Pradhan Mantri Credit Scheme for Powerloom Weavers; Solar Energy Scheme for Powerlooms (SESP) 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 SESP 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 Powerlooms (SESP) will help an entrepreneur tackle high power tariff.

The power tariff varies from place to place. For instance, in 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 Sircilla 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 powerlooms in the country, roughly 13 lakh powerlooms. 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 Powerlooms, Yarn Bank Scheme, etc., are the outcome of the PDEXCIL's 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 your sector. 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, and 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

EXPORTS WENT DOWN AFTER THE FTP 2015- 2020 REDUCED INCENTIVES

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's a combination of several fabrics with different tax slabs.

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

PV: The powerloom sector is the backbone of the textile sector and we are continuously trying to promote the sector, both domestically and internationally. But, there are certain issues that need to be addressed, and these include availability of raw material at reasonable price, better infrastructure, modern technology, social security for our workforce, better marketing of powerloom products at the international level, etc. The sector definitely has a bright future, but we need support from the government in the form of favourable policies.

The present government has been proactively assisting us. And 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 the new schemes, the sector will become more centralised and organised and it will be able to improve its stature in both the domestic and international markets.

TDB



Ask a Question

Q I want to export medicines to Vietnam from India. What steps do I need to follow? Do I need to register my products before exporting? If yes, what is the procedure? [Kishan Modi, Partner, Krishna Import Export Pvt. Ltd., +91-7878356XXX, kishanmodi2014@gmail.com]

A Dear Kishan: We are delighted to know that you want to join the fast growing community of pharmaceutical exporters from India. For exporting active pharmaceutical ingredients (APIs) to Vietnam, you will need to register your company with Vietnam's Ministry of Health (MOH). The registration process takes about 5-6 months to complete if all documents are in order and have been accepted by Vietnam's Ministry of Health. Once the registration is complete, Vietnam's Ministry of Health will issue a license for conducting operations in medicines and raw medicinal materials in Vietnam. This license is valid for five years. The license ensures smooth exports and the customers are assured of the company's credibility in terms of Good Manufacturing Practice (GMP) compliance and regulatory accreditation. We will be glad to help you with more information should you need the same.



Response by: **Satish Wagh**
Chairman,
Chemexcil

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 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, Partner, Ganpati Steel, +91-9313361XXX, ganpatisteel@mail.com]

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 (cbec.gov.in). The BIS standard for hot-rolled steel coils vary according to various factors and is available at bis.org.in. 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.



Response by: **Steven Philip Warner**
President (VMPL)
& Editor-in-Chief,
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, +91-9586091XXX, rajeshlakhani675@gmail.com]

A Dear Rajesh: We assume you are interested in exporting wood charcoal falling under HS Code: 44029090. Industry data reveals that India is not a big exporter of wood charcoal falling under the said HS Code. In fact, India ranks 26th in the world when it comes to exports of wood charcoal and accounts for just 0.81% share in global exports of the product.

India's only significant export destination for the product falling under the said HS Code is Bhutan (the country accounts for about 96% of India's total exports of the product), though the country is also exporting the product to Netherlands, Czech

Continued on page 49

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Republic and Sri Lanka in small quantities. Further, sadly, India's exports under the HS Code: 44029090 has only been falling over the last few years.

More of such pure, researched information is available to members of The Dollar Business GROW, CONNECT and CONQUER programmes. (You can read more on The Dollar Business Membership Programmes on <https://www.thedollarbusiness.com>). Besides detailed Market Access and Potential Identification System (MAPS) report, The Dollar Business GROW, CONNECT and CONNECT Programme members get access to unique features and innovative buyer discovery and competition analysis tools like EXIMAPS that ensure a more lucrative business beyond boundaries.

In case our assumptions about the intended export products isn't exact, please write to us. The Dollar Business Intelligence Unit would like to hear from you.



Response by:
Indranil Das
 Executive Editor,
 The Dollar Business

Q I want to export surgical products and sports goods from India. I already have an Importer Exporter Code (IEC). How do I find overseas buyers? [Ankit Prajapati, Proprietor, Oso Contractor & Suppliers, +91-9634113XXX, ankitk536@gmail.com]

A **Dear Ankit:** We are happy to hear of your decision to head into the world of foreign trade. You can approach your concerned associations – Pharmaceuticals Export Promotion Council (PHARMEXCIL) for pharmaceuticals Export Promotion Council (SGEPC) for sports goods – for assistance or directly reach out to potential buyers by posting your product information on <https://www.thedollarbusiness.com/marketplace>. From discovering the best markets to source from or supply to, to overcoming statutory and procedural challenges with respect to export-imports documentation, to identifying the right logistics partners, International Marketplace understands all your requirements and accordingly connects you with the right market and partners so that you can make a fortune out of foreign trade.

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Response by:
Manish K. Pandey
 Editor,
 The Dollar Business



Q I am planning to import copper scrap from Thailand. Could you please let me know a few important things that I need to be aware of before I embark on this business. Is copper scrap available at cheaper rates in Thailand than in India? [Ankush Saraswat, Director, P. P. Corporation, +91-9887869XXX, ankush.saraswat@gmail.com]

A **Dear Ankush:** We are happy to know that you want to get into imports of copper scrap. The most important point that you need to keep in mind while importing copper scrap is that a few categories of copper scrap fall under the 'Restricted' category. This would mean that you would need a license from the Ministry of Envi-

ronment and Forest, Government of India, for importing these varieties of the product.

In case you plan to import copper scrap falling under HS Code: 74040012, which does not require the aforesaid license, you will need to pay a basic customs duty of 5% and an educational cess of 3%. The prices of copper scrap are volatile and you should check the prices in the Indian market before importing the product from Thailand.



Response by:
R. K. Sharma
 Secretary General,
 Federation of Indian Mineral
 Industries (FIMI)]

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Manish K. Pandey
Editor,
The Dollar Business

BETWEEN THE DEVIL AND THE DEEP SEA

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 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 – while 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 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.

While export promotion councils (EPCs) and individual exporters have welcomed GST with open arms and agree that the GST regime will result in more transparency and ease of doing business, their concerns with respect to issues arising out of the implementation of GST are real and can have far reaching implications on India's exports. Well, now that's something too serious to ignore. You would agree!



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