

EU's shift to 'compliance regime' may hurt Indian organic exports

BUSINESS LINE dt. 6/6/23

BURDEN ON MARGINS. Certification cost in India set to increase significantly from 2025 onwards

Prabhudatta Mishra

New Delhi

The European Commission has recently published a draft note with the aim of implementing stringent measures starting in January 2025 regarding the adherence to organic product standards in third countries.

This decision comes as a response to the Commission's observation that certain governments in various countries had relaxed regulations during the Covid-19 pandemic, leading to negative effects on the accreditation bodies' ability to guarantee the compliance of these products.

It is feared that this move will jack up certification costs in India, which had exported over \$300 million of organic products to EU in 2021-22.

According to the Commission, a draft amendment has been issued concerning specific procedural prerequisites for the recognition of

governing authorities and bodies responsible for conducting inspections on certified organic operators and groups of operators, as well as on organic products originating from third countries. The amendment also outlines certain requirements related to their supervision.

It said: "national measures in third countries taken due to the Covid-19 pandemic had a negative impact on the ability of accreditation bodies and competent authorities to schedule and carry out witness audits for the purpose of recognition by control authorities and control bodies under the compliance regime."

UNDER SCRUTINY

Last November, the EU had in Audit report on India had acknowledged that there was an overall structure in place with all the necessary elements for control of organic products, including a sophisticated IT system for supervising the controls and ensuring traceability.



PROMISING MARKET. India had shipped over \$300 million of organic products to the EU in 2021-22

"However, there are many weaknesses in the supervision and implementation of the controls at various levels. The most significant is that the recent unannounced controls by APEDA as well as the audit team's own findings show a high degree of non-compliance with the NPOP at producer groups and poor quality of inspections," the report had said.

CHANGE OF ECOSYSTEM

The Agricultural and Processed Food Products Export Development Authority (APEDA) under National Programme for Organic Production (NPOP), which is re-

cognised by the EU as equivalent for certain products, regulates the quality standards for export of organic products.

"EU regime change from process certification to product authenticity is a serious change of ecosystem in organic agriculture. This disruption will merely allow exporters with 'neo-competency' to survive in the export market," said S Chandrasekaran, a trade policy expert.

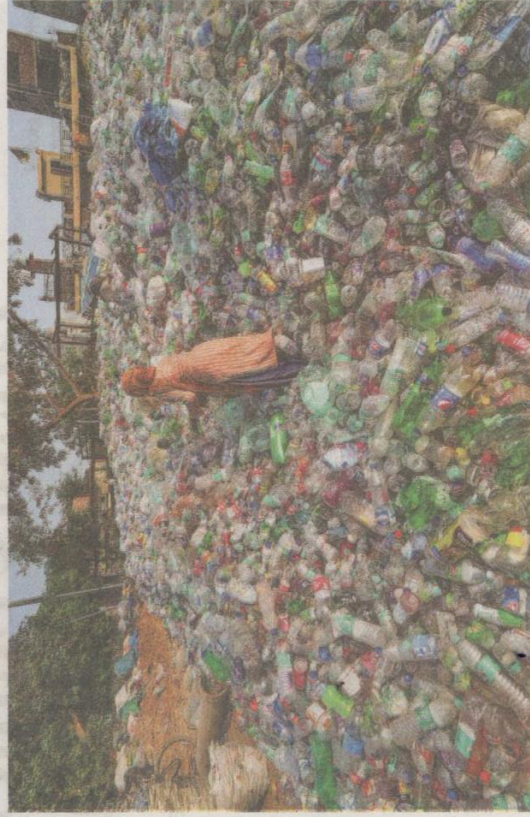
Referring to the EU audit report, he said it specifies laxity of APEDA in enforcement and supervision mechanism, the requirement of

confidence building measures is a prerequisite to achieve bilateral understanding.

If producers' groups have to seek recognition from additional agency that is recognised in EU, it will further add to their costs, he added. Already organic producers pay the certification agencies, recognised by APEDA under NPOP, for exporting their produce out of India.

The current rules and procedural requirements in EU came into force from January 1, 2022 and will expire on December 31, 2024.

Control authorities and control bodies can start operating under the compliance regime only when they are recognised by the Commission. It is necessary to set out a timeframe within which control authorities and control bodies must notify the Commission that they have updated the technical dossier used for their recognition with new witness audits carried out based on their performance under the compliance regime.



GREEN'S WAY TO GO. June 5 is observed as the World Environment Day. The theme this year is 'Beat Plastic Pollution'. This dumpyard in New Delhi reminds us that we have a long way to go ^{PH}

BUSINESS LINE *dt. 6/6/23*

Hyderabad IT exports grew 31% to ₹2.41-lakh crore in 2022-23

KV Kurmanath
Hyderabad

Despite global headwinds and the Covid-19 years, the IT and ITES exports of Hyderabad witnessed a whopping growth of 31.4 per cent in 2022-23, far exceeding the national growth rate of 9.36 per cent.

Driven by the BFSI sector and digital transformation initiatives in sectors such as life sciences, Hyderabad registered export of ₹2.41-lakh crore last year as against ₹1.83-lakh crore the previous year.

CENTRE BLAMED

Telangana IT and Industries Minister KT Rama Rao said that one in every two IT-ITES jobs that were created in the country last year was in Hyderabad. It created 1.27 lakh new jobs last year as against 2.90 lakh ones across the country. He blamed the Centre for not supporting the State in its efforts. "They



cancelled the IT Investment Region project that sought to promote the IT industry. But they have not come out with an alternative plan," he said.

"We have added ₹57,706 crore in just one year despite the fact that we lost two years to Covid and that the industry was grappling with issues like work-from-home and hybrid mode of work," he said. The numbers were compiled by the Software Technology Parks of India (STPI).

It took 30 years for Andhra Pradesh to reach that number but we could increase the exports by 4.21 times in the last nine years, growing at a compound annual growth rate of 17.31

per cent. "The incremental growth in IT exports was equal to the total IT exports that the undivided Andhra Pradesh recorded in 2013-14, the year that precedes the formation of Telangana," he said.

Releasing a report on the IT Ministry's scorecard for 2022-23, he said the State created 5.82 lakh jobs since its formation in 2014, taking the total to 9.05 lakh. "The share of Hyderabad in the national IT job space has gone up significantly. The share of State's IT jobs in 2013 was 9.83 per cent. This has gone up to 27.6 per cent now. Our share in jobs in the undivided Andhra Pradesh used to be less than 10 per cent, now it has gone up beyond 40 per cent," he said.

He said the State was promoting the IT industry beyond Hyderabad and encouraging the companies to set up shops in places such as Warangal, Mahaboobnagar, Nalgonda, Khammam and Siddipet.

Pharma exports to African market slipped 5% in FY23

BUSINESS STANDARD dt. 7/6/23
Medicines put up for retail sales led the decline

ASIT RANJAN MISHRA & SOHINI DAS
New Delhi/Mumbai, 6 June

India's pharmaceutical exports to the African market dipped 5 per cent in FY23, at a time the quality of Indian drugs exported to African countries, such as Gambia, have come under scrutiny.

Africa contributed to 18 per cent of the total \$199 billion exports of finished pharmaceutical products, excluding active pharmaceutical ingredients (APIs), in FY23, according to the Commerce department data. While pharma exports to South Africa (7.6 per cent), Kenya (6 per cent), and Tanzania (1.1 per cent) increased, such exports to Nigeria (-13.5 per cent), Ethiopia (-1.4 per cent), Uganda (-22.7 per cent), and Ghana (-17.4 per cent) declined.

India's cost-effective generic drugs are crucial in providing affordable health care solutions in Africa, including essential medicines for HIV/AIDS, malaria, tuberculosis, and other common ailments.

In October last year, cough syrups manufactured by Haryana-based Malden Pharmaceuticals had come under scanner for alleged deaths of 70 children in the West Africa nation of Gambia. The deaths were linked to contamination of diethylene glycol (DEG) and ethylene glycol (EG) in the cough syrups. After reports of contamination in cough syrups sent from the country, the Central Drugs Standard Control Organisation (CDSCO) has sent a proposal to the Union health ministry to mandate testing of such medicines at government laboratories before exporting.

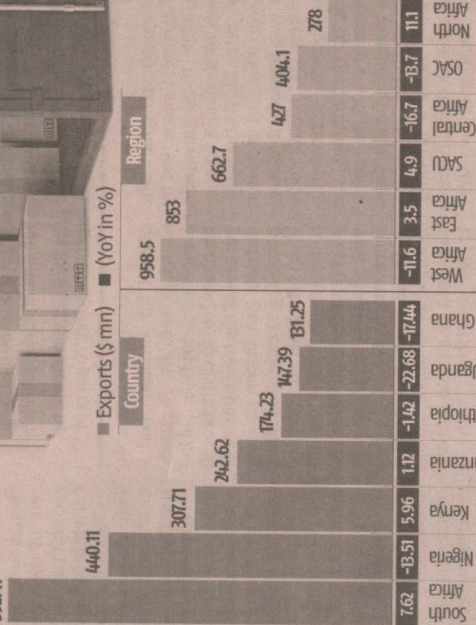
Among various regions of Africa, pharma exports to East Africa (3.5 per cent), North Africa (11.1 per cent), and South African Customs Union (4.9 per cent) increased while such exports to Other South African Countries (-13.7 per cent), West Africa (-11.6 per cent), Central Africa (-16.7 per cent) dipped. Of the total \$3.6 billion pharma exports to Africa in FY23, West Africa (\$958 million), East Africa (\$853 million), and SACU (\$663 mn) are the key destinations.

Among key pharma products, medicines put up for retail sales led the decline in pharma exports to Africa, contracting 15.7 per cent in FY23 followed by anti-Malaria drugs (-11.3 per cent) while exports of non-steroidal anti-inflammatory, analgesics and antipyretic drugs (8.24 per cent) and anti-tubercular drugs (13.9 per cent) increased to the continent.

EXPORT PICTURE IN FY23

KEY DESTINATIONS IN AFRICA

\$92.41



SACU: Southern African Customs Union; OSAC: Overseas Security Advisory Council
Source: Commerce department

Uday Bhaskar, director general, Pharmaceutical Exports Promotion Council (Pharmexcil), said the exports to the African region had dropped for several reasons. "During the pandemic years, these countries were buying medicines and other medical products with funds from non-profits and other NGOs. Now, the NGO funds have been diverted, and therefore, the orders also have reduced," he said, adding that some countries in the region like Nigeria have experienced serious currency issues and this has also led to some reduction in orders.

Nigeria has struggled with political uncertainty, a note ban, and poor economic growth. In October 2022, Nigeria's central bank announced its decision to demonetise 200, 500, and 1,000-naira notes. Nigeria is a major destination country where big Indian drug companies like Sun Pharmaceutical Industries have manufacturing presence. Sun Pharma is among the top 10 consumer healthcare companies in Nigeria.

The Indian embassy was working with Pharmexcil to help exporters meet stakeholders in Nigeria — like trade associa-

tions and also the National Agency for Food and Drug Administration and Control (NAFDAC). Bhaskar had said earlier this year. The NAFDAC is a federal agency under the Federal Ministry of Health that is responsible for regulating and controlling the manufacture, importation, exportation, advertisement, distribution, sale and use of food, drugs, cosmetics, medical devices, chemicals and packaged water. He said pharma exports to the African region in FY23 were \$3.64 billion, down 5.3 per cent from \$3.85 billion in FY22.

Chirag Doshi, an exporter and former chairman of the Gujarat chapter of the Indian Drug Manufacturers Association, said during the pandemic there were a lot of buying in Africa as it was receiving funds from non-profits. "Medicines typically have a shelf life of 3-5 years, and now the channel stock is high. Until there is some liquidation of that stock, the order flows would not rise," Doshi explained.

Bhaskar said FY23 overall Pharma exports, bulk drugs, drug intermediaries, herbals and surgicals, rose 3.25 per cent to \$25.39 billion.

US Trade Deficit Widens in April on Exports Pullback

Exports fall by \$9.2 b to \$249 b in the month, while imports edged up by \$4.8 b to \$323.6 b

Washington: The US trade deficit grew in April on a pullback in exports, bringing the gap to its widest since October 2022, according to government data released on Wednesday.

Although the country's imports have been boosted by resilient consumer spending, analysts expect this trend to weaken as well going forward, while tighter lending conditions weigh on investments.



Slide in exports came on the back of a decrease in value of goods shipments, such as crude oil and fuel oil, along with some consumer goods

The anticipation is that trade could bring negative growth to gross domestic product in the second quarter of the year.

In April, the overall trade deficit was \$74.6 billion, expanding slightly less than expected by \$14 billion, according to Commerce Department data. Exports fell by \$9.2 billion to \$249 billion in the month, while imports edged up by \$4.8 billion to \$323.6 billion.

"Net foreign trade often is sidelined in discussions of headline



GDP growth, but it has been a huge swing factor since Covid," said Pantheon Macroeconomics economist Ian Shepherdson and Kieran Clancy in a recent report.

They added that weakening in foreign trade will likely be "accompanied by a further drag from the inventory component, and a steep drop in investment in business equipment, making an outright drop in headline GDP more likely."

The slide in exports came on the back of a decrease in value of goods shipments, such as crude oil

and fuel oil, along with some consumer goods.

Imports of goods picked up with support from auto vehicles and parts, as well as some industrial supplies and materials.

But imports are likely to weaken in the months ahead, according to economist Matthew Martin of Oxford Economics in a recent note, citing "a mix of declining consumer strength and a wave of destocking by businesses."

The US goods deficit with China stood at \$24.2 billion in April. **AFP**

China's Exports Fall 7.5% in May, Adding to Stimulus Talk

THE ECONOMIC TIMES dt. 8/6/23

Trade figures add to concerns about weakening recovery

Beijing: China's exports fell in May for the first time since February, data showed Wednesday, breaking a two-month growth streak as a post-Covid rebound faded and adding to speculation that officials will unveil fresh stimulus measures.

Rising global inflation, the threat of recession elsewhere and geopolitical tensions with the United States have weakened demand for Chinese products.

That resulted in overseas shipments sinking 7.5% on-year last month, Customs figures showed, marking a sharp drop from an increase of 8.5% in April and much steeper than the 1.8% forecast in a Bloomberg survey.

China's exports grew in March and April, snapping a run of five straight declines, when production was disrupted by sweeping lockdowns and delays at ports when authorities enforced their strict zero-Covid policy. And the Chinese economy expanded by



4.5% in the first quarter of the year.

But that recovery has lost steam, with the economy weighed down by a debt-laden property sector, limp consumer confidence and a global economic slowdown.

Meanwhile, imports fell 4.5% in May, a smaller decline than April's 7.9% contraction but better than the 8% estimated.

The data are the latest to highlight weaknesses in the world's number two economy, with manufacturing activity shrinking in May for the second successive month.

Reports said Wednesday that authorities have asked the country's biggest banks to lower their deposit rates in a bid to boost the economy as it

struggles. Analysts said such a move could indicate the People's Bank of China was considering an interest rate cut as soon as this month.

The figures were "yet another disappointing data which will raise growth concerns and intensify expectations of more policy support", Khoo Goh, at Australia & New Zealand Banking Group, said.

The country is also grappling with a new Covid-19 outbreak, but official data on the scale of it is scarce and there is little sign that containment policies will be reimposed.

Senior health adviser Zhong Nanshan said the current wave may peak at around 65 million infections per week by the end of June, state-backed Shanghai media outlet The Paper reported last month.

The property sector, which along with construction accounts for about a quarter of China's gross domestic product, experienced its "worst-ever slump" last year, according to Beijing-based economic consultancy Gavekal-Dragonomics.

To revive a struggling industry, the government has pivoted away from its crackdown on debt toward a more conciliatory approach since November, with targeted support measures for the most financially sound developers. **AFP**

China's exports tumble as global demand falters

FINANCIAL EXPRESS dt. 8/6/23

JOE CASH

Beijing, June 7

CHINA'S EXPORTS SHRANK much faster than expected in May while imports extended declines with a grim outlook for global demand, especially from developed markets, raising doubts about the fragile economic recovery.

The world's second-largest economy grew faster than expected in the first quarter thanks to robust services consumption and a backlog of orders following years of Covid disruptions, but factory output has slowed as rising interest rates and inflation squeeze demand in the United States and Europe.

Exports slumped 7.5% year-on-year in May, data from China's Customs Bureau showed on Wednesday, much larger than the forecast 0.4% fall and the biggest decline since January.

Imports contracted 4.5%, slower than an expected 8.0% decline and April's 7.9% fall.

"The weak exports confirm that China needs to rely on domestic demand as the global economy slows," said Zhiwei Zhang, chief economist at Pinpoint Asset Management.

"There is more pressure for the government to boost domestic consumption in the rest of the year, as global demand will likely weaken further in the second half."

Highlighting the extent of the weakness, the data shows trade was worse even than when the port of Shanghai, China's busiest, was shut down due to strict Covid curbs a year earlier.



The figures also add to a growing list of indicators that suggest China's post-Covid economic recovery is quickly losing steam, bolstering the case for more policy stimulus.

Asian stocks fell into the red after the data as did the yuan and the Australian dollar, a commodity currency that is highly sensitive to swings in Chinese demand.

China's post-pandemic stock rally has faded as small-time investors turn bearish on equities and double down instead on safer assets amid a stuttering economic recovery.

The economy has been hit by a double whammy of faltering demand at home and abroad with the ripple effects felt across the region.

—REUTERS

Let's Be a Jolly Good Export

The Economic Times dt. 9/6/23



Phiraj Nim & Khoon Goh

India is rising in the ranks of global trade. Between 2010 and 2020, its global export share stagnated below 1.8%. But since 2021, its goods exports have held up much better than other economies in Asia. Its global export share has risen 2.6%, much higher than Vietnam's 1.5%, and only slightly below South Korea's 2.7%. Although it is still trailing far behind China, India is beginning to punch its weight in global exports.

So, what's happening? There are four structural shifts:

- **Geopolitics:** Since the US-China trade war, MNCs have intensified their search for manufacturing alternatives to China. China's share in US imports has slid by 2.5 percentage points to 15.5% since end-2019. Its Asian peers, including India, have benefited from this shift. India's share of US imports has risen from 2.3% to 2.7% over the same period. In absolute terms, India's share is still small. But there is considerable room to grow, given the large scale of production that India offers.

- **Some other economies, like Vietnam, have already won a larger share of the shifting supply chains.** This is partly due to long-standing preferential access that Vietnam enjoys in the US market — it signed a free trade deal way back in 2000 — which India does not.
- **Offshoring of services:** India already has an established business model for (offshored) IT service exports. The surge in labour costs in developed markets and a global push to digitalise during the pandemic meant a host of other services — financial, business, research, consulting, etc. — are increasingly being offshored to India.

In FY2021 and FY2022, combined fixed FDI into financial and business services rose to \$45.6 billion, much higher than the \$25.6 billion into ma-



Making outflows fly

manufacturing. This surge in investment has led to rapid expansion of global capacity centres (GCCs), a market expected to reach \$85 billion from an estimated \$40 billion currently. This also marks a welcome diversification in India's service export basket. Business services, for example, have had a stronger run than IT services in recent quarters, keeping aggregate services exports resilient.

- **Make in India:** Govt has focused on infrastructure build-up via record budgetary allocations to capex, alongside production-linked incentive (PLI) schemes to boost manufacturing and exports. Some of it is already yielding results. India's mobile phone exports, for example, have spiked in the last two years.

- **Exchange rate management:** RBI

has probably actively pursued a depreciated nominal effective exchange rate (NEER) to support manufacturing and exports. This is evident from the continuous decline in NEER in recent years, simultaneous to the rise in forex reserves. In fact, RBI has not allowed the rupee to appreciate, although external headwinds that led to the currency's decline in 2022 have receded.

This shift in RBI's forex policy is not surprising. Policymakers have considered stable, undervalued exchange rates as necessary (if not sufficient) tools in the policy arsenal to support manufacturing and exports in the early phases of growth and industrial development.

Trade deals: Unlike the four other structural forces already playing out, a greater focus on trade deals, which

Vietnam's numerous trade deals bestow it preferential access to more than 80% of global GDP. For India, this metric is only 20-25%



will lead to greater gains in the medium term, may not be showing up in the data yet. But it will be a vital cog in the wheel.

For about a decade since 2011, India did not negotiate a single trade deal with any major economy. It is also the same period when its share of global exports stagnated. Preferential market access is undoubtedly vital to export ambitions. New Delhi has made good start with the India-UAE Comprehensive Economic Partnership Agreement (CEPA) and the India-Australia Economic Cooperation and Trade Agreement (ECTA) coming into force last year. It still needs to put a lot of diplomatic effort in this direction.

For perspective, Vietnam's numerous trade deals bestow it preferential access to more than 80% of global GDP. For India, this metric is only about 20-25%. India has much lower labour costs than other major Asian economies and, more importantly, offers scale with its large labour force. In the past, these were insufficient to attract MNCs into export-oriented investments. But the structural forces discussed above have cast India in a new light.

The structural boosts to exports are still at a nascent stage and have a considerable way to go. Take the supply chain diversification out of China. For every 1% gain in US import share, India can add an estimated \$30-40 billion to its annual exports. Thanks to 'Make in India', global electronics giant Apple is looking to increase India's production share to 40-45% by 2027, up from less than 5% currently. For perspective, Apple's iPhone sales in 2022 reaped \$206 billion in revenues.

For India to emerge as the new export powerhouse, it needs to enhance the whole foreign trade ecosystem. Isolated boosts won't cut it. It needs increased preferential access via free trade deals with more countries, stable and competitive exchange rates, improving infrastructure and policy support for manufacturing, and continued supply of inputs like labour with required skills will all be indispensable. From here on, much depends on whether policymakers can maintain the momentum.

Nim is India economist, and Khoon is head of Asia research, ANZ Banking Group

Smartphones break into top-five club in exports

BUSINESS STANDARD dt. 12/6/23

Up from 9th spot in HS code ranking; value nearly doubled in FY23

SURAJEET DAS GUPTA

New Delhi, 11 June

Smartphones catapulted into the league of five most exported commodities by value, based on their harmonised system (HS) codes in FY23, up from the ninth rank in the pecking order in FY22.

HS is a globally harmonised identification for a specific product used for export and import of the commodity.

Those above smartphones include various HS codes of automotive fuels that conform to certain standards (diesel, aviation, and motor gasoline) and diamonds — cut or polished — but not for industrial use.

According to Ministry of Commerce data which has been analysed by the Indian Cellular & Electronics Association of India (ICEA), exports of smartphones (not feature phones which have a

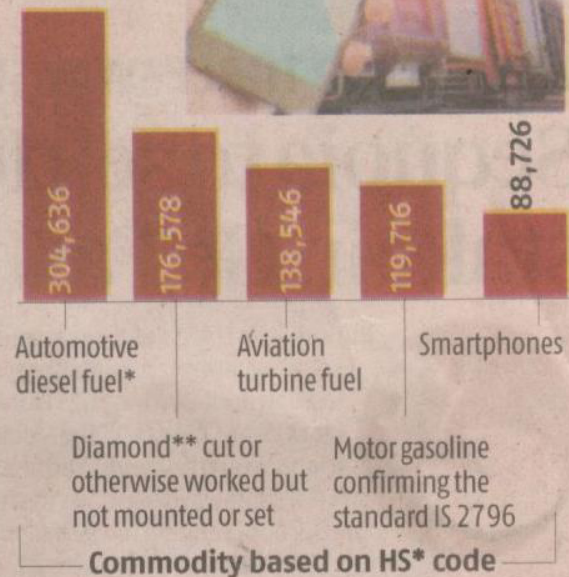
different HS code) nearly doubled, hitting ₹88,726 crore in FY23, against ₹45,000 crore in FY22, when smartphones were represented in three HS codes.

India's ambition, which has inspired the production-linked incentive scheme for mobile devices, is clearly to replace Vietnam and become the second largest manufacturing exporter of mobile phones in the world after China. However, this might take a long while. In calendar year 2022, according to estimates, Vietnam exported \$33.3 billion smartphones, of which 95 per cent were Samsung's (the figure represented half of Samsung's total output).

China is far ahead and, based on data available from Statista, exported \$128 billion worth of mobile phones in 2021. Despite moving some production to India, Apple assembles 90 per cent of its iPhones in China. Turn to Page 6

THE TOP FIVE

Value of exports in ₹ cr (FY23)



*confirming to standard IS 1460; **other than industrial diamond Source: Ministry of commerce data analysed by ICEA

Fitter Distant Shores, Better Export Hopes

With structural changes at home and away

The 20-country Eurozone has slipped into a mild recession. But the broader EU has avoided the technical definition by an uptick in economic output in January-March. The US appears even more insulated by its tight jobs market and strong consumer spending. China, too, has delivered better-than-expected growth in the first quarter of 2023. IMF's latest baseline projection is that world economic growth will dip from 3.4% in 2022 to 2.8% in 2023, before climbing to 3% in 2024. Advanced economies are expected to grow half as fast as last year with consumption being squeezed by higher cost of credit and inflation. IMF sees global inflation easing from 8.7% in 2022 to 7% in 2023. But most countries are unlikely to reach their target rates before 2025.

Against this backdrop, India has set itself a target of \$2 trillion in goods and services exports by 2030, which requires annual growth of over 14% in the next seven years. This figure is considerably higher than the current nominal world GDP growth projection of 9.8%, a number that will decline as inflation stabilises. It is also a big jump over India's export performance over the previous nine years, when growth was less than 6% against an official target of over 11%.



Structural changes in the world economy, as well as within India, could bring the new set of export targets within reach. India has positioned itself to gain from a 'reshoring' trend of companies trying to source everything from clothes to computer chips closer to home. It is offering itself as an alternative manufacturing base to China in a growing list of industries through investment incentives. Public investment in infrastructure and logistics could facilitate manufacturing exports on a broader level than direct subsidies that are being contested in WTO. Sharper focus on early harvest bilateral agreements with leading trade partners upends the questionable gains of joining regional trade blocs. Finally, India has built enviable digital infrastructure to set itself up as a key exporter in the virtual economy.