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Company Secretaries of India
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Statutory body under an Act of Parliament

Info Capsule

IMPLEMENTATION OF THE EXPANDED INDIA-CHILE PTA[1]

India and Chile have entered into another milestone in their trade relations as an agreement on expansion of India-Chile PTA which was signed on 6th September, 2016 is finally being implemented on 16th May, 2017. The Union Cabinet had approved the expansion of PTA in April, 2016.

The expanded PTA would immensely benefit both sides as a wide array of concessions has been offered by both sides on a number of tariff lines which will facilitate more two way trade.

India and Chile had earlier signed a Preferential Trade Agreement (PTA) on March 8, 2006 which came into force with effect from August, 2007. The original PTA had a limited number of tariff lines wherein both sides had extended tariff concessions to each other. India's offer list to Chile consisted of only 178 tariff lines whereas Chile's offer list to India contained 296 tariff lines at 8-digit level.

The expanded PTA has a wider coverage wherein Chile has offered concessions to India on 1798 tariff lines with Margin of Preference (MoP) ranging from 30%-100% and India has offered concessions to Chile on 1031 tariff lines at 8-digit level with MoP ranging from 10%-100%. These tariff lines were based on HS 2012 when the negotiations had been concluded. With the implementation of the HS 2017 Nomenclature with effect from 1st January, 2017, both sides have aligned their Annexes on India's Schedule of Tariff Concessions, Chile's Schedule of Tariff Concessions and the Schedule on Rules of Origin as per HS 2017 Nomenclature for issue of Notification. This would facilitate exporters of both sides to take the advantage of tariff concessions as per the expanded PTA immediately which covers around 96% of bilateral trade.

Chile is the fourth largest trading partner of India in LAC region after Brazil, Venezuela and Argentina. India's bilateral trade has grown substantially to reach a level of US$ 3,646.45 million during 2014-15 as compared to US$ 2,655.35 million in 2011-12 as per the Department of Commerce statistics. However, during year 2015-16, bilateral trade declined by (-) 27.60% and stood at US$ 2,639.99 million with exports US$ 679.32 million and imports US$ 1,960.67 million. The decline in bilateral trade was due to extraneous reasons such as fall in prices of crude oil and international commodities. During the last few years, bilateral trade has been in favour of Chile because of import of high volume of copper ore which constitute more than 88% of the imports from Chile.

India's exports to Chile are diverse which consist of transport equipment, drugs and pharmaceuticals, yarn of polyester fibres, tyres and tubes, manufacture of metals, articles of apparel, organic/inorganic and agro chemicals, textiles, readymade garments, plastic goods, leather products, engineering goods, imitation jewellery, sports goods and handicrafts. Major items of Import from Chile are copper ore and concentrates, iodine, copper anodes, copper

[1] Available at: http://pib.nic.in/newsite/erelease.aspx?relid=0

cathodes, molybdenum ores & concentrates, lithium carbonates & oxide, metal scrap, inorganic chemicals, pulp & waste paper, fruits & nuts excluding cashews, fertilizers and machinery. Keeping in view that Chile is the founding member of the Pacific Alliance to which India is an Observer Member, implementing the expanded PTA could deepen its engagement with the emerging trade bloc.

GST IMPLEMENTATION TO HAVE FAR REACHING IMPLICATIONS FOR THE INDIAN ECONOMY, RBI RELEASES STATE FINANCES: A STUDY OF BUDGETS OF 2016-17[2]

The Reserve Bank of India (RBI) vide a notification dated May 12, 2017 released the report entitled "State Finances: A Study of Budgets of 2016-17", an annual publication that provides information, analysis and an assessment of the finances of state governments. It is the primary source for disaggregated state-wise fiscal data and delineates the changing dynamics of fiscal federalism over the years. The theme of this year's report is the Goods and Services Tax (GST).

Highlights of the report are:

- Introduction of GST would have economy-wide ramifications in terms of growth, inflation, government finances and external competitiveness over the medium-term.
- It is likely to champion a new course for cooperative federalism in India, focusing on collaboration between the Centre and states.
- GST remains the best bet for state governments in returning to the path of fiscal consolidation without compression of productive expenditure.
- GST implementation challenges should be addressed through a robust dispute resolution mechanism; with the goods and services tax network (GSTN) expected to provide the necessary information technology (IT) infrastructure to all stakeholders.
- Greater devolution of resources through statutory transfers would provide states with the flexibility to prioritize their expenditure in sync with their development objectives.
- From a medium term perspective, debt sustainability of states is likely to be the key factor in shaping the evolving contours of state finances.

This publication has been prepared in the Fiscal Analysis Division (FAD) of the Department of Economic and Policy Research. The current issue, along with past issues of the report is available on the RBI website with the link
https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets.

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[2] Available at: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=40437