

## **RBI once again caught napping: After gold, SEZ trading units latch on to platinum exports for circular trading!**

**By TIOL News Service**

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SEZ front, a flurry of activities can be seen in the corridors of Commerce Ministry. Even Montek's cautioning viewpoint has not had any slowdown effect on the flamboyant spirit of SEZ juggernauts. Work for getting Cabinet approval is on at a feverish pitch. But how SEZ facilities can be abused to distort the country's exports statistics was evidently seen, a few months back, in the case of circular trading of gold.

**When TIOL analysed this issue in great details some time in July last year, the RBI had finally come out with the Circular No 2 (RBI/2004-05/30 ) to put a full stop to such a practice.**

Though the Commerce Ministry mandarins and RBI topbrass had thought that with this circular such a practice would come to an end and, indeed, it did end in the case of gold. But those who have developed an art of making a killing out of differential interest rate between the international market and India cannot be stopped so easily.

It is learnt that they have now

**switched over to other precious metals like platinum and palladium and the same circular trading continues between India and Dubai.**

Since our policy makers underestimated the market wisdom of such exporters and did not mention trading in other precious metals in that circular a large number of gold exporters saw an escape route in that circular and coolly shifted to exports of platinum group of metals.

It all started with a handful exporters making a beginning in this trade. Soon, copycats joined them. And now, Development Commissioner is flooded with applications **to amend the LOC to include** these precious metals in the list of commodities in which these trading units intend to transact.

Now, the question is in what way such circular trading harms the interest of Indian economy? First, such import and export with a little value-addition doesn't do any good to the country except artificially jacking up the exports figures and creating a false impression about rising exports graph. It generates no employment in the country and **distorts our statistics which is often used as a policy tool for taking vital policy decisions.**

Secondly, huge amount of foreign money is coming into the country only to make neat profits by taking advantage of differential interest rates. **Such remittances are not here either to generate income or employment but only to play with interests.**

So, the massive rise in remittances is nothing but a chimera and a reverse trend could be quite damaging for the Indian economy. The day **an outflow of such money begins it is bound to adversely affect not only the forex market rates and thereby rupee but also stock markets and other sectors of the economy.** So, the money which is not here to do any value-addition should not be welcome by RBI.

And, finally, a killing is being made at the cost of our banking industry.

**Such a trade puts our banking sector to maximum exposure of risk as only a dozen defaults are enough to heighten the volatility of forex market and erode their reserves in a big way.** Let's take a look at how does this trade take place in the commodity market.

A platinum metal trader located in a SEZ opens an LC with a bank and gets a credit for six months to one year. So, the metal consignment comes to India and, with little value-addition, exported back. The supplier of precious metals discounts the LC and gets his payment. Once the export is made, remittances are received immediately and the same is converted into Indian rupee and kept in the form of FDs in the bank. After one year these FDs which help such traders **indulge in circular trading by opening many more LCs are converted into forex and remittances are sent overseas against imports.**

What helps them do such a trade is the prevailing LIBOR rate of 1.25% and 0.5% of LC discounting charges. All these add up to only about two per cent of cost whereas the interest rate on such FDs in India is 5.5-6 per cent \_ a simple killing of four per cent. Given the **huge volume of the trade even four per cent makes a lot of money.**

This is how traders are making money and our Commerce Ministry is also happy seeing a steeply rising graph of exports but India as a country gains nothing! **Will Mr Kamal Nath and RBI do something to put an end to this pernicious trend?**