FICCI'S VOICE

Federation of Indian Chambers of Commerce and Industry

"SECRETARY GENERAL'S DESK"

MARCH 2014

- **FICCI COMMENTS ON 2013-14 GDP Q 3, 2013 NUMBERS**

The GDP growth figure for the third quarter disappoints and adds to concerns on achieving the full year target of 4.9% as brought out by the CSO earlier.

The performance of the agriculture sector has not picked up as expected in this quarter and the manufacturing sector has shown a sharp slippage with growth being a negative 1.9%. The only support we see is coming from financing, insurance, real estate and business services segments that grew by 12.5%. Looking at the data from the expenditure side, we see that while gross fixed capital formation has shrunk by 1.1%, private final consumption expenditure has registered a growth of just about 2.5%.

These numbers indicate that the slowdown is entrenched in the economy and we may have to wait to see if lack of growth has really bottomed out. This prolonged slowdown in growth will have serious implications for employment generation and unless the trajectory is reversed soon we could face grave social challenges.

- **FICCI ON WPI DATA RELEASE FOR JANUARY 2014**

Both WPI and CPI have eased considerably in the past two months. With good sowing in the rabi season it is expected that inflation will maintain its downward trajectory going forward.

We must and very urgently concentrate on reviving growth for the manufacturing sector and lay special emphasis on resolving problems of the MSME sector also. Monetary policy driven boosts are one imperative even as we look forward to deeper reforms from the government to enhance capacities and competitiveness.

Weak demand continues to be of the biggest concern for industry. Discretionary spending has taken a hit due to lower disposable incomes, in part also owing to high interest rates. Advance estimates for private consumption indicate a growth of 4.0% in 2013-14, which is the lowest in about eleven years.

- **FICCI COMMENTS ON IIP DATA**

While the negative growth in manufacturing is certainly disappointing but FICCI hope that growth has bottomed out. This has also been highlighted by recently conducted FICCI's Manufacturing survey capturing Industry expectation for Q 4.

Some of the measures taken by the Government in the past are likely to yield results in coming months. Couple of large projects facilitated for clearance through Cabinet Committee are now in initial stages of implementation and are expected to stimulate economic activity. However, depressed demand as indicated by negative growth of 12.9 percent in consumer durables for April-December 2013 needs a relook at our monetary policy measures in a more holistic manner.

The softening in retail inflation as indicated by CPI data is a positive news. With prices falling for the second consecutive month and touching the lowest in about two years, CPI stands at 8.79% in January 2014 vis a vis 10.8% in the same month last year and 9.9% in December 2013. The food beverages and tobacco segment which has almost 50% weightage in the CPI index witnessed distinct moderation in prices. The food prices registered a growth of 9.9% in January 2014 after being in the double digit terrain for about 21 months.

Although sticky Inflation has been a concern area, we cannot ignore the weakening manufacturing growth. The IIP data continued to dip as reflected in the numbers. Also, bringing down retail inflation to 6.0% level would be difficult without debottlenecking the supply side for which attention needs to be paid towards improving agri productivity and agri infrastructure. Government and Reserve bank of India need to work in tandem to create balance between growth and inflation.

- **FICCI COMMENTS ON FOREIGN TRADE DATA, JANUARY'14**

Commenting on India's foreign trade data for January 2014, FICCI said that it is good to see that trade deficit has contracted for the seventh consecutive month. Nearly 48% reduction in trade deficit for the month implies close to 28% decline in our cumulative merchandise trade gap for the first 11 months of this fiscal. This significantly helps in containing Current Account Deficit within sustainable levels near 2.5% of GDP.

Though exports continued to grow in January, sluggish growth since November last year reflects a somewhat weak recovery in global demand. What we need is to sustain this improvement in overall trade performance along with higher growth in exports in the medium and long term, to instil greater confidence in India's external sector. It will depend on the pace of global recovery and essentially how much improvement we are able to achieve in our export competitiveness.

- **FICCI WELCOMES SETTING UP OF INDEPENDENT RAIL TARIFF AUTHORITY**

FICCI has welcomed setting up of an independent Rail Tariff Authority and the thrust on safety in the interim rail budget. This will help develop an integrated, transparent and dynamic pricing mechanism for the passenger and freight segments of the Indian Railways. It will lead to greater rationalisation of fares & freight structure, and be critical for reducing the degree of cross-subsidization between different segments.

We also welcome the set of initiatives on safety including the plan for induction of indigenously developed Train Collision Avoidance System (TCAS), provision of vigilance control device and provision of portable fire extinguishers in AC coaches etc. We are also happy with the announcement that all unmanned crossings will be done away with.

It is encouraging that the interim budget continues the emphasis on PPP projects; it would also be necessary to pursue the proposal for enabling FDI for infusion of advanced, best practice technology in Indian rail system and for creating world-class infrastructure in this area. Other positive measures and initiatives include extension of rail connectivity to the North-Eastern Region including Arunachal Pradesh and Meghalaya, modernization and technology induction, exploring low-cost options for raising train speeds on select existing routes, introduction and progressively increased coverage of bio-toilets.

- **RECENT DEVELOPMENTS CHALLENGING NATURAL GAS ALLOCATION**

States have a duty that transparency and constitutionality be appropriately reflected in allocation of natural resources; such access must be at equitable prices, allocation must be timely, and contracts rigorously enforceable.

In theory a scope of graft could exist in allocation of scarce opportunities or resources. There is a need therefore for minimal or no scope of discretion, and a regime where each side can be strictly held to contract. Large investments and capital are employed in developing and delivering such resources and the need of earning equitable returns, in line with the marketplace, must not be denied.

A great degree of care and responsibility is needed in re-visiting decisions if a needless trust deficit between Industry, Government and Society is to be avoided, which can only vitiate business and investment sentiment.

- **THE NOTIFICATION OF THE CSR RULES BY THE MINISTRY OF CORPORATE AFFAIRS IS A POSITIVE STEP AND THE IMPLEMENTATION WILL ALLOW BOARDS ALL REASONABLE FLEXIBILITY**

The notification of the much awaited CSR Rules by the Ministry of Corporate Affairs is a positive step in the overall implementation of the Companies Act, 2013. This provision paves the way for the corporate sector to play a larger and more conscious role in shaping communities and participate in the social side of the economy. The consultative process followed by the Ministry of Corporate Affairs in finalizing these Rules helped in taking care of many, but unfortunately not all of, Industry concerns.

FICCI is pleased that most of recommendations find place in the Rules. FICCI notes the revised Schedule VII (detailing activities which may be included by companies in their CSR Policies) and we expect that the implementation will allow Boards all reasonable flexibility, as the underlying intent of the law is to promote self-regulation, non-intrusion and accountability. Exempting overseas branch profits for calculation of net profit is an equitable step. Similarly, clarification on excluding independent directors, for private and unlisted public companies is a correct step for those who are not required to appoint such directors under law.

As expected, without clarity from the Ministry of Finance, tax deductibility of CSR spend remains unclear. But FICCI is confident that given the approach of the Government, steps would be taken to ensure that CSR expenditure is not construed as a tax on business, more so since CSR has been pitched as integral to business. An increasing number of companies in India and abroad have been successful on shared value initiatives. Going forward, we hope it will be found appropriate to capture the concept of Shared Value in the Rules.

- **VOTE ON ACCOUNT IS BALANCED AND ON EXPECTED LINES: FOCUS ON MANUFACTURING SECTOR IS WELL RECEIVED**

Commenting on the Vote on Account presented by the Government, FICCI said that the statement made by the Finance Minister was balanced and largely on expected lines. While industry expectations were limited from an interim budget formality, the emphasis laid on turning around the growth trajectory and reviving the manufacturing sector in particular are well received. The maximum focus this time was on the fiscal deficit number, a figure being closely watched by all investors.

Industry has welcomed the initiative of a ten point charter outlining the vision for future of the Indian economy. Many of the points mentioned such as need for fiscal consolidation; importance of foreign investments for financing CAD; creating a balance between price stability and growth; deepening the financial sector reforms; intensifying efforts on infrastructure development; boosting manufacturing growth with zero taxing of exports and minimum tariff protection to encourage domestic value addition; containing subsidies; having planned urbanisation and pushing skill development have been highlighted by FICCI even in its most recently launched 'Economic Agenda for Growth'. While many of these points are aspirational, these are all achievable through concerted effort and a coordinated approach between centre and states.

The financial markets also received well deserved attention in the Vote on Account statement with announcements pertaining to revamping of the ADR / GDR Scheme; liberalising the Rupee denominated corporate debt market; deepening and strengthening the currency derivatives market; creating one record for all financial assets of individuals; enabling smoother clearing and settlement for international investors for investing in Indian bonds. These measures will help in further broadening of the Indian financial market and efficient availability and utilisation of risk capital.

We welcome the Finance Minister's allocation of Rs. 100 crore to the India Inclusive Innovation Fund for promoting innovation amongst the MSMEs which form the backbone of India's industrial economy.

- **SLIGHT IMPROVEMENT IN MANUFACTURING SECTOR OUTLOOK IN Q-4: FICCI SURVEY**

The survey noted that slight improvement is perceived in production outlook for Q-4 due to further improvement expected on the export front and any sustainability of growth will depend a lot on domestic factors. Domestic factors continue to be a major cause of concern for manufacturing as per the survey.

The proportion of respondents reporting higher levels of production in fourth quarter of 2013-14 has further increased to 56% as compared to 52% in quarter 3 of 2013-14 and 48% in Q-2 of 2013-14, noted FICCI Survey. This is the highest proportion since the last eight quarters, as per FICCI Survey.

Upturn in industrial sector is particularly evident in sectors like leather, textiles and chemicals. At the same time, sectors like automotive, capital goods and electronics are expected to witness sluggish growth in the current quarter. There seems to be some improvement in labour intensive sectors like textiles, footwear and leather in Q-4 which is a welcome trend.

FICCI’s latest quarterly survey gauges the expectations of manufacturers for Q-4 (January-March 2013-14) for fourteen major sectors namely textiles, capital goods, metals, chemicals, petrochemicals, cement, electronics, automotive, leather & footwear, machine tools, Food processing, textile machinery, paper and tyre. Responses have been drawn from 330 manufacturing units and associations from both large and SME segments with a combined annual turnover of over Rs 5 lakh crore.

- **FICCI INITIATIVE FOCUSES ON QUALITY OF INDIA’S MANUFACTURING SECTOR ECO-SYSTEM**

FICCI said that there is much more to this initiative than organizing a conference or discussing success stories and best practices. FICCI will also be working towards the development of ready-to-use artifacts that can facilitate eco-system institutions to enhance the desired abilities.

Many of the challenges are quality basics - standard routines for repetitive activities, some basic problem analysis for preventive action instead of reacting afterwards, taking things to some logical conclusion and not abandoning them midway for no sufficient reason.

The QUPRAC platform has combined elements of a business seminar with those of a scientific symposium. Success stories showcased range from systems implemented in government for time-bound service delivery and complaint resolution to developing stakeholder consensus and collaborative work across multiple government agencies; from upliftment of sanitation workers to professional courses for enhancing collaborative skills and encouraging inclusive growth business models. Deliberations at QUPRAC 2014 will be the building blocks for nationally relevant methods and practices to make the eco-system more enabling and enterprise-friendly and in the QUPRAC terminology 'Improve the Quality of India as a Manufacturing Eco-System.'

- **FICCI TO TAKE UP THE CASE OF THE PUBLISHING SECTOR FOR GRANT OF INDUSTRY STATUS**

FICCI in association with the National Book Trust, India (NBT) organized CEO Speak over Chairman's Breakfast. The objective of the program was to facilitate greater interaction within the publishing community in India, and to establish a forum of CEOs to discuss and share business and book-trade related issues and concerns. This edition of CEO Speak discussed and shared common issues and concerns to evolve a composite agenda of the Indian publishing industry.

FICCI recommends that the sector must strive to get the industry status, which will enable the industry to get corporate loans at low interest. It is very important that this promising sector should focus on getting more organised and initiate a scientific study to bring out the growth prospects for the sector.

- **GOOD BUSINESS PLAN AND POLICY FRAMEWORK NEEDED TO ENHANCE PROSPECTS OF FOOTBALL IN INDIA**

In order to promote the game of football in a professional manner there is an imperative need for a good business plan and an enabling policy framework. FICCI conducted a study on 'Best Startups in Sports In India' and one of the highlights of the report is that maximum new ventures in sports are related to football. U-17 World Cup is a golden opportunity to catalyze the culture of developing football in the country and can positively impact the economy, sport infrastructure and foreign investment climate.

- **FICCI UNVEILS AGENDA FOR EXPORT OF INDIAN DEFENCE PRODUCTS**

FICCI has emphasized the need to announce a market oriented Defence Export Policy curtailing procedural delays and providing EXIM credit at reasonable terms. Under DRDO-FICCI ATAC Programme we have been closely working with DRDO to commercialize various spin-off technologies developed by different DRDO labs. The results are very encouraging and very recently a DRDO developed technology to detect explosive material was licensed to a US based firm. We can think of extending such kinds of handholding mechanism where Government of India can promote Defence Exports through the Indian embassies and Defence Attaché's. Considering the competitive market scenario we are a late entrant and hence it becomes imperative for the govt. to gear up and diffuse the bottlenecks so that the industry may find entry into exports.

On the sidelines of DefExpo–2014, FICCI in association with Defence Research & Development Organization (DRDO) organized a Panel Discussion & Industry Interaction Meet on "Challenges and Opportunities in Export of Indian Defence Products" to take forward this agenda.

Defence Procurement Procedure 2013 is the latest policy level intervention where 'indigenisation' is prominently focused. This policy is welcomed by the Indian industry and we at FICCI truly feels that strict implementation of DPP 2013 will encourage setting up of robust and defence industrial base. It will help not just help big and established players and platform integrators but also help the niche defence MSME in joining hands for national pride and security.

- **FICCI HAILS THE NEW VISA-ON-ARRIVAL ANNOUNCEMENT AS THE STEP IN RIGHT DIRECTION FOR INBOUND TOURISM**

Welcoming the new visa-on-arrival announcement by the Government, the new liberalized visa regime has the potential to make India one of the most favoured tourist destinations of the world. This is a well timed move just as the next tourist season sets in. Instead of 11 countries, travelers from 180 countries will get to avail visa-on-arrival facility in India.

FICCI has been recommending steps to promote India as a natural destination for inbound tourism. Our experience through global interactions we have organized such as the Great India Travel Bazaar (GITB) in Rajasthan from 2008 to 2013 and the upcoming 7th landmark global tourism event, the Incredible India Travel Bazaar (IITB), is that this facility is much-needed and would go a long way in promoting inflow of foreign tour operators. The visa on arrival facility will enthuse global participants to attend over 9000 B2B meetings at the forthcoming IITB.

Available data indicates that despite 'not-so-liberalized visa regime' last year India received 68.48 lakh foreign visitors, registering a growth of 4.1% over 2012. Once the infrastructure for granting visa-on-arrival is put in place India will not only gain in terms of more tourists but it will also have positive spin-off on employments and earnings.

- **MEASURES TO ATTAIN SUSTAINABILITY SHOULD BE VIEWED AS INVESTMENT, NOT AN EXPENSE**

Sustainable development should be in the DNA of an organization and adoption of sustainable measures should not be seen as an expense but as an investment for the future. FICCI recommends the need to look at sustainability beyond charity. An organization which creates social value is sustainable in the long run. Private and multinational banks are better positioned to create innovation and bring the best practices from rest of the world than the public sector banks. But there is a need to formulate standards to decide which sectors should a bank lend. FICCI also suggests engaging the supply chain in the sustainability drive and engaging companies with customers.

Various regulatory and voluntary measures are aiding corporate sector in the shift towards a new business paradigm encompassing sustainability. While many large businesses have realized the sustainability imperative, the challenge lies in enabling the small and medium enterprises to move to a sustainability paradigm. Though the context for making a transition to a sustainability paradigm will remain the same for large as well as small and medium companies, the approach will differ in the case of SMEs who need greater handholding, common infrastructure support, concessional finance, and larger capacity building.

FICCI feels that a balanced view of how the corporate sector's initiative combined with an enabling policy framework can create the context for a sustainable growth path was needed. The need for collaborative approach between industry and government and an enabling framework that would provide greater simplification, transparency, and accountability for all stakeholders was well recognized.

However, the bigger challenge lies in enabling the SMEs to make the transition to a new sustainability paradigm. This conclave seeks to promote and enable this transition for the corporate sector towards the new sustainability paradigm.

- **THE INDIA SHOW IN PAKISTAN – IMPROVING ECONOMIC ENGAGEMENT**

This initiative which saw around 130 Indian companies across sectors showcasing their products and diversity of Indian industry was a manifestation of FICCI’s policy to take steps towards improving economic engagement between the two neighbours. The show set a new benchmark of success reaffirming FICCI’s avowed stand that increased economic relations between the two countries and normalization of trade relations between India and Pakistan would generate prosperity in both countries besides achieving the common goals of inclusive growth.

FICCI has been at the forefront of promoting Indo-Pak economic relations bilaterally and regionally under the SAARC umbrella and this show reflects FICCI’s effort to translate the huge potential for cross border investments in areas like chemicals, plastics, textiles, hydro-power, tourism, information technology, telecommunications, automobile ancillaries, environment, drugs and pharmaceuticals and water management.

- **STATE POLICIES MUST FACILITATE DIALOGUE AMONG BUSINESSMEN BETWEEN INDIA AND ARGENTINA**

To deepen bilateral and economic relations between India and Argentina, it is imperative to have state policies which facilitate and establish a dialogue among stakeholders including both public and private sector. The Province of Santa Fe is strategically located inside the national geography of Argentina and is a powerhouse in agriculture and related sectors. There is immense scope for Indian businesses in areas such as agricultural products and machinery, dairy products, timber, wooden furniture, cotton, textile garments, leather, auto components, chemicals, IT and IT enabled services. Many Indian companies are present in Argentina and some have also set up operations in Santa Fe.

FICCI recognizes that many countries in the LAC region have shown renewed enthusiasm in Indian economy as a future trade and investment partner and that with the region’s trade with India growing to US$ 46.66 billion last year, there is need to support the increasing interest in bilateral investments too.

- **FORGE PARTNERSHIPS TO MEET CREDIT NEEDS OF AGRI BUSINESS AND FOOD PROCESSING SECTORS IN ASIAN AND AFRICAN COUNTRIES**

The potential of agri-business is enormous, domestically as well as in the global markets, and this can be a major growth engine for Asian and African economies.

We have done well in terms of output growth, despite weather and price swings in the past few years. Buoyed by the conscious policy thrust of the Government, India ranks first in the world in the production of milk and pulses and the second in rice, wheat, sugarcane, groundnut, vegetables, fruits and cotton production. There are issues affecting the value chain from both the supply and demand sides. The experience of our members suggests there is a need for bringing about greater cooperation for determining competitiveness and robustness of these businesses.

There are two core objectives that the Asia-Africa Agribusiness Forum must continue to address: First, create a platform to engage leaders of business, government, society, farmer's organizations, and development partners who can work on sustainable agricultural growth; second is the sharing of new best practices and new technologies.

FICCI suggests the adoption of new practices and partnerships to multiply agriculture growth and make it sustainable. Greater technical partnerships would help in overcoming low farm yields in Africa. Based on rich agriculture resources in Africa, there is need to examine how Indian and Asian companies can form joint ventures for producing food grains, pulses and oil seeds for domestic use in Africa, and export.

The farm mechanization is an area for partnerships. India has achieved success here and can be a source of agricultural machinery like harvesting, earth moving, tractors and sowing machinery. Indian companies are keen to partner with Asian neighbors and countries in Africa for manufacturing such equipment and other inputs. Another opportunity is finance for developing agribusinesses. Various factors limit formal lending to such businesses in Asia and Africa. Lenders, investors and banks can be creative in forming strategic partnerships. In India credit supply has increased greatly through regional rural banks and rural credit cooperatives. The upgrading infrastructure is a high priority for jump-starting agribusiness. Major investment areas are irrigation, water conservation and roads. Public-private partnerships can be one interesting way to address this.

- **GREATER IMPETUS TO BILATERAL TIES WITH CANADA REQUIRED**

A business meeting was organized with Governor-General of Canada and the accompanying delegation. The policy thrust was on providing greater impetus to bilateral ties, including thinking of fresh initiatives in business, entrepreneurship and education. FICCI underlined the importance of Canada in terms of India's food and energy security objectives. Opportunities exist to collaborate in food storage and processing, as well as in cold chain distribution and there is great potential for Canada to become a supplier of Liquefied natural gas (LNG) to India. FICCI has also played a key role in the conclusion of the Audio-visual co-production agreement with Canada.

- **CAPITAL GAINS TAX MAJOR HURDLE IN PROMOTING SAUDI INVESTMENT IN INDIA**

India and Saudi Arabia need to explore fresh frontiers of cooperation in sectors like IT & ITES, auto components, automobiles, petrochemicals, pharmaceuticals, chemicals, oil and gas, refineries and metals so as to pave way for diversification of the trade basket. These sector were identified at the India –Saudi Arabia Business Forum meeting.

The new National Manufacturing Policy of India which aims to increase share of manufacturing in our GDP from 16 per cent to 25 per cent by 2022. There is a blue-print for expansion of manufacturing with emphasis on exports. Saudi Arabia, we feel, can be an effective partner for this vision and India can be a very attractive location for Saudi Arabia to export from.

For more details contact FICCI Corporate Communications
at tripti.kataria@ficci.com