FICCI'S VOICE

Federation of Indian Chambers of Commerce and Industry

"SECRETARY GENERAL'S DESK" APRIL 2014

- **GDP growth to pick up to 5.5% in 2014-15: FICCI's Economic Outlook Survey**

Results of FICCI's latest Economic Outlook Survey point towards an **improvement in economic growth in the year 2014-15**. **The GDP growth for the year 2014-15 is projected at 5.5%**. The participating economists expect the industrial sector to also recover in the next fiscal with an estimated growth of 3.3%. The forecast for agriculture and services sector growth in 2014-15 have been placed at 3.3% and 7.0% respectively

An improvement is indicated in the quarterly growth numbers as well. The Economic Outlook Survey results show GDP growth witnessing a marginal uptick in Q4 2014-15, with an estimate of 5.0%. However, this might imply that actual growth in the year 2013-14 will be slightly lower than the growth of 4.9% projected by the Central Statistical Organization some time back. Further, GDP growth is expected to recover to 5.2% in Q1 2014-15.

On inflation front, the respondents felt that both headline inflation and retail prices would remain range bound going ahead. **Wholesale Price Index is expected to stay around 5.5% in 2014-15 and CPI at about 7.9% during the same period.**

The participating economists were of the view that there is a pressing need to get the fiscal house in order and we should move back to pre-financial crisis deficit levels with utmost urgency. This should be done by laying focus on the revenue side. The **target should be to eliminate the revenue deficit**. India's subsidy burden has ballooned considerably in the past few years and it is imperative that we take a firm stand and restrict unproductive subsidies. The government must also allow market forces to play a fuller role in determining the price of fuel products in particular.

With regard to the external sector, survey results indicated **CAD as % of GDP to remain in the comfort zone at 2.2% in 2014-15**. **The Rupee value is projected at 61.0 against the US dollar by end March 2015**. The expected range is 57.5 (minimum) to 65 (maximum). Rupee value has been floating in a stable range of 61-62 to a dollar since mid-September 2013.

- **FICCI COMMENTS ON COMPANIES ACT NOTIFICATION**

FICCI welcomes the recent notification of another 183 sections of the Companies Act and the corresponding Rules to these sections. With the notification of these sections, now a total of 283 sections of the new Act stand notified.

With this move, the new company law will be substantially operationalised from April 1, 2014. While FICCI is studying the notified Rules, this is definitely a positive step in the overall implementation of the Companies Act, 2013 and we compliment the Ministry of Corporate Affairs for the extensive consultative process adopted by them while finalizing these Rules. One of the biggest challenges for India Inc. at this stage will indeed be compliance with the new law.

- **FICCI'S BUSINESS CONFIDENCE SURVEY**

The results of FICCI's latest Business Confidence Survey indicate not much change in the sentiment of the participants even though the Overall Business Confidence Index clocked a marginal improvement.

There was a decline in the proportion of respondents citing an improvement in current performance vis-à-vis last six months at the economy and industry level. A majority of the participating companies indicated no change in the overall economic situation vis-à-vis last six months. It was only at the firm level that a higher percentage of respondents cited an improvement relative to last six months.

In addition, not much change was noted in the percentage of respondents (vis-à-vis last survey) expecting an improved performance at the economy, industry and firm level over the next six months.

The Overall Business Confidence Index (OBCI) value inched up to 60.8 in the current survey from 59.8 in the last survey round. The current survey was conducted during January 2014 and February 2014 and brings out expectations of industry for the period January 2014 to June 2014. The survey drew responses from about 173 companies with a wide sectoral and geographical spread and a turnover ranging from Rs 1 crore to Rs 3.7 lakh crore. The participating companies belonged to a wide array of sectors such as textiles, cement, financial services, chemicals, construction, metal and metal products, automobiles, FMCG, electrical equipment and machinery, paper and paper products.

Furthermore, results pertaining to operational parameters like investments, exports and employment lacked buoyancy in the current round. Only a marginal improvement was noted in the prospects for sales and profits. Only 24% of the respondents felt that investments are going to be higher in the next six months. Employment outlook of the companies also remained bleak. 67% of the respondents expected no change in employment levels over the coming six months.

- **INFRASTRUCTURAL BOTTLENECKS, HIGH FOOD INFLATION, VARIED FOOD PREFERENCES & LOW BRAND CONSCIOUSNESS, CHALLENGE THE EFFICIENCY OF INDIAN FOOD SUPPLY CHAIN**

The Indian food supply chain is marred by infrastructural bottlenecks, high food inflation, varied food preferences and low brand consciousness. A well-developed food value chain is expected to increase farm gate prices, reduce wastages, ensure value addition, promote crop diversification, generate employment opportunities as well as export earnings. Further, it benefits both the ends of the chain i.e. the farmers and the consumers, as farmers tends to get better price for their products and consumers too need to pay less.

FICCI report on **'Food Supply Chain in India: Analyzing the Potential for International Business'** makes policy recommendations to the Indian government so that the country can attract the desired foreign investment and technology, encourage the growth of the organized sector and manufacturing, create quality employment and link Indian suppliers (farmers, manufacturers, etc.) to the global supply chains and production networks of global multinationals in the food supply chain business. The report covers the retailers, manufacturers and food logistics service providers.

FICCI also arranged "The India Maize Summit" to create favorable framework to successfully meet the challenges and opportunities for Indian maize crop, get global perspective to aid growth in export of Indian maize, identifying, examining and suggesting reforms to strengthen maize value chain and empower relevant stakeholders with cutting edge technology and post harvest management tool.

Government needs to create crop neutral incentive structure; policies must help in scaling up production of quality protein maize.

Corn production has nearly doubled from around 12.0 million tonnes a decade ago to around 23 million tonnes today. This increase in the production has resulted in expanding the export market of the crop. The sector has witnessed active participation of the private players which helped in driving Private Public Partnerships successfully. The challenge for the maize industry is to match up to international standards.

- **FICCI COMMENTS ON WPI DATA**

The decline in the WPI comes on the back of a similar trend observed in CPI a few days back. This easing of inflation will hopefully create some space for monetary policy easing by the RBI. This is imperative as the sentiment of caution continues to weigh heavy on the minds of investors. In fact according to a recent CEOs Poll conducted by FICCI, a majority 71% reported that high interest rate is a key factor holding back fresh investments.

Performance of the industrial sector still remains anaemic and we expect both the government and the central bank to work in tandem and create a pro-growth environment.

- **FICCI's REACTION TO IIP and CPI DATA FOR JANUARY 2014**

Negative growth in manufacturing, though seems to be waning, remains a cause of concern. Depressed demand and investment conditions continue to plague the sector. With little room for any new policy measure to address the slowdown, we expect the sector to register a subdued growth in next few months.

We however hope that the clearance of nearly 130 large projects, many of which are in sectors like metals and minerals, by PMG may yield results in next few months.
The consumer price index (CPI) eased for the third consecutive month in February 2014. The CPI inflation rate was reported at 8.1% in February 2014, vis-à-vis 8.8% growth witnessed in January 2014 and 10.9% growth in February 2013.

With the trend reflected in retail inflation and IIP data released, we see no reason why the Central Bank should not bring the focus back on growth and affect a rate cut in the forthcoming policy announcement on April 1, 2014**.**

- **FICCI COMMENTS ON EXPORT DATA**

Expressing concern on the decline in exports in the month of February, FICCI said that though over 40% contraction in India's trade deficit is a positive development, nearly 4% dip in exports in February is worrisome and now it looks doubtful if we would be able to achieve the target of $325 billion in the full fiscal year.

While this partly reflects sluggish recovery in global demand, domestic factors like negative growth in manufacturing have also been responsible for such weak export performance.

- **EXPANDING USAGE OF ATA CARNET SYSTEM WILL BENEFIT INDIAN EXPORTING COMMUNITY**

'Why should India expand the ATA Carnet System'? This initiative is one of multiple steps and initiatives taken by FICCI and the Indian government recently to encourage greater usage of the ATA Carnet**.** In India, FICCI is the sole National Guarantor for ATA Carnets.

The prime objectives discussed during the workshop are:

· To expand India's participation in the ATA system to cover professional equipment and commercial samples for the benefit of all national guaranteeing organizations affiliated to the international ATA Carnet guarantee chain
· To enhance Customs-Business Partnership
· To create awareness amongst Indian exporting fraternity about the benefits of ATA Carnet
· To discuss and review the practical operation of ATA Carnet System in India

- **NEW ALLIANCE LAUNCHED TO COMBAT UNETHICAL INTERNATIONAL RECRUITMENT**

The International Organization for Migration (IOM) and FICCI are forging a path to reduce exploitative recruitment practices in international labour migration that harm workers and employers.

A commitment towards ethical recruitment would mitigate both employer detriment and improve worker welfare. Most of the unethical practices that take place are because of unscrupulous third party mediation resulting in increased costs of migration and vulnerability of the migrant and lowering overall productivity.

The partnership between IOM and FICCI is an important step toward making labour migration safer and more efficient. Eliminating abusive practices and excessive costs is necessary for well-functioning international labour mobility and for the protection of migrant workers. The private sector has an important role to play in this process and this partnership will help bring key stakeholders into the dialogue.

- **CORRUPTION, BRIBERY AND CORPORATE FRAUDS EMERGE AS NO. 1 RISK FOR CORPORATE INDIA: FICCI-PINKERTON 'INDIA RISK SURVEY 2014'**

The survey, the 4th in the series, was carried out by FICCI and Pinkerton to study the impact of risks across the industry spectrum and geographical regions of the country. The results of the survey are based on a collation from a set of 12 risks that have been identified after a series of brainstorming sessions. Indian Risk Survey 2014 thus aims to supplement the inputs that will help business leadership in taking sound decisions and in having a secured corporate existence.

'Corruption, Bribery and Corporate Frauds' have emerged as the No. 1 risk affecting corporate India, primarily due to the unravelling of scams and frauds in both public and private sectors.

'Strikes, Closures and Unrest' has been rated as No. 2 risk and continue to command serious concern from corporate India. In the 2013 survey, it was ranked at No. 1 position.

‘Political and Governance Instability' is rated as the No. 3 risk. The ranking of this risk is an obvious pointer towards political uncertainty surrounding the forthcoming general elections in 2014. Crime and Information & Cyber Insecurity are rated as the No. 4 & No. 5 risks, respectively.

- **INDIAN AVIATION SECTOR HAS THE POTENTIAL TO BE NUMBER ONE GLOBALLY BY 2030**

India has the potential to become the third largest aviation market by 2020 and the largest by 2030. There is large untapped potential for growth due to the fact that access to aviation is still a dream for nearly 99.5 per cent of its population, indicates the FICCI-KPMG 'Indian Aviation 2014' report launched.

In view of the enormous growth prospects of air traffic and substantial investment projections, Indian aviation market offers significant long term opportunities for global aviation players. Indian Government and industry are already working together closely. This partnership will be further strengthened and play a critical role in improving regional connectivity and promoting sustainable development of the civil aviation sector in the country.

The FICCI-KPMG 'Indian Aviation 2014' report points out that development of air transportation services and socio-economic development are highly correlated. According to the International Civil Aviation Organization (ICAO), an additional dollar invested in air transport leads to a benefit of around three dollars to the local economy. Moreover, every additional job created in the air transport results in creation of over six new jobs. The report concludes that Indian aviation has a huge untapped potential – we need to recognize it and go for it.

- **FICCI FRAMES 2014, TO DISCUSS REFORMS REGULATORY MECHANISMS & IMPLEMENTATIONS OF POLICIES**

In Calendar Year 2013, the Indian Media & Entertainment (M&E) industry registered growth of approximately 12 per cent, according to the FICCI-KPMG report (to be released at the inaugural session of FICCI Frames 2014 on March 12 2014). Overall growth remained muted, largely caused by the slowdown of the Indian economy. The economic slowdown impacted advertising revenue dependent sectors such as TV and print the depreciation in the rupee also affected print, cable and DTH companies adversely but helped export oriented sectors such as animation and VFX to some degree. At the same time, this was countered by the impact of continued digitization of media products and services, and growth in regional media.

Digitization of cable saw progress of Television industry moving in the right direction, with the mandatory Digital Access System (DAS) rollout almost complete in Phase II cities. The impact was felt to the extent that carriage fees saw a reduction of 15-20 per cent overall, however the anticipated increase in ARPUs and subscription revenues for broadcasters and MSOs (Multi System Operators) is expected to be realized only over the next 2-3 years. r. Other key highlights in 2013 were the inclusion of LC1 (less than class I) markets in TV ratings, the 12 minute advertising cap ruling and the shift from TRP to TVT ratings.

The film industry recorded a double digit growth, albeit slower than in 2012, with multiple movies scoring big on box office collections. Approximately 90-95 per cent movie screens are now digitized in the country, with a shift in focus to tier II and III cities. Going forward, multiplex growth is expected to slow down, in line with the overall delays and future expectations for retail sector and commercial real estate development, impacting box office growth in the short term

The Print sector continued to buck the global slowdown trend. The sector grew at a CAGR of 8.5 per cent this year to reach INR 243 billion. Regional markets performed exceedingly well on the back of Steady advertiser spends, state election impact and new launches. However, with the validity of IRS data called into question by the industry majors, the sector in the short term suffers from the lack of a robust measurement system, critical for decisions on media planning and allocations.

The total internet user base in India grew to approximately 214 million by end of the year with almost 130 million going online using mobile devices. Mobile Internet users dominated the total internet user base capturing an overall share of 61 percent. Digital media advertising in India grew faster than any other advertising category. Streaming and download services continued to see growth in the music industry, with the growth in mobiles, in particular smartphones, contributing significantly to increased consumption of music 'on-the-go'. However, with the continued decline in physical sales, compounded by the significant fall in ringback tone revenues (following the backlash of TRAI guidelines issues in 2012), the sector saw an overall fall in size by 10 per cent in 2013. Going forward, digital revenues are expected to drive growth in the sector. Further, the vibrant live events sector is expected to continue its role as a catalyst for driving growth in artists' fan-base, and public performance royalties.

- **FICCI'S FIRST SCHOOL EDUCATION CONFERENCE EMPHASIS NEED TO DEVELOP RESULTS FRAMEWORK DOCUMENT FOR EACH STATE**

The first 'FICCI School Education Conference' on the theme 'Towards Effective Delivery of Quality Education' was organized. The conference debated on the challenges of quality in the current K-12 school system in India which is one of the largest in the world with more than 1.4 million schools and 250+ million students enrolled.
In order to contribute to the growth of the school education and influence policy, there is a need for paradigm shift in the mind set and treat education sector like any business sector to make it efficient, effective and result oriented.

The emphasis is on the need to use of technology for improving teacher education, the need for assessment to measure cognitive and non-cognitive assessment and the opportunity for the private sector to contribute towards quality education. This is the need to develop Results Framework Document for each State to measure its achievements and use the data for appropriate policy interventions. It is also important to integrate private sector good management and educational practices in the mainstream through public private partnerships.

- **EDUCATION & HEALTH HOG CSR INITIATIVES OF CORPORATES**

Corporate India is slowly but surely demonstrating that social responsibility is becoming an integral part of an organizational structure. CSR initiatives are largely observed in the field of education and health followed by livelihood development, infrastructure and sports and the top environment activities include tree plantations, rain water harvesting and solid waste management.

These findings are revealed by a FICCI Aditya Birla CSR Centre for Excellence and '4th Wheel' publication titled, **'Shaping India's Development Story... CSR ideology and investment.**

Some of the other key findings are:

i. Of the 43 companies, 37 note that CSR is an integral part of the organization

ii. In terms of budget allocation, 10 companies invest less than 1% of their annual income, 6 companies invest more than 3% and the remaining 23 companies invest somewhere between 1-3 %.
iii. Most common partnerships stated by companies have been community led partnerships which are executed with community participations and building local institutions.
iv. 38 companies promote employee volunteering
v. 21 companies report on Clause 39 compliance which focuses on Corporate Governance and transparency
vi. 40 companies document process and progress of their CSR activities
vii. 37 companies have business ethics as an active part of their HR policies

- **FICCI ESTABLISHES CENTRE FOR CORPORATE GOVERNANCE TO ENHANCE CORPORATE GOVERNANCE STANDARDS IN INDIA**

FICCI has announced the establishment of an in-house Centre for Corporate Governance, which would aim to contribute to the enhancement of corporate governance standards in India and provide services in this area internationally.

One of the major initiatives of the Centre for the year 2014 would be 'Women on Corporate Boards'. It involves a Mentoring Programme under which experienced Board members will mentor and coach professional women to become ready to join corporate Boards. We are certain that this unique initiative will improve gender balance and increase the number of women as independent directors on corporate Boards.

- **FICCI'S REBUTTAL TO ARGUMENTS MADE DURING THE USTR'S PUBLIC HEARING ON DESIGNATING INDIA AS "PRIORITY FOREIGN COUNTRY" :IN THE USTR'S 2014 SPECIAL 301 REPORT**

FICCI and Indian industry is of the view that the investigation is a manifestation of a broader tension between a handful of disgruntled US companies and the Indian government, which has now spread to Capitol Hill. FICCI opines that although India has a social and constitutional responsibility of providing health care and better standard of life to its people, the policy drive is geared to meet the country's obligations under TRIPS.

The effort being made to declare India as "Priority Foreign Country" under the Special 301 under US Trade Act of 1974, is a unilateral action to create pressure on India to increase IPR protection beyond the TRIPS Agreement and aims to protect private corporate interests over national interests. The US advocacy groups have leveled charges against India's business environment, arguing that it is restrictive and discriminatory, with weak protections for intellectual property due to a number of patent invalidations and issuance of compulsory licenses.

FICCI supports the Govt. of India policy on public health and affordable healthcare and works with in the international framework and in genuine interest of Indian public. India has a robust IPR system and FICCI is working with all relevant stakeholders for effective enforcement and capacity building and training in industry and enforcement agencies, including the police and customs departments and judiciary.

- **FICCI PLEDGES SUPPORT TO INDIA-CENTRAL EUROPE (CE) PEOPLE-TO-PEOPLE CONNECTS**

We are diligently working on the outcomes of the Business Forum to support and encourage people-to-people connects with Central Europe. This would certainly translate into increased prospects for both Indian and CE business entities.

The time is now to support and extend needed momentum to these promising trends. Our economies and the consequent growth trajectories are standing at the cross-roads. How we are going to collectively work to harness and cultivate the business complementarities would set the stage and re-energise our long-standing trade and economic relations. The CE region has expertise in a wide range of industries that include agriculture, chemicals and pharmaceuticals, automobile, machinery, construction and mechanical and engineering goods to mention a few. With a wide agricultural base, India can well focus on the agricultural and primary goods, which already have a considerable consumer base in CE countries. Similarly, with rising demand for manufactured goods in India, and an equally robust manufacturing base in the CE economies, they can benefit from increased trade and investment in the industrial sector.

It won't be an understatement to mention the role tourism could play in the entire process. Enhanced flow of business people and tourists alike would open new vistas of opportunity to better understand the economies and cultures in our countries. Our experience informs us that better awareness would certainly translate into increased business possibilities being explored and evaluated by the relevant stakeholders. India and the CE region would be no different. We only have to be sensitive to fully capitalise on such emerging opportunities.

Another important area for India is small and medium enterprises. The sector is an important constituent of India's economy, contributing 45% to the manufacturing output and 40% to the total exports. SMEs are an important part of CE economies and FICCI is keen that CE Companies undertake collaborative work with their Indian counterparts.

- **DELHI DIALOGUE VI – REALIZING THE ASEAN-INDIA VISION FOR PARTNERSHIP AND PROSPERITY**

The trade volume between ASEAN and India at US$ 79 billion surpasses the 2012 target of US$ 70 billion. Industry and government must collaborate to achieve the target of US$ 100 billion by 2015 and then look at doubling it over the next 10 years. Free Trade in Services would add greater momentum to economic engagement.

As Asia drives global economic growth, ASEAN and India must leverage on land and maritime proximity to enhance connectivity by improved air, sea, land and digital links which is critical for trade and investment.

ASEAN looks to being a greatly developed economic community by 2015 and another priority will be to ensure private sector engagement and encourage investments from India to ASEAN and vice-versa.

- **INDIA-AFGHAN INNOVATION FAIR PROMOTES PARTNERSHIP TO SIMULATE INNOVATION -LEAD COMMERCIAL LINKS**

The 2nd India-Afghanistan Innovation Partnership Fair organized to promote innovative partnerships between the business groups and NGOs of the two countries.

The strategy is to identify and support innovative solutions being developed, tested and scaled in India, to better the quality of development in Afghanistan, by improving commercial links between the two countries.

The fair promoters said they hoped to bring together actors within Afghanistan's "social innovation ecosystem" – meaning inventors, social-venture capitalists, angel investors, donors, service providers, and corporate foundations -- to stimulate innovation-led development.

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