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Issue 5

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State of the Economy

The year 2014-15 began on a promising note with new government taking seat at Centre. While that triggered a wave of optimism, the proactive approach of the government with regard to reforms further supported this sense of sanguinity. A turnaround has been noted in the business sentiment over the past seven to eight months and the broad macro economic parameters also indicate an improvement. However, going forward it will be important to take steps towards earnest implementation of the announcements made. The domestic capex cycle remains fragile and will have to be firmed up to move to a higher growth trajectory.

Economic parameters indicate an improvement…

Latest GDP numbers have been encouraging and the economy seems on the right path moving towards recovery. The advance estimate for GDP growth for 2014-15 based on the new series has been put at 7.4%. This is a marked improvement over the initial estimate of 5.5%. The new series is more comprehensive in terms of its coverage of economic activities and has a changed base year (2011-12). According to the new estimates, while the agriculture sector is expected to witness moderation, the overall growth will be led by a projected improvement in manufacturing, electricity, gas, water supply, construction, financial, real estate and professional services sectors.

Chart 1: GDP growth rate (Quarterly)

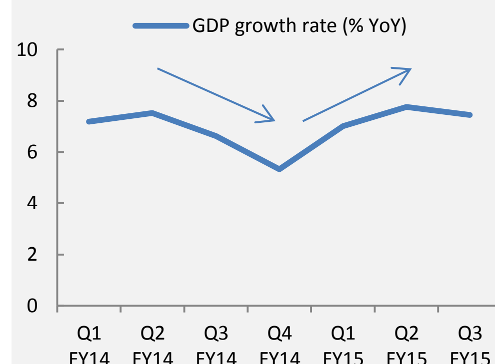
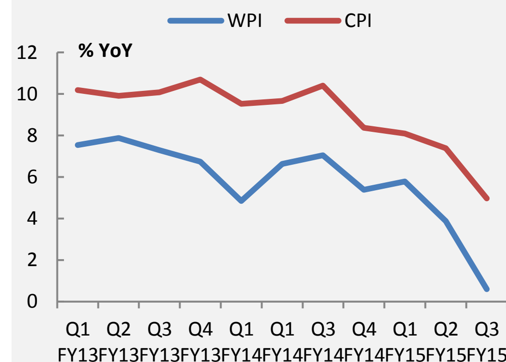


Chart 2: WPI and CPI inflation (Quarterly)



Source: Economicoutlook CMIE

Elevated inflation rate which was a major constraining factor has eased significantly in the last six months. Both WPI and CPI are well within the comfort range. The CPI inflation rate for the quarter ending Dec 2014 was 4.9%, much lower than the double digit inflation of 10.4% in the same quarter previous year. Likewise, the WPI inflation rate for quarter ending December 2014 dropped to 0.6%, vis-à-vis 7.1% in the same quarter last year.

This newsletter is prepared by the Economic Affairs & Research Division, FICCI

FICCI

The sharp plunge in crude oil price is reflected in deflation of fuel prices aiding the overall drop in inflation rate. Overall global commodity prices have been subdued and with persisting weak demand conditions, there seem no immediate upside risk to inflation.

Further on the domestic front, the household inflationary expectations have moderated. In addition, the rate of increase in minimum support prices for wheat and rice this fiscal year has been much lower and the rate of growth in rural wages has also noted deceleration.

On the external front, India is expected to stand comfortably unless there is a sudden turn in exogenous events. The current account deficit to GDP ratio was reported at 2.1% in Q2 2014-15, marginally higher than the ratio of 1.7% in Q1 2014-15. Nevertheless, given the slip in oil prices and a decline in gold imports, the CAD to GDP ratio for 2014-15 is expected to remain below 2.0%.

However, export growth has seen some waning which can be attributed to the fragile global recovery. However, it remains important that we have a sound strategy in place to boost exports. The new foreign trade policy is expected to be unveiled soon and is being looked forward to.

Moreover, foreign investments inflows have picked up significantly over the cumulative period April-December 2014. The total foreign investments inflows amounted to USD 52.7 billion over April-December 2014, vis-à-vis USD 16.2 billion over the corresponding period last year. The government has revised FDI caps for sectors including insurance, defence, construction, railway operation; and has time and again reiterated its stance of making India the easiest place for doing business. This has successfully reinvigorated the interest of foreign investors in India.

Concerns still persist…

One of the major concerns that remain is the performance of industrial output which is yet to show a firm and sustainable turnaround.

The Index of Industrial Production has been persistently volatile. Though the latest numbers for the month of November 2014 indicate a growth of 3.8% - a welcome rebound from (-) 4.2% growth in October 2014; the recovery in consumer durables segment is still elusive. Also, the trend of recovery in capital goods sector remains unsteady. In fact, some of the recent surveys conducted by FICCI indicate that the domestic capex cycle remains a key concern and several segments of industry face muted demand and low capacity utilization levels.

Furthermore, numbers indicate persistent signs of stress on the balance sheets of the Banks. Gross non performing assets stood at Rs 5461.05 crore as on December 31, 2014, vis-à-vis Rs 5003.41 crore on September 30, 2014 and Rs 3834.78 crore as on December 31, 2013.

The pace of global recovery is yet to gather pace. While United States and United Kingdom have been able to put up a decent show, the recovery in Euro area continues to be weak. Also, Russia's economy has been under heat for some time now. Japan's economy has also been in a tight spot. The consumption tax introduced in Japan last year has definitely slowed the economy.

Way ahead

Going ahead, giving a push to domestic investments would remain imperative to move to a path of sustainable high growth. The government should concretize the various announcements made over the past few months and take action on ground. This understandably will take some time and we hope to see some tangible results over the course of next twelve months.

Also, the RBI's surprise move of lowering the repo rate by 25 bps in January 2015 was a welcome move. However, the real transmission of this cut is yet to be seen from the Banks side. Both the Reserve Bank and Government should continue to work in tandem as giving a push to investments remains the single most important task at hand.

Moving up the growth trajectory

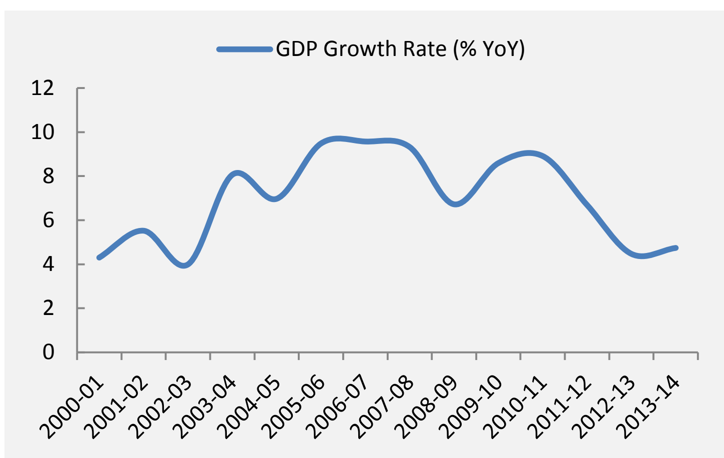
Let's not get into Q1 numbers versus Q2 numbers. Often numbers come with a time-lag, roughly of three months. The bottom-line is GDP growth in 2014-15 will be around 5.5%, perhaps marginally higher.

That's not enough. Understandably, one cannot expect double digit growth until the world economy recovers. No economy is decoupled. But there is plenty of slack endogenously to drive growth up to 8.5% or thereabouts. No one expects that to happen overnight.

However, incrementally, growth should inch up to perhaps 6.5% in 2015-16 and more subsequently. What does one have to do to ensure this? There are different ways of answering this question and one can consider this sectorally - agriculture, manufacturing/industry, services, and so on. For each, especially the first two, there is a long list of constraints that need not be repeated.

As one illustration, if roads, water and electricity are ensured, much of the so-called inclusion agenda will be addressed. Another way of answering this question is to consider India's comparative advantage, though there are regional differences in this. As a generalization, at India's levels of development, the comparative advantage lies in efficient exploitation of labour, land/natural resources, and of course, entrepreneurship.

GDP growth rate (Yearly)



Source: Economicoutlook CMIE

But those constraints, and the pending reform agenda, have been pending for decades. Since 1991, apart from the financial sector, most reforms have been tardy. What then explains the high growth between 2003 and 2007 and what has made it worse since 2009?

Whatever be one's views on RBI's decisions vis-à-vis policy rates, the answer will have to be a drop in the price of capital. (There are of course differences between the nominal price of capital and the real price of capital.)

Add to that, an absence of decision-making at Ministerial and bureaucratic levels in Delhi, an increase in unproductive public expenditure and a messing up of land and labour markets. While there are indeed regional differences, this new government was voted in on what can broadly be called an economic and governance plank - inflation, low growth leading to low employment, corruption etc.

This pattern has also been visible in results of State-level elections. In addition, at least in some parts, there has been voting away from the traditional constructs of caste, community and ethnicity.

Therefore, the new government's mandate is one of delivering growth and governance. Two qualifications are necessary before highlighting the new government's agenda. First, there is an ordinate amount of fixation on the lack of a majority in the Rajya Sabha.

While there are ways of handling this, this presumes that required reforms are legislative. In some instances (FDI in insurance, GST, changing the land law) they indeed are. But there is much that is in the domain of the executive, the PMG being a case in point. Second, one has to accept this is a new Union government in Delhi.

Much is at the level of the States and until there is satisfactory intermediation between the Union government and State governments, little can happen

in boosting manufacturing, improving the doing business indicators, or indeed even in implementing indirect tax reform. Manufacturing doesn't occur in Delhi, it occurs in States.

Having said this, at a conceptual level, the issue is a simple one. There are some things one expects a government to do. That's in the nature of what can broadly be called delivery of public goods and services, typically not delivered by the government in Delhi, or even by State governments, but by local governments.

As a figure, Union and State governments together collect 17% of GDP as taxes. (True, there are non-tax sources of revenue too.) All subsidies, explicit and implicit, together account for 14% of GDP. That leaves little leeway for the government, in all its various layers, to deliver those goods and services.

The beneficiaries of subsidies are urban and relatively rich India. The opportunity costs of those resources are borne by 125,000 deprived villages that have no physical or social infrastructure worth the name. In this benign role for government, there is therefore a double agenda, reforming receipts/taxes and reforming expenditure.

When Rajiv Gandhi said that only 15 paise out of one Rupee spent reached the target beneficiary, this didn't mean corruption and leakage. It also meant high administrative costs of delivery, routed through various rungs of Union government Ministries and departments.

In addition, in the expenditure domain, if there are subsidies to be paid, there are better ways of doing this (such as direct transfers), provided BPL population is unambiguously identified and financial inclusion is deep enough.

On the tax side, both direct and indirect, the regime is unnecessarily complex, adding to compliance costs.

There should be the beginnings of a GST soon. But it will fall short of the ideal GST, since all indirect taxes (stamp duties, entry tax) will not be subsumed, and

States may be granted flexibility to keep out not only alcohol, petroleum products and tobacco, but also deviated from the base rate of GST.

Such deviations defeat the purpose of standardization envisaged in GST. In the last resort, a government reflects the consensus of the people. The simple point is that, on this matter of benign role of government, we don't have enough of a consensus.

There seems to be greater consensus on reducing the malign role of government. This implies reducing unnecessary government intervention, and not just in areas like the land legislation. Too much of government intervention is still in the nature of licensing, masquerading as regulation.

The new government has liberalized in some areas. However, because of the Seventh Schedule, many areas are on the State List. If not on the State List, they are on the Concurrent List. Since there is agreement on the need for decentralization and devolution, we probably have greater consensus on reducing the malign role, at least for some States.

I think it is somewhat pointless to talk about 100-day agendas and what has been accomplished in 6 months. The canvas is such that it is a long haul. With reports of the Expenditure Reforms Commission and Finance Commission due soon, the next Union budget should provide indications of the government's intent. But 8.5% cannot happen overnight.

The article is written by Prof. Bibek Debroy, Economist & Professor, Center for Policy Research, New Delhi and permanent member of NITI Aayog. It was published in FICCI's souvenir released on 20th December 2014 during the 87th AGM.

Re-enabling India

FICCI has chosen "Enabling India" as the theme for its annual general meeting this year. I have chosen to title my essay as "Re-enabling India". Therein lies the story of 2014.

From the turn of the century those of us who wrote and spoke about India had a story to tell. Quoting from the work of economic historians I would remind my audiences at home and overseas that the rate of economic growth for British India as a whole for the half century from 1890 to 1940 was close to zero per cent. This was an average of positive rates of growth in the Bombay and Madras Presidencies as well as in the Punjab, and negative rates of growth in the Bengal Presidency, the United and Central Provinces.

After Independence, the Indian economy grew at the rate of 3.5 per cent per annum from 1950 to 1980. Over the last two decades of the 20th Century, from 1980 to 2000 it grew at around 5.5 per cent per annum. In the first decade of the 21st Century the Indian economy grew at around 7.5 per cent per annum. During the tenure of the first United Progressive Alliance (UPA-1) government, from 2004 to 2009 the economy grew at around 9.0 per cent per annum.

Those unfamiliar with India would perk up hearing those numbers. India is on an accelerating growth path, a rising trajectory, I would suggest. It did not require much convincing. Zero, 3.5, 5.5, 7.5 and 9.0. The India Story was simple. India is on the move.

The economic reforms and liberalization of the early 1990s, the emergence of India's services industry, especially information technology industry, the creation of new Indian brands and companies. India had been enabled.

In an influential essay on the emerging balance of power in the 21st Century, written around 2000, the pre-eminent American strategist Henry Kissinger suggested that the United States would have to share power with a new concert of world powers including the European Union, Russia, China, Japan and, he said, "maybe India." Kissinger would confess to Indian interlocutors that India's decision to declare itself a nuclear weapons power in 1998 woke him up to the reality of India's emergence as a major power.

In 2000, another eminent American strategic analyst, Condoleeza Rice, wrote an essay in *Foreign Affairs* urging American political leaders to take India more seriously. The US, said Rice, ought to facilitate India's rise as a major global power.

The India-US civil nuclear agreement was made possible because the US took India seriously. This encouraged the world to take India seriously. An "enabled India" was now on the rise. It would be a land of enterprise and opportunity. That, at any rate, was the story I would spin to audiences around the world. They listened, they took the message seriously.

Then came UPA-2! Through a series of self-inflicted wounds the government of the day 'dis-enabled' India. To be fair, it did invest in education and health care, in rural and urban development and in skill building. These investments did help enable more Indians to participate in the India Story. However, in doing so the government lost sight of the importance of enterprise. Policy missteps followed by a policy 'paralysis' dis-enabled India. The government of the day lost its credibility and the India Story began to crumble and fall apart.

The political verdict of the 2014 election was a popular response to this state of affairs. An overwhelming mood of anti-incumbency gripped an angry and dejected electorate. A new generation of voters, still in their teens and early twenties, rejected the past and embraced a future that they saw as more promising. At least as a return to the promise of the previous decade.

The task before the Narendra Modi government is to 're-enable' India and to further enable the creative and productive people of this country. Re-enabling requires policy reform. It requires undoing the laws that strangle enterprise. It requires investing in skill development. It requires better infrastructure. No one need re-invent the wheels of growth. Policymakers have to only remove the clamps and oil the wheels.

What role has FICCI played in this saga? Traditionally, business organisations in India have preferred to protest in private and praise in public. Speaking at a meeting of the FICCI national executive in 2010 I had urged FICCI leaders to recall the contribution of its creators – the authors of the "Bombay Plan" of 1946.

They were not petitioning the government. They merely offered a "long term plan for the reconstruction of India". They defined the scope of policy and urged the government of the day to embrace it. It did. Jawaharlal Nehru's Second Five Year Plan was an echo of the Bombay Plan.

FICCI has since increasingly played that role. A new generation of leaders has given expression to the voice of Indian business by preparing an 'agenda for growth'. Indian business must once again play that national leadership role as the vanguard of policy thinking. It must invest in professional talent so that practical policy suggestions can be made and the nation as a whole benefits.

In the past few years far too many Indian companies have migrated to better markets. At a firm level this is an understandable, even sensible, corporate decision. But, this reinforced the view that India was not worth investing in. A virtual 'investment strike' had been declared in India.

The challenge for the new government has been to revive investor sentiment and rejuvenate the India story. Getting Indian business to first invest in India is the necessary first step to get the rest of the world to invest in India. The government's "Make in India" programme is, therefore, an important foundation of further development, but it must first get Indians to make in India, before it can get the world to do so.

Perhaps the "Make in India" campaign ought to have been launched differently. It should have been a "Make in India and Make India" movement. "Bharat Mein Banao. Bharat Ko Banao." Thereby linking the project of industrial development to that of national development.

Creating the production base at home, creating jobs at home, and creating the environment for the full flowering of local enterprise at home is the necessary pre-condition of nation building. The time to re-enable India is here and now.

The article is written by Dr Sanjaya Baru, Director for Geo-economics and Strategy, International Institute of Strategic Studies and Honorary Senior Fellow, Center for Policy Research, New Delhi. It was published in FICCI's souvenir released on 20th December 2014 during the 87th AGM.

Budget – why this big bang approach?

Fiscal policymaking need not be reduced to a single annual statement. Rather, it should be a continuous, evolving exercise

By definition, the Budget is an accounting statement providing an estimate of the government's income and expenditure for a set period of time. However, over the years, India's Budget has gained the status of being a 'statement of policy roadmap'. Yes, it can be a good opportunity to announce major reforms and plans, but it is definitely not the only occasion. The tendency of successive governments to announce key policy decisions on Budget day has somehow made this an annual ritual.

An unintended consequence has been the heightened expectation preceding the Budget, which then forms the basis of judging the government's performance from a single day's announcements. What many conveniently overlook is that reforms often entail step-by-step changes. Ideally, reforms have to be an ongoing exercise. The Budget may signal a policy direction but it cannot be the be all and end all of reforms.

Reforms and governance

The bigger question is, what constitutes reforms? Reforms cannot be limited to a policy statement or a legislative agenda. They encompass the entire gamut of governance, right from perception to implementation, and should include measures aimed at unwinding all possible structural bottlenecks that have plagued growth and development.

In the last six-seven months, a series of policy measures have been taken up across infrastructure, taxation, labour, land, power, skill development, agriculture, financial inclusion as well as social issues such as sanitation. While the mechanism of reform measures has varied, encompassing a mix of executive and legislative decisions, the underlying intent is higher growth and development.

What should we realistically expect out of the 2015-16 Budget? The key takeaway would be how the government is able to manage its finances, while pushing for growth through enhanced public expenditure in productive sectors. To this end, we will look out for a plan of action in certain major areas.

First and foremost, we expect prudence on the revenue expenditure front, especially through rationalisation of subsidies. Over the last few years, fuel, food and fertiliser subsidies have roughly accounted for almost 15 per cent of the total budgetary expenditure. The cooling of global oil prices will definitely give some respite on the oil subsidy bill this year. Nevertheless, there is a need to bring down this huge expenditure, as a large portion of it is misdirected.

The process has to be gradual and aimed towards directing the benefits to those who really need it. The government has initiated steps in this direction through deregulation of diesel prices and direct cash transfer of LPG subsidy. The report of the Expenditure Management Commission will provide a concrete roadmap and it is hoped its recommendations will be taken up.

Second, while curtailing revenue expenditure for fiscal consolidation is important, the government should enhance capital expenditure for productive investments in sectors such as infrastructure.

There needs to be greater allocation of funds for roads, highways, railways, freight corridors, inland waterways, ports and for improvements in rural and civic infrastructure. This will facilitate acceleration of other economic activities, attract more private investments and simultaneously create large scale job opportunities.

Realistic targets

Third, there should be an end to tax aggression. Revenue estimates and targets should be arrived at realistically. We expect some policy announcements entailing reforms in tax administration that will create a genuine non-adversarial and conducive tax environment.

To enhance revenues, the government should focus

on widening the tax base by extending it to non-taxpayers who otherwise have the ability to pay, and exploring alternative non-tax revenues, especially through strategically planned disinvestments.

Fourth, we expect a rational tax structure that will give a boost to demand as well as investments. Implementation of a meaningful GST, correction of inverted duty structures, desired changes in MAT, and Dividend Distribution Tax and deferment of GAAR will enhance the confidence of investors. Additionally, some relaxation in taxes will improve disposable incomes and boost consumer sentiment, thus driving demand.

We are hopeful of reform-oriented action throughout the year.

The article is written by Dr A Didar Singh, Secretary General, FICCI and was published in the Hindu Business Line on February 9, 2015

Growth and Development Agenda of the Government

With various programmes and reform measures, the government has set the direction for driving India's economy towards high growth trajectory. Several new initiatives have been launched like Make in India, Digital India and Smart Cities Project to kick start the growth and development process. Additionally, programmes like Swachh Bharat Abhiyan, Jan Dhan Yojna, Clean Energy initiative and Clean Ganga Mission are directed to meet the objective of creating a healthy and equitable society with better life conditions and environment.

The government has taken positive steps for almost all sectors of the economy. A slew of reform measures have been taken to ease the growth bottlenecks. While a majority of measures have been taken through executive decisions, some key legislative reforms have also been undertaken. The amendment to three major labour laws, ordinance for amendment in land acquisition law, ordinance on coal mines, and amendments to companies law are steps in the right direction and will help in easing some of the bottlenecks faced by the industry.

Policy measures have been broad based covering almost all sectors. Some of the key measures undertaken across different areas are detailed below.

Ease of Doing Business: Major initiatives have been taken for improving 'Ease of Doing Business' in India through simplifying and rationalizing existing rules and introducing Information Technology to make Governance more efficient and effective. E-Biz project aims to serve as a one-stop shop for delivery of services to the investors. The process of applying for Industrial Licenses and Industrial Entrepreneur Memorandum (IEM) is now available 24x7 at the e-Biz website. The Process of registration with Employees State Insurance Corporation (ESIC) has also been integrated with e-Biz.

The process of environmental clearances has been simplified by delegating more power to state-level bodies that will now deal with almost 90% of projects, introducing online submission facility for applications for environment and forest clearances, removing roadblocks in the way of defence projects held up for environmental reason and by allowing linear projects (like highways, transmission lines) to proceed with in-principle approval.

Taxation: A key factor affecting investor sentiment is the tax structure and environment. Over the last eight months, the government has taken some positive steps to improve the tax environment, specifically the announcement of no retrospective changes to create any fresh tax liability. The government has also introduced advance ruling for resident tax payers and set up a high level committee to interact with trade and industry on a regular basis. Further, the government's decision of not contesting the Bombay High Court Judgment on Transfer Pricing of Multinational firms is a welcome move.

There have been progressive developments on the tax structure as well. With GST bill now placed in the Parliament, we expect it to get passed in the Budget session, thus clearing way for GST implementation by 2016. We hope that GST rates will be prudent and it will eventually cover all sectors and subsume all levies.

Land: The government has passed an ordinance for amendment to the Land Acquisition Act, which has been a major roadblock in development of large number of projects in the country. As per the ordinance, the land acquisition process has been simplified for specific sectors including defence, rural infrastructure, affordable housing and industrial corridors.

Labour: The Government has initiated steps for bringing transparency and accountability in enforcement of **labour laws**. It launched the Shram Suvidha Portal to allot unique labour identification number (LIN) to units to facilitate online registration, file self-certified and simplified online returns, computerized inspection of reports and to ensure timely redressal of grievances.

Some relaxation with respect to application of labour laws has been given to companies employing less than 40 workers. To plug leakages in the rural job scheme – MGNREGA, Mobile Monitoring system has been launched. This is likely to bring in more transparency.

Thrust on Manufacturing: The government has recognized the potential and importance of the manufacturing sector to attain high level of growth. *'Make in India'* has been launched to boost the manufacturing sector and create jobs and larger market for manufacturers. It aims to facilitate investment, foster innovation, protect intellectual property and build best in class manufacturing infrastructure. The government has also approved the Scheme on *Enhancement of Competitiveness in the Indian Capital Goods Sector*. This is an important step towards making the Indian capital goods industry globally competitive.

Labour intensive sectors like the food processing, textiles and leather industries have also seen some policy changes that aim to provide a more conducive environment for each sector. To facilitate development of food processing, a food map of India identifying surplus raw material has been prepared. This aims to bridge the gap between surplus and deficient areas in the country.

Infrastructure: Infrastructure sector has received high priority under the current government. An important initiative being taken is the *'Smart Cities Project'*. India plans to develop 100 smart cities and modern satellite towns around existing cities under the smart city project. The smart cities will attract investment in *physical infrastructure* – transport, water supply, sanitation, solid waste management, electricity and internet and telephone; as well as in *social infrastructure* – health, education, entertainment etc.

A National Industrial Corridor Authority, with its headquarters in Pune is being set up to coordinate the development of Industrial Corridors with emphasis on Smart Cities linked to transport connectivity to spur growth in manufacturing and urbanization.

The government has also taken various initiatives to improve rail, road and air infrastructure. One of the landmark initiatives taken by the government is the opening up of FDI in Railways infrastructure. The government has also finalized detailed sectoral policy guidelines to attract FDI in railways.

To make rail transport safer, the government plans to use Geo spatial technologies to alert road users at unmanned level crossings. To boost development of rail link in the North Eastern region, a number of new rail routes are being constructed. The government also plans to introduce high speed bullet trains. The government has also planned a diamond quadrilateral that will connect major metros and growth centres by high speed bullet trains.

Steps taken to improve existing standards of **Roads and Highways** have also been initiated. The Motor Vehicles (Amendment) Bill 2014 was passed in the Lok Sabha to regulate E-rickshaws. Electronic Toll Collection System (ETC) has been launched to facilitate seamless travel along all National Highways as a measure to reduce pollution and save fuel.

Special Accelerated Road Development Programme in the North East has been initiated to improve accessibility in the region and to promote trade. Further, to fast track implementation of National Highways, the government has introduced fast track dispute resolution and taken steps to improve inter-ministerial coordination.

Energy: With an objective to provide 24x7 power across the country by 2019, the government has taken several landmark decisions for generation of power, strengthening of transmission and distribution, separation of feeder and metering of power to consumers. In the reform and restructuring front, various amendments are being brought in the Electricity Act and Tariff policy. For the power sector, the methodology for e-auction of coal blocks is being revised to make it transparent, encourage greater competition, improve efficiency and optimize power tariffs.

The Government also plans to launch 'National Smart Grid' Mission to address key issues of smart grid and to make Indian Power infrastructure cost effective, responsive and reliable. Major Initiatives undertaken in the power sector recently include Deendayal Upadhyay Gram Jyoti Yojna, Integrated Power Development Scheme, North Eastern Region Power System Improvement Project, LED Replacement and Energy Efficiency schemes.

The government recently passed an ordinance on Coal Mines (Special Provision), which envisages allocation of coal mines and vesting of the right, title and interest in and over the land and mine infrastructure, together with mining leases, to successful bidders and allottees through *a transparent bidding process*.

Other major initiatives introduced in the coal sector include *rationalization of coal Linkages, Quality and Third Party Sampling, policy on transfer of linkage in case of scrapping of old units by replacing them with new plants, and implementation of new coal washeries.*

The government has given a strong thrust on development of **Renewable energy.** While the government is preparing a renewable energy bill, several measures have been undertaken to make India "Solar manufacturing" hub. For production of (solar) renewable energy, the earlier target of 20,000 mega-watts by 2022 has been revised upwards to 100,000 mega-watts, to be achieved by 2019.

Major initiatives taken to boost clean energy include *Scheme for development of Solar Parks and Ultra Mega Solar Power Projects, Restoration of Accelerated Depreciation (AD) benefits to Wind Power Projects, Improved cook stoves- Unnat Chullah Abhiyaan, and Formation of an Association of Renewable Energy Agencies of States.*

Tourism: The government has recognized the growth potential of tourism and has undertaken various initiatives which can increase its share from present 6.8% of GDP to 9% of GDP over the next few years. The government has introduced Electronic Travel Authorization (ETA) enabled Tourist Visas on Arrival for 43 countries. Within a month of its launch, more than 22000 visas were processed. In addition, North East Campaign was launched to promote and develop tourism in the North East.

Safety measures have also been put in place for tourists; Social awareness campaign to sensitize the masses on traditional Indian values and concept of Atithi Devo Bhava were launched. Use of technology for service delivery, E-ticketing at importatnt historical monuments, Adarsh smarak and welcome cards on arrival to tourists are other initiatives taken to promote the tourism sector. Moreover, the ministry has also identified five tourist circuits to be developed around specific themes namely Ganga circuit, Krishna circuit, Buddha circuit, North East circuit and Kerala circuit.

Digital India: The Digital India programme was launched in August 2014 with an aim to transform India into a digitally empowered society and knowledge economy.

The objective of the programme is to bring public accountability through mandated delivery of government's services electronically. The government has taken various initiatives to ensure good governance through digitization.

These include plans for providing communication facilities to all by covering all villages by mobile network by March 2019, setting up of new goal posts for the postal department and National Digital Literacy Mission.

Steps have been initiated to connect 2.5 lakh Gram Panchayats by laying about 7 lakh kilometers of optical fiber cable and to create National Information Infrastructure by creating a unified e-governance, enhancing storage and creating suitable institutional mechanism.

Digital India Programme will provide an impetus to Indian manufacturing by opening up a massive demand for internet-related equipment - routers, switches and devices (most importantly affordable smartphones) - that will facilitate last mile connectivity.

Manufacturing clusters for electronic goods have already been approved to be set up in Jharkhand, Maharashtra and Madhya Pradesh for products such as mobile handsets, microchip and chip-less designs and set-top boxes.

Agriculture: The government has taken various initiatives for sustainable development of Agriculture. The government has announced enhanced institutional credit to farmers, improved access to irrigation through Pradhan Mantri Krishi Sichayee Yojana, creation of Price Stabilisation Fund to mitigate price volatality in agricultural produce, promotion of scientific warehousing infrastructure including cold storages and cold chains in the

country, and setting up of Agri-tech Infrastructure fund for making farming competitive and profitable.

Social Sector: The government has also taken various developmental initiatives to improve the social sectors like health, sanitation, education and skill development.

By launching **Swachh Bharat Campaign,** the government has reiterated the need for *'Toilets'* in every household, Anganwadi and in schools to make India Open Defecation Free by 2019. A nationwide monitoring of use of toilets has been launched, not only to keep a check on the construction but also the actual use of toilets on a sustained basis.

A National Telephonic helpline will be installed for Rural Water Supply and Sanitation. **National Health Portal** was launched to serve as a gateway to authentic health information for all. The government also launched Pradhan Mantri Swasthya Suraksha Yojna (PMSSY) to correct regional imbalances in the availability of health care services (setting up more AIIMS like institutions) and also augment facilities for quality medical education in the country.

Recognizing the need for enhanced focus on skill development, the government has set up a separate Ministry for Skill Development and Entrepreneurship.

This new Ministry will coordinate with other Ministries/Departments to achieve the mission of skilling India and develop job related skills for different sectors. Other measures taken by the government towards skill development include launch of Unnat Bharat Abhiyan, Global Initiative for Academics Network (GIAN), Pandit Madan Mohan Malaviya Mission. The government has also announced Credit framework for Skills and Education as per the National Skills Qualification framework, paving way for certification of skills through the formal system and allowing for multiple exits and entrance into the education system with scope for vertical and lateral mobility.

Enabling India – Economic Growth, Inclusive Development

It is heartening to see that the Indian economy has been set on an irreversible trajectory of high growth. There has been expeditious clearance of stranded projects, initiatives for infrastructure, manufacturing and agriculture - all under-pinned by fiscal consolidation. Good days seem to be ahead.

Yet, to play devil's advocate, we cannot ignore the fact that the country still faces critical challenges on the economic front. We need to revive the pace of GDP growth, combat inflation and create new jobs on a large scale.

Yes, we are greatly encouraged by the progressive approach of the new government. This new mind-set has been made apparent in the move to restructure ministries, usher in greater Centre-State coordination and evolve long-term development plans. There has also been a clear recognition of industry concerns on land, labour and environment regulations and clearances.

According to me, to enable India to move towards economic growth and inclusive development, three factors are most critical.

First, India must be equipped to become a hotspot for manufacturing activities. And while policies and reforms are necessary, what is of imminent importance is to improve India's infrastructure. To get down to brass tacks, the decision of which State to base a new manufacturing unit in poses a challenge for all companies – since almost each State is plagued by infrastructure problems ranging from power to labour to transportation to security.

We need to take into account what incentives are offered by the State in question and how its infrastructure matches a company's needs. Take Karnataka for instance, and the industrial areas around Bengaluru.

Owing to the city's undeveloped infrastructure, many service providers have now moved their call centres to Delhi or Mumbai. While West Bengal's TMC government is now providing generous incentives to businesses, the state's lack of previous investment makes it unattractive for almost any and every investor today.

Take infrastructure in power. Here, the issue is not just total production but improved management of power, as currently both high-tech factories and residential areas are suffering. Eventually, our government needs to realise that the country will never be able to support truly high-tech production like South Korea until power outages are unheard of.

Or take India's ports which have the dual problem of poor infrastructure and crippling bureaucracy. This of course differs from port to port and necessary upgrades are being made, but extremely slowly. The inefficiency issue is harder to fix and is symptomatic of India's bloated public sector. I'll repeat an oft-quoted statistic here. Shanghai's port can turnaround a container ship in 8 hours, but the same ship in Mumbai takes 3 days.

It's also important to note that Tier II cities are becoming major players in industries which have been reliant on unskilled labour. As the utilities and infrastructure in these second tier cities improve, skilled labour industries and service providers will be able to move in and flourish.

India's infrastructure does present a bleak picture, yet almost all our infrastructure-related problems can be addressed with adequate planning and investment. And while businesses must invest in improving infrastructure, government also needs to step in and remove these infrastructure road bumps. If proper steps are taken, India holds as much potential as China did ten years ago.

Second, while our country today is home to companies which have made their mark on various fronts - not just in India but also globally – to provide a further fillip to GDP growth, and to create jobs for our

growing population, India needs to make improvements in manufacturing and production. To meet our potential, we have to address certain crucial issues which could handicap our growth efforts. Most importantly, that of labour reforms. In India, we operate in an environment in which restrictive labour laws have been encouraged – and which is one of the major obstacles to the Indian manufacturing sector.

What is required is the relaxing of labour laws to encourage small manufacturing units to be set up. These smaller manufacturing units provide greater employment potential, which should be encouraged.

In India, 84% of the workforce in manufacturing works for micro and small enterprises. This is in comparison to 27.5% in Malaysia and 24.8% in China. Yet, for some reason various governments have shown a predilection for inflexible and outdated labour laws. We as business leaders and the government need to evaluate existing labour laws which are outdated. These laws need to be changed to meet with the economic and industrial needs of today. After all, a robust manufacturing sector will help economic growth in a sustainable way and create much needed jobs while containing the trade deficit.

Third, while many may not see the importance of it, we at Apollo feel that every industry and company needs to be involved in Corporate Social Responsibility.

We must give back to the societies we operate in, in whatever way possible. A purely one-sided relationship cannot benefit the economy and one must continuously enhance stakeholder value. At Apollo Tyres we do this through the three Is – through which we Involve, Influence and Impact our stakeholders. It is important that CSR activities are aligned to corporate objectives, national development objectives and international development goals. As business leaders we must ensure that our companies function with responsibility, ethics and corporate governance.

The crux of the matter is that we need to step up our pace of reforms and ensure that the country is equipped to become a hotspot for manufacturing activities. To the new government, we have given a clear and resounding mandate for delivery and development. We look forward to a proactive agenda of "minimum government and maximum governance" as assured by the Prime Minister and a reinvigorated chapter of reform and liberalisation of the Indian economy.

My advice to both the government and us as corporate leaders is Carpe Diem. The time for discussions is over, it is now time to put our thoughts into action. I am certain that under Mr Modi's dynamic leadership, we can look forward to renewed trust, sound governance and decisive actions being taken to enable our economy to reach its pinnacle.

The article is written by Mr Onkar S Kanwar, Past President FICCI and CMD, Apollo Tyres Ltd. It was published in FICCI's souvenir released on 20th December 2014 during the 87th AGM.

Enabling India – Right Recipe with Right Ingredients

Since the dawn of liberalization era, India has been an attractive investment destination and not very long ago, we were counted amongst the top few emerging markets with high growth prospects. While the country always had the right ingredients to be on the top, over the last few years the recipe failed to deliver, with economy slipping into sub 5% growth and doubts being raised over the future growth potential.

Today, the outlook has once again turned positive and there is a strong wave of optimism with respect to future course of the economy. Optimism has been fuelled by the Prime Minister's promise to create more jobs and bring India back on high growth track.

The new government has brought stability and promises a good vision for socio-economic upliftment of all citizens, which is backed up by strategic planning and effective implementation. While there is a renewed pride in being Indian for the locals, the global community is equally enchanted with the changing dynamics in India's political economy and potential opportunities that the country has to offer.

The present leadership recognizes that *scale, skill and speed* are the key to transformation that India aspires. To reach the global *scale and size*, we need several trillion dollars of capital investment. However, attracting long term capital inflows requires a fair and certain policy environment for businesses besides the inherent strengths of democracy, demography and demand. This is essentially the underlying objective of *Make in India* campaign.

It aims to provide a competitive business environment to domestic as well as global investors for setting their global manufacturing base in India and produce best quality output with *zero defect and zero effect*. I am confident that 'Brand India' will soon get its due recognition and be at par with all respected brands globally.

Steps have already been initiated to enhance the ease of doing business, especially with the launch of *e-biz* and *Digital India* campaign. The current pace of procedural reforms gives us the confidence that India can scale up the Doing Business Rankings to reach Top 50 over the next few years.

Equally important is to provide a fair and certain tax policy environment. The first Union budget of the current government did address some of the critical tax policy issues like 'retrospective' taxation.

The Finance Minister has also indicated pushing reforms in tax administration to bring in greater efficiency and address the issue of tax aggression. An early implementation of an effective Goods and Services Tax (GST) would definitely be a landmark - with direct implications on business competitiveness, economic activity and revenues for the exchequer. This could easily translate into additional GDP growth of two percentage points.

Another critical aspect in enhancing competitiveness and achieving scale is to address the structural issues related to the factor markets, namely land, labour, capital and energy.

A holistic review of government actions over the last six months will reveal that reform process has been initiated and more measures are underway to address the structural deficiencies. The government has taken a bold step by initiating amendments to three major labour laws along with measures to ease compliances and procedures therein.

While these are some of measures that industry desires, the fact that labour reforms are being seriously addressed for the first time indicates government's intent to create a conducive environment for businesses. However, there is an urgent need for legislative changes in the Company's Act and the Land Acquisition Act which, in fact, are stalling growth. The Act provides for several complex and time consuming procedures which lead to uncertainty as to when the land would be available and at what cost. Besides considering legislative changes in the 'Land Acquisition Act', we expect the government to encourage States to undertake digitization of land records and creation of Land Bank Corporations.

The government's decision on coal mining auctions is an important step towards market-based reforms in the energy sector. The thrust laid on the renewable energy and the recently signed electricity trade pact between SAARC countries indicates government's plans for long term energy security for the country. We further hope the government will soon consider privatization in the coal sector to increase efficiency in the sector.

The government has also accorded high priority to skill development. Given our country's demography, investment in human capital by way of education and skills becomes a necessity for providing employment ready workforce for the future. After the Make in India and Digital India missions, we understand that the government is going to launch *'Skill India'* in a mission mode.

Various media reports indicate that this will be a multi-skill development programme for nationwide job creation and entrepreneurship with an aim to skill much higher number of youths than the current target of 500 million by 2020. We hope industry will be actively involved in this mission in all aspects including curriculum design, training, and certification of courses as well as assessment.

In the globally competitive world, India cannot march ahead in the absence of *Speed, which* is why we need to have robust infrastructure, both physical and technological, to ensure timely delivery of goods as well as services.

The focus on building Industrial Corridors and Smart Cities is noteworthy and efforts are being made to expedite implementation of these projects. Opening up of Railways infrastructure to foreign direct investment will help in modernization and up-gradation and also facilitate last mile connectivity. The port led development envisaged through the *Sagarmala* project will lay the foundation for building competitiveness in external trade.

The government has also focused on financing of such mega infrastructure projects by relaxing lending norms for infrastructure projects, relaxing FDI norms for construction of Smart Cities and setting up Infrastructure Investment Trusts.

In fact, it is highly encouraging to see Hon'ble Prime Minister successfully campaigning for investments in India's infrastructure development in his various international engagements. This has culminated into nearly 100 billion dollars of committed investments from some major countries infrastructure, which is why this subject has gained much attraction, especially with the launch of *Swacch Bharat Abhiyaan* and *Clean Ganga initiative*. The initial investment envisaged under these programs alone is estimated around Rs 760 billion.

As a nation India needs to invest in acquiring global minerals that are required for growth of the country. Apart from hydrocarbons and coal, India should support private enterprise through funding from low cost infrastructure funds to acquire such reserves including phosphate and potash deposits in which India is one of the largest users of such minerals.

To sustain high growth, the economy has to be run efficiently and managed like an enterprise, with best possible utilization of existing resources and a strong desire to improve performance on a continuous basis. The present government has definitely set the right tone and direction to mend the economy. But there is a growing feeling that while intentions are good, ground action by the Government on reforms is slow. We need to recognize that six months time for a Government in office is just the start and it takes time to implement reforms particularly when the Government does not have the numbers in Rajya Sabha.

The Government has to manage the Opposition and get their support for passing important economic reform bills which are critical for the growth of the economy. This is both a challenge and responsibility for the Government of Prime Minister Modi. It is true that investments remain stalled. But I strongly believe that the Government is taking the right steps and the country will gradually re-emerge on the high growth trajectory. Furthermore, there is a commitment to continue the reforms process on an on-going basis. I believe that today we have the right mix of ingredients and recipe to take India to the path of sustained high growth.

The article is written by Mr Saroj Poddar, Past President, FICCI and Chairman, Adventz Group. It was published in FICCI's souvenir released on 20th December 2014 during the 87th AGM.

India's Resurgence has begun

India is an ancient civilization, a modern nation state and much younger economy. Our nationhood is well established, and its strongly democratic longevity has been marveled by the world. This year we achieved the sixteenth large scale and peaceful transfer of political power since 1950. This achievement of the repeated supremacy of the ballot in our democracy itself is a wonder.

Today it is every Indian's dream to see this nation realize its potential as a great power, in every sense of the term. India is already the third largest economy in the world, in terms of purchasing power parity. But a great power status requires that each and every Indian realize their own fullest potential, and the minimum standard of wellbeing for all Indians is raised to a high benchmark.

The year 2014 has been a watershed year for many reasons. We had an unprecedented electoral outcome, which produced a single party national majority for the first time in 30 years. Many macroeconomic variables turned around from nearly panicky to extremely stable during this year. The exchange rate stabilized (unlike many emerging market peers), the current account deficit declined, the IMF revised its India estimates positively, one of just a handful of countries. We received record inflows of foreign money, as a mark of their confidence.

Additionally, there were three other fortuitous developments. Firstly the monsoon revived handsomely, despite initial anxiety. The month of June had turned out to be the driest in the past 104 years! Secondly, international oil prices dropped sharply by more than 30% and are poised to remain low. This benefits both our fiscal and trade deficits immensely.

India stands out among its Asian peers, in that it has a large trade deficit owing to external oil dependence. The third favorable development is that international rating agencies are signaling a possible upgrade in the near future. In turn, it will greatly impact investor sentiment positively. The domestic investment cycle too has started turning upward, ending a two-year drought. Increasing investor enthusiasm is palpable.

Fortune favors the brave. We must now match the good fortune of 2014 with boldness, nay audacity. Prime Minister Modi has already set some audacious goals. Swachh Bharat Abhiyaan has a goal set for October 2, 2019. Digital India campaign aims for fiber connectivity to all villages by 2019, and "Power for All" too aims for a deadline of 2019. The Jan Dhan Yojana is even more ambitious in aiming to reach the unbanked in the next six months.

These are audacious goals for digital and financial inclusion. The PM's campaign of "Make in India" launched on the day following the extraordinary feat of Mars Orbiter Mission landing, also exemplifies a grand vision. It indirectly hints at a quantum jump in India's aspiration to be a global manufacturing hub. India's attaining "great power" status depends on a resurgence of domestic manufacturing sector.

As we know, India has made great strides in emerging as a global IT hub, and also a reservoir of intellectual capital. Almost all Fortune 500 companies get their IT services from India-based companies. IBM, for example, has a workforce of more than 100,000 based in India, their largest country team, outside of the USA. But it is high time that the manufacturing sector also achieved similar global recognition and clout. Undoubtedly we have made some strides in developing our manufacturing capabilities.

Today, India is the world's largest manufacturer of two wheelers, and a major manufacturing hub for small cars. India leads in the pharmaceutical sector in the production of generics and formulations. Ninety percent of the world's diamonds are polished in India. We have the world's largest refineries, and have become a major exporter of diesel and petrol. In automobiles and auto ancillaries Indian companies have distinguished themselves globally.

Despite this progress, the share of manufacturing in GDP is only 15% in India. This compares with 34% for China, 31% for South Korea and 22% for Germany. Quite clearly in manufacturing we have a lot of catching up to do. For sustained growth in per-capita incomes we simply must increase the share of manufacturing from the current 15% to 25% as articulated in the National Manufacturing Policy.

The next decade offers us a fantastic opportunity and a formidable challenge as well. The opportunity is to reap the demographic dividend, and unleash the latent energy of our youth. As India's labour force expands at a rate 1% faster than its population growth, it will produce an expanding base of a class of consumers, savers, investors and taxpayers.

This has a virtuous cycle effect on the economy and the country's fiscal health too. That enables the government to spend more on health, education and skilling. These provide the foundation of the demographic dividend.

The flip side of this opportunity is the challenge of creating jobs in adequate quantity, quality and consistently. The need to create a million jobs every month for the next ten years entails that we must have at least ten thousand new enterprises every month too. Those enterprises will be the job creators, calling for radically overhauling the environment in which enterprises are born or closed.

The PM has already alluded to this challenge as aiming to increase India's rank in the global "Ease of Doing Business" from 142 to less than 50. This is like a "Project Tiger" approach, where a singular focus on improving the rank, will mean a host of proactive measures, which contribute to the ranking process. Basically this means, making entry and exit of firms easier and flexible, increasing the reliability of access to infrastructure, credit and power.

Most importantly reducing the uncertainty and unnecessary burden in regulatory approvals and clearances. Let us rely on self certification and self compliance, and then by all means enforce the rules, if a breach is discovered. Recent policy measures such as labour reforms, dilution of the factory "inspector-raj", deregulation of diesel prices and coal sector reforms all point to an improvement in the investment climate going forward.

In the past each time India clocked a 9% economic growth it generated enough fiscal resources to pursue inclusive development. However, in the health and education sector, India's spending as proportion of GDP is much below desired level. Education investment, of which a lion's share will come from public funds needs to double as a share of GDP.

In healthcare, as per a report India's healthcare sector needs 100,000 additional doctors, and 300,000 more nurses every year for the next 20 years. Skilling and higher education too which is crucial to drive the manufacturing surge, calls substantial investments. This just makes high economic growth imperative to improve our fiscal condition to support the provision of public goods. In Social Security, especially to the elderly and indigent, India has a huge catch-up gap.

India has talent waiting to be polished and tapped, a domestic market of large scale waiting to be harnessed, a policy agenda ready to be executed and an aspiration waiting to soar. The future is ours to make.

The article is written by Mr Kumar Mangalam Birla, Chairman, Aditya Birla group. It was published in FICCI's souvenir released on 20th December 2014 during the 87th AGM.

Growth revival still some distance away

The wave of transformation that has swept our country this year is remarkable. Against the backdrop of two years of weak economic performance, the country voted for a change, from which ensued the formation of a stable government that came to power with a complete majority, a feat achieved after thirty years. The other major transition that the country is witnessing is the style of governance.

The entire bureaucratic and regulatory structure is being revamped, which is a revolution in itself as a change in the administrative mindset is critical to bring efficiency and transparency in decision-making and to build the trust and confidence of investors.

The economic vision set by the country's leadership is not limited to achieving high economic growth for the next year but extends to a global vision of taking India to the league of leading nations over the next five years. This includes vision of being ranked amongst the top 50 nations in ease of doing business, becoming the leading global manufacturing hub, and making 'Brand India' synonymous with quality.

The new government's sound economic vision and desire to introduce and execute critical reforms has escalated hopes of all and brought about a complete turnaround in the sentiment. Obviously, there are high expectations. This is clearly visible in the mounting anxiety that surrounds the completion of six months of the new government at the Centre. However, there is a need to calibrate these expectations with basic reality.

Bringing the economy back to high growth trajectory is a challenging task. While big-ticket reforms are important, ground level issues also need to be addressed meaningfully for achieving sustained high economic growth that ensures inclusive and balanced development. To see a complete turnaround in the investment cycle and the real impact on growth, we must give another 9-12 months, as several pending reforms are likely to be implemented in the coming months. The conviction and commitment of the Centre to usher in fundamental reforms is highly encouraging.

A review of government actions in the past six months shows that reforms have been initiated in most of the areas that require improvement. There has been considerable progress on starting the stalled projects. With Project Monitoring Group being the single authority co-ordinating approvals and environmental norms being relaxed, many more stalled projects are expected to be revived soon.

Efforts are being made towards easing the conduct of business through greater use of technology, facilitating labour law improvements and developing world-class infrastructure. E-biz platform and the Digital India campaign are going to play a vital role in integrating all government department and services.

The development of industrial corridors, 100 smart cities, opening up of Railways infrastructure to FDI, plans for bullet trains, the Sagarmala project for development of ports, development of low-cost airports, etc, will play a critical role in enhancing business competitiveness, triggering economic activity and generating huge employment.

With the 'Make in India' campaign, the government is set to make India a manufacturing hub. The decisions on coal mining auctions and deregulation of diesel prices are important steps towards market-based reforms in energy.

We are hopeful that the government would resolve some of the pending critical issues. We are confident that the policymakers will take a holistic view of the on-ground issues and bring about structural reforms ensuring sustained high growth.

Foremost, the industry is eagerly awaiting implementation of the Goods and Services Tax (GST) as it will not only streamline tax administration, but accelerate the economic activity and ensure higher revenue collection for the government. Estimates show that implementation of GST can increase GDP growth by 2 percentage points. We are optimistic that the issues surrounding GST will be resolved and an optimal solution will be found quickly.

A key element in reviving the capex is to lower the cost of capital. Given that inflation has moderated and there are no upside risk to prices in the near future, we believe RBI should adopt an accommodative stance its forthcoming policies.

Keeping fiscal deficit under check is also critical to reduce inflationary pressures and enable lowering of interest rates for private investments. Some of the steps towards fiscal consolidation are noteworthy, especially the deregulation of diesel prices, and announcement of various austerity measures for government departments.

We also look forward to the report of Expenditure Reforms Commission for specific suggestions on effective management of subsidies and hope these would be taken up by the government in the right earnest.

While procuring land, industry faces severe challenges and the problem has accentuated since the Land Acquisition Rehabilitation and Resettlement Act was passed in the beginning of this year. Ficci has asked for amendments in this Act and we hope that the same would be duly considered by the government. Besides considering legislative changes, we expect the government to encourage states to undertake digitisation of land records and creation of land bank corporations to ease the process of land procurement.

We firmly believe that the government would address these and other critical issues in a timely manner. We expect a lot more reforms in the coming months, especially from the on-going session of Parliament and the forthcoming Union Budget in February 2015. I believe it is only a matter of time when we will see expectations and realities meet the same track.

The article is written by Dr A Didar Singh, Secretary General, FICCI and was published in the Financial Express on December 18, 2014

With Republic Day celebrations, let's also get down to business

When US President Barack Obama touches ground in India on Sunday, it will not be business as usual. At the outset, he will be making history as the first US president to grace India's Republic Day celebrations and the first sitting president to visit India twice. Amid all the celebrations, business will certainly be a top priority.

The current disposition is encouraging from both sides. The measures taken by the government in New Delhi, such as allowing FDI in railways, a hike in FDI limits in defence, Ordinances related to insurance sector and land acquisition, and ease of doing business, have enhanced the confidence of American companies to invest in India. We now need a concrete work plan that can be taken forward by both the countries.

There are certain imperatives identified by India Inc, matching the agenda outlined by US secretary of state John Kerry during his recent visit. These are both in the context of ongoing and protracted dialogues that need expeditious response and potential areas that need momentum.

Atop priority in the first set has to be defence. With major cuts in defence budgets, the industry in the US is eager to partake in the huge Indian acquisition programme through the 'Make in India' initiative. Also, delicensing non-lethal items and opening up of India's defence sector to FDI has opportunities for foreign investors.

One major hurdle in this process is the inordinate delays with regard to licencing and releasibility of key technologies by various departments of US government. This leaves US companies at the mercy of Washington to get orders through the foreign military sales route, hence making them not as attractive for joint ventures with Indian counterparts.

While there has been some progress in export control reform recently, there is scope for more to make the policy attractive for business-to-business cooperation. The opportunity lies in reframing the 10-year 'New Framework for the US-India Defence Relationship', which is to expire in June 2015. This is important for securing an expanded, modern Defence Framework Agreement that will facilitate the creation of an enduring partnership between Indian and US companies comprising technology transfers, trade, research, co-development and co-production.

Both sides need to carry forward their commitment to renewing the framework by infusing the document with a new vision: the Defence Trade and Technology Initiative.

There are also gains for India in unlocking the stalemate over the nuclear liability issue. The continued lack of commercial trade in civilian nuclear technology represents a significant 'unmet promise' of the strategic relationship.

The formation of a focused contact group in September 2014 to look for ways to operationalise the commercial aspects of civilian nuclear trade has added a new and important pillar of cooperation. The potential of the civil nuclear business in India by 2030 is over $30 billion. Obama's visit allows a great opportunity to deliver on this promise.

The visit can also be key to bringing to fruition the much-stretchedout Bilateral Investment Treaty (BIT). Both sides have expressed their wish to hold talks and have the treaty take shape as early as possible. As a harbinger, it is heartening that India and the US have launched the India-US Investment Initiative.

Under this, the two sides would cooperate on facilitating capital market development and creating an environment that encourages investment in various sectors in India. India requires huge investments in infrastructure space, and this can be a good area of opportunity for US companies.

An enhanced partnership on energy security and clean energy is another potential area of cooperation. A key deliverable during the Obama visit would be to concretise steps towards fulfilling the US intent to support supply of 24×7 electricity to India.

Industry expects a firm move from the US towards helping the acceleration of deployment of solar technology plan that will help turn clean energy into a commercial opportunity that will draw in private capital.

The plan to engage in a new partnership for meeting the energy needs of smart cities will add further value to this partnership.

Further, US has provided a special dispensation to India for the export of LNG from the Sabine Pass and Dominion terminals under the non-free trade agreement (FTA) category. To deepen this partnership and to carry forward the commitment towards climate change, it will augur well for US to grant more such LNG terminals' approvals to export to India.

Some recent developments — bold emission-mitigation targets for 2030 by the 28-nation European Union, a Sino-US bilateral pact committing the world's top two emitters to specific mitigation actions by 2025 and 2030, and the signing of the Lima Call for Climate Action by 194 countries calling for ambitious contributions from all countries — reinforce the need for a bolder initiative by India and US.

Kerry signalled that the US is committed to work with India to reach a landmark climate change agreement in Paris, and India Inc will welcome this move.

The article is written by Dr Jyotsna Suri, President, FICCI and was published in the Financial Express on January 24, 2015

Our untapped trade potential with Russia

Russia, pushed back by the West, seeks to boost economic ties with India. It has plenty of expertise to offer

When Prime Minister Narendra Modi met President Vladimir Putin in Brazil during the Brics summit in July he told him: "Even a child in India if asked to say who is India's best friend will reply it is Russia because Russia has been with India in times of crisis".Last month, Modi conveyed to Deputy Prime Minister Dmitry Rogozin that India gives great importance to the special strategic partnership with Russia. Rogozin was in New Delhi for preparatory talks for the annual Indo-Russian summit to be held on December 11. He also spoke at the eighth Indo-Russian Forum on Trade and Investments, the most important bilateral business engagement for the two governments. Russian technology combined with Indian entrepreneurship and the new government's business-friendly policies can give a big boost to our commercial relations. Economic and commercial relations have been the weakest link in our otherwise robust bilateral ties.

Lack of interest

Though the two governments had set a trade target of $20 billion by 2015, our current level of trade is just about $6 billion, according to data from the Indian side. At the end of 2013, India's direct investment in Russia was about $3.4 billion, a large part of which in oil and gas blocks acquired by OVL. Russian investments in India amounted to a little more than $0.8 billion, mainly in telecom. Somehow, there has been limited interest from the private sector on both sides. The main reason could be that we have only highlighted the risks associated with doing business.

Where do we go from here?

Both governments are paying attention to strengthening economic cooperation. Talks are on for greater engagement between India and the CustomsUnion of Russia, Belarus and Kazakhstan which will soon become the Eurasian Economic Union.
The upcoming North-South Corridor which envisages a ship, rail and road route from India's west coast to Russia via Iran and Central Asia is expected to significantly reduce both shipping costs and transit time. Our businessmen should be encouraged to look beyond Moscow and St Petersburg and explore Russian regions rich in natural resources, have a well-developed infrastructure and are keen to establish business relations with India. The Russian government's decision to ban fruit, vegetables, meat, fish, milk and dairy imports from the US, EU, Australia and Canada is an opportunity for Indian companies. Russia has just allowed import of buffalo meat from India. Alrosa, the only company authorised to export diamonds from Russia, is expected to enter into long-term supply contracts with Indian importers of rough diamonds. A Russian-Indian working group for high priority investment projects has been set up. The Russian side should consider participating in specific manufacturing projects in India.

On the infrastructure front

Russian companies also have considerable experience in developing infrastructure projects. India has invited Russian participation in the Delhi-Mumbai Industrial Corridor and the Dedicated Freight Corridor — among the largest infrastructure projects in the world — along with the Bangalore-Mumbai Economic Corridor and the Chennai-Bangalore Industrial Corridor. The Russian company Sistema has shown interest in building a 'smart city' in India. A formal agreement is likely to be signed during the upcoming summit. India and Russia are also expected to sign a number of agreements for close cooperation in defence, nuclear energy, oil and gas exploration, space, science and technology and aviation, among others. However, certain challenges need to be overcome. Foremost is the visa regime, particularly for business visitors. A visa facilitation agreement between leading business associations of the two countries can address this issue.

The fall in global oil prices and the sanctions imposed by the West have started impacting the Russian economy. The rapid depreciation of the Rouble has further aggravated the situation. It is in this context that Russia regards old friend India with a lot of expectations. The summit meeting should see a redefined strategic vision.

The article is written by Mr Sidharth Birla, Immediate Past President, FICCI and was published in the Hindu Business Line on December 10, 2014

Time to scale up Indo-US business ties

In 2001, as the Internet Bubble was collapsing and the stock market was imploding, Goldman Sachs predicted that four countries would dominate global economic activity in the 21st century—Brazil, Russia, India and China (BRIC). This acronym caught on and became a major alternate global grouping, referred to now as the BRICS (with South Africa added on). Similarly, Professor Doggett of the McCombs School of Business of University of Texas at Austin in 2010 coined a new acronym—the new CIA: China, India and America.

At that time it didn't gain much traction but, in 2015, this grouping suddenly seems to be gaining relevance. Not only do we see some of the economies in the BRICS grouping in some difficulty (Russia, Brazil and South Africa), we also see Europe with a continuing downtrend; Africa, Gulf and Latin America with their own set of difficulties; and the global economy itself not so robust.

It is now being openly stated that if the last century was known as the 'American Century', the current century would be the 'Asian Century', with China and India being the key players. It is in this context that the triad of CIA can be seen as the emerging core of world's economic power. Together, the three countries account for around 37% of the world's GDP and are home to over 41% of global population. In fact, the three countries are projected to constitute 42% of GDP by 2030.

The sheer size of the economy and huge population gives these three nations the power to transform the global economy. Economic prosperity of these nations has a spillover effect on the world at large. The global economic recovery currently under way can be primarily attributed to the improved growth prospects in US, with its growth estimated at 2.4% in 2014 and projected at 3.2% in 2015—one of the best performances amongst all advanced countries. Although China is going through a slowdown, it is still expected to grow at a robust 7% per annum according to World Bank's latest growth forecasts. India, which has once again embarked the path of economic reforms, is set to advance towards 7-8% growth over the next few years.

Better growth prospects in the three countries will provide greater opportunities for enhancing mutual trade, investment and economic cooperation. In line with the changing global economic landscape, there has been a significant thrust on enhancing India's relationship with both the US and China. This is evident from the series of two-way international engagements of respective leaders, be it President Obama's upcoming visit to India, Prime Minister Modi's visit to the US in September last year, President Xi Jinping's visit to India last year and the likely visit of Prime Minister Modi to China later this year.

The most awaited engagement is Obama's visit to India as the Chief Guest for Republic Day. There are expectations for a fruitful bilateral engagement that will take Indo-US partnership to higher levels. The strategic partnership between the two countries raised a new dimension when Modi visited the US last year. For the first time ever, leaders of two countries utilised the media platform (through a joint editorial) to present their common vision for Indo-US strategic partnership. The two leaders discussed strengthening of cooperation in a number of areas including defence, energy, infrastructure, counter-terrorism, space exploration and science & technology.

Bilateral relationship between India and the US has gained strength on the back of shared values of democracy and freedom and a collective stand with regard to major political issues of the world. Complementing this is the trade and economic relationship between the two countries, which has scaled new heights with every passing year. Total bilateral trade touched $100 billion in 2013 and both sides are keen to take this to $500 billion. At the same time, cross-border investments are growing and Indian firms have created close to 100,000 jobs in the US.

There is a huge potential still to be tapped, and while this requires strengthening existing frameworks, there is a need to explore new avenues of growth and collaboration. In his recent visit to India, the US Secretary of State, John Kerry, said, "We can do more together, and we must do more together, and we have to do it faster."

Clearly, Obama's visit will accelerate the pace of two-way dialogues on resolving critical issues, strengthening existing collaborations as well as initiating new cooperation areas.

Given that India currently has a stable government with a strong commitment towards initiating reforms and taking forward the growth agenda, there are abundant opportunities for American investors. These encompass a wide gamut of sectors, right from agriculture and food processing, to education, health, sanitation, infrastructure, energy, environment, cyber security and defence. With huge thrust on improving governance and ease of doing business, India is creating conducive environment for businesses and setting ground for higher foreign investments.

During Kerry's visit, the two countries reaffirmed their commitment towards the Bilateral Investment Treaty (BIT).

The US and China have already held several rounds of talks on BIT and are close to sealing the deal. It is time that India and the US also take the leap forward. This treaty is crucial for fostering real transformation of economic engagement between the two. By providing adequate protection to investors on both sides, the treaty will facilitate greater bilateral investments. Likewise, initiating a Totalisation Agreement between India and the US will be a great boost to several thousands of Indians who have worked for short periods in America but have not been able to take any benefit of social security payments made during that tenure.

The fundamental strength of India has again come to the fore and the country is rightly placed to position itself amongst the global economic powers. The time is ripe to strengthen our international relationships and reap the benefit though participative engagements with the leading global community.

The article is written by Dr A Didar Singh, Secretary General, FICCI and was published in the Financial Express on January 22, 2015

Global Economic Prospects: 2015-2017

The year 2015 seems unlikely to bring cheer to most economies of the world as both the World Bank and the IMF have reduced growth forecasts for the global economy in their respective reports released in January this year. The World Bank in its Global Economic Prospects Report has projected that the world economy will grow at 3% in 2015, lower than its forecast of 3.4% made in June 2014. In a similar move, the IMF too has brought its projections down to 3.5% from 3.8% which it announced in October 2014.

The revision has been made despite the recent drop in oil prices which is likely to benefit oil importing countries immensely. The World Bank report suggests that though the sharp decline in oil prices will support global activity, it will dampen growth prospects for oil exporting countries, justifying the cut in growth rates.

The downward revision made by the World Bank has also taken into account the modest growth prospects for some major economies including the Euro Zone, Japan and Russia in 2015. These countries have shown weaker than anticipated growth in 2014, which is likely to continue this year as well. Thus, global growth will increase only moderately from 2.6% in 2014 to 3% in 2015. Over the medium term, world economies together are projected to grow at 3.3% in 2016 and at slightly lower rate of 3.2% in 2017 supported by factors like expected gradual recovery in the Euro Zone, low oil prices, which are predicted to be sustained in future, and improvement in domestic conditions of developing countries.

However, owing to this tepid growth outlook, the Bank expects the commodity prices and growth in world trade to remain low in the coming years. On the monetary policy front, some high income countries are expected to delay their tightening process as inflation expectations have been falling in these countries lately. Even if the tightening measures are initiated by some countries, rates are expected to remain low.

The Report has also cautioned that fresh volatility in the financial market can adversely affect growth recovery in most countries, jeopardizing the global outlook. The countries also face complex policy challenges on account of factors influencing global growth and the respective risks attached to these factors. Both high-income and developing countries have been suggested to undertake comprehensive structural reforms, to promote growth and job creation, to enable them to attain the poverty reduction targets by 2030.

Table 1 The Global Outlook in Summary

Real GDP	*2014*	*2015*	*2016*	*2017*
World	*2.6*	*3.0*	*3.3*	*3.2*
United States	*2.4*	*3.2*	*3.0*	*2.4*
Euro Area	*0.8*	*1.1*	*1.6*	*1.6*
Japan	*0.2*	*1.2*	*1.6*	*1.2*
United Kingdom	*2.6*	*2.9*	*2.6*	*2.2*
Russia	*0.7*	*-2.9*	*0.1*	*1.1*
China	*7.4*	*7.1*	*7.0*	*6.9*
India	*5.6*	*6.4*	*7.0*	*7.0*
Brazil	*0.1*	*1.0*	*2.5*	*2.7*

Source: Global Economic Prospects 2015, World Bank

Outlook for High Income Countries:

The recovery noted in high income countries has been uneven in 2014. Countries like the US and UK exceeded pre-crisis output peaks but countries in the Euro Area failed to do so. Japan lagged behind, while Russia's growth outlook has suffered due to the sharp fall in crude oil prices in recent months. According to the World Bank, high income countries are expected to post a growth of 2.2% in 2015 higher than 1.8% in 2014.

The growth will further increase to 2.4% in 2016 but will fall back to 2.2% in 2017. The US and UK are projected to be the drivers of growth for 2015 while other high income countries will recover slowly to further raise the global growth rate in the medium term.

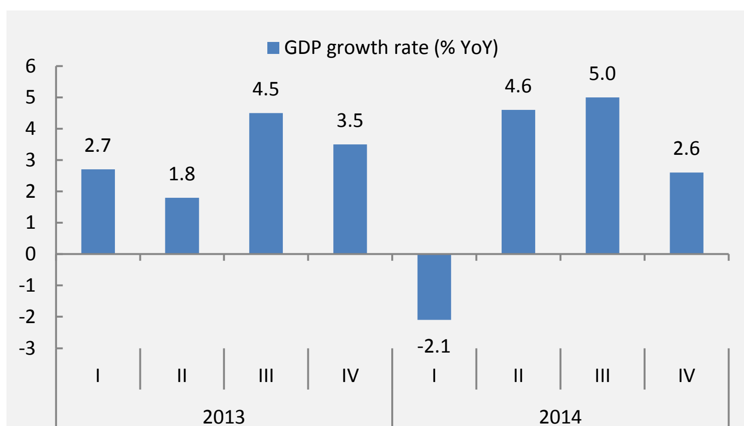
United States

Apart from a temporary contraction at the beginning of 2014, growth in the US economy has been above potential since mid-2013 and reached its fastest pace since 2003 in the third quarter of 2014. Accommodative monetary policy and easing of fiscal consolidation helped the US economy recover in 2014.

There has been a sharp fall in the unemployment level in the country as well due to improvements in the labour markets. However, labour force participation has declined to levels not seen since early 1980s which can be largely attributed to changes in demographic trends such as age distribution of the population etc. With the economy now in a better position, the World Bank expects the first hike in Federal fund rate to be announced around mid-2015.

According to the World Bank's projections, the US economy is expected to grow by 3.2% in 2015 before gradually decelerating to 2.4% in 2016. Private consumption will remain the prime source of growth in 2015. Investment rates are expected to increase but will be below pre-crisis levels. Inflation is projected to remain below-target in 2015–16, partly as a result of soft oil prices and strengthening Dollar. However, exports growth may suffer due to appreciating Dollar.

Chart 1: Real GDP growth rate (US)



Source: Bureau of Economic Analysis (BEA)

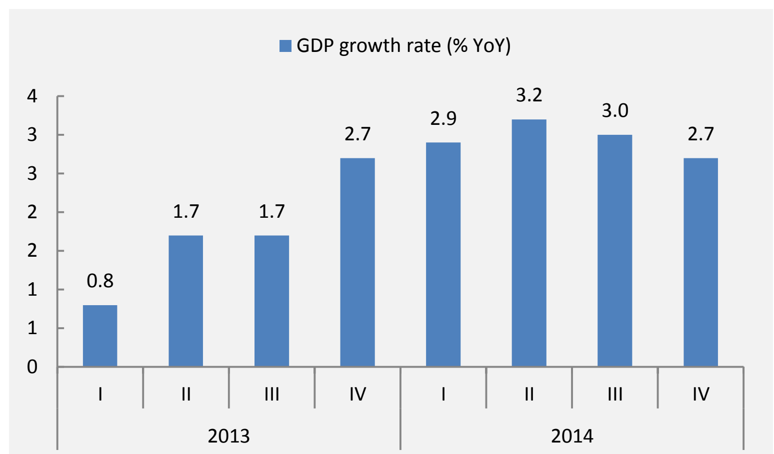
On the policy front, the World Bank report suggests that the gradual tightening of monetary policy in the US should be complimented with targeted macro prudential measures to contain pockets of excessive risk taking in domestic credit markets. In order to increase the labour participation rate, the Bank has suggested that labour productivity be enhanced by initiating reforms to improve education and vocational training which will facilitate entry into the labour market.

To ensure fiscal sustainability, the country has been recommended to take measures towards reforming taxation and improving quality of public spending.

United Kingdom

Improvement in the housing markets and increase in credit offtake has helped in the recovery of the UK which witnessed 2.6% (est.) growth in 2014. Growth is projected to remain above potential until 2016 despite slowing net exports partly due to low Euro Area demand. In 2014, inflation in the country remained below target and is likely to remain low in 2015 as well due to continued low oil prices. Like in the US, monetary tightening is expected to begin in the UK also in 2015. However, the first round of rate hike can be delayed owing to factors affecting the UK economy like subdued growth in wages, low inflation and weak activity in other European countries.

Chart 2: Real GDP growth rate (UK)



Source: Office of National Statistics (ONS)

On the policy front, the World Bank report suggests that macro prudential policy could help contain risks associated with a housing market boom, such as increasing vulnerabilities of households to income and interest rate shocks. In the bank's view, as the fiscal

consolidation program implemented over the past several years winds down, the recovery will strengthen. However, revenue and expenditure reforms will be needed to meet medium-term fiscal objectives. To enhance productivity, it would be essential to remove bottlenecks in infrastructure and increase investment in human capital.

Euro Area

Activity has been weaker than anticipated in the Euro Area in 2014, especially in France, Germany, and Italy. The countries are facing multiple issues such as financial fragmentation, high unemployment rate, structural rigidities, and unresolved fiscal challenges. Owing to these factors, the weaker countries in the Euro Area are unlikely to benefit substantially from the low oil prices and will observe delay in recovery. The World Bank forecasts that the Euro Area will grow at 1.1 percent in 2015, and 1.6 percent in 2016 and 2017. Inflation in the Euro Area is likely to go down further in the short term due to lower oil prices.

In view of a weak recovery and low inflation in the Euro Area, the World Bank has suggested that the European Central Bank (ECB) should maintain an extended period of policy accommodation. Countries in the Euro Area should also adopt flexible fiscal policy to support growth along with well-defined medium-term consolidation plans along with growth- and job-enhancing structural reforms and measures to strengthen the financial system.

Japan

Japan scored a disappointing growth of 0.2% in 2014, which was far below the World Bank's expectation. The subdued growth was a result of dwindling demand as the economy introduced a sales tax increase in April last year. On the other hand, despite weakening of Yen, the country's exports remained low mainly due to poor global demand and relocation of production facilities overseas, while cost of energy imports increased since the shutdown of nuclear reactors. The recent slump in oil prices is expected to bring down the energy import cost of the country in the short term. On the flip side however, lower oil price has increased the risk of deflation in Japan.

The Bank of Japan has announced additional stimulus to bolster growth and prevent a slowdown in inflation. Supported by these measures, the World Bank expects Japan's growth to reach 1.2% in 2015, 1.6% in 2016 and 1.2% in 2017 when a second sales tax hike is expected to be implemented.

World Bank feels that fiscal consolidation measures are a necessary step towards restoring fiscal sustainability which Japan should take into consideration as this will send positive signal about the government's commitment to stabilize high and growing public debt. The large exposure of the Japanese banking sector to sovereign debt has been a concern area. The World Bank suggests that strengthening capital standards for regional banks and funding sources of major banks could mitigate some of these concerns.

Outlook for Developing Countries

Unlike the high income countries, developing countries are projected to grow at an accelerated pace over the next three years. Growth is estimated to increase from 4.4 percent in 2014 to 4.8 percent in 2015 and 5.4 percent by 2017.

The forecast is based on the anticipation that the factors which restricted growth of the developing countries in 2014 will ease in the following years and the high income countries will also gradually recover, boosting global demand. However, the World Bank has identified three global influences that are expected to affect developing economies significantly in the near term.

i. Expected increase in the US monetary policy rate, leading to a gradual tightening of the global financial conditions.

ii. Anticipated low commodity prices due to excess supply scenario.

iii. Uncertainty in exports growth expected to be experienced by the developing countries due to recovery of the high income countries, as the impact will largely vary across countries according to their respective export basket and major trading partners.

The developing countries are also expected to face three major policy challenges in the future.

i. Monetary and exchange rate policies will have to adapt to the more normal (i.e. less easy) financial conditions which will accompany the recovery in high-income countries.

ii. Fiscal space will require restructuring to allow countries facing cyclical environment to use countercyclical fiscal policies when needed.

iii. Structural reforms are needed to promote job creation, growth, and trade.

The Bank is of the view that such policies will mitigate the long-run adverse effects from less favourable demographics in many developing countries and weak global trade. Moreover, they will be instrumental in achieving higher growth rates that are necessary to achieve poverty targets. Low oil prices on the other hand offer a lot of opportunities to oil importing countries as it allows these countries to implement subsidy and energy tax reforms to create additional fiscal resources which can be used to rebuild fiscal space.

China

China witnessed a substantial slowdown in the first quarter of 2014, which prompted the Chinese government to take several stimulus measures like extending support for new public infrastructure and housing projects, tax relief to small and medium-sized enterprises, and targeted cuts in the banks' required reserves.

Chart 3: GDP growth rate (China)

Source: National Bureau of Statistics of China

In addition, the central bank of China also cut the benchmark deposit and lending rates in November 2014 for the first time since 2012. With these efforts, the economy is estimated to have grown by around 7.4 percent in 2014. For 2015, soft oil prices are expected to boost activity and reduce the need for additional policy stimulus. However, according to the World Bank's predictions, China's economic growth is expected to slow below 7% by 2017. Inflation is expected to remain below the central bank's ceiling of 3% due to weak demand scenario, excess capacity and decrease in import costs.

India

In India, a slow economic recovery is underway, helped by a sharp slide in inflation and improving export momentum in line with rising demand from the US, a major trading partner. The World Bank has noticed that with the reform agenda building momentum in the country coupled with reduced current account vulnerabilities, Indian currency and equity markets were less affected than other emerging market peers during an episode of global financial volatility in December 2014.

According to the World Bank, a recovery in exports, declining oil import bills and strong remittance inflows are helping to narrow the current account deficits which stood at 2.2% of GDP in Q3 2014. In India, cumulative foreign portfolio investments crossed US$ 30 billion by the end of Q3 2014 (up from less than US$ 4 billion in 2013 and the highest since 2010), enabling the central bank to steadily rebuild reserves.

The World Bank is positive on India's outlook and believes that the reform momentum has picked up in India and if these reforms are successfully implemented, they should support the recovery currently underway by bolstering confidence and private investment. The Bank has suggested that to achieve fiscal consolidation, India will have to initiate long-term reforms to manage expenditure particularly on subsidies, and reform tax structure given the country's extremely low tax to GDP ratio. As per the projections of the World Bank, Indian economy will grow at 6.4% in 2015, which will further increase to 7% in 2016 and 2017, surpassing China's projected growth of 6.9% in 2017. Even IMF in its world economic update has predicted that India will overtake China in 2016 when the countries are projected to grow by 6.5% and 6.3% respectively.

China's 'Go Global' Policy: A Major Success

China's 'go global' policy which was initiated by the government nearly one and a half decade back has gathered substantial momentum in the past few years. After growing by 23% year-on-year and crossing the US$ 100 billion mark for the first time in 2013, the country's outward foreign direct investment (OFDI) is estimated to have outpaced its inward investment in 2014.

The government of China has been actively promoting large state-owned enterprises (SOEs) and other public and private companies including small and medium scale enterprises (SMEs) to enhance their global presence. It has taken several measures to assist these companies expand their international operations, such as extending tax rebates to investing companies, simplifying approval procedures and offering financial assistance to qualified companies to invest abroad. As a result, there has been a substantial increase in the number of Chinese companies doing business abroad now.

However, not all is rosy for these companies as they face the challenge of adapting to the complex environment of host countries and also confront the issue of growing distrust among the governments of the recipient countries regarding the true intention of these investing companies. The Chinese companies are therefore constantly striving towards improving their business conduct in accordance to the foreign country's changing political and regulatory climate. Also, the government of China is making efforts to bring in more transparency and predictability in its FDI framework to make the host countries more confident of the investing Chinese companies. These adjustments are critical to sustain the success of the 'go global' policy, moving forward.

Going Global Policy

The financial crisis that impacted the Asian economies in the late 1990s prompted the Chinese government to revise its policy stance, which prior to that was primarily centered on attracting FDI into the country to develop its own domestic industry and fuel growth of the economy. During the 1990s, China managed to attract huge investments from all parts of the world and was considered as one of the best destinations for investment.

The surge in foreign investments was primarily responsible for the country's large productivity gains and rapid economic growth during this period. FDI inflows in China grew from US$ 4 billion in 1991 to US$ 124 billion in 2013 according to the UN. In 2013, China was the top foreign investment destination in the Asia-Pacific region and the second largest recipient of global FDI inflows in the world after the US.

By the end of 1990s, the government felt the need to promote Chinese brands globally and adopted the 'Going Global' strategy in 2000 to encourage Chinese enterprises to invest abroad. The move was mainly driven by the following key factors.

Firstly, the success of China's domestic investment and export-led growth model had resulted in accumulation of huge trade surpluses and foreign reserves. These were traditionally being invested in safe, low yielding assets like the US government bonds. But the government felt the need to diversify its portfolio into more profit making ventures and away from its US Dollar holdings.

Secondly, the government wanted to gain access to overseas natural resources and raw materials like oil and minerals to drive its economic growth further.

Thirdly, investing abroad was essential for Chinese firms to get access to advanced technology, new manufacturing processes, management skills and global brands to become competitive in the world market. This way the government wished to achieve its goal of creating globally competitive Chinese brands.

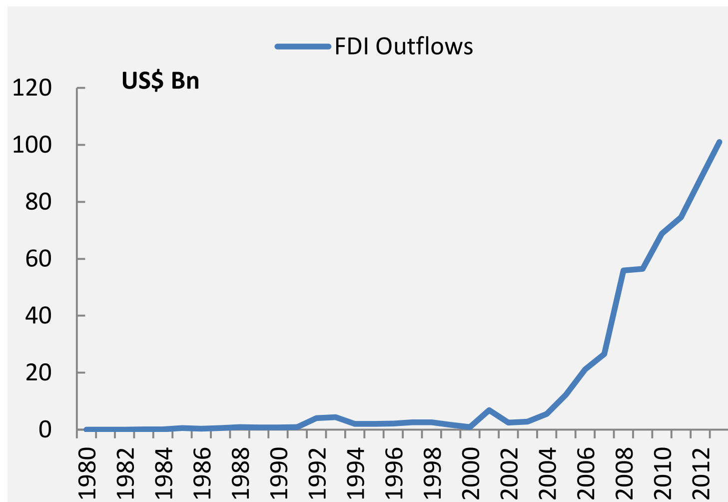
Fourthly, with domestic market becoming more competitive and saturated, companies had to look for overseas expansion to tap new markets.

Lastly, Chinese companies had also been setting up factories outside the country to avoid trade barriers faced by Chinese products in some of the major markets.

China's Outward FDI Growth

With government's supportive policies, China's outward FDI flows have seen a sharp increase over the years, growing from US$ 916 million in 2000 to US$ 101 billion in 2013. FDI stocks too have increased from US$ 30 billion in 2002 to US$ 660.48 billion in 2013.

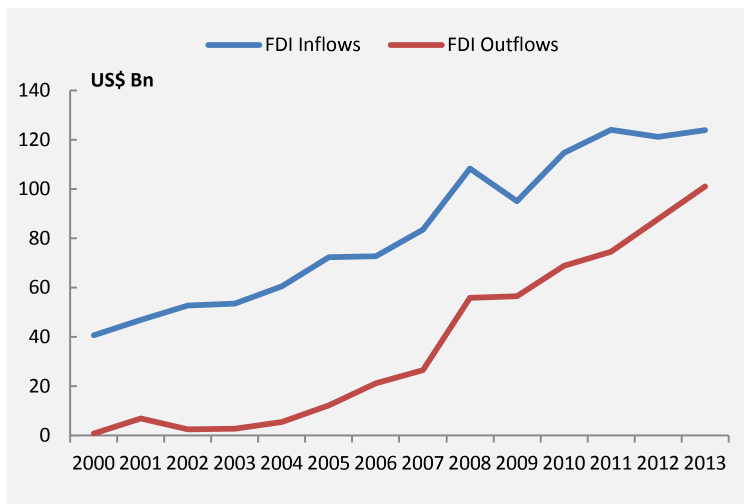
Chart 1: Growth of OFDI 1980-2013



Source: UNCTAD Database

Further, according to the UNCTAD - World Investment Report Overview 2014, investment outflows from China are likely to surpass its inflows in the coming two to three years which will make it a net FDI supplier instead of a net recipient.

Chart 2: Growth of FDI and OFDI since 2000



Source: UNCTAD Database

OFDI Growth Trend in 2013

China's OFDI is reported to have reached 184 countries and regions in 2013, up from 178 in 2010, as per the statistics revealed by the Ministry of Commerce of China (MOFCOM). By 2013, a total of 15,300 Chinese companies have established nearly 25,400 enterprises abroad, which together paid over US$ 37 billion in taxes and duties to their respective host countries and created 1.96 million jobs, providing employment to 967,000 foreign nationals.

With this growth, China emerged as the third largest global investor in the world in 2013 only after the US and Japan. China's investment in all countries except in the EU, maintained a steady growth in 2013.

China's investment in Latin America, Oceania, Africa and Asia saw an increase of 132.7%, 51.6%, 33.9% and 16.7% respectively over 2012. Chinese investment in the EU however decreased by 15.4% in 2013 and reached US$ 5.95 billion; lower than US$ 6.7 billion reported in 2010.

In terms of sectors, Chinese companies had been investing primarily in five key industries namely leasing and business services, finance, mining, wholesale & retailing and manufacturing.

These five industries accounted for 80% of China's OFDI in 2013 and 83% of the total outward investment made by China till 2013. About 30% of the total OFDI in 2013 was made through mergers and acquisitions (M&A). During the year, Chinese firms entered into 424 outbound M&A agreements in 70 countries and regions and invested about US$ 33.79 billion through this route.

The state-owned enterprises (SOEs) which were the main investing companies from China till some years back, have seen a decline in their share in total OFDI, which dropped to around 44% in 2013, from 70% in 2009.

Accordingly, the share of private players has seen an increase over time and it is projected that outbound investments by private companies will eventually exceed those of state owned enterprises in the coming years.

Table 1: Major Destinations of China's OFDI

Sl no	Countries	No of projects (2009-2013)
1	Germany	336
2	US	192
3	Hong Kong	80
4	UK	63
5	India	60
6	Brazil	56
7	Taiwan	53
8	Australia	51
9	Singapore	51
10	Russia	35

Source: fdi markets

Table 2: Major investing companies of China

Sl no	Companies	No of projects (2009-2013)
1	Huawei Technologies	85
2	Industrial and Commercial Bank of China	42
3	Bank of China	41
4	ZTE	28
5	TP-Link Technologies	15
6	Beiqi Foton Motor	14
6	Xinhua News Agency	14
7	Chery Automobile	13
7	China National Petroleum	13
7	Haier Group	13
8	Agricultural Bank of China	12
8	China Construction Bank	12
8	YingKe	12
9	China Central Television	11
10	China Telecom	10
10	Great Wall Motors (GWM)	10
10	Nexteer Automotive	10
10	Trina Solar Limited	10

Source: fdi markets

Risks with OFDI

Though the Chinese enterprises have increased their global presence significantly over the years, they have also been facing a number of challenges while doing businesses abroad which has led to many failures. The first issue faced by Chinese OFDI comes in the form of perception of host countries. Investments made by the Chinese state owned enterprises particularly in the natural resources space have often been subjected to greater scrutiny by the government of recipient countries.

There has been a general view that these investments are solely driven by the Chinese government's intention of gaining control over the resources of the host countries to take commercial advantages. Another issue that affects OFDI is poor asset and project selection by the Chinese companies.

There have been several instances of Chinese firms getting engaged with ambitious projects which failed to produce economic returns due to delays and cost overruns. Also, on many occasions, Chinese firms have acquired projects at inflated prices or projects of poor quality and commenced development without proper planning.

Way Forward

The government of China and the companies willing to invest outside China are adopting measures to mitigate these investment risks.

Aware of the fact that it would be difficult to change the perception of SOEs in a short period, the Chinese government is making efforts to bring greater clarity and direction in its own FDI policies. It has already started publishing documents highlighting key FDI policy announcements and statistics related to FDI flows of the country. This helps the recipient countries have a better idea of the goals and objectives of the Chinese government.

The government is also pursuing with risk reduction policies and attempting to minimize interventions in the management of the state owned firms, allowing greater freedom to SOEs. Besides, firms contemplating doing business abroad are striving to gain adequate knowledge about the foreign destinations where they plan to invest in terms of the recipient country's government's approval process, health regulatory process, safety and environmental issues, laws, local community engagement etc.

To minimize risks further, the firms are also starting in small ways and equipping themselves better with the environment before undertaking large investments in any country.

The other strategy which the companies are following is entering into joint ventures with experienced native firms. Apart from these measures, Chinese firms are also undertaking proper due diligence process which provides clear understanding of the risks and benefits associated with a particular business or asset also gives an idea of the consequences of an acquisition. The process also helps in estimating the true value of a potential acquisition.

Armed with these measures, China is all set to further see growth in its outward investments. The companies are also likely to keep looking out for new markets as the economy at present is experiencing overcapacity following a five year credit boom which resulted in growth rate slowing down to its lowest since 1990 in 2014. With the economic recovery in the US and Europe, Chinese investment in the West is likely to rise. Investments in the emerging markets which have been increasing rapidly with booming projects in Cambodia, Myanmar and Laos and other markets of Africa and Latin America, too are expected to increase further in the coming years, further accelerating the overall growth of OFDI of China.

Transport Infrastructure: Government Policies and Emerging Opportunities

India's transport infrastructure comprising roads, railways, ports and airways is one of the most extensive in the world. The country's road network is second largest in the world and handles more than 60 percent of total freight traffic and 90 percent of passenger traffic in the country. Railway network on the other hand, being the third largest, spans over more than 64,600 km. It is the largest passenger carrier and fourth largest rail freight carrier in the world. Twelve major ports and 60 operational non-major ports operating in India handle 90% of the country's trade by volume and 70% by value. India's aviation market is the ninth largest in the world, with more than 85 international airlines operating in India and 5 Indian carriers connecting over 40 countries.

Table 1: Key Statistics - Infrastructure

Indicators	Length/value
Roads (as of 2012)	
Network Total Length	4865394 Km
Surfaced Road Length	2698590 Km
Road Density per 1000 sq km	1480.07 Km
Railways (as of march 2012)	
Route Kilometer	64600 Km
Track Kilometer	115062 Km
Ports (as of March 2012)	
Cargo traffic handled by Major Ports	560.19 million Tonnes
Cargo traffic handled by Non Major-Ports	353.74 million tonnes
Air Transport (2011-12)	
Passengers	529.47 million
Cargo	2279.99 thousand tonnes
Aircraft movement	1544.65 thousands

Source: MOSPI

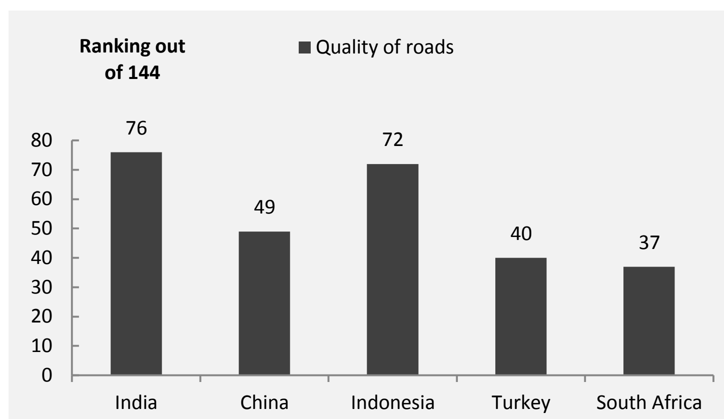
With rapid growth of the Indian economy over the years, demand for transport infrastructure and services has grown substantially in the country; both passenger and cargo traffic witnessed steady increase in the past few years. For instance, rail passenger and freight traffic has grown at a CAGR of 5.2% and 4.9% respectively during 2008-13.

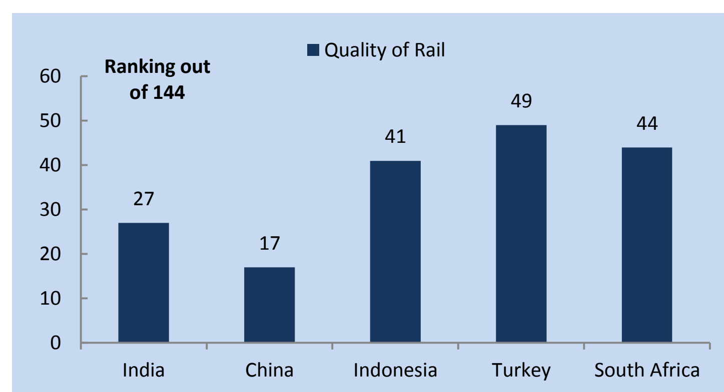
At major ports, cargo traffic has seen an increase of 3.9% CAGR, and in non-major ports, cargo traffic has increased sharply by 13.7% during 2007-12.

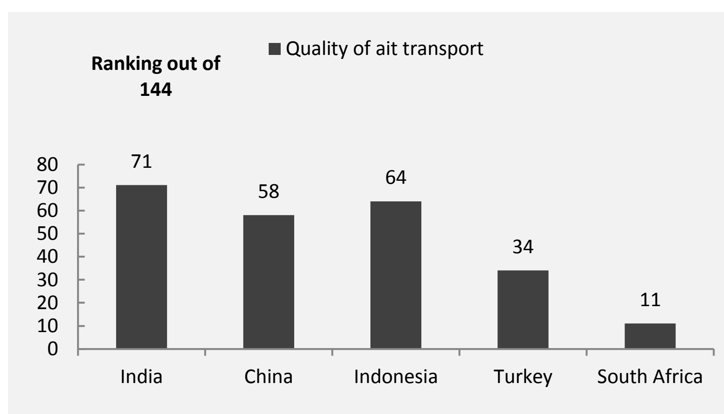
Domestic and international air passenger traffic has increased by 7.7% CAGR and 8.9% CAGR between 2006 and 2013, while air freight traffic has grown at a CAGR of 5.2% during the same period.

While traffic has continued to increase, infrastructure development in India has remained lopsided. The Global Competitiveness Report 2014-2015 released recently by World Economic Forum shows that India lags behind many of its peer members on the quality of infrastructure. Out of 144 countries evaluated, India stands at 87th in terms of its infrastructure, as compared to China at 46th, Indonesia at 56th, Turkey at 51st and South Africa at 60th position.

Chart 1: Global Competitiveness Index







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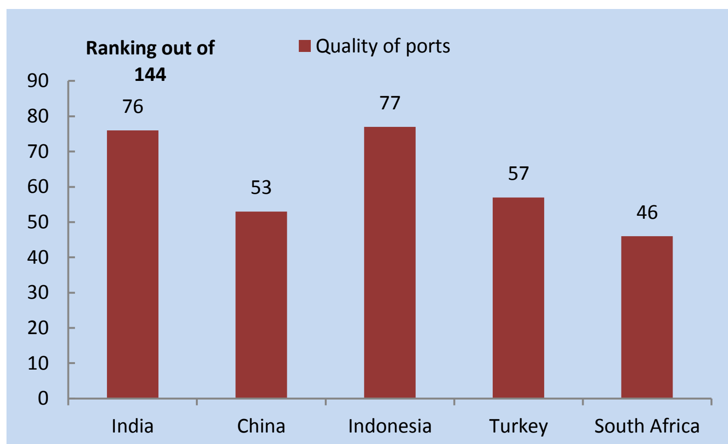


Source: Global Competitiveness Report 2014

Major Growth Impediments

The growth of the sector has been slow due to the presence of multiple issues. Most important among these are financing of infrastructural projects and delays in completion of projects due to inadequate regulatory framework and inefficient approval process. As of March 2014, 253 infrastructure projects worth Rs 12.83 lakh crore were reported to be stuck with Cabinet Committee on Investment (CCI) for various clearances.

Other factors like land acquisition, private sector participation, tariff policies, slow disputes resolution process, etc. have also contributed towards the slow growth of infrastructure in India. Project implementation has been another major concern area for infrastructural projects. On an average, infrastructure projects experience time and cost over-runs of around 20%-25%, which further increases to 50% in some cases.

Infrastructure Financing

Due to the high capital requirements and long gestation period involved with infrastructure projects, the sector has always faced problems in terms of attracting large scale investment. Most of the finance requirement of the sector had been primarily met by the public sector till some years back. Banks too have played a crucial role in providing finance to the sector.

Presently, the budgetary support accounts for about 45% of the total infrastructure spending in the country while commercial banks extends 24% of the total funds requirement and is the second largest source of finance for infrastructure. Out of this total lending by banks, about 85% is contributed by the Public Sector Banks (PSBs), indicating high exposure levels of PSBs to this sector.

Infrastructure lending is considered as a risky proposition for the reasons mentioned earlier. Also, a different set of skill set is required to appraise the credit proposals of infrastructural projects. Absence of such skill set often poses problems for banks and affects the quality of assets in this space. Delay in project completion further affects the bank lending adversely.

RBI Initiatives to Support Infrastructure Financing

To facilitate uninterrupted funds flow to the sector, the RBI has recently taken certain initiatives, as mentioned below:

- Since July 2014, RBI has permitted banks to issue long-term bonds with a minimum maturity of seven years to raise resources for lending to long term projects in infrastructure sub-sectors (and affordable housing). The instruments are exempted from regulatory requirements such as maintenance of CRR/SLR and priority sector lending.

- Recognizing the constraints in incremental financing by banks to the infrastructure sector, the banks have been permitted to enter into takeout financing arrangement. To augment debt resources for financing infrastructure, setting up of Infrastructure Debt Funds (IDFs) was permitted to refinance projects.

- Thus far, three such IDF – NBFCs have registered with RBI and have become operational. Simultaneously, IDFs structured as trusts to be registered with SEBI, are also permitted to be set up to allow the investors to take direct risks and exposure to the infrastructure projects.

- In case of delayed projects, Date of Commencement of Commercial Operations (DCCO) fixed at the time of financial closure of projects are allowed to be extended beyond the original DCCO. Banks have also been permitted to restructure and retain the 'standard' asset classification if the fresh DCCO falls within a period of four years from the original DCCO on account of arbitration proceedings or a court case.

- Reserve Bank has also clarified that multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the stipulated time limits and other terms and conditions of loans remain unchanged.

- The RBI has also allowed the banks to finance long term projects with an option to refinance them periodically. Under the scheme, popularly called the 5/25 scheme, banks can, for example, lend for a 25 year project with an option to rollover the loan every five year.

PPP Model for Enhancing Private Participation

The government has also been encouraging private participation through the Public-Private Partnership (PPP) model for infrastructure development in the country. It was realized that the huge investment requirement of the sector could not be met by the public sector alone. Participation of private sector along with the public sector is essential to bridge the infrastructure gap in India. Over the past decade, several PPP models have been developed in the country. PPPs have delivered some of the iconic infrastructure like airports, ports and highways which are seen as models for development globally. Significant growth in the number of PPPs in the past 15 years has made India one of the leading PPP markets in the world.

Thus, there has been a substantial increase in the contribution of private sector in the total infrastructure investment, which increased from 25% in the 10th Five Year Plan to around 36.2% in 11th Plan and is expected to rise to 50% by the end of the 12th Plan.

Chart 2: Investment in Infrastructure

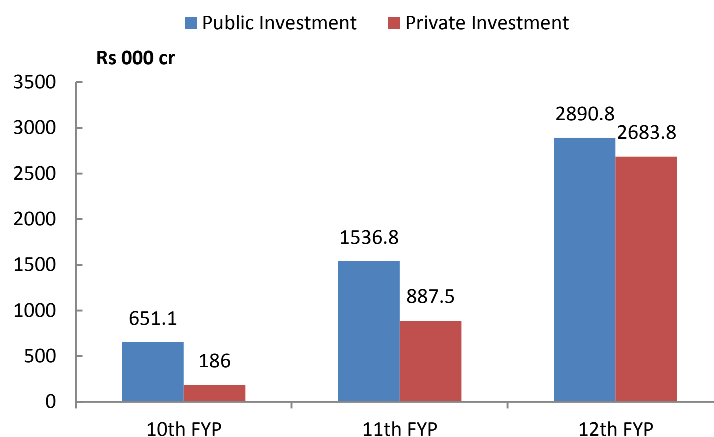


Table 2: Investment in Infrastructure (% of GDP)

Investment (% of GDP)	10th FYP	11th FYP	12th FYP
Public Investment	3.92	4.57	4.24
Private Investment	1.12	2.64	3.94
Total Investment	5.04	7.21	8.18

Source: Five Year Plan Documents

To accelerate the growth of PPPs, the new government has announced setting up an institution called 3P India, with a corpus of INR 500 crore to provide support to mainstreaming PPPs in the Union Budget 2014-15. An Infrastructure Investment Trust has been formed like the Real Estate Investment Trusts which would have a similar tax efficient pass-through status for PPPs and other infrastructure projects.

Other Government Policies

In the 11th Five Year Plan (2007-12), the government allocated a massive investment of US$ 514 billion for the sector. It also announced some measures and initiated a number of progressive projects like the National Highway Development Project (NHDP), the National Maritime Development Programme (NMDP) and Dedicated Freight Corridors (DFC). During the period, it successfully completed the Golden Quadrilateral project and the East-West-North-South links. Besides, presently some major infrastructure projects are also underway including development of industrial corridors like Delhi Mumbai Industrial Corridor (DMIC), Chennai-

Bengaluru Industrial Corridor, Amritsar-Delhi-Kolkata Industrial Corridor, and Bengaluru-Mumbai Economic Corridor; Smart Cities Project, Sagar Mala Project (focusing Port led development), Jal Marg Yojna (Inland Waterways), etc.

These proposals will require significant infusion of funds from both public and private sector. As per estimates, the annual level of investment in railways, roads and bridges, and other transport infrastructure is expected to increase from US$ 100 billion during the 12th Plan to about US$ 250 billion in the 15th Plan period.

Key Initiatives and Emerging Opportunities

With a view to boost private sector participation in the sector, the new government has taken several steps since May 2014 to attract investment and offer level playing field to private players. The list of initiatives taken in each sector and the related investment opportunities that these measures have created for the private sector are highlighted below.

Railways

- *100% foreign direct investment (FDI)* has been permitted through the automatic route in Railways (only in select segments).

- *A Model Concession Agreements (MCAs) has been formed* to facilitate private investors to invest in specific projects (infrastructure for improving last mile connectivity and decongesting overcrowded routes) through PPP model. These MCAs would provide a framework for rights and obligations of different parties and risk allocation between them in a fair manner thereby balancing risks and responsibilities. It would provide a transparent, balanced, fair and bankable framework under which private investors can make investments in the railways sector.

- *Seven corridors for carrying out pre-feasibility studies for introduction of high speed passenger trains have been selected.* It is the part of government's ambitious plan to have Diamond Quadrilateral network of High Speed Rail connecting major metros and growth centres of the country. Steps for introduction of High Speed Bullet Trains in the country on Mumbai-Ahmedabad corridor have already been taken. Apart from this, semi high speed trains between important cities in 9 sectors are also going to be introduced.

- *Railways have also planned to source at least 10% of its energy requirement from renewable sources by 2020***.** The move thus offers opportunities to private players for installing solar panel on all buildings and railway stations through PPP mode.

It is estimated that railways require investments of over US$ 100 billion in next 3-4 years to augment its capacity and for modernization. This offers ample opportunities for the private sector to make investments in the sector to facilitate development and expansion of Indian Railways.

Potential areas for private participation include construction, operation and maintenance of suburban corridor projects through PPP route, high speed and semi high speed rail projects, modernization of rolling stock, information & communication technologies especially for passenger amenities, modernization of signaling, construction & maintenance technologies and in development of logistics parks / terminals, freight operations - logistics of automotive transport, passenger operations – raising of speeds upto 200 kmph; infrastructure building and management – station development and workshop modernization.

Road Transport & Highways

- The government has taken several initiatives in the highways sector including launch of e-tolling, resumption of several stalled national highway projects in different parts of the country, etc.

- Other major initiatives in the sector include formulation of a new Road Transport & Safety Bill 2014, a National Permit Policy for goods transport across the country, a computerized driving license system, highway safety projects, cashless treatment of road accident victims, preference to concrete roads etc.

- Various policy measures have been outlined under the **National Road Safety Policy** which also includes establishment of road safety information data base. In this regard, the government has recently constituted **'National Road Safety Council'** as the apex body to take policy decisions in matters of road safety. It is also planned to set up State Road Safety Council and District Road Safety Committees in all States/UTs.

- The **Electronic Toll Collection (ETC) System** which has been launched for Delhi-Mumbai highway via Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra will pave the way for smooth vehicle movement, eliminate overloading and a convenient system for payment of tolls and taxes.

To implement its various plans and projects, the government is planning to attract investment of INR 5 lakh crore in the next five years and is creating a shelf of 500 ready-to-bid road projects worth INR 3 lakh crore to propel growth of highways development. This would be in addition to rolling out INR 1.8 lakh crore worth of projects out of INR 2.8 lakh crore worth projects which are currently stuck due to several reasons.

In 2014-15, the National Highway Authority of India (NHAI) planned to award 5000 kms of projects with another 400 kms of projects to be awarded by MoRT&H directly. Also, the government has planned to develop a total of 64,340 kms of National Highways under various programmes.

Maritime Sector

The government is keen on boosting investment in the shipping sector with a special thrust on promoting inland water transport and coastal shipping. It is planning to develop inland water transport, as a cost-effective, less-polluting, fuel saving transportation option in the country.

- To boost water transport in the country, the government has planned to launch '**Prime Minister Jal Marg Yojna**' to develop strong inland waterways network in the country and projects for setting up dry and satellite ports, besides converting riverways into waterways.

- It is also formulating a bill that would allow converting any river into a waterway to enable goods transportation through them. The Jal Marg Network will have at least three meters of draft (depth) and 80 meters of width for the waterways to enable goods transportation through them.

- *An ambitious project - **'Sagarmala'***, has been conceived for maritime states, which envisages not merely port development, but port-led development which would include ports, SEZs; and rail, road, air and waterway connectivity with the hinterland, including linkages of cold storage and warehousing facilities. The objective of the project is to achieve rapid capacity expansion and modernization of ports along India's East and West Coast.

- *The government is also encouraging shipbuilding industry* in the country. As the shipbuilding projects are highly technical & expensive projects, it requires expertise from foreign shipyards.

Civil Aviation

The government has a vision to propel India among world's top three civil aviation markets by 2020 through providing access to safe, secure and affordable air services to everyone through an appropriate regulatory frame work and by developing world class infrastructure facilities.

- **Draft civil aviation policy has been formulated** by the government to develop stable, transparent, predictable and investor-friendly regulatory regime for the civil aviation sector with a mechanism for time-bound resolution of issues.

- **The government is planning to build several new airports** to improve regional connectivity, indigenously manufacturing a civil aircraft in the country, etc. It aims to bring around 250 airports under operation across the country by 2020 and plans to spend US$ 1.3 billion on modernization and upgradation of the existing airports during 2013-2017.

- *The government is also planning to develop 200 low-cost airports in the next 20 years* to provide

affordable air connectivity to remote and interior areas, the North Eastern Region and Tier-II & III cities of India. 50 such cities have already been identified under the first phase of this development.

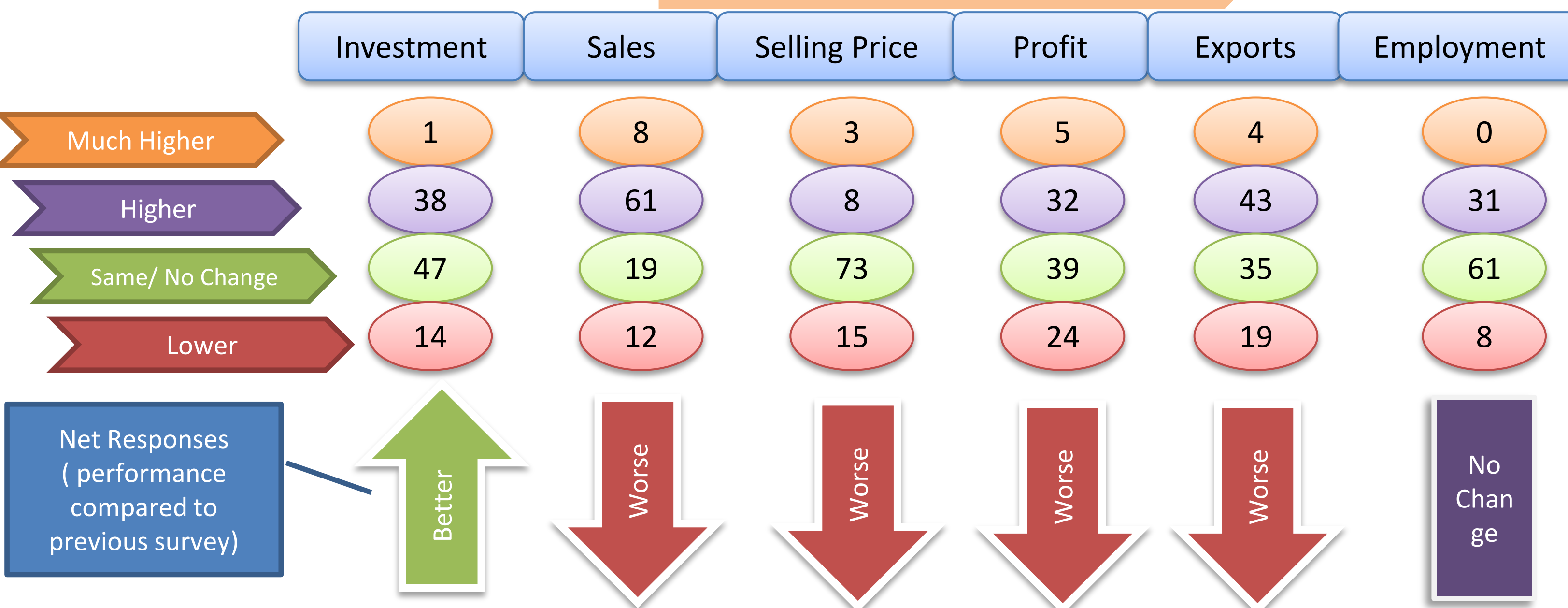
It is evident that the Indian aerospace market offers tremendous long term opportunities to private investors for augmenting and modernizing existing airports; modernizing security & surveillance at airports; providing maintenance repair & overhaul services, ground handling services; skill augmentation through a vibrant, world class aviation education & training mechanism; building an efficient airspace & air traffic management system, air cargo services; establishing aircraft designing & manufacturing centres. Private players can also exploit the growth potential of the civil aviation sector in India by investing in development of low cost airports including infrastructure for Air Navigation Services, etc.

Recent Developments in the Infrastructure Sector

- World Bank has signed US$ 1100 million loan agreement with Dedicated Freight Corridor Corporation for construction of the 2nd phase of 393 kms long electrified double line rail track between Mughalsarai-Bhaupur section of Eastern DFC.
- MoU signed to establish a US-India Infrastructure Collaboration Platform to facilitate US participation in Indian infrastructure projects.
- Japan promises to invest US$ 35 billion into India’s infrastructure sector including building of bullet trains over the next five years
- Union road transport ministry to raise INR 60,000 crore through infrastructure bonds
- National Highway Authority of India awards 180 PPP projects to road builders
- Indian government is planning to build a tunnel ring road worth INR 90,000 crore in Mumbai

FICCI Survey highlights

Business Confidence Survey, November 2014



Note: Net responses are measured as the differential between the companies reporting positive and negative responses. These exclude companies reporting same or no change.

Source: FICCI Business Confidence Survey , November 2014

The Overall Business Confidence Index (OBCI) declined marginally in the current survey vis-a-vis the previous round. The OBCI value fell to 70.4 in the current survey, down from 72.4 in the last round.

The value of Current Conditions Index declined to 62.9 in the present survey from 65.4 in the previous round. The Expectation Index also indicated a marginal decline to 74.1 in the current round, from 76.3 last time.

Policy announcements made by the government did uplift the sentiment of industry members, however in order to sustain the buoyancy it is now critical that these announcements are followed by action.

The outlook of the participants with regard to operational parameters such as sales and profits has improved over the past one year.

A recovery was noted in the investment sentiment of the respondents. About 39% companies participating in the current survey said that they intend to undertake higher investments in the coming two quarters, a marginal improvement from 34% stating likewise in the last round.

No evident change was noted in the stance of the respondents with regard to their hiring plans. a majority 61 percent (vis-à-vis 64 percent in the last survey) reported no fresh hiring to take place over the coming two quarters.

Weak demand continues to be a persistent concern. In the current survey, 59% of the companies indicated weak demand to be a constraining factor. The companies are operating at excess capacity.

High cost of credit was once again mentioned as a bothering factor by the participating companies. 53 percent of the respondents said that cost of credit was high and remains a concern for them.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 215 companies with a turnover ranging from Rs 1.5 crore to Rs 57000 crore. The participating companies belonged to an array of sectors such as textiles, pharmaceutical, cement, chemicals, steel and steel products, automotive, food processing, electrical equipment and machinery, paper and paper products, hospitality, financial services.

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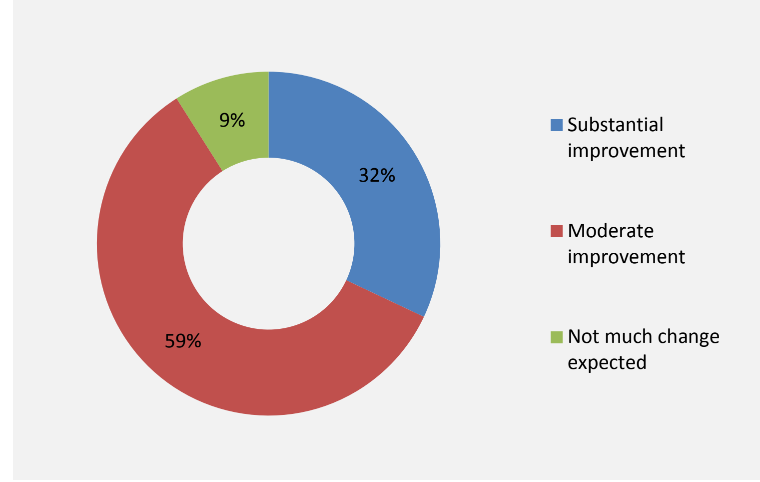
For detailed report you may contact:
Economic Affairs and Research division
Email: researchdivision@ficci.com

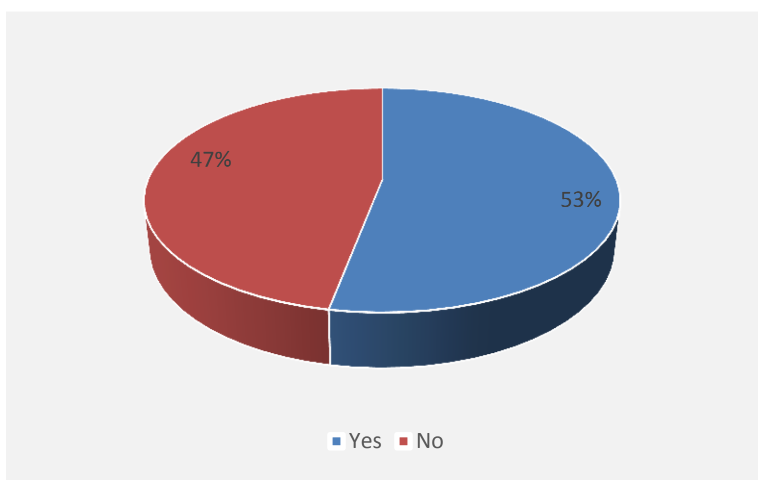
FICCI Survey highlights

CEOs' Poll Survey, February 2015

Outlook with regard to business and investments over next six months?



Have banks become more accommodative in their consideration of loan application by business community?



Source: CEOs Poll 2015

Results of a quick survey conducted by FICCI amongst its members show that members of India Inc. are sensing an improvement in the economic situation at the ground level and this is feeding into their business and investment plans.

The survey drew response from about 78 CEOs from across sectors and findings show that the steps being taken up by the government after assuming office last year are now starting to yield results on the ground.

Nearly 53% of the participants indicated that banks have become more accommodative in their consideration of loan applications by the business community. While this majority view is encouraging, it is important to note that nearly 47% of the CEOs still maintain the view that banks need to do more to support productive investments and growth.

Nearly 75% of the participants in the FICCI survey reported that cost of capital should be in the range of 8 to 10% for them to competitively drive investments.

Top reforms expected from the Budget of 2015-16

Taxes	Priority Sectors
Clear GST Bill in budget session	Infrastructure
Reduce base rate of minimum alternate tax	Skill Development
Increase basic exemption limit	Small and Medium Enterprises
Provide tax incentives for R&D / Innovation	Healthcare

The present round of FICCI's CEOs poll survey was conducted among FICCI members in the month of February 2015 and drew responses from 78 CEOs . The survey was conducted to gauge the economic conditions and their expectations from the upcoming budget.

For detailed report you may contact:
Economic Affairs and Research division
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Fact Sheet: GDP growth rate

GDP at market prices estimated at 7.4 % in FY15

- *As per the advance estimates, GDP growth rate at market prices is expected at 7.4 percent in FY15 vis-à-vis 6.9 percent in FY14. By economic activities, gross value added at basic prices were estimated at 7.5 percent for FY15 with agriculture, industry and services growth rate at 1.1 percent, 5.9 percent and 10.6 percent respectively.*

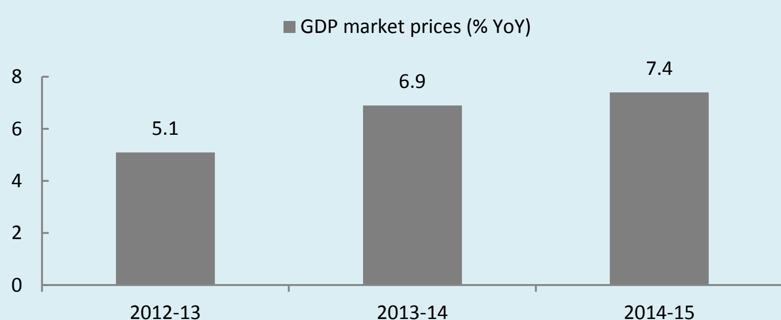
- *GVA at basic prices in Q3 FY15 were at 7.5 percent as against 7.8 percent in the previous quarter. Agricultural sector exhibited subdued performance, declining by 0.4 percent in Q3 FY15. Industry sector also slowed down to 3.9 percent in Q3 from 6.0 percent in the previous quarter with the growth rate of manufacturing, electricity and construction at 4.2 percent, 10.1 percent and 1.7 percent respectively.*

- *On the expenditure side, private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) grew by 3.5 percent and 1.6 percent in Q3 FY15 vis-à-vis 8.7 percent and 2.8 percent in Q2 FY15. Government expenditure on the other hand expanded at a faster pace of 31.7 percent in Q3 FY15 from 5.8 percent in the previous quarter.*

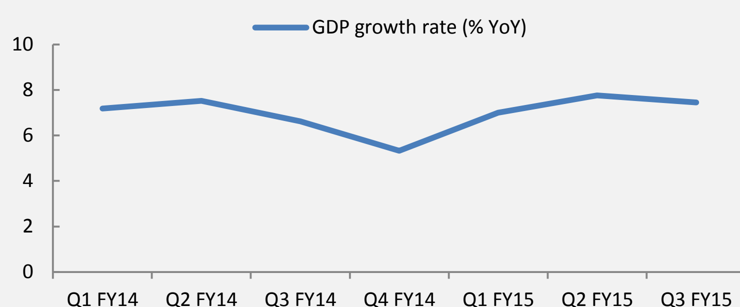
Changes made in the GDP numbers released on February 10, 2014

- *Base year has been changed from 2004-05 to 2011-12.*
- *Industry estimates were presented as Gross Value Added (GVA) at basic prices which is at par international standards. Before it was calculated at factor costs.*
- *The new series is more comprehensive in terms of its coverage of economic activities.*

GDP at constant prices: Base Year 2011-12



Quarterly GDP Growth Rate



Quarterly GVA at basic prices: By Economic Activity

	Q3 FY14	Q1 FY15	Q2 FY15	Q3FY15
GVA basic prices	6.6	7.0	7.8	7.5
Agriculture	3.8	3.5	2.0	-0.4
Industry	5.0	6.1	6.0	3.9
Services	9.1	8.6	10.1	13.5

GDP at constant prices: Base Year 2011-12

	Q3 FY14	Q1 FY15	Q2 FY15	Q3 FY15
Private Final Consumption Expenditure (PFCE)	4.6	4.3	8.7	3.5
Government Final Consumption Expenditure (GFCE)	11.0	-2.0	5.8	31.7
Gross Fixed Capital Formation (GFCF)	5.3	7.7	2.8	1.6

Source: MOSPI, Economic Outlook, CMIE and FICCI Research

An evident growth of GDP with the change in the base year and an enlarged coverage for economic activities is a positive news for the economy. However, industrial sectors still faced with muted demand and a sustained growth in GDP requires both investment and consumption demand to move full speed ahead.

A recent FICCI survey shows that the domestic capex cycle continues to be a key area of concern. Therefore, more measures by the government are expected in the upcoming budget to give a boost to the investment cycle.

Fact Sheet: Index of Industrial Production

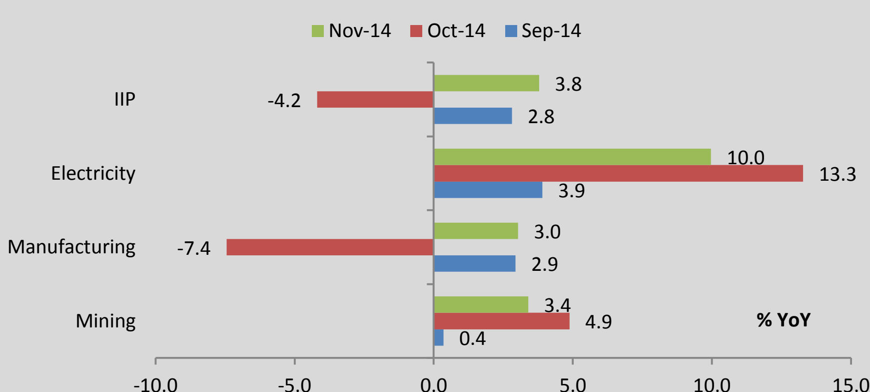
November IIP accelerates to five month high of 3.8 percent

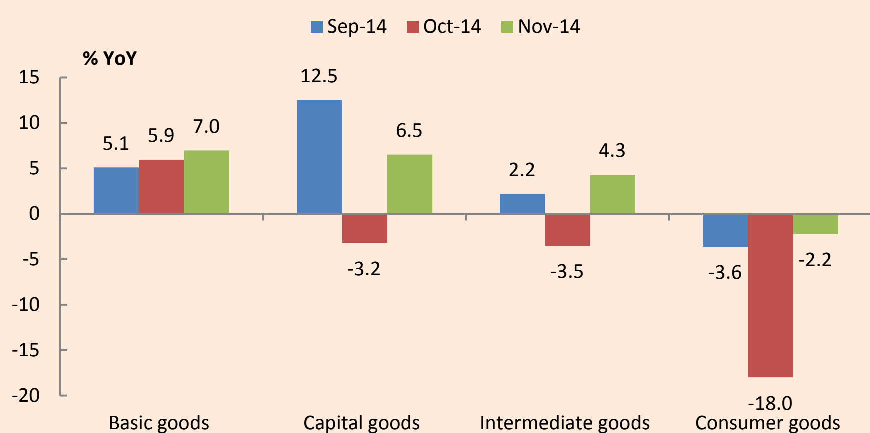
- *Index of industrial production rose by 3.8 percent in November 2014 following a decline of 4.2 percent in October 2014. There has been broad-based improvement across sectors.*

- *Growth in manufacturing index turned positive (3.03 percent) in November 2014. The upturn this month was primarily due to a bounce back in food products and beverages (11.5 percent in November 2014), textiles (5.8 percent), paper and paper products (4.3 percent), machinery and equipment (4.8 percent) and motor vehicles, trailer and semi-trailers (17.5 percent).*

- *Growth rate in capital and intermediate goods segment which was in the negative territory in October 2014 bounced back and registered a growth of 6.5 percent and 4.3 percent respectively in November 2014. Basic goods segment grew at a faster pace of 7.0 percent, up from 5.9 percent in October 2014. However, consumer goods fell by 2.2 percent, with 14.5 percent decline in durables segment. On the contrary, non-durable goods output rose by 6.0 percent in November 2014 vis-à-vis (-) 3.3 percent in October 2014.*

Index of Industrial Production and key components (y-o-y growth %)





Major items with positive growth	Oct 14	Nov 14
Food products and beverages	-3.2%	11.5%
Textiles	-3.0%	5.8%
Paper and paper products	-3.1%	4.3%
Machinery and equipment	-13.8%	4.8%
Electrical machinery	9.7%	6.7%
Motor vehicles, trailers and semi-trailers	-9.8%	17.5%

Major items with negative growth	Oct 14	Nov 14
Tobacco products	-5.6%	-17.4%
Chemical and chemical products	-9.9%	-1.4%
Office accounting and computing machinery	-32.3%	-26.3%
Furniture manufacturing	-24.7%	-9.6%
Radio, TV and communication equipment	-70.3%	-60.0%
Publishing, printing	-7.9%	-2.3%

On a year-on-year basis, 16 out of 22 industry groups have shown positive growth. Although the upturn has come over a weak base, it signals some revival in the manufacturing sector.

However, to give a strong boost to industrial growth, there is a need to lower the cost of finance which had remained at an elevated level for a long time. The latest cut in repo rate by 25 bps gives a positive signal. Going forward, we hope for further cuts in policy rate by RBI and lowering of lending rates by banks to facilitate revival of capex.

Source: MOSPI, Economic outlook CMIE and FICCI Research

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Fact Sheet: Inflation

WPI inflation rose by 0.11 percent in December 2014

- *Headline WPI increased by 0.11 percent in December 2014 after remaining flat in the previous month. During the cumulative period from Apr-Dec 2014, inflation rate was at 3.4 percent vis-à-vis 6.2 percent during the same period of the previous year.*

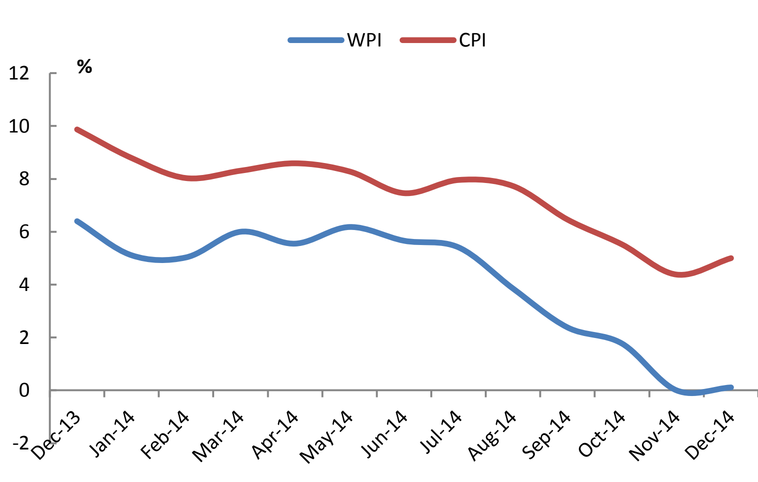
- *WPI based food inflation rose to a five month high of 5.2 percent in December 2014 as against 0.6 percent in the previous month. This was primarily due to a rise in the prices of fruits (17.9 percent in December 2014).*

- *Fuel and power led inflation declined sharply by 7.8 percent in December 2014.*

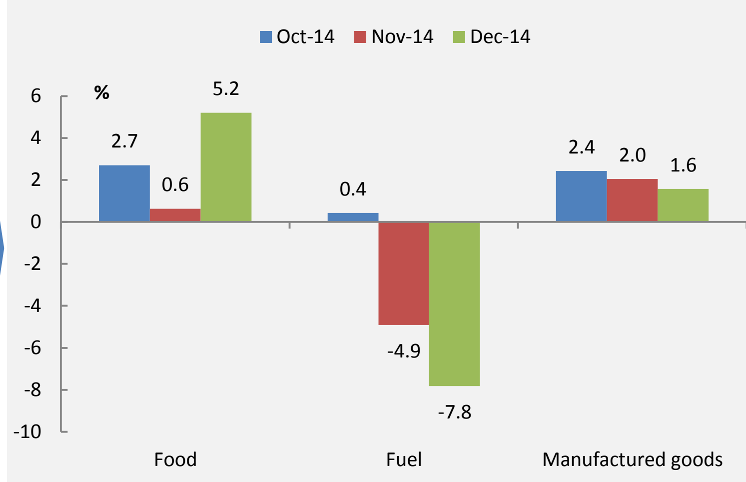
- *Inflation of manufactured goods further eased to 1.6 percent in December 2014, from 2.1 percent in November 2014. While large number of manufactured products witnessed a modest rise in prices, basic metal & alloys (a major component of the sector) recorded a price decline of 0.2 percent during the month.*

- *Retail CPI rose to 5.0 percent in December 2014, up from 4.4 percent in November 2014.*

Trend in WPI and CPI



WPI – Key Components



Drop in oil prices in recent months is reflected in the sharp plunge in fuel led inflation in December 2014. Given the slow pace of global recovery and expectations of oil prices to remain at low levels going forward, inflation is expected to remain largely under control.

The recovery noted in manufacturing in November 2014 has been over a low base and a firm turnaround is yet to take place. To give a boost to the capex cycle, there is an urgent need for lowering of lending rates. RBI's recent cut in repo rate by 25 bps is indeed a welcome step. We hope this will be the beginning of further cuts in policy rate by RBI and lowering of lending rates by banks, which will boost new investments and expansion in the economy.

Key WPI Components (% change YoY)

Food items	Nov-14	Dec-14
Food grains	2.5	2.0
Fruits and vegetables	-11.8	5.7
Milk	10.0	9.7
Egg, meat and fish	4.4	0.7
Condiments & spices	19.2	16.9

Energy	Nov-14	Dec-14
Fuel and power	-4.9	-7.8
Coal	-0.9	-0.9
Mineral oil	-7.7	-11.7
Electricity	2.9	2.3

Manufactured goods	Nov-14	Dec-14
Food products	1.2	1.7
Textiles	9.0	8.3
Chemical & chemical products	2.7	1.9
Basic metals	0.3	-0.2

Source: MOSPI, Economic Outlook – CMIE and FICCI Research

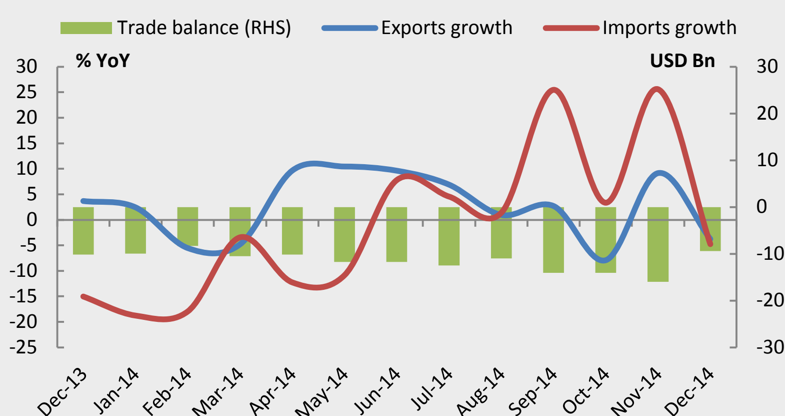
Economy Fact Sheet – Foreign Trade
January 2015

FICCI

Trade deficit narrows to USD 9.4 billion in December 2014

- *India's trade deficit in the month of December 2014 narrowed to ten month low of US$ 9.4 billion, recording a 7.8 percent decline at an annual rate owing to a sharper fall in imports.*
- *Exports in December 2014 fell by 3.8 percent YoY to USD 25.96 billion. Sectors that have witnessed a steep fall during the month include petroleum products ((-) 21.2 percent), rice ((-) 7.6 percent), iron ore ((-) 56.8 percent), handicrafts ((-) 10.8 percent) among others.*
- *Imports in December 2014 declined by 4.8 percent to USD 42.8 billion. The fall in imports can be attributed to decline in gold & silver and petroleum imports by 14.0 percent and 28.6 percent respectively.*
- *For the cumulative period from Apr-Dec 2014, exports grew by 3.8 percent vis-à-vis 6.9 percent during the same period of the previous year. Imports, on the other hand, posted a growth of 4.0 percent during Apr-Dec 2014 as against decline a of 7.2 percent in Apr-Dec 2014.*

Foreign Trade (Monthly)



Imports break-up (Oil and Non-Oil)

Time period	Imports (USD Billion)		Growth rate (YoY %)	
	Oil	Non-oil	Oil	Non-oil
Dec 2013	11.7	30.7	1.23	47.7
Dec 2014	9.9	24.9	-28.6	9.87
Apr-Dec 2013-14	108.4	192.6	0.54	-9.49
Apr-Dec 2014-15	106.6	209.3	-1.67	8.67

In the fist nine months of this fiscal, exports were at USD 239.6 billion, USD 100.4 billion short of the targeted USD 340 billion for FY15. Given the global uncertainties, achieving the target seems highly difficult.

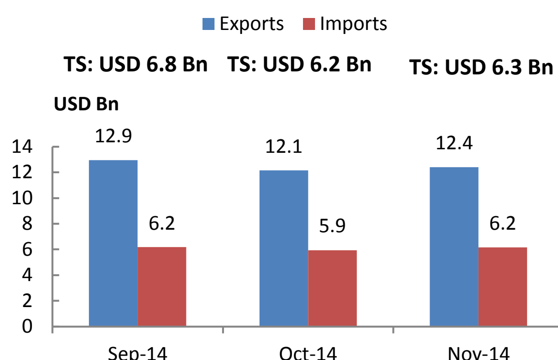
However, there has been a much needed respite on the import front. Plunge in the global oil prices has significantly helped in brining down the oil imports in December 2014. Also, the demand for gold and silver which has increased at a rapid pace in the last couple of months due to festive season eased in December 2014.

Exports and Imports growth of key commodities (%)

Export Items (% YoY)	Nov-14	Dec-14
Petroleum products	-4.5	-21.2
Drugs, pharma and chemicals	9.5	2.0
Engineering goods	31.1	20.5
Gems & jewellery	44.3	-1.1
Readymade garments	17.2	10.0

Import Items (% YoY)	Nov-14	Dec-14
Petroleum and petro products	-9.9	-28.6
Medical and pharma products	8.6	12.1
Electronic goods	27.8	23.2
Gold	564.3	7.4
Transport equipment	13.8	9.4

India's Trade in Services (Monthly)



Note: TS refers to Trade Surplus

Source: Ministry of Commerce and Industry, Economicoutlook CMIE and FICCI Research

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FICCI – Economy Watch Team

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