Economy Watch

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State of the Economy

The global developments over the first three quarters of 2016 indicate persistence of a challenging environment. Signs of consolidated recovery remain hazy, as countries continue to grapple with uncertainty resulting from both a generic sense of despondency in the global economy and ensuing domestic concerns.

United Kingdom's decision to leave European Union is unparalleled and with the recent confirmation to trigger Article 50 before end of March 2017 points towards looming volatility.

Further, the latest assessment by IMF (released October 2016) reports no change in the growth outlook for 2016 and indicates a gradual recovery thereafter. World output is estimated to grow by 3.1% in 2016 and 3.4% in 2017 (which remains unchanged from the July update). Also, growth projection for world trade volume has been revised down in the October outlook, vis-à-vis the July edition.

Amidst the scenario of persisting fragility, India continues to hold steady. Even though, some of the key performance indicators available for the first four/five months of 2016-17 incline towards mixed signs of recovery; a sense of resilience remains intact and a bounce back can be triggered by keeping the focus on reforms.

The successful passage of the Goods & Services Tax Bill is a big positive and it is hoped that the implementation takes place next year.

Gross Domestic Product

Latest GDP data for the first quarter of the current fiscal year reports moderation in growth numbers. GDP registered a growth of 7.1% in Q1 2016-17 according to the data released by central statistical office in August. The corresponding numbers in Q1 and Q4 of 2015-16 were 7.5% and 7.9% respectively.

According to the expenditure side classification of GDP, performance of gross fixed capital formation remained muted reporting negative growth for the second consecutive quarter in Q1 2016-17. Further, the numbers also pointed towards a moderation in private final consumption expenditure.

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Table 1: GDP growth (in %): Expenditure Side

By Expenditure	Q1 2015-16	Q2 2015-16	Q3 2015-16	Q4 2015-16	Q1 2016-17
Private Final Consumption Expenditure (PFCE)	6.9	6.3	8.2	8.3	6.7
Government Final Consumption Expenditure (GFCE)	-0.2	3.3	3.0	2.9	18.8
Gross Capital Formation (GCF)	6.6	9.6	2.0	-2.4	-4.6
of which Gross Fixed Capital Formation (GFCF)	7.1	9.7	1.2	-1.9	-3.1

Source: CMIE

Table 2: GDP growth (in %):Economic Activity wise

	Q1 2015-16	Q2 2015-16	Q3 2015-16	Q4 2015-16	Q1 2016-17
GDP at Market Prices	7.5	7.6	7.2	7.9	7.1
GVA at Basic Prices	7.2	7.3	6.9	7.4	7.3
Agriculture and Allied activities	2.5	2.0	-1.0	2.3	1.8
Industry	6.7	6.3	8.6	7.9	6.0
Services	8.8	9.0	9.1	8.7	9.6

Source: CMIE

Nonetheless, growth numbers are expected to witness an improvement in the second half of the year. This will be supported by an anticipated pickup in demand. Going ahead, the effect of good monsoons and the award of seventh pay commission will pan out completely. Also, the forthcoming festive is likely to give an impetus to consumption and industrial activity.

The latest round of FICCI's Economic Outlook Survey released in August 2016 puts across a GDP growth estimate of 7.8% for the year 2016-17, which is a marginal upward revision from the estimate of 7.7% put forth in May 2016 edition of the survey.

The agriculture sector performance is likely to see an improvement. An increase has been observed in the acreage of all major crops owing to the good spatial distribution of rainfall. As per the survey results, the industrial sector growth is also likely to pick up.

Index of Industrial Production

The latest industrial production numbers released for the month of August reported contraction for the second consecutive month. According to the economic activity classification of IIP, all broad segments – including mining, manufacturing and electricity reported moderation.

According to the use based classification, all major segments except for the 'basic good segment' registered a subdued performance. The growth in the capital goods sector has been in contractionary zone since November 2015.

Table 3: Index of Industrial Production: Growth (in %)

% growth rate	Aug-15	May-16	Jun-16	Jul-16	Aug-16
Index of Industrial Production	6.3	1.3	2.0	-2.5	-0.7
Sectoral					
Mining	4.5	1.7	5.3	0.9	-5.6
Manufacturing	6.6	0.8	0.7	-3.5	-0.3
Electricity	5.6	4.7	8.3	1.6	0.1
Use-base industry classification					
Basic goods	3.7	4.0	5.8	1.8	3.2
Capital goods	21.3	-12.5	-16.3	-29.5	-22.2
Intermediate goods	2.8	4.2	5.7	3.7	3.6
Consumer durables	17.0	5.9	5.6	5.9	2.3
Consumer non-durables	-0.9	-2.0	0.9	-1.4	0.2

Source: CMIE

This trend is also corroborated by results of some of the recent surveys conducted by FICCI. Even though companies participating in our surveys indicate an improvement in capacity utilization rates, apprehension with regard to undertaking fresh investments remains.

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The domestic capex cycle has been sluggish which is a major concern at the moment. RBI's move to cut the repo rate by 25 bps in the monetary policy review announced on October 4, 2016 was a welcome step and is likely to further supplement the demand conditions.

At this point in time, it remains imperative that all policy levers are put into action to assure that the turnaround is sustainable. The cost of capital needs to be more competitive to drive investments. Businesses need to see an urgent revival in growth and it is critical that the banks take a cue and revise down the lending rates.

Inflation

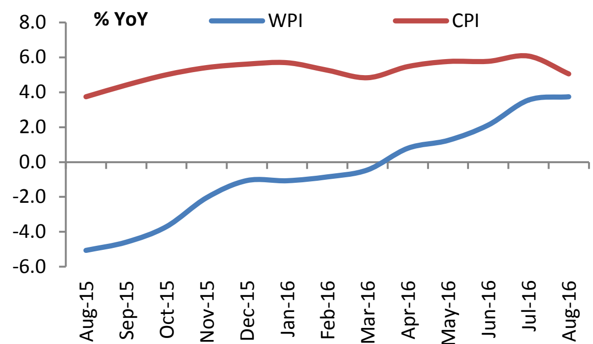
Inflation numbers, both wholesale and retail, remain range bound. As per the latest data, CPI based inflation rate was reported at 5.1% in August 2016, vis-à-vis 6.1% growth observed in July 2016. The WPI numbers, on the other hand, edged up marginally in the month of August.

Food prices which have been a major pressure point over the past few months noted softening on the back of a drop in vegetable prices. This trend was noted in case of both WPI and CPI numbers. WPI based food inflation moderated to 8.2% in August 2016 after noticing thirty one month high inflation rate of 11.8% in July 2016. Likewise for retail food & beverages index, prices eased to 5.8% in August 2016 vis-à-vis 8.0% inflation rate reported in July 2016.

Further, prices of pulses have noted some moderation but they still remain beyond the comfort zone. The government has been examining the situation closely and should continue the measures to improve supply side management. The Union Cabinet in September gave an approval to enhance the buffer stock for pulses to 20 lakh tonnes - 10 lakh tonnes each through domestic procurement and imports. This is likely to further ease the prices.

RBI's latest assessment on inflation as announced in the Monetary Policy Review (October 4, 2016) indicates some cost push pressures emerging through award of house rent allowance and increase in minimum wages.

Exhibit 1: WPI & CPI Inflation Rate (in %)



Source: CMIE

Nevertheless, the RBI envisages CPI inflation remaining towards a central tendency of 5.0% by March 2017.

Foreign Trade

Merchandise exports contracted by 0.3% y-o-y in August 2016. In absolute terms, merchandise exports stood at USD 21.5 billion in August 2016. Oil exports shrunk by 14.1% and were valued at USD 2.4 billion in August 2016. Non-oil exports, on the other hand, were valued at USD 19.1 billion in August 2016, 1.8% higher than USD 18.7 billion noted in the corresponding month previous year.

Commodities such as engineering goods (4.2%), readymade garments of all textiles (3.7%), drugs & pharmaceuticals (0.7%), transport equipment (4.7%) and electronic goods (8.5%) reported an uptick in export growth during August 2016.

Overall imports for the month of August 2016 stood at USD 29.2 billion, 14.1% lower than the value of USD 33.9 billion noted in the corresponding month previous year. India's oil imports were seen falling by 8.5% y-o-y and were valued at USD 6.7 billion in August 2016. Other commodities that reported contraction included gold ((-) 77.5%), transport equipment ((-) 24.1%), iron & steel ((-) 21.3%), machinery electrical and non-electrical ((-) 2.1%).

Consequently, India's trade deficit decreased to USD 7.7 billion in August 2016 from USD 12.4 billion noted in the corresponding month previous year.

BRICS Business Engagements 2016

More than a decade after its creation, the BRICS grouping has gained prominence in the global arena. The inclusion of South Africa strengthened this entity, creating a powerful economic bloc of countries with stunning diversity, in terms of geography, culture and economic fundamentals. Today, it has evolved as a serious, competent and responsible grouping addressing issues and challenges with global and regional ramifications and the BRICS economies have the ability to influence global discourse on a wide range of issues.

There are several shared interests that bring the BRICS economies together. One of the major agenda of the grouping is to reform the global governance architecture which is yet to reflect the changing global picture where the emerging economies are playing a larger role. Another agenda for the BRICS economies is to work with the international community in keeping the multilateral trading system stable and curb trade protectionism.

Even as BRICS nations work together towards achieving the above stated objectives, measures need to be taken to deepen intra-BRICS economic engagement, trade and investment ties.

Data shows that engagement of BRICS countries with rest of the world in terms of trade flows has increased over time. Merchandise imports from the world into the BRICS countries have gone up from US$ 2.95 trillion in 2012 to US$ 3.03 trillion in 2014. Likewise, the global merchandise exports of the BRICS countries have gone up from US$ 3.2 trillion in 2012 to US$ 3.47 trillion in 2014. Besides their global trade, trade amongst members of this grouping has also been rising with time. For the year 2012, intra-BRICS trade totaled US$ 281.4 billion and this increased to US$ 297 billion in 2014. This is an encouraging trend and should be supported in the years to come. However, it may be noted that intra-BRICS trade is less than 5 per cent of BRICS countries' total global trade.

Given their similar consumer preferences, and often complementarities of resource endowment, this figure defies potential. Further, even as BRICS countries are amongst the largest recipients of FDI, intra-BRICS FDI is low. This too has a bearing on the cross country trade flows.

The above point has been discussed amongst members of the BRICS Business Council, which has been set up by the five governments, and it is suggested that all steps must be taken to boost commercial contacts amongst business leaders from the BRICS countries so that both trade and investments get a boost.

Last year at the Seventh Summit meeting at Ufa, Russia, Hon'ble Prime Minister of India, Shri Narendra Modi, while addressing the BRICS Business Council, announced that India would be happy to host the first BRICS Trade Fair and Exhibition during its year of Presidency of BRICS. All members of the BRICS Business Council, particularly the India Chapter, were thrilled at this announcement and I am happy to share with you all that the first BRICS Trade Fair and Exhibition will be organized at New Delhi from October 12-14, 2016 just ahead of the BRICS political summit.

In line with the overall core theme for BRICS in 2016, we have decided to focus on the Trade Fair with a theme of 'Building BRICS – Innovation for Collaboration'. Starting with India, we hope to see this engagement become a permanent mechanism for promoting BRICS economic cooperation in the times ahead.

Based on the discussions that have taken place amongst members of the BRICS Business Council and the guidance received from our respective governments, we have identified a list of nearly 20 key sectors that would be in focus at the BRICS Trade Fair. These sectors include aerospace, agro-processing, auto and auto components, chemicals, green energy and renewables, healthcare and pharmaceuticals, railways, textiles and apparel, infrastructure, IT, engineering goods, tourism, gems and jewellery and skill development.

The BRICS Trade Fair will be a platform for our respective countries and our companies to showcase the best of their technologies and advances made in industrial development.

Besides established companies, we will also be getting start-ups and innovators from BRICS countries to come and showcase their offerings. Our idea is to help technology solution providers from our countries to come and share knowledge and expertise on dealing with the common development challenges that emerging economies like BRICS face in areas like healthcare, education, energy efficiency, waste management, sanitation, urbanization management etc.

While we will have companies – small, mid-sized and large - from BRICS countries participate and exhibit at the event, we have invited business leaders from BIMSTEC countries (Bangladesh, Bhutan, Myanmar, Nepal, Sri Lanka and Thailand) as well for meetings and discussions with the BRICS business leaders and companies at the Trade Fair. This is a new dimension and complements the outreach efforts being made by our respective governments to fortify South-South cooperation.

In addition to the BRICS Trade Fair, we will be organizing the BRICS Business Forum on October 13, 2016. This is a full day conference that will see participation from over 1000 business delegates from all BRICS countries. We have invited the Trade and Industry Ministers of all BRICS nations to come and address the participants and share their vision for economic engagement at the BRICS Business Forum.

We have also requested President of New Development Bank and his senior team to join at this forum and share how the private sector can support its own efforts to promote sustainable development projects across BRICS countries.

This conference will give an added thrust to all our efforts and with the support from friends from across the BRICS business community, I am sure that there will be several key takeaways from here.

Further, I expect the various working groups of the BRICS Business Council to plan their own focused seminars and workshops at the time of the BRICS Trade Fair. So, all in all, a lot of exciting engagements are lined up.

The various business engagements planned around the BRICS Summit in India in October 2016 correspond to the BRICS Economic Partnership Strategy adopted in Ufa last year. In fact, while deciding on the focus sectors, we took guidance from this strategy document as well as the deliberations that have happened at the level of our Trade and Industry ministers. We hope that through the various programs that will be held, we will see a lot of suggestions coming forth to take forward and implement the action plan contained in the BRICS Economic Partnership Strategy. I would urge businesses from across the BRICS grouping to participate at all these programs in full strength and the team at Federation of Indian Chambers of Commerce and Industry (FICCI) is completely available to lend and facilitate any support that is needed for this purpose.

I look forward to welcoming you to India later this year.

This article is written by Mr. Onkar Kanwar, Past President, FICCI and Chairman, BRICS Business Council for FICCI's Business Digest and Economy Watch.

BRICS Economic Cooperation – The Way Forward

BRICS ORIGIN

The origin of BRIC acronym was coined in 2001 by Jim O'Neill from Goldman Sachs, who wrote in a research paper, entitled "Building Better Global Economic BRICs", that over the next 10 years, the weight of the BRICs and especially China in world GDP growth, raising important issues about the global economic impact of fiscal and monetary policy in the BRICs. In a subsequent paper by Goldman Sachs, entitled, "Dreaming with BRICs: The Path to 2050", the authors Dominic Wilson and Roopa Purushothaman wrote that over the next 50 years, Brazil, Russia, India and China (the BRIC economies) could become a much larger force in the world economy. According to the analysis by the authors, the BRIC economies together could be larger than the G6 in US Dollar terms in less than 40 years.

BRICS ECONOMIC STRENGTHS

The BRICS countries together account for 42% of world population, 22% of world GDP (32% of GDP in PPP terms), more than 50% of currency reserves- estimated to be over USD 5 trillion, and little over 15% of global trade in merchandise and services.

Total trade by BRICS nations amounted to USD 6.5 trillion in 2015, a share of little over 15% in world trade. India's share in cumulative exports of BRICS is about 13%, and in cumulative imports of BRICS is about 16.5%.

BRICS nations are major players in attracting Foreign Direct Investment (FDI). These nations cumulatively attracted USD 2.3 trillion FDI stock by the year 2015 – a share of around 10% of world FDI stock. In the year 2015 alone, the BRICS nations attracted FDI inflows of USD 246 bn – a share of 14% in world FDI inflows.

BRICS nations are also emerging as major investors in the world. As of 2015, BRICS nations have outward FDI stock of USD 1.74 trillion – a share of 7% in the world FDI outward stock. In the year 2015, BRICS nations invested USD 166 bn – a share of 11.3% in the world outward investments.

Intra-BRICS trade and investment is very minimal – 10% of total BRICS trade. This is very low considering the potential of these BRICS economies. It is important that the BRICS economies strengthen their cooperation to promote trade and investment.

LEVERAGING THE BRICS INTERBANK COOPERATION MECHANISM

Under the BRICS Framework, development banks, one each from member countries are nominated to work together under the BRICS Interbank Cooperation Mechanism. Exim Bank of India is nominated member development bank representing India under this Mechanism. Other nominated member development banks include: Banco Nacional de Desenvolvimento Economico e Social – BNDES for Brazil; State Corporation Bank for Development and Foreign Economic Affairs – Vnesheconombank for Russia; China Development Bank Corporation (CDB) for China; and Development Bank of Southern Africa (DBSA) for South Africa. These Development Banks have signed several cooperation agreements to promote trade and investments among the BRICS nations.

ECONOMIC COOPERATION – WAY FORWARD

BRICS nations cumulatively hold less than 15 percent voting rights in both the World Bank and the IMF. This perhaps was the fundamental point which also gave shape to the idea of establishing the New Development Bank (NDB), and a Contingency Reserve. The New Development Bank is established as a global multilateral development bank of and for emerging markets and developing countries (EMDCs). However, this emerging architecture will be incomplete without other critical elements.

Developing Corporate Bond Markets

The corporate bond markets in the BRICS nations are at a nascent stage. It is important to deepen the corporate bond market considering the shallow growth in the credit market. One of the basic requirements for deepening the bond market is an efficient and safe market infrastructure. This include both technological and policy infrastructure.

There is a need for better coordination among policy makers and regulators of BRICS nations. In a recent seminar on this subject organised in Mumbai, Mr. U K Sinha, SEBI Chief also suggested that the there is a need for policy makers and regulators to share their experiences, so that efforts could be taken to enhance the liquidity in the bond markets.

Framework for Knowledge Sharing

Knowledge sharing is crucial for promoting growth and development. As the BRICS forum matures as a grouping in the global development space, it will invariably require research and policy recommendations on a wide range of issues that its member economies are either currently facing or are likely to face in the foreseeable future. Although some measures have already been taken in this context, with a view to provide a focussed approach, it will be essential to formalise such measures and initiatives under one umbrella of a BRICS Institute of Economic Research and Analysis (BIERA), which will enable multi-directional and multi-faceted knowledge sharing among countries which BRICS as an alliance aims to serve. With a focus on development issues of strategic importance to the developing countries, BIERA will primarily engage in research, although it can also undertake certain amount of capacity building, training, and outreach activities, perhaps at a later stage.

As of now, the OECD dominates the research and analysis arm for the G7, G20, the EU and many other multilateral organizations in the world. The applicability of OECD estimates in the case of developing countries could, at times, be debateable.

The policy prescriptions of other global research institutions have also been far from ideal. The IMF, for example, made mistakes in calculating the effects on economic growth of the initial fiscal austerity measures imposed on Greece. Hence, there is a need for an alternative global research institution which focuses not just on the historical development experiences of the Western economies but also encompasses the experiences of developing nations in its policy dialogues and recommendations.

Framework for Assessing the Real Economic Fundamentals

Following the global financial meltdown, there has been a felt need to institute a credit rating agency to look at the real economic fundamentals, absent the politico-economic agenda of the OECD. While a credit rating for an instrument, an institution or a sovereign is first and foremost an estimate of the probability of default, a view (not unjustified) has developed that the rating rationales and ratings are as much statements of politico-economic ideology as of default probabilities. Since then, there has been a talk of instituting an alternate credit rating agency. BRICS nations have been pitched as potential group to float such an alternative credit rating agency. The objective of the proposed alternative rating agency, in the above context, is not to obtain favourable ratings for BRICS sovereigns / corporates. The intent should be to bring a new player to the ratings market whose understanding of the economic situation and environment of an entity to be rated would be better informed by the perspective of domicile within the BRICS nations.

The article is written by Mr. S. Prahalathan, Chief General Manager, Exim Bank of India for FICCI's Economy Watch.

BRICS has a critical role to play in today's globalised world

The preparations for the BRICS Summit in Goa on October 15 and 16 are going on in full swing. As on date, there are 95 separate events which will be a build-up to the event and also provide valuable inputs to the leaders for their consideration at the Summit. The theme of the Summit has been carefully chosen as "Building Responsive, Inclusive and Collective Solutions." PM Narendra Modi has instructed that this Summit should take BRICS from the governments to the people. Hence, the emphasis is on events to enhance people-to-people contacts and also to have the maximum number of activities outside New Delhi. Twenty two states are expected to be part of the activities.

As a group, BRICS has come a long way from 2001 when Brazil, Russia, India and China were put under one list as the best investment destinations. With the inclusion of South Africa in 2012, this "unlikely group", as is sometimes referred to, has come a long way and has several achievements to its credit. The countries have been able to work on areas of convergence which have multiplied over the last decade. These are areas of interest to all namely trade and investment, health, education, urbanisation, inclusive growth, sustainable development, energy security, food security and small and medium industries.

The larger role that BRICS is playing today is to act as a platform for alternative thinking and to create a new narrative for context-specific development goals. Intra BRICS cooperation has expanded exponentially to include new fora in various sectors. For example, there is a BRICS Parliamentary Forum, an Economic Forum, an Academic Forum, a Civil Forum, a Wellness Forum and so on. There are also active platforms like the Business Council, Think Tank Council and a BRICS Trade Fair.

All these are at the track 2 level. At the track 1 level, concerned government departments are in regular contacts. On the geo-political and strategic plane, there are regular meetings between the National Security Advisors of the five countries.

The idea of BRICS and global governance

BRICS should not only been seen as a group of five countries which are not linked by geography or as an alliance. BRICS is also an idea which came up at the right time when globalisation was at its peak. It cannot be denied that the economic centre of gravity has moved away from the Atlantic powers to emerging economies. However, there has been no commensurate shift in the geo-political structures to reflect the change. BRICS countries rightly argue that there is an urgent need for the changing global order to be reflected in the global governance norms and institutions. They are in the fore front for effecting changes in the Bretton Woods Institutions – the World Bank and the IMF.

BRICS has also ventured into creating new global institutions to counter lack of forward movement in the reforms of some institutions. The creation of the New Development Bank (NDB) and a Contingency Reserve Arrangement (CRA) in a matter of three years is a remarkable achievement. Even though these have been conceived as additional facilities to the World Bank and the IMF, their establishment is a wake-up call to out-dated global structures which refuse to change with changing circumstances. The idea of a Development Bank by BRICS first came up at the New Delhi Summit in 2012 and by mid 2015, the Bank was put in place. First disbursements of $ 811 million for renewable energy projects in the five countries have already been effected. The NDB's philosophy will be based on South-South Cooperation, equity in power sharing and Sustainable Development. BRICS also stands for strengthening multi-polarity, multilateralism and an open, rule based global trading system. The proliferation of mega FTAs like the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) is a threat to an effective WTO which BRICS considers to be the premier global trading mechanism. Similarly, BRICS gives great importance to the G-20 as the main forum to decide on global economic and financial issues. There is concern among the five countries that multilateralism is getting weaker. Democratic equity in International Relations is a corner stone in BRICS' approach to global issues.

New Initiatives

What are the new initiatives expected from the 8th BRICS summit? The idea of establishing a think-tank attached to the NDB has been in consideration for some time. This New Development Bank Institute (NDBI) could be announced at the Summit. BRICS has also been keen on establishing their bench markings and standardisation in many areas. Talks are also on for creating a BRICS Credit Rating Agency.

This could end the dominance of US based agencies like Standard and Poor's, Moody's and Fitch which have a global market share of 90 per cent. The ratings by these agencies have often been found to be subjective with poor ratings for developing and emerging economies. Further, the agencies had egg on their faces after the collapse of Lehman Brothers in 2008 whom they had endorsed. The other idea is to create an Arbitration mechanism among BRICS to decide trade and economic disputes without going to Western Arbitration Tribunals.

Since international norm setting is a major objective of BRICS, the five countries as a group can play a critical role in the four areas that saw major International Conferences last year.

These are Disaster Risk Reduction Conference in Sendai (Japan), International Financing for Development Conference in Addis Ababa (Ethiopia), the Sustainable Development Goals Conference at the UN and the Climate Change Talks in Paris (France). On all these four issues, BRICS can contribute with innovative ideas and active cooperation. Another virgin idea which is of crucial interest to the five and where there is no visible global governance is cyber security and internet management. A coordinated approach to these issues could positively contribute to the international road map for the future.

The best way to evaluate BRICS is not to treat it as a finished product but as a work in progress. The agenda is still evolving and expanding. It is this flexibility that helps BRICS to be creative. As the leaders have reiterated many times, BRICS will work in an inclusive, practical, gradual and incremental manner to achieve the objectives.

The article is written by Mr. H.H.S.Viswanathan, retired Diplomat and a distinguished Fellow in the Observer Research Foundation, New Delhi. He heads the Indian Delegation to the BRICS Think-tank Council.

The BRICS Bank: Goals and Implications

BRIC as an acronym designating a group of emerging economies, was first used by Goldman Sach in 2005. Subsequently, they came together to form a multilateral organization that has moved through several stages. From being just a track 11 event where the Heads of Brazil, Russia, India, China met, they expanded to include South Africa and have now moved to becoming a viable economic actor on the global stage. This change is especially noticeable since the establishment of the BRICS New Development Bank, first mooted by India, and formalized during the 2014 summit held in Fortaleza, Brazil.

From the very beginning, BRICS has stated economic cooperation and especially the need for the emerging economies to have a greater say in the international financial and international economic decision making structures, as its main goals. Emerging economies felt disadvantaged by the status quo and proceeded to take common positions within the G20, yielding rich dividends. This sense of comprehensive economic cooperation has been clearly visible since the first Joint Statement of the BRICS country leaders at the first summit held in 2009 in Yekaterinburg in Russia:

We are committed to advance the reform of international financial institutions so as to reflect changes in the global economy. The emerging and developing economies must have a greater voice and representation in international financial institutions.

BRICS's Common Economic Strength

BRICS as a combined economic unit makes up 20% of global output and its share according to Forbes has risen four fold in the past decade. However, although their economies have slowed, in light of the international economic crisis, they still represent strong fundamentals.

It is these strong fundamentals that the BRICS countries bring together in the institutionalization of the BRICS New Development Bank. BRICS countries have outlined an agenda for financial and investment cooperation through its combined financial contributions. The key focus here will be infrastructure and clean energy investments.

China is certainly the largest economy in this combination, making up 70% of the BRICS combined GDP. It is also the host of the Bank, with headquarters located in Shanghai, naturally making Chinese staff and infrastructure locally responsible for the smooth functioning and logistics of the bank. While all countries will share in the layout of initial capital with fifty billion each, China will be the largest funder of the CRA or contingent reserve arrangement.

China will contribute 41 billion USD to this fund, Russia, Brazil and India will contribute 18 billion each and South Africa will come in with 5 billion. India has the first rotating Presidency, under K.V. Kamath and will be followed by Brazil. South Africa has won the right to host the first regional headquarters.

In 2016, the BRICS bank has already disbursed loans to member countries as a handout by the Bank shows below. We notice that the key focus of the banks loans has been in the clean energy sectors and here we have seen a lot of movement of cooperation between the BRICS countries, with Climate change top of the agenda for sustainable project funding and sustainable economic development.

At the same time, President Kamath has stressed the need to make projects profitable and capable of returning the loans disbursed. The BRICS bank is not meant to be a charity but a professional bank that uses professional and international criteria for its functioning, thus increasing its cooperation with other international financial institutions.

Table 1: Projects Supported by the NDB in 2016

Country	Loan Amount	Sov. / Non-sov.	Borrower	Guarantor	End-user / Onlendee	Modality	Target Sector	Impact
Brazil	USD 300 mln	Non-sovereign	BNDES	-	Sub-projects	- National financial intermediary - Two step loan	Renewable energy (wind, solar etc)	- 600 MW renewable energy - Avoided 1 mln t CO2/year
Russia	USD 100 mln	Non-sovereign	EDB / IIB	-	- Nord Hydro-Bely Porog - Other subprojects	- National financial intermediary - Two step loan	- Renewable energy (hydropower) - Green energy	- 49.8 MW renewable energy - Avoided 48 000 t CO2/year
India	USD 250 mln	Sovereign guaranteed	Canara Bank	Gov. of India	Sub-projects	- Sovereign guaranteed - 3 transactions	Renewable energy (wind, solar etc)	- 500 MW renewable energy - Avoided 815 000 t CO2/year
China	RMB 525 mln (USD 81 mln)	Sovereign	PRC Government	-	Shanghai Lingang Hongbo New Energy Development Co. Ltd.	Sovereign project loan	Renewable energy (solar roof-top PV)	- 100 MW solar energy - Avoided 73 000 t CO2/year
South Africa	USD 180 mln	Sovereign guaranteed	ESKOM	Gov. of RSA	ESKOM	Sovereign guaranteed project loan	Renewable energy (transmission)	- 670 MW renewable energy evacuated (transmitted) - Avoided 1,3 mln t CO2/year

Source: NDB handout brief 2016

Thus, right from the start BRICS has started functioning as an effective mechanism for timely and needed support for energy efficient clean technology projects and has sought to invest in infrastructure upgrades in this sector.

Issues that Must be Addressed: The Nature of Mutual Trade

The key issue that will remain in terms of effective economic financial cooperation between the BRICS countries is the issue of trade imbalances and today, the declining imports to China of raw materials from BRICS partner countries like Brazil and South Africa has already registered a negative impact on their economies. These countries are seen as large resource delivering bases for China's ever expanding market. Russia is a source of cheap energy for the same market while providing a large market for cheaply manufactured Chinese goods, something that India for example, has seen to the detriment of its own manufacturing sector, apart from other internal policy reasons of course.

China also runs a trade deficit in its favor with all these partner countries. China's economy is larger than that of the four other BRICS economies combined. China's exports and its official foreign exchange reserves are more than twice as large as those of the other BRICS economies. Thus, China makes up 70% of the BRICS economic heft. Without China, BRICS loses considerable stature.

It is this fundamental dominance of China, both in its reach and its capacities that should prompt a little wariness on the part of its other member states. Is the bank going to become another Chinese bank like the Asia Infrastructure Investment Bank, where China is again the lead partner with investments from across the board in Europe. Only the USA and Japan have stayed out. This will certainly give competition to the Asian Development Bank, with Japan as a key shareholder. Some have argued that China will also gain by hiding its investments in Latin America and Africa through the BRICS and AIIB rather than being targeted for its huge investments directly. The Chinese yuan has already been accepted as one of the international reserve currencies, thus lending in Yuan through the BRICS bank will further enhance the Yuans status as an international currency. Thus China is really the net gainer in the BRICS bank, although countries like India will benefit by having another source of government borrowing outside of the IMF and the World Bank.

Of course at the geo-political and internal economy level, the smaller IBSA group of India, Brazil and South Africa, that also exits has a lot more in common than with Russia and China that are emerging more and more as a common block within the Security council and on other international issues. India, with it own needs of greater and broader cooperation with the USA, a move quite visible under the Modi government, may find itself in a difficult position within BRICS on several strategic and economic issues.

Conclusion

To what extent a common Bank leads to greater international synergy and who is the largest beneficiary of this new grouping, will remain the key questions for these BRICS partner countries. While a need to restructure international institutions, including the Security Council is felt in common, these are not acceptable to all our partner countries. India for example, despite BRICS, is still hedging with regard to China's other economic initiatives such as the One Belt One Road project. Nor can Brazil and South Africa be part of this project, based as it is on contiguity of trade and infrastructure routes.

However, if the BRICS economic cooperation leverages the fundamental comparative advantages of each country than there is a chance of future and long term success. This means, Brazil with its resources and its high tech industry, Russia with its high technology and its cheap energy sources, China with a qualified manufacturing labor force and its huge wealth, India with its IT source strength and human capital and South Africa with its resources should work together to leverage and maximize their strengths while learning from the best practices in technology and planning.

The world does need a more equitable distribution of power and the emerging economies, including Russia are right to ask for this but this should based on practicing what we preach, first within our own group.

The article is written by Dr. Ravni Thakur, Prof. Chinese Studies, Dept. of East Asian Studies, Delhi University for FICCI's Economy Watch.

BRICS Rating Agency, need of the hour

The countdown to the BRICS (Brazil, Russia, India, China and South Africa) Summit in Goa (scheduled for Oct 15-16 in Goa) has begun. With a packed calendar of over 90 programmes, workshops and seminars held across the country, the Indian presidency of the grouping has provided a new thrust to our growing relationship.

Each of these meetings will contribute to a key deliverable that will be finalised and announced as part of the Goa declaration. Members of the BRICS Business Council are looking forward to the Summit meeting and surely there will be new ideas, suggestions and proposals that our leaders will put forth to increase our economic engagement even as discussions span across a wide gamut of areas.

The BRICS Business Council has over the last many months deliberated on key economic issues and our recommendations will be shared with the leaders through our annual report.

While there are several proposals on the table, one area that has attracted a lot of attention, particularly amongst members of the Financial Services Working Group, is that of a 'BRICS Rating Agency'. Sceptics may scoff at this idea, just as they did when the New Development Bank (NDB, (formerly, BRICS Development Bank), was proposed, but a deeper study of the issue at hand shows that there are solid reasons for us to move ahead with this proposal.

In fact, a survey done amongst potential users of credit ratings shows that there is strong demand for a new rating agency that would offer a much better understanding of the emerging markets. Let me explain.

Currently, ratings are assigned based on either national or global rating scales. These have limitations. National scale ratings of a domestic rating agency in one country are not comparable with those from a different country; ratings on the global scale usually get restricted by the country's sovereign rating, leading to bunching of the ratings at the lower end of the scale.

Hence, an alternative rating agency is required to provide ratings on a broader emerging market scale that is an intermediate between the national and global rating scales, one which will offer a sharper differentiation in credit ratings for the benefit of investors focused on emerging markets. This will help investors in getting a much better idea about the credit quality of the issuers and thus help them take a more informed decision on allocation of funds within these geographies.

While there is an unequivocal support for having a BRICS Rating Agency, there are areas that need detailed discussions as we gear up for drawing out the implementation plan. And some of these areas include ownership and governance structure, and location and scope of services to be offered. Let us examine each of these.

First, the issue of ownership. For the rating agency to be free from any political bias (and from a single country) there is a need to have a diversified and independent shareholding structure.

For the BRICS Rating Agency, we may therefore consider dividing shareholding amongst national development banks of BRICS nations, multilateral bodies and other public and private financial institutions. The New Development Bank could also be a stakeholder to ensure long-term stability and independence from a single sovereign.

Second, we need to consider location. Governance norms and regulatory framework lend credibility to and enhance acceptability of a rating agency among investors. Hence, it is important that the location where the BRICS Rating Agency is based offers a robust regulatory framework in line with global standards.

Moreover, factors such as the size and reach of capital markets and the presence of a well-developed domestic credit rating industry will improve visibility of the BRICS Rating Agency. All these factors should be considered while evaluating the country of establishment.

The third issue is the scope of services offered. The discussion here is closely linked to establishing the reputation of the BRICS Rating Agency. And for this, the proposed rating agency must adopt a methodology that is based on fundamentals and predicated upon a rigorous rating model. The ratings should clearly delineate the differences in the credit risk profile of issuers relative to the risks in their specific markets.

Improving acceptability

Further, the rating agency should be empaneled with the central banks of the BRICS nations as this would improve its acceptability amongst financial institutions lending in foreign currency. With this kind of an approach and set up, the agency could initially focus its ratings on (a) corporate sector debt; (b) public sector debt, and (c) financial institutions.

The proposed rating agency can initially serve the BRICS nations but its services could gradually be extended to other emerging markets as well.

Amongst all sectors, it is the infrastructure sector that requires maximum attention and funding in emerging markets. And as we see a gradual increase in the participation of emerging market funds in infrastructure build-outs in emerging economies, a credit rating agency whose evaluation is reliable, transparent and independent, will proactively carry forward the development agenda of the emerging economies.

Thus, forward movement on the proposal for a BRICS Rating Agency along with simultaneous discussions with institutions like the New Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank and the World Bank will be a very encouraging step. We need investors across the board including capital market players to endorse the move and commit to using its services.

India’s core theme for BRICS in 2016 is ‘Building Responsive, Inclusive and Collective Solutions’. The idea of a BRICS Rating Agency fits well into this theme. And the BRICS Business Council looks forward to this collective deliverable when the leaders of the BRICS countries meet next weekend in Goa.

The article is written by Ms. Naina Lal Kidwai, Past President, FICCI and Chair, BRICS Business Council Financial Services Working Group. It was published in Deccan Herald on October 6, 2016.

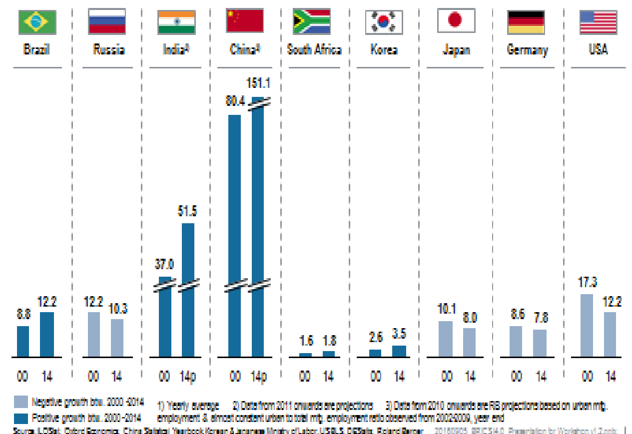
Skill development for Industry 4.0

Industry 4.0

Industry 4.0, christened so based on its promise as the fourth industrial revolution, encompasses a wide spectrum of technological advances across the value-chain. It is also considered as an information revolution, which is the superimposition of big data, connectivity and information on top of industrial automation. Traditional manufacturing and production processes are undergoing digital transformation with widespread adoption of information and communication technology. As a result, the boundary between the real and the virtual world is increasingly blurring giving birth to what are known as cyber-physical production systems. Industry 4.0 technologies are revolutionizing industrial set-up by leveraging innovation across Automation, the Internet of Things [IoT], Artificial Intelligence and Additive Manufacturing.

Industry 4.0's primary appeal lies in its ability to act as an economic game-changer which would open up a myriad of opportunities for companies to revamp or create entirely new offerings and business models. Technologies such as mass customization and 3D printing offer greater flexibility to companies to meet varied demand from their customers, who are increasingly favoring more flexible and customizable outputs over standard product offerings.

Industry 4.0 which started off as Germany's brainchild is expected to minimize the labor cost advantages of traditional low-cost locations, making it attractive for manufacturers to bring previously offshored jobs back home. Industry 4.0 or Industrial Internet (as it is called in some countries) has now also come into geo-political focus garnering attention from national government bodies. Countries across the world have taken initiatives to be a part of this fourth industrial revolution. More technologically developed countries pioneered full-fledged national missions focused on Industry 4.0 technologies, such as the Advanced Manufacturing Partnership 2.0 in USA, Revitalization and Robots Strategy in Japan, Industrie du Futur in France and Intelligent Factories Clusters in Italy, to name a few.



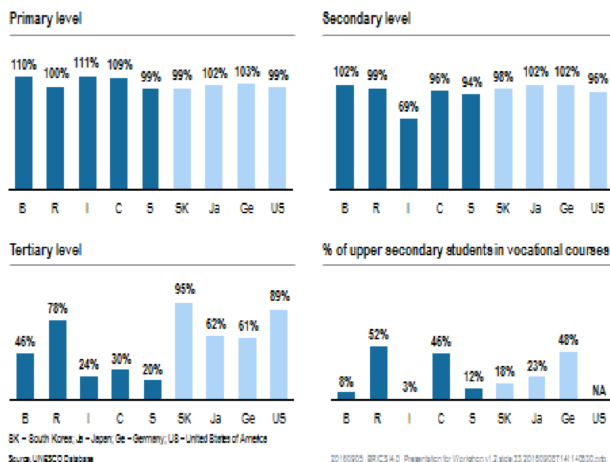
In terms of manufacturing workforce, BRICS countries employ around 227 m people which is higher than the population of the 5th most populous nation (Brazil with 204m) Any changes in the existing manufacturing models will have major impact on the socio-economic factors in BRICS and need to be proactively addressed. To ensure sustenance of manufacturing competiveness, emerging markets have initiated the adoption of next generation manufacturing through the launch national strategies – most notably, China launched 'Made in China 2025' in early 2015, not long after Germany and USA. India also initiated the 'Make in India' mission to promote manufacturing by bringing in policy changes for attracting global manufacturing houses to set-up operations in India.

The Government of Russian Federation issued a program called the 'Development of the manufacturing industry and improvement of its competitiveness for the period till 2020'. According to this program the efficiency of labor will be improved with modernization of the manufacturing process where IT and Industry 4.0 technologies like robotics and 3D modelling and printing will play a significant role. While Brazil and South Africa do not have a national strategy, several initiatives across robotics and Industry 4.0 have been undertaken.

FICCI

Why skill development in Industry 4.0 is critical for BRICS

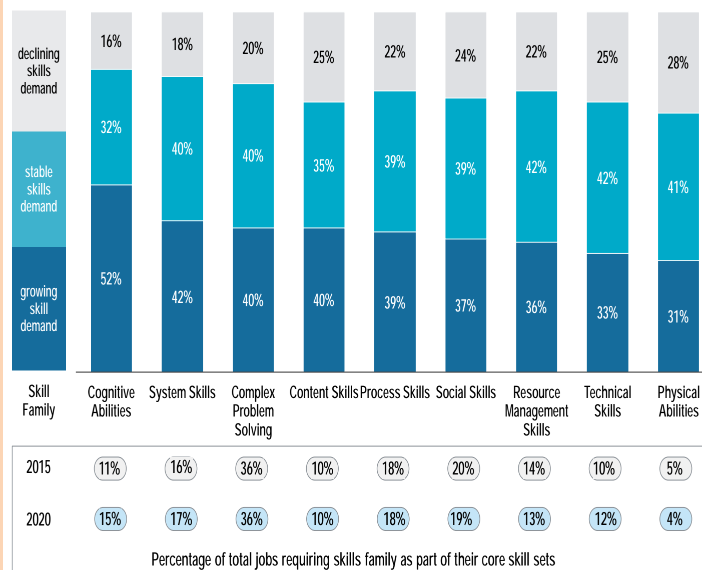
Adoption of Industry 4.0 will result in elimination of lower skilled jobs through automation and the increase in productivity could result in an overall reduction in the number of jobs available. With the increased automation levels, Industry 4.0 will result in shifting of key value adding activities back to the developed economies which will result in further reduction of jobs in the low cost manufacturing countries. Given high dependence on low skill labour in the BRICS (e.g., only 2% of the labor in India is skilled), re-skilling or up-skilling will be required by all the developing countries to make them ready for the new requirements. For countries like South Africa where the unemployment rate is close to 25% , such reduction in the number of jobs would further fuel the challenge. Similar case exists in India where 10 million additional jobs per year are to be created by 2020 to ensure adequate opportunities for the young population .



Current enrolment levels in tertiary education levels are very low in BRICS (except in Russia). Similarly Brazil, India and South Africa lack concrete vocational training programs due to which the percentage of population which undergo vocational courses are very low.

As per Future of Jobs survey conducted by World Economic Forum, it is expected that a number of skills that are not considered to be significant in today's context will form one-third of the desired core skill sets of most occupation in 2020. Such a shift in the skill requirement is expected with increased digitalization. The ability to work with data and make data-based decisions will play a major role in the jobs of future.

Change in demand for core work-related skills, 2015-2020, all industries



Source: Future of Job Survey, World Economic Forum

Note: In above chart, the percentage in bar chart indicates the percentage of jobs indicating growing / stable / declining demand for a particular skill family as core skill set.

With such a shift in skill requirements, the basic educations level and teaching models are bound to change. Only countries which are able to improve the overall enrolment levels and stay updated with the evolution of the industry technology will continue to stay competitive as manufacturing hubs.

Challenges for BRICS

All the BRICS nations have realized the importance of skill development in achieving economic growth in the future and have taken various measures to bridge the skill gap.

From increasing education expenditure to increasing network of vocational trainers by launching nation-wide programs, initiatives have been launched to make the labor force industry-ready. However, BRICs still face a number of challenges in the skill development of its workforce.

- **Demand supply mismatch:** Vocational education and skill development in BRICS nations is primarily supply driven i.e. the skills imparted by training institutes may not be in line with the industry requirement.
- **Access:** Lack of access to vocational education has also contributed to the skill gap that exist today because a number of students are unable to pursue vocational education as sufficient number of vocational schools and training institutes across the country does not exist.
- **Lack of industrial training:** Vocational education in BRICS nations is primarily introduced in upper secondary level. At present, the vocational education comprises of courses in vocational schools while apprenticeships are not included as mandatory part of education programs.
- **Quality and lack of resources:** BRICS nations also face challenges in terms of having inflexible and outdated curriculum, shortage of qualified teachers and trainers and unavailability of proper, up-to-date infrastructure (building and equipment).
- **Negative image at secondary level:** The vocational education and training (VET) track suffers from negative image that it is for school drop-outs rather than a way of training workers.

Opportunities for multilateral collaborations

In order to bridge the skill gaps that exist, several initiatives have been undertaken by BRICS Nations. India has established National Skill Development Corporation (NSDC), Sector Skill Councils and National Skill Qualification Framework (NSQF) while Russia undertook the 'Skill Development for Industrial Growth' initiative under Agency for Strategic Initiatives to bridge the gap between industry's skill demand and supply and further strengthen the industry links. China has joined hands with Germany through Sino-German Collaboration to accelerate its skill development program.

Significant opportunities exist for the BRICS nations to collaborate with each other in a few areas like defining the pedagogy for vocational training, cross leveraging of IT/digital skills, drive labor mobility across the countries, etc, Best practices like integration of robotics in Russian curriculum or the PRONATEC model (which focuses on improving the access to professional education and employment) followed in Brazil could be emulated by other countries.

The BRICS whitepaper on Skill Development for Industry 4.0 is being developed by FICCI and Roland Berger. The white paper will address the above mentioned topics in detail. A Seminar was also organised on 16th September, 2016 comprising of domain experts from Industry 4.0, Skill Development and Academicians from all the BRICS nations to develop recommendations for multilateral engagements.

The article is written by MS Unnikrishnan- Chair, India, BRICS Skill Development Working Group and Managing Director & CEO, Thermax Limited and Dr Wilfried Aulbur, Managing Partner & CEO, India, Chairman Middle East, Head Automotive Asia; Roland Berger for FICCI's Economy Watch.

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The environment for entrepreneurs

In recent deliberations at NITI Aayog, Prime Minister Narendra Modi struck a very relevant note when he said that India needs rapid transformation, not gradual evolution. This cannot happen without a corresponding change in mindsets. Laws, procedures and processes must be tuned for the 21st rather than the 19th century. He said mindset changes typically occur at times of shocks or crisis.

Let me take this last aspect as a starting point.

Crisis round the corner

It is vital to banish all doubt that a crisis is omnipresent, whether we see/recognise it or not. This essentially arises from not being anywhere close to creation of the rojgaar that India needs. While 8 per cent growth is worthy, it is still at the bottom of the desirable 8-10 per cent band, without which broad-based prosperity and closing of gaps between aspiration and reality cannot be truly addressed. Time is running against us too!

Some studies indicate one hard factor that can impede private investment — the deepest earnings decline in 20 years (according to Morgan Stanley) — that compounds the pain of over-leveraged balance sheets and excess capacities. The investment cycle has not yet turned positive, while current interest is at best selective in terms of industries and geographies.

Softer and feel-good factors such as economic growth (leading to better market opportunities) and improved ease of doing business are added selling points in inviting investment. However, is it possible that something more rudimentary curbs the enterprising spirit?

Getting past surveys

We need to explore territory beyond customary surveys painting a rosy picture for investments or profits or jobs, but always “in the future” — Is it more lip service than strong commitment?

In building sustainable economies, leaders across the world often realise that the right course lies in strengthening entrepreneurs rooted in their communities. In saying this I do not imply any subset but advocate enterprise across the board — be it in industry/services or self-employment.

Commitment and expansion by desi (or homegrown) entrepreneurs — both new and established — is the surest endorsement that can trigger all future investment and job creation. Therefore, the prevailing sentiment of domestic participants in Indian industry and commerce (and their own assessment of realities versus policy intent) is very relevant.

It is necessary to make a distinction between (a) entrepreneurs who invest a material skin of their own in the game (financial or reputational stakes) and (b) businesses managed or mentored professionally yet funded by institutional capital or deep pockets abroad.

My exploration relates essentially to the culture and environment in which entrepreneurs have to function — the hard facts are there for all to see and appreciate or comment upon. On the surface there is just about no one who questions (a) the growth potential of India, (b) the commitment of the Government to bring about lasting change in policies and systems for the better, and (c) the fact that India appears to be the only bright economic outlier in the global economy.

Then why do doubts and frustrations simmer? Admittedly they remain below the surface and off the radar, even when shared in informal exchanges by honest members of the commercial world.

Why the doubts?

For one, tribulations flowing from archaic laws and an essentially socialist policy era are out of sync with contemporary or future needs.

Yet, whenever faced with problems the natural instinct (prodded by political/activist pressures) still appears to most to regulate, investigate, intimidate, impose or tax, notwithstanding the positive narrative under a development agenda. Subsequently an empowered, sometimes confused and mostly cautious, administration ends up creating unintended impediments. Rent-seeking by a section, including for not using draconian provisions, cannot be ruled out.

In such circumstances, noble and worthwhile principles more often than not end up in bad or shoddy policies and laws. Sometimes this appears to be accompanied by the granting of intrusive and penal powers, for which (a) an abusive wielder is not seen as being held accountable, and (b) for those at the receiving end, judicial security is usually too delayed to be of value.

As history has shown, daunting rumours and bad news travel and impact sentiment far quicker than good news can. The mindset change or a drive to change that the Prime Minister speaks of, cannot remain restricted to the top echelons of leadership and a few levels of the administrative machinery. But that is where it really stops today. The harsh fact is that despite the energy and willingness at the top to change and improve, ground realities are different. Such disconnects are serious inhibiters.

If we hope to successfully impose global best practices and standards of governance, financial hygiene and probity, we must enforce matching maturity in the larger ecosystem. For example, every tax or borrowing or governance infraction by some persons cannot be used to paint others with a broad brush.

Yes, it is true that members of the commercial community through their own delinquency give larger sections a bad name; but the pain persists partly because collectively the community may not have reacted with due alacrity and decisiveness in proving distance from delinquent actions.

It disappoints many that some policies occupy a larger-than-deserved share of mind/media-space and are goaded by investigative or other bodies, not executive or legislative in nature. While well-intentioned, they can lack comprehensive domain knowledge or big-picture appreciation and thus advocate idealistic or unduly punitive measures. This is unfortunate.

Therefore, there exists the possibility that their recommendations or timing/implementation may lead to unintended outcomes. This in turn could lead to a vicious circle where failed results get tackled through more sub-optimal policies — leading to long-term volatility.

Entrepreneurs of all sizes need a predictable economic environment/culture that accepts success and failure with equanimity, a regulatory environment where trust plays a key role, and a public environment where they can hold a place of pride as national contributors.

I believe that our leadership concurs with such principles, but on the ground we have a long way to go before delivering on these impressive intentions.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on September 1, 2016.

The focus is back on GST rates

Having successfully steered the Constitutional Amendment Bill enabling introduction of a goods and services tax (GST) regime in the country in the Rajya Sabha, the government is moving with alacrity to ensure that the mother of all tax reforms does get rolling on 1 April 2017. It lost no time after the passage of the bill by Parliament in influencing the state governments to ratify the bill. Once the requisite number of states endorsed the bill, it obtained Presidential assent and swiftly constituted the supreme GST council. In fact, the first meeting of the council has been convened this week. We can expect some exciting developments in the coming weeks.

Even before the Constitution Amendment Bill was enacted, the debate on GST rates had well and truly begun. If it were the opposition parties which flagged it as a major issue during the debate on the Constitution Amendment Bill in Rajya Sabha, it's the trade and industry which is now slugging it out after the bill has been passed. After giving up the demand for incorporating a cap on the GST rate in the Constitution, some of the parties went to the extent of demanding an assurance from the government in Rajya Sabha that the central GST legislation will not be introduced as a Money Bill (and consequently deprive them of the leverage on its contents). State governments too have taken positions in the rate war. Some of the states have questioned the viability of fixing a GST rate lower than 20% implying that revenue yields would be compromised at lower rate. More importantly, some of the states have sought assurances from the industry that the reduced impact of tax incidence following introduction of GST be passed on to the consumers. A major industry chamber (not FICCI) has pitched for GST rate of 18%. Forget about business dailies, mainstream newspapers have joined the guessing game about what the standard GST rate going to be; and every columnist is giving his own piece of opinion.

There is generally an understanding that the goods will be categorised into different baskets for the purpose of levy of GST.

Certain basic items such as primary agricultural commodities will be exempt from GST. Essential items used by the populace would be subject to a merit rate. Another basket will cover the demerit goods or items consumed by the so-called well-off sections of the society. All the remaining items will be charged to the standard rate of tax.

Before they deliberate on the rates, the GST Council will have to first take a call on which items will need to be exempted; which items will constitute the merit list and which items should be categorised as the demerit goods requiring a higher levy. Placing the various items in various categories in a rational and objective manner is going to be a huge challenge. There will be demands from various sectors for categorising their goods at exempted rates or merit rates. Given that states have no uniform approach and various states treat various items differently for levy of VAT, the existing VAT structure does not seem fit to be used for prescribing GST rates. On the other hand, excise duty rates having been applied uniformly all across the country and having evolved over a number of decades do offer a reasonable basis for categorising goods into different baskets.

On the aforesaid basis, it is felt that goods fully exempted from the levy of excise duty and VAT by all the states be categorised as exempted goods in the GST regime as well. Goods chargeable to nil rate of excise duty but charged to VAT in most of the states could be suggested for levying a merit rate of GST. Finally, all other goods (except jewellery and demerit goods) could be subjected to the standard rate. There can of course be exceptions to the aforesaid principles for valid reasons.

As for the numbers, since the merit list basket comprises basic essential items, it should be ensured that the merit rate is kept as low as possible so as not to stoke inflation. The demerit rate comes next—here, the attempt, of course, would be to fix as high a rate as possible but fears of incentivising evasion could act as a check against prescribing a fancy rate.

After the GST Council has taken a call on the aforesaid critical issues, it will be required to prescribe the standard rate of GST – the rate at which all the remaining goods would be taxed to ensure that the existing revenues of the Centre and the states are protected and do in fact accommodate to a reasonable growth. This is also the rate which will be applied to tax the services. All services are expected to be levied to a uniform rate unlike the goods. And this is when all the statistical information would be required to be made use of.

This is also the stage when assumptions come into play—how much buoyancy to factor in the revenue collections on account of the likely improved compliance; what will be the revenue impact of the possible growth in GDP on account of introduction of GST regime or how much cushion to be provided for the likely payout to states which experience a revenue shortfall?

Officials of the finance ministry, the experts of the Tax Research Unit, and the GST Council secretariat will need to scan the reports by the experts in National Institute of Public Finance and Policy, and the committee chaired by the chief economic adviser besides making their own analysis before they advise the GST Council on what the standard rate should be.

Since we are not privy to the statistical data, it is hazardous to recommend a standard rate, but certainly the businesses and consumers will have their comfort level up in the skies if a combined central and state GST merit rate of closer to 10% and a standard rate of not more than 20% for starters is attempted. At these levels, some experts would agree that the objectives of the merit rate being anti-inflationary and the standard rate being reasonable can be said to have been achieved.

The article is written by Mr. Harsh Mariwala, Chairman, Task force on GST, and former president, FICCI. He is also Chairman, Marico Ltd. This article was published in Live Mint on October 4, 2016.

Bright and dark spots in the economy

After two parched years, the rains were labelled near normal — good news for the rural and general economy. There was a mostly successful — even if detractors term it insufficient — outcome on broadening the tax base, with healthy exchequer revenues and signs of better compliance. An effective combination of diplomatic and military actions boosted the reputation of the Government internally and externally. Rounded off by meaningful steps on GST implementation, to make its consequent economic benefits and market unification tangible.

Such positivity is appropriate while mapping future options, even if the analytically inclined but well-intentioned commentators can often moderate it.

Still feeling the heat

Despite India's improved competitiveness ranking, business performance continues to be largely under pressure and capital/debt servicing concerns are real. This dampens enthusiasm for new private investment and the GDP sustains momentum via capital spending by the state.

The RBI confidence surveys showed mixed perceptions. Improvement in current economic conditions was reported only sparingly, yet the future outlook remained high. Perceptions on current income remained weak, with positive feelings for the future. Most critically, sentiments on employment prospects weakened over the last 12 months.

The overt issues before us are: how business investment can revive and where will jobs get created? These issues surface from looming changes across the world in its approach to globalisation, and how that may impact our fortunes.

Jobs are the key

The material key to the overt issues is the strength of India's domestic market. But these appeal to global producers too, imports from whom put undue pressure on domestic businesses. While conventional reasoning and the 'Make in India' programme suggest that manufacturing creates the most jobs, there are schools of thought that suggest India has largely missed this bus. Thus a recalibration or tweaking of our job creation strategy would be merited.

Industrial activity will continue to create jobs but slower than in the past. Manufacturing job creation must derive from a larger number of small/medium units, near their respective markets. Many can be ancillaries to large, yet labour-light, investments. Simultaneously, there needs to be an explosion of employment in value-adding services, both digital and non-digital. Traditional sectors such as construction, entertainment, healthcare and tourism can be aggressively pushed to pole position in bulk job creation.

We must distinguish amongst jobs created by value-adding services and those via service/market portals and/or logistics. While these attract sizeable capital and high visibility, in essence such services are non-critical or are related to distribution, so having limitations as primary value addition is not inherent in their core processes. Therefore their sustainability is moot, generating rational concern for the long term.

For the path to resurgence, we must address three rudimentary issues. One, our regulatory thinking must transition rapidly from a mindset of the 20th century (rooted in control/discretion) to one suited for the coming decades. General business governance is becoming complicated due to multi-layered regulations even as we try to enhance ease of doing business. It is easy to adopt ideas from other jurisdictions to align better with worldwide practices; but in absence of an environment that offers similar freedom, noble intentions often fail to deliver. We need sensitisation on both the application of existing rules and the design of new ones. This is not a general comment but a call for deeper contemplation followed by surgery.

Two, we have a long road ahead to true competitiveness. We need to look at silos of individual costs (manpower, energy, financials or transactions) as well as total costs holistically; this includes intangibles imposed by extended time factors due to infrastructure or administration.

Even in advanced economies value-addition to both manufacturing and services are much higher than what accrues to us at the same selling price.

Third, we spend time talking of right-skilling or future-skilling, and of existing gaps between skill needs and availability. It's not that there is a lack of effort and intent, but the results are not visible on the required scale.

Automation is a genuine threat to industrial jobs, while increased digitisation or automation may increase service oriented jobs (Uber, etc). Such shifts require a reorientation in thinking. We risk discontent if youngsters (educated/trained by investing significant time and money) find they cannot find corresponding livelihoods. Frustration comes easily but recedes slowly.

History confirms that improvements sought in employment policies (which affect the minuscule proportion in formal employment) end up being confrontational or barely incremental, and usually pay only lip service to productivity and work ethic.

A remedy may be to abandon the dual ministries of HRD and labour in favour of a unified contemporary ministry of manpower that can ensure convergence of livelihood policies and skill development.

On the covert side

The covert issues arise from the path that globalisation (and protection in some form) may take in multiple countries. The global effects will most likely play out over the next 10-20 years implying that the youngest in our population face the largest risks.

Reactions against unrestrained free trade are quite likely to rewrite politics across the globe. We saw some shades of this in Brexit and are seeing loud tinges in the US elections; there is also passionate resonance in other economies. Immigration too is a highly emotive issue (could cause many NRIs to return); but the focus on getting jobs back is real.

Global capital will feed these rejuvenating economies, and their manufacturers will seek access to markets in other countries. Shadows can be cast on existing or impending trade alignments. This implies that financial capital bound for India and fresh foreign investment to service our market may dampen, and our own foreign markets may wane. Don't misunderstand: globalisation is essential. A less open world principally hurts the poor, despite the popular belief that it benefits only the elite.

India's interests are more completely served by strategising at two distinct levels — by addressing overt concerns already upon us; and by addressing covert ones that are on the horizon, by comprehensively reassessing policy priorities.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on October 7, 2016.

The Top 10 Emerging Technologies of 2016

Technology is ever changing and is probably the greatest agent of change in the modern world. It holds the promise to address some of the greatest global challenges, which includes food and water security, energy sustainability and personalized medicine. Knowledge of emerging technologies that can transform the world and understanding its implication is essential for its timely use and safe integration in our lives.

The World Economic Forum's (WEF) Meta-Council on Emerging Technologies has developed a list of top 10 emerging technologies that have the potential to change our lives, transform industries and safeguard the planet. The list includes some technologies that have been known for some time now, but are only now at the point of having a meaningful impact. The objective is to create a structure that will be key in advising decision-makers, regulators, business leaders and the public globally on what to look forward to (and out for) when it comes to breakthrough developments in robotics, artificial intelligence, smart devices, neuroscience, nanotechnology and biotechnology.

The technologies figuring in this year's list are briefed below.

1. **Nanosensors and the Internet of Nanothings** - *Tiny sensors that can connect to the web*

   WEF estimates the Internet of Things (IoT) to comprise of 30 billion connected devices by 2020. One of the interesting areas is nanosensors (ranging from millimeters or microns in size to the nanometer scale) which are capable of circulating within living bodies and being embedded in construction materials. It adds that nanosensors allow us to monitor, measure, and quantify how a system functions which includes human bodies and machines. Once connected, the Internet of Nano Things (IoNT) could have a huge impact on the future of medicine, energy efficiency, agriculture and drug manufacturing.

2. **Next Generation Batteries** - *Making large-scale power storage possible*

   WEF highlights that one of the major hurdles impending the growth of the renewable energy sector is the struggle between demand and supply due to the lack of an affordable, reliable technology to store excess energy. It adds that recent progress with respect to energy storage has the potential to support/serve whole factories, towns or even 'mini-grids' with batteries based on sodium, aluminum or zinc. The batteries are more affordable, more scalable, and sager than lithium batteries and are much better suited to support transmission systems that rely heavily on solar or wind power. The new technologies have plenty of room for further improvement.

3. **The Blockchain** - *A revolutionary decentralized trust system*

   According to WEF, the economic and social impact of Blockchain–the technology behind the bitcoin digital currency– to fundamentally change the way markets and governments function is only now emerging. Like the Internet, the blockchain is an open, global infrastructure upon which other technologies and applications can be built. And like the Internet, it allows people to bypass traditional intermediaries in their dealings with each other, thereby lowering or even eliminating transaction costs.

   Over the past one year, investments of more than US$ 1 billion have been made into start-ups formed to exploit the blockchain technology for a wide range of businesses. One of the major reasons attracting companies to this technology is its ability to address the privacy and security concerns that plague internet commerce. The technology makes theft difficult and has the potential to enhance privacy, security and freedom of conveyance of data.

4. **2D Materials** - *"Wonder materials" are becoming increasingly affordable*

   WEF cites that new materials have the potential to change the world and in recent years, a new class of materials, each consisting of a single layer of atoms is emerging. Known as two-dimensional materials, graphene may be the best known, however plummeting production costs imply that such similar 2D materials have immense potential. With the invention of 2-D materials, scientists and engineers are excitedly mixing and matching these ultrathin compounds—each with unique optical, mechanical and electrical properties—to produce tailored materials optimized for a wide range of functions. They are emerging in a wide range of applications from air and water filters to new generations of wearables and batteries.

5. **Autonomous Vehicles** - *Self-driving cars coming sooner than expected*

   WEF states that the world is witnessing a transformative technological shift in transportation towards autonomous/self driven vehicles. Though it is at a very early stage, autonomous vehicles, the WEF notes, has the potential to save lives, cut pollution, boost economies and improve the quality of life for the elderly and the society as a whole. Google along with other companies have been testing self driving cars for several years and in recent years there has been increasing level of interest in the technology. These autos process vast amounts of sensory data from on-board radars, cameras, ultrasonic range-finders, GPS, and stored maps to navigate routes through ever more complex and rapidly changing traffic situations without any human involvement.

   The developed models offer some features including hands-off parallel parking, automatic lane-keeping, emergency braking, or even semi-autonomous cruise control. Tesla Motors made available a software package that enables a limited form of self-driving operation for owners of its vehicles to download. WEF states that this is just the beginning and adoption would proceed gradually.

It adds that autonomous vehicles do have some drawbacks, however the benefits far outweigh the concerns.

6. **Organs-on-chips** - *Using chips instead of organs for medical testing purposes*

   Next on WEF's list is organ-on-a-chip, the technology which enables growing functional pieces of human organs in miniature on microchips. Each organ-on-a-chip is roughly the size of a USB memory stick and made from a flexible, translucent polymer. Microfluidic tubes, each less than a millimeter in diameter and lined with human cells taken from the organ of interest, run in complex patterns within the chip. When nutrients, blood, and test compounds such as experimental drugs are pumped through the tubes, the cells replicate some of the key functions of a living organ.

   Many important biological studies and practical drug tests can be done only by studying an organ as it operates. With the aid of these miniature artificial organs, WEF believes that researchers can observe their mechanisms and behaviors in the laboratory without having to maintain the precious real things. Though still in its infancy, it holds the potential to revolutionize medical research and drug discovery.

7. **Perovskite Solar Cells** - *Making progress towards ubiquitous solar power generation*

   WEF states that solar cells made from Perovskite materials could address the three major limitations of silicon photovoltaic (PV) cells. The advantages are that they are easier to produce/make, can be used practically anywhere and to date, keeps on generating power more efficiently. Perovskites are a wide-ranging class of materials in which organic molecules, made mostly of carbon and hydrogen, bind with a metal such as lead and a halogen such as chlorine in a three-dimensional crystal lattice. This technology is of great importance in the generation of renewable clean energy. Some concerns such as durability of these cells on exposure to years of weathering; and methods to produce these cells in large quantities to compete with silicon wafers in the global market need to be addressed.

8. **Open AI Ecosystem** – *From artificial to contextual intelligence*

   Over the years, several pieces of emerging technology have linked together to build powerful human-like digital assistants, into an open AI ecosystem. The ecosystem connects to our mobile devices and computers and through them to our messages, contacts, finances, calendars and work files; to the thermostat in the bedroom; the scale in the bathroom; the bracelet on the wrist; and even the car in the driveway. Shared advances in natural language processing and social awareness algorithms, coupled with an unprecedented availability of data, will aid smart digital assistants help with a vast range of tasks, from keeping track of one's finances and health to advising on wardrobe choice. Various companies have already demonstrated AI systems that have some of these capabilities.

9. **Optogenetics** - *Using light to control genetically modified neurons*

   Optogenetics is the ability to use light to control cells in living tissue, typically neurons.

WEF states that scientists have been using light and color to interact/record the activity of neurons in the brain, however they were limited by the difficulty of delivering light deep into brain tissue. With recent advances in optogenetics; ultrathin, flexible microchips, each one hardly bigger than a neuron, are being tested as injectable devices to put nerves under wireless control. They can be inserted deep into a brain with minimal damage to overlying tissue. They have the potential to improve treatment of brain disorders.

10. **Systems Metabolic Engineering** - *Chemicals from renewable sources' microorganisms*

WEF cites that scientists have been working towards creating/making number of chemical inputs (fuels, chemicals, materials) to industry from living organisms instead of fossils like oil, gas and coal. With recent advances in synthetic biology, systems biology, and evolutionary engineering, metabolic engineers, the range/list of building blocks that can be manufactured using metabolic engineering is growing each year. Chemicals made from microbes are indefinitely renewable and emit relatively little greenhouse gas unlike those made from fossil fuels and in fact some could even absorb carbon dioxide or methane.

Disaggregating the Impact of the Internet on International Trade

World Bank in it's policy research paper, 'Disaggregating the Impact of the Internet on International Trade', has attempted to quantify the impact of internet adoption on international trade. The paper focuses on the following:

1. How internet adoption impacts the average value of trade flows (intensive margins) and the number of goods exported (extensive margins)

2. Examines for any additional effects on exports when both the exporter and importer have similar levels of internet adoption

3. Examines whether internet adoption has a differential impact on type of goods being traded.

Data for a period of 2001-2013 was considered for the study. Oil products were excluded from the aggregate export flows as these products experience lot of volatility. For the purpose of the study, internet adoption rate is defined as the number of individuals using the Internet per 100 persons in the country.

The study finds that internet adoption does have a positive impact on bilateral exports, with the effect being mainly driven by level of internet adoption in the exporting country. A 10% increase in the exporter's internet adoption leads to a 1.9 % increase in bilateral exports, while a similar increase in importers internet adoption leads to only a 0.6% increase in bilateral exports. The paper mentions that results suggest that internet is more beneficial to the exporters as it reduces the fixed costs of trade as it provides a channel to market their products and allows sellers to communicate with foreign customers. Internet reduces the information and communication costs between exporters and importers as it allows firms and consumers to find each other faster and easier and also reduces the marginal communication costs between the seller and the customer.

Impact on intensive and extensive margins

Analysis suggests that the intensive and extensive margins are impacted differently depending on whether the increase in internet adoption level happens in the exporting or importing country.

While the impact of internet adoption on bilateral trade occurs through the extensive margin for the exporter, for the importer the impact is through the intensive margin. In other words, internet adoption in the exporting country increases a large proportion of the increase in bilateral exports (78%) can be explained by extensive margin (total number of goods exported including new goods) more than the intensive margin (average value of trade flows). Contrastingly, results reveal that when internet adoption increases in the importing country, the intensive margin accounts for all of the positive increase in bilateral exports, while the extensive margins exert a negative effect on bilateral exports. This implies that an increase in the importer's Internet adoption increases the average value of existing goods that are being exported.

A 10% increase in Internet adoption in the exporting country increases the extensive margin by 1.5% and the intensive margin by 0.4%. While a 10% increase in internet adoption by the importing country increases the intensive margin by 0.7% and decreases extensive margin by 0.15%. Results indicate that higher internet adoption allows the exporter to find more overseas buyers for their products and increases the range of products exported. The report states that maybe for the importing country, higher internet adoption reduces the search and communication costs thus enabling buyers to purchase from more sellers but reduces the equilibrium number of products traded between a given country-pair.

Impact when there are similarities in Internet Adoption

The paper states that exporting and importing countries are more likely to have matches between buyers and sellers when they have similar levels of internet adoption. It adds there is a pattern of positive assortative matching where country pairs with high Internet adoption levels have higher trade outcomes. Results also suggest that bilateral exports are higher when the exporter has high Internet adoption, regardless of whether the importer has high or low Internet adoption. A higher Internet adoption in the exporter is associated with higher trade outcomes: bilateral exports flows, the intensive margin, and the extensive margin.

In contrast, when the exporter has low Internet adoption, bilateral exports are lower than all other bilateral pairs.

Analysis finds that country pairs where both have internet adoption, have 29.6% more bilateral exports, 21.7% higher intensive margins and 6.5% higher extensive margins as compared to other bilateral pairs. It adds that only when the exporter has low internet adoption and importer has higher adoption, there is negative effect of the internet on the extensive margin. This confirms the earlier finding that when importer has more information, they are able to look for more sellers and number of products exported between the bilateral pair lowers.

Impact on trade in Differentiated Goods

The study analysis finds that differentiated and homogeneous goods react differently to internet adoption. Differentiated goods generally require more customization by buyers and thus require more communication between the buyer and the seller before a transaction happens as compared to standardized goods, that need relatively lesser communication before the transaction happens.

The study reveals that higher adoption of internet in the importing country is associated with higher trade of both homogenous and differentiated goods. A 10 % increase in internet adoption in the importing country increases trade in homogeneous and differentiated goods by 1.3% and 1.2% respectively.

However, while internet adoption in the exporting country is positively related to trade in differentiated goods, it is negatively related to exports of homogenous goods. A 10% increase in internet adoption in the exporter increases exports of differentiated goods by 3.2%. This suggests that exporters with better internet adoption have lower exports of goods that are less information intensive (homogenous) as they are traded on exchanges or have reference prices.

The report states that GDP of both importing and exporting countries are positively related to exports and they appear to be more important for exports of homogenous goods. It adds that distance has a negative effect on trade and it matters more for differentiated goods.

Small Firms, Human Capital and Productivity in Asia

Small and Medium enterprises or SMEs have gained considerable significance in India and other developing countries due to their significant contribution to business output and employment creation. In this era of globalization and value chains, SMEs play important role as local partners of global MNCs. In India, SMEs contribute to 45% of the industrial output, 40% of the exports and employ around 42 million people. Their incremental job creation every year is around 1 million.

While SMEs are hailed as being dynamic and innovative, studies show that this is not the case for all. Many a times in developing and least developed countries people start enterprises as a diversion from farm income or for survival of the family. In such cases, often the entrepreneurs face challenges in terms of low productivity which at times make survival difficult. Therefore, it is important to find out the factors that impact productivity of a firm such that these SMEs and the policy makers know the areas where they need maximum investment. This is important for the survival of SMEs in any country.

Human capital is one of the key factors that impact the efficiency and firm level productivity of any firm be it small, medium or large. Studies have continually shown that firms with highly skilled workforce result in higher productivity. To further investigate this and to see whether there are any country-wise differences in this conclusion, Asian Development Bank (ADB) has done a study in July 2016, titled "Small Firms, Human Capital and Productivity in Asia", whereby they tried to find the correlation between enterprise-level productivity and human capital. The human capital has been measured in terms of two variables viz. pre-employment education attainment of the employees (years of schooling) and whether the employers offer in-service training to their workers. The data has been collected from small, medium and large enterprises belonging to five different countries including China, Malaysia, Indonesia, Thailand and Vietnam. The study has further assessed whether pre-employment and in-service human capital efforts can work simultaneously and in parallel to raise productivity.

Source of the data and classification of firms

The data has been taken from World Bank's Enterprise Survey. The sample size is fairly large consisting of 4045 enterprises including over 1000 firms from China and Thailand and between 500 to 800 firms from the rest of the three countries.

Firms with less than 100 workers has been classified as small firms while those with less than 250 workers but more than 100 workers have been classified as medium sized firms. This classification though it differs from World Bank definition is found to be most in-line with Asia.

With the above definition, approximately 60% firms in the dataset are considered small, approximately 22% ae considered medium and approximately 19% are considered large.

Key Findings

The study uses three different models to come to their conclusion

Model 1 which investigates the correlation between in-service training and productivity show that enterprises providing formal training have very high productivity than enterprises that do not provide such trainings

Model 2 which investigates the correlation between pre-employment education level and firm productivity show that enterprises having workers with average educational levels of 10 years or more record more labour productivity

Model 3 includes both the variables and sees their impact on firm productivity. This model also proves that prior education and service trainings cannot be substitutes for a firm but together they can contribute considerably to the firm's productivity. That is enterprises can hire highly educated workers and can increase their productivity further by providing in-house training.

- *Any country-wise changes in the findings*

The study also accounted for any country-wise differences in the findings. The country-wise data shows that for Malaysia and Thailand both in-service training and education are important for the firms to achieve high productivity. However, Vietnam and Indonesia presented interesting contrasts. While education is more important in Vietnam, training has considerable significance in Indonesia. China also presents a very interesting case. There is not much correlation between in-service training or pre-employment education and productivity. The lack of correlation between in-service training and productivity can be explained by the fact that almost all the Chinese firms (85% in the sample which is much higher than the sample average) provide in-service training. However such is not the case for education as 47% of the sample employs people with more than 10 years of education which is average in the entire sample.

- *Any difference related to firm sizes*

The findings generally suggest that education and training are significant for raising the productivities of all firms irrespective of their sizes. However, the study further states that education and training may have more of an impact on raising the productivity of larger firms compared to the smaller ones.

Policy Implications

The study shows strong correlation between education and training and firm productivity. Higher education in the study corresponded to 10 plus years of education which in most countries correlate to school leaving ages.

The key findings suggest the following policy implications for the government and action points for the SMEs:

- Governments should focus on the programmes encouraging more students to complete their secondary education and move towards higher education.

- While designing SME support programmes, governments should look towards supporting vocational and skill based training initiatives rather than only looking towards SME financing. In India most of the SME support programmes are directed towards financing the SMEs. While the “Entrepreneur Skill Development Programme” and the “Trade Related Entrepreneurship Assistance and Development Schemes to Women” are right directions towards assisting training and skill development among the employees in SMEs, more such initiatives need to be taken.

- SMEs should be concentrating more on the educational levels of potential employees while recruiting.

Conclusion

SMEs play a very important role in the development of any nation due to their significant contribution in output, employment and export.

As suggested by the study, if proper mix of education and in-service training is utilised it will help the SMEs attain greater heights in productivity, increase their efficiency and not only survive the increasing global competition but also increase their contribution to the economy.

The 2016 G-20 Summit: Moving towards stronger growth, greater opportunities and a more integrated and open global economy

The 2016 G-20 Summit was held in Hangzhou, China between September 4th and 5th. The summit was attended by all the G-20 member countries. The summit was preceded by the keynote address by President Xi Jinping on 3rd September.

The keynote address included glimpses from China's achievement in the area of reform and opening up of China to the world economy. The address also highlighted the course taken by China to further their aim in achieving a reformed and integrated country. The major areas of reform in China include a supply side restructuring with optimal allocation of factors, pursuing an innovation driven and environment friendly development strategy, ensuring equity and sharing of development outcomes and achieving greater mutual benefits.

The President also stated that the world economy is going through a difficult path of recovery from crisis with investment and trade becoming sluggish. The global multilateral trading regime is facing issues and a lot of regional trade agreements are coming up which have led to fragmentation of international trade rules.

Also, while the benefits of the previous industrial and scientific revolutions are waning, no new growth drivers have been identified yet. To counter this he felt that the world needs to walk on the path of innovation to identify new growth drivers. The economic policies to be adopted by the major world economies in future should be innovation driven.

He also stressed on the fact that there is a need to build an open and inter-connected global economy such that the scope of development can be expanded.

He further stated the need for a peaceful and stable international environment such that there is a sense of security and prosperity among all the countries. He urged all the members to come forward and forge a global partnership for a win-win cooperation from all stakeholders.

Finally he mentioned the need for improving economic governance based on equality, reflecting the changes happening in the world economic landscape and giving more power to the emerging nations to voice their problems and aspirations such as to ensure that all countries have equal rights, equal opportunities and equal rules to follow in international economic cooperation.

During the summit all the leaders accepted the need to work towards strengthening growth, expanding opportunity and ensuring that the benefits are widely felt. The following are the major takeaways from the summit.

a. *Ensuring a level playing field in open integrated economy: To counter this the summit looked at the issue of*
   - Excess capacity in industrial sectors such as steel and urged for the formation of a Global Forum which can take steps to address the issues of excess capacity and encourage adjustments. The Forum can report on the results in the next year's summit
   - Unfair currency practices and urged all the leaders to refrain from competitive devaluation or adjustments in currency for competitive purpose
   - The leaders welcomed the starting of negotiation for the Environmental Goods Agreement (EGA) in WTO and reaffirmed their objective of concluding a future oriented agreement that looks towards eliminating a broad range of tariffs on environmental goods by 2016
   - The leaders supported the international tax cooperation and called for timely, consistent and widespread implementation of the Base Erosion and Profit Shifting (BEPS) package which will help ensure a fair and efficient global business taxation system.
   - To counter the detrimental effects of corruption and illicit finance, the global leaders adopted a new 2 year G-20 Action Plan and called all the relevant organisations to make recommendations to improve implementation of international transparency standards for the purposes of tackling corruption, tax evasion, terrorist financing, and money laundering.

- The leaders also called for the ratification of WTO Trade Facilitation Agreement by end of 2016 to move forward in the WTO forum

b. *To strengthen the global economy and ensure inclusive growth the leaders took the flowing steps*
   - Ensuring a sustainable Wage Policy Principle which provide a new G-20 policy framework for improving the wages of low- and middle-income earners, setting appropriate minimum wages, promoting collective bargaining, supporting key labor market institutions, addressing the gender wage gap, and encouraging regular monitoring and reporting.
   - Bolstering labour market opportunities for women and young people. The G-20 further endorsed the increase in entry of more women in science and technology fields and encouraged young entrepreneurs to take better advantage of an open and inter-connected world economy
   - The G-20 leaders endorsed the G-20 initiative to promote Quality Apprenticeship, which sets policy priorities to increase the quantity, quality, and diversity of apprenticeships.

c. *To promote innovation and digital economy the leaders*
   - Recognized the global nature of internet as an engine for growth and expressed their commitment towards enabling free flow of information, ideas and knowledge across borders and freedom of expression.
   - The G-20 called for policies to promote expanded broadband access for all citizens, in particular for education. The G-20 reaffirmed the goal of ensuring the next 1.5 billion people are connected to the Internet by 2020, a goal shared by the Global Connect Initiative led by the United States.
   - The G-20 also endorsed a digital economy cooperation initiative which affirms the importance of creating the right conditions for expanded broadband access, including net neutrality policies to prevent anti-competitive blocking, throttling, or prioritization of data.
   - To protect intellectual property the G-20 leaders re-affirmed their support for the effective protection of intellectual property rights and recognized its importance in the development of a digital economy. Building upon the cyberspace commitments adopted in the last year's summit, this year the leaders committed to address security risks in the digital economy including methods such as risk-based cyber security approaches.

d. *With countries representing aver 40% of the total global emission joining the Paris Climate Agreement and more others willing to join the same in the course of next year, the agreement's entry into force is becoming a reality. In this year's G-20 summit the leaders pledged to work not only on the agreement but also*
   - Agreed to promote energy efficiency by supporting the international collaboration on energy efficiency. The efforts taken to curb the emission from Heavy Duty Vehicles (HDV) have been highlighted during the summit.
   - The leaders also pledged to support multilateral outcomes in achieving the Paris Agreement and looked forward to successful outcomes in key negotiations at the Montreal Protocol and International Aviation Council Organisation
   - The leaders also recognized the importance of governments working with private players to scale up green finance.

e. The leaders also pledged to address the ongoing refugee crisis due to huge number of displaced persons throughout the world. The leaders especially recognized the World Bank's efforts to work with other international organization to complete a crisis response platform to help the refugees and host communities especially in the middle and low income countries.

f. Finally the leaders recognized the consensus reached with the adoption of the 2030 agenda for Sustainable Development Goals (SDG) and the Addis Ababa Action Agenda adopted one year ago.

The leaders pledged to endorse the G20 action plan on the 2030 Agenda which include

- Advancing global health security by recognizing the threat posed by antimicrobial resistance and committing promotion of more programmes in the field of antimicrobials to support related R&D
- Affirming support for the Addis Tax Initiative that supports the developing countries to use their domestic resources to attain the SDG goals and strengthen their capacity and financial capability
- Promoting financial inclusion by endorsing a set of high-level principles and additional indicators for digital financial inclusion.

The leaders also urged organisations like IMF and World Bank to support developing countries to improve the availability of domestic banking services and help them in achieving compliance with global anti money-laundering stance and countering the financing of terrorist organisations.

- The leaders supported G 20's work on increasing food security, nutrition, sustainable agriculture and rural development and lauded the work of Global Agriculture and Food Security Programme (GAFSP), which works in the field of sustainable agriculture to counter hunger in some of the world's poorest countries.

Indian Retail Industry

Introduction

India's retail market is one of the fastest growing sectors in the world. It has grown at a CAGR of around 8% during 2010-2015 to reach a market size of US$ 630 billion in 2015. The industry is witnessing a shift towards modern concept of retailing. Share of organized retail in India has risen in recent years, with modern trade growing at 15-20% per annum. However, the level of penetration in organized retail in India remains very low at around 8%, indicating towards huge growth potential.

Table 1: Key Facts of Indian Retail Sector

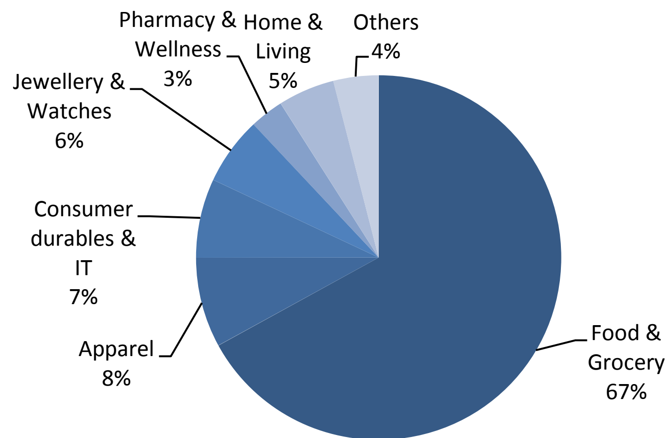
Modern retail market (2015)	US$ 60 billion
Revenue from online retail	US $ 6 billion
Organized retail penetration	~8%
Supermarkets (est. 2016)	8500
Kirana stores	~12 million stores

Composition of the Indian retail industry

Indian retail has been traditionally an unorganized sector, and while it has evolved over the years it still continues to be highly fragmented and dominated by the unorganized sector. The unorganized retail sector comprises of local independent (owner operated) and small-format mom and pop stores. The industry in recent years has witnessed a gradual shift towards modern concept of retailing in the form of large chains of hypermarkets, supermarkets, convenience stores, privately owned large retail businesses and others. In addition, there is the online (e-commerce) sector that is competing with the organized and unorganized sector.

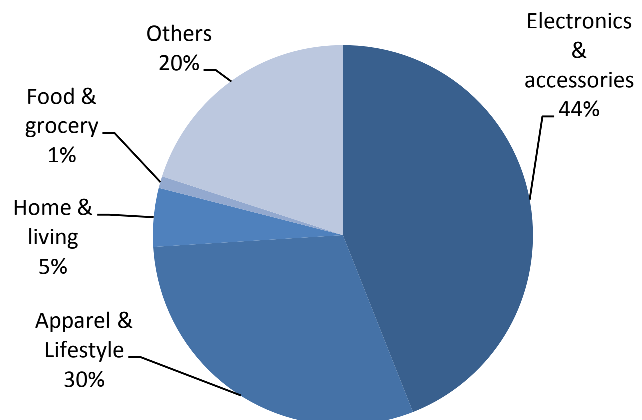
In terms of product categories, the food and grocery segment occupies the largest share in the retail market. This is followed by apparels, consumer durables & IT, and jewellery & watches segment with share of around 6-8%. The e-tailing or e-commerce segment is dominated by electronics & accessories accounting for around 44% of the share, and the apparels & lifestyle segment. However, the food & grocery segment has a marginal share.

Chart 1: Segment-wise share in Retail Basket



Source: Images Yearbook 2016

Chart 2: Category split of e-commerce in India



Source: Images Yearbook 2016

Key drivers for the retail sector

A host of factors have been instrumental in aiding the growth of the retail sector in India. These include the demographic dividend (young population, rising standards of living and upwardly mobile middle class) that India has, rapid urbanization taking place in the country, behavioral shifts, growth of organized retail and evolving business and consumer trends (rising internet penetration), and streamlined government policies and regulations providing support to the industry.

Another major actor that has played an instrumental role in the growth of the sector is the marketing strategy followed by the players that comprises of offering heavy discount offers to customers on special occasions. For instance, retailers extend discount offers and sales on festive seasons, during holidays, and also extend pre-sales offers to loyal customers. Such offers often take the form of cash discounts, reward schemes, quantity purchase schemes, and scratch cards, amongst others. Given the intense competition in the industry, online retailers have been trying to outdo each other by offering steeper discounts.

Some of the factors which will give further impetus to growth in future, especially to the modern retail segment, would be rapid consumer evolution, emergence of new consumption hubs, technological innovations, enabling environment, and favorable regulatory regime. The average household income in India is expected to triple to around US$ 18,500 in 2020 from around US$ 6400 in 2010 and discretionary spend is expected to rise to more than two-third of total private consumption expenditure. This combined with the fact that India has one of the youngest population in the world with high aspiration levels and greater brand recognition would aid growth of the modern retail sector. Increasing access to internet, greater usage of smart phones, growing health & environment consciousness, availability of wide array of products would impact the way the industry functions.

The rural sector, particularly the lesser developed Tier I and Tier II cities remain largely untapped by the retail sector. As economic growth percolates to smaller cities and towns, newer consumption hubs would emerge. Improvement in retail infrastructure with increased participation from Indian and foreign players, introduction of newer formats, development of online retail, differentiated and innovative strategies (rewards scheme, loyalty scheme, flexible financing options, discounts), would provide an enabling growth environment for the industry. On the policy and regulatory front; clarity on FDI norms (local sourcing requirement, liberalization in foreign investment in retail trading of food produced and/or manufactured in India), introduction of the Goods and Services Tax, concerted efforts towards improving the ease of doing business in the country would provide stimulus to growth of the industry. Retail trading has received FDI worth US$ 537.6 million till March 2016, which is expected to increase further with relaxations in FDI regulations.

Emerging trends

Changing consumer dynamics in the country is creating opportunities for organized modern retail formats. Accordingly, new formats like the retail-tainment and omni-channel retailing have been adopted by the retail companies in recent years. Retail-tainment, or the idea of adding entertainment and experience to the retail mix, is one major phenomena being witnessed in the retail industry. Modern retail formats are adopting innovative ways to provide customers a unique/ideal shopping experience by providing various entertainment activities (sports and gaming parlours, food courts, movie halls, children play areas) and services with the shopping process. It is a step to entice consumers and wean away customers from the e-commerce companies.

Other major trend being observed in the Indian retail sector is the convergence of traditional retail channels, for instance pharmacies selling personal care products; entry of new online channels; growth of modern trade and emergence of online retail as the new retail store front, etc. Many retailers are merging their online and offline divisions for ease of operations and thereby improving their profitability. In-store, customers are now able to browse products and place orders on handheld devices, following which they can pick up their items from a collection point. Social media is one of the major influencers on purchase decisions, and to take advantage of this, retailers are undertaking promotional activities on social media.

Omni-channel retailing is another major strategy being adopted by companies, especially mid-sized companies as they try to reach out to the rapidly increasing digital, tech-savy and highly connected consumers, who expect retailers to provide consistent service across all channels or touch points. This has led to varying degrees of integration of the digital channel from pure play e-commerce offerings to a comprehensive omni-channel approach. E-commerce has also become a critical distribution arm for traditional brick and mortar players.

The distributor models being adopted by the companies is also witnessing a shift with companies increasing their reliance on large or mega distributors, which enables them to cut costs and functions/activities to be handled. Concurrently, the distributor models are also seeing a high degree of specialization based on categories and channels to be able to cater to complex product portfolios. With online retail picking up, several brands are also entering into exclusive distribution tie-ups with online retailers.

Regulatory environment

The Indian retail sector is governed by several laws and regulations at the central, state and local levels that govern the sector. Several licenses and clearances including Shops and Establishment-related laws, labour laws, FDI policy (wherever applicable), labelling laws, etc., need to be obtained prior to a company commencing business. The government has undertaken various policy and regulatory changes with a view to provide the necessary growth momentum t the sector, including liberalization of FDI policy, easing of state specific policies, friendly business and tax environment, GST implementation, etc.

- The Model Shops and Establishments (Regulation of Employment and Conditions of Service) Bill, 2016, which has been approved by the Cabinet, enables small and medium retailers to keep their shops open seven days in a week (on a voluntary basis and subject to protection of the interests of workers).

- FDI norms for the retail sector have also been eased. India now permits upto 100% FDI in single brand retail and in wholesale cash and carry retailing, while it permits FDI upto 51% in multi-brand retail. The government has liberalized FDI in retail trading of food products produced and/or manufactured in India and has also relaxed local sourcing norms for foreign brands entities undertaking Single Brand Retail Trading of products in India. 100% FDI under automatic route is also permitted in online retail of goods and services under the 'marketplace model' and it has also brought in clarity on the definition of inventory based and marketplace based business models. The retail sector would benefit immensely with the implementation of the Goods and Services Tax (GST). It would imply a seamless integration of goods and services across the states, making the movement of goods across the country far smoother and easier (lesser paperwork for transiting goods across states). The sector would benefit at different stages of its value chain commencing from procurement to distribution. Logistics and distribution costs are also expected to come down and simplified taxes and availability of input tax credits could enhance margins.

Challenges

The retail sector in India faces numerous challenges which includes inadequate (quality at right costs) infrastructure, inefficiencies in the supply chain, complex regulatory environment (several regulatory bodies to be dealt with), shortage of skilled workers, inferior quality packaging, below standard connectivity, ever-changing (rapidly) consumer tastes and preferences, to name some. The other concern that the sector faces is the fact that it has not yet been given the industry status. Some of the newer challenges for the retailers include customer engagement, digitization, trust and disruptions.

The government is working towards resolving these issues and problems associated with inadequate infrastructure, last mile connectivity, easing the regulatory environment, streamlining bureaucracy, amongst others.

Outlook

India is one of the most desirable retail destinations in the world. Aided by factors such as GDP growth, improved ease of doing business, better clarity regarding FDI regulations, India is placed second in A T Kearney's '2016 Global Retail Development Index'. India's retail sector is expected to grow at a CAGR of around 12% to touch US$ 1.1-1.2 trillion by 2020. The shift towards modern trade is expected to continue and modern trade is expected to grow at almost double the pace of traditional trade and reach US$ 180 billion by 2020. Online retail is expected to grow exponentially to US$ 70 billion by 2020 from US$ 6 billion in 2015. The Indian retail sector remains largely under penetrated by global brands, however this scenario is seen improving with liberalization of FDI policy and improving business environment.

Economic Outlook Survey

ANNUAL FORECASTS FY17	
Gross Domestic Product	7.8%
Wholesale Price Index (Avg. 2015-16)	2.4%
Consumer Price Index (Avg. 2015-16)	5.2%
Index of Industrial Production	3.5%
Export Growth	4.8%
Import Growth	5.0%
Trade deficit as % of GDP	6.2%
Current Account deficit as % of GDP	1.3%
Fiscal deficit as % of GDP	3.5%
USD/INR Exchange rate (End March 2016)	Rs 67.0/USD

QUARTERLY FORECASTS Q2 FY17	
Gross Domestic Product	7.7%
Wholesale Price Index (Avg. 2015-16)	2.0%
Consumer Price Index (Avg. 2015-16)	5.4%
Index of Industrial Production	2.4%
Export Growth	4.5%
Import Growth	-6.9%
Trade deficit as % of GDP	-
Current Account deficit as % of GDP	1.5
Fiscal deficit as % of GDP	-
USD/INR Exchange rate (End of Q4 FY16)	Rs 67.6/USD

Source: FICCI Economic Outlook Survey, August 2016

FICCI's latest Economic Outlook Survey puts across a median GDP growth forecast of 7.8% for the fiscal year 2016-17. The marginal improvement in growth estimate vis-à-vis the previous round came at the back of better performance of agriculture and industry sector.

Latest data on kharif sowing reports an improvement. As on August 19, 2016 sowing stood at 992.8 lakh hectares vis-à-vis 938.6 lakh hectares previous year. Improvement in rural demand as a result of a pick up in farm sector is likely to give an impetus to industrial growth. Industry is projected to grow by 7.3% in 2016-17 as per the current survey round.

The median growth forecast for IIP has been put at 3.5% for 2016-17, with a minimum and maximum range of 2.0% and 4.3% respectively. Inflation rate based on the wholesale price index is now estimated at 2.4% while inflation based on consumer price index is estimated at 5.2% for 2016-17. Prices are expected to remain range bound going ahead given goods monsoons and an improved acreage.

The economists opined that while the moves undertaken by the Reserve Bank of India (introduction of MCLR) and Government (cut in small savings rate) are likely to reduce the banks' operational cost; however the high stock of non-performing assets and provisions for public sector banks is posing a major challenge as far as transmission is concerned. Credit cost of banks has increased leaving little space for further reduction in lending rates without having an impact on net earnings.

In addition, economists opined that the huge pile of non-performing assets and higher provisions for public sector banks was another major hindrance in lowering lending rates.

Economists were also asked to share their views on whether there is a need to move to a more competitive exchange rate to cushion falling exports. Majority of the economist felt that a change (devaluation) in the exchange rate can only help in the short run. In the long run, it would be ineffective as other countries would follow suit. Furthermore, economists believed that both imports and exports are essential to boost economic activity and domestic growth.

Further, it was also pointed out that India now exports fewer price sensitive items and more income elastic items such as chemicals, engineering goods and petroleum products. This calls for much higher quality competitiveness to boost exports, as Indian export basket has now become more income elastic and less price elastic.

Lastly, economists were asked whether achieving a higher growth (of over 8%) will fuel inflationary pressures. Economists unanimously agreed that to attain a higher level of growth, focus should be laid on investing more on building capacities through infrastructure development. India lags behind in terms of technological institutional development and quality infrastructure.

The present round of FICCI's Economic Outlook Survey was conducted in the month of July/August 2016 and drew responses from leading economists primarily from industry, banking and financial services sector. Economists were asked to share their opinion on lack of transmission of monetary policy rates, whether a more competitive exchange rate was needed to cushion falling exports and whether a higher growth would fuel inflationary pressures.

FICCI

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

Economy Fact Sheet – GDP
September 2016

FICCI

GDP grew by 7.1 percent in Q1 FY17

- *Gross Domestic Product growth has witnessed slight moderation, recording a growth of 7.1 percent in Q1 FY17 as against 7.5 percent growth in Q1 FY16. However, Gross Value Added at basic prices reported a growth of 7.3 percent in Q1 FY17, 0.1 percent higher than 7.2 percent growth noted in the corresponding period previous year.*

- *Growth in agriculture (and allied activities) sector was recorded at 1.8 percent in Q1 FY17 as compared to a growth of 2.5 percent in the corresponding period previous fiscal. Industry, on the other hand, witnessed a growth of 6.0 percent in the Q1 FY17 as compared to 6.7 percent growth in Q1 FY16. However, growth in the services sector surged by 12.3 percent in Q1 FY16 as compared to 6.4 percent in Q1 FY16.*

- *On the expenditure side, gross capital formation contracted by 4.6 percent in the first quarter of the current fiscal vis-à-vis 6.6 percent growth observed in the corresponding period previous fiscal. Private final consumption expenditure registered a growth of 6.7 percent in Q1 FY17 vis-à-vis 6.9 percent growth noted in Q1 FY16. Government final consumption expenditure grew by a robust 18.8 percent during Q1 FY17 as compared to (-) 0.2 percent growth recorded during Q1 FY16.*

Quarterly Growth in GVA and its Components

	2015-16				2016-17
	Q1	Q2	Q3	Q4	Q1
GVA	7.2	7.3	6.9	7.4	**7.3**
Agriculture, forestry and fishing	2.5	2.0	-1.0	2.3	**1.8**
Industry	6.7	6.3	8.6	7.9	**6.0**
Manufacturing	7.3	9.2	11.5	9.3	**9.1**
Services	8.8	9.0	9.1	8.7	**9.6**

GDP by Expenditure (% Y-o-Y)

	2015-16				2016-17
	Q1	Q2	Q3	Q4	Q1
GDP	7.5	7.6	7.2	7.9	**7.1**
Private Final Consumption Expenditure	6.9	6.3	8.2	8.3	**6.7**
Government Final Consumption Expenditure	-0.2	3.3	3	2.9	**18.8**
Gross Capital Formation	6.6	9.6	2	-2.4	**-4.6**
Gross Fixed Capital Formation	7.1	9.7	1.2	-1.9	**-3.1**

The statistics on the expenditure side reflect that growth is being driven by private consumption while the overall investments scenario continue to remain weak. We expect growth to gain momentum, going forward. The good monsoon season has been a huge positive and an improvement has been noted in the kharif acreage. The agriculture sector performance is likely to pick up giving an impetus to rural consumption. Also, the seventh pay commission is expected to push demand. This uptick is likely to give a thrust to industrial growth as well. However, it will be critical to maintain this momentum going forward.

The latest round of FICCI's Economic Outlook Survey puts across a growth estimate of 7.8% for 2016-17, which is marginally higher than the projection made in our last survey round.

FICCI's Economic Outlook Survey – Median Estimates

Growth (in %)	Q1 2016-17 Present Round	Q1 2016-17 Last Round	Q2 2016-17*
GDP@ market prices	7.7	7.6	7.7
GVA@ basic prices	7.6	7.5	7.6
Agriculture & Allied activities	2.4	2.0	2.7
Industry	7.3	6.8	7.5
Services	8.9	9.5	8.9

****projection***

Area Sown under Kharif Crop as on September 23

Crop	Area sown in 2016-17 (Lakh hectare)	Area sown in 2015-16 (Lakh hectare)
Rice	387.04	377.35
Pulses	145.84	112.93
Oilseeds	189.16	183.71
Sugarcane	45.77	49.60
Total	**1067.53**	**1030.83**

Source: MOSPI, RBI, Economic Outlook, CMIE and FICCI Research

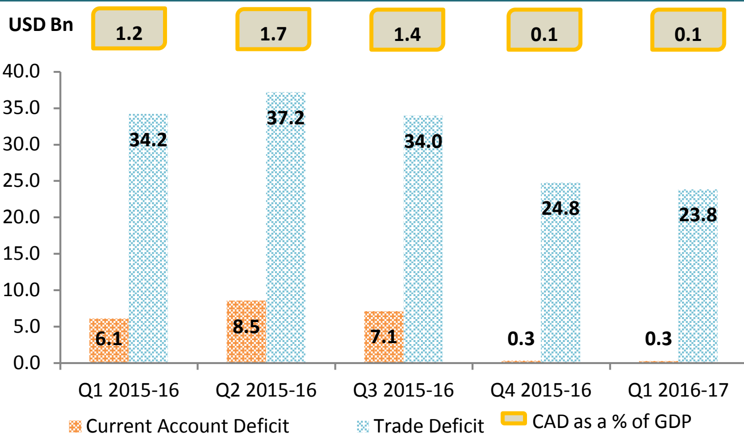
Economy Fact Sheet – Balance of Payments
September 2016

FICCI

CAD narrowed to 0.1 percent of GDP in Q1 FY17

- *India's Current Account Deficit (CAD) narrowed to USD 0.3 billion in Q1 2016-17 as compared to USD 6.1 billion in Q1 2015-16. As a percent of GDP, CAD stood at 0.1 percent in Q1 2016-17 as against 1.2 percent noticed in Q1 2015-16.*
- *Net foreign direct investment moderated to US$ 4.1 billion in Q1 of 2016-17 from US$ 10.0 billion in Q1 of 2015-16. Portfolio investments noted a net inflow of US$ 2.1 billion in Q1 of 2016-17 as against a marginal outflow of 0.1 billion in Q1 2015-16.*
- *At the end of the first quarter of 2016-17, foreign exchange reserves stood at US$ 360.8 billion. Reserves increased by US$ 7.0 billion in Q1 of 2016-17 (on a BoP basis) as compared with an accretion of US$ 11.4 billion in Q1 of 2015-16.*

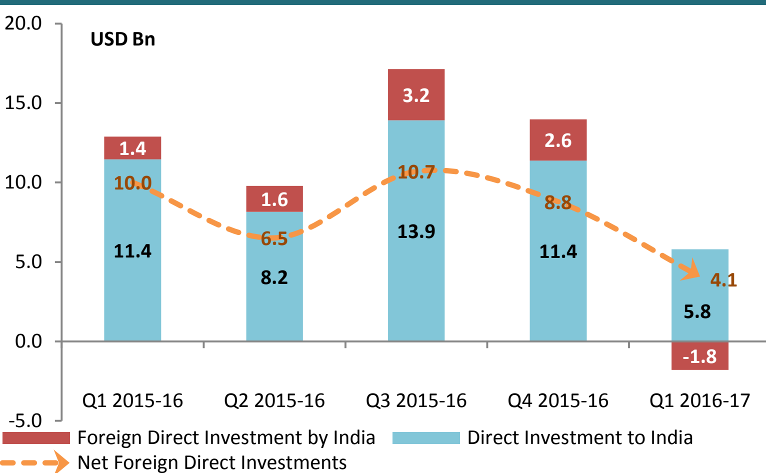
Snapshot of trends in India's Current Account Balance



Balance of Payments- A Snapshot

Indicators (USD bn)	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17
Goods (Net)	-34.2	-37.2	-34.0	-24.8	-23.8
Services (Net)	17.8	17.8	18.0	16.1	15.8
Current Account	-6.1	-8.5	-7.1	-0.3	-0.3
Portfolio investments	-0.1	-3.5	0.6	-1.5	2.1
Foreign Direct Investments	10.0	6.5	10.7	8.8	4.1
Financial Account	7.2	9.0	6.8	0.1	0.0

Trend in Foreign Direct Investments



Global Competitiveness Index- Ranking

Country	Ranking FY17	Change from FY 16
Switzerland	1	0
Singapore	2	0
United States	3	0
China	28	0
India	39	↑ 16
Russia	43	↑ 2
South Africa	47	↑ 2
Brazil	81	↓ -6

Contraction in trade deficit (from USD 34.2 billion in Q1 2015-16 to USD 23.8 billion in Q1 2016-17) has once again led to a reduction in current account deficit. Net services receipts declined on a y-o-y basis, largely due to a fall in net earnings on account of travel, financial services and other business services. Private transfer receipts also noted moderation with worker's remittances (the main component of the segment) declining by 3 percent y-o-y in Q1 2016-17.

On the positive side, India's rank improved by 16 places in the latest Global Competitiveness Index, the highest jump by any country as per the 2016-17 report. This reflects the improved competitiveness of the economy which will enhance investor confidence and accelerate foreign investments, going forward.

Source: RBI, Economic Outlook CMIE

Economy Fact Sheet – Index of Industrial Production
September 2016

FICCI

IIP contracted by 2.4 percent in July 2016

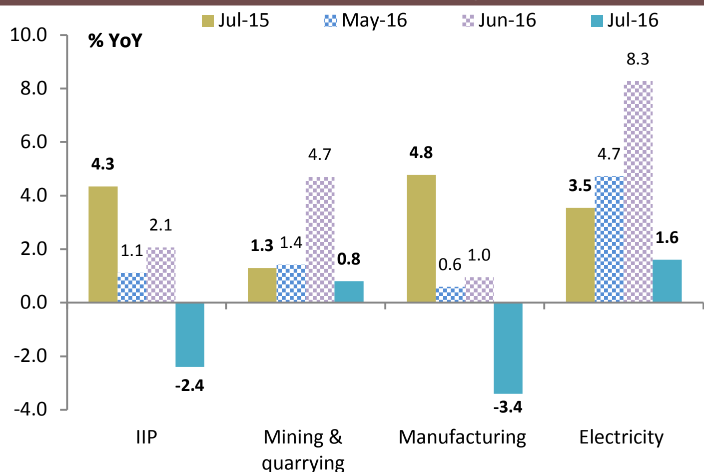
- *Index of Industrial Production contracted by 2.4 percent in July 2016 as against 2.1 percent growth noted in June 2016. On a cumulative basis, the index contracted by 0.2 percent in April-July 2016 as against 3.5 percent growth noted in the corresponding period previous year.*

- *IIP for manufacturing sector declined by 3.4 percent in July 2016 as compared to 1.0 percent growth noticed in the previous month. Mining and electricity segments reported moderation in growth in July 2016. Mining reported a growth of 0.8 percent in July 2016 vis-à-vis 4.7 percent growth in June 2016 while electricity reported a growth of 1.6 percent in July 2016 vis-à-vis 8.3 percent growth in June 2016.*

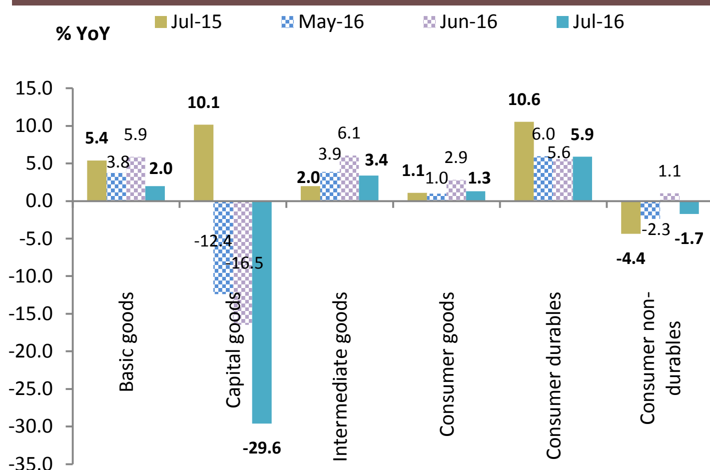
- *As per use based classification of industrial production, basic goods noted 2.0 percent growth in July 2016 as compared to 5.9 percent growth noted in the previous month. Intermediate goods recorded 3.4 percent growth in June 2016. Capital goods, however, noticed contraction for the ninth consecutive month, contracting by 29.6 percent in July 2016.*

- *Consumer goods witnessed a slower growth of 1.3 percent in July 2016 vis-à-vis 2.9 percent growth noted in the previous month. While consumer durables registered a growth of 5.9 percent in July 2016, growth of consumer non- durables fell by 1.7 percent during the month.*

IIP – Economic Activity



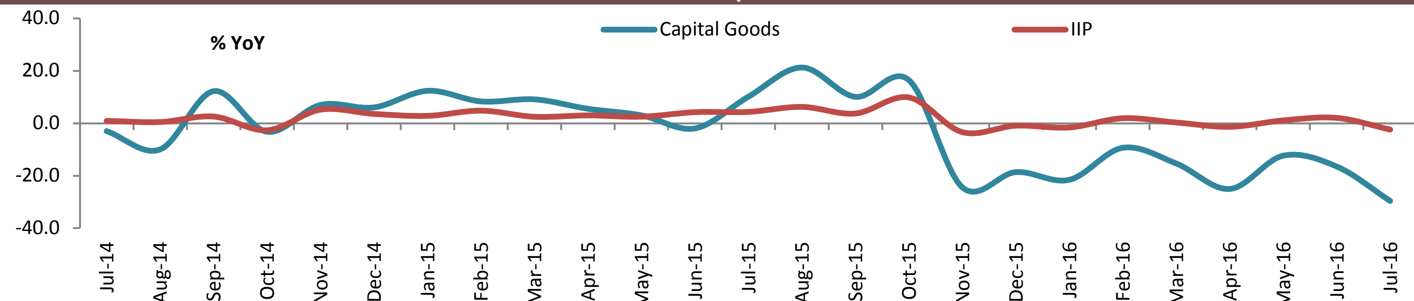
IIP – Use Based Classification (Growth % Y-o-Y)



- The dismal performance of manufacturing growth for the past eight months is a matter of concern. Investments continue to remain weak as capacity utilization has not seen much improvement.

- Weak consumer demand and investments continue to shroud the growth of manufacturing and calls for sustained efforts to address the structural issues that impact manufacturing sector. The performance of the industrial sector has been volatile and would need continued support. The cost of capital has to be more competitive to drive investments. We hope that the latest cut in the repo rate by the RBI will be reflected in lower lending rates by the banks.

Growth Trend in Capital Goods & IIP



Source: MOSPI, Economic outlook CMIE and FICCI Research

Economy Fact Sheet – Foreign Trade
September 2016

FICCI

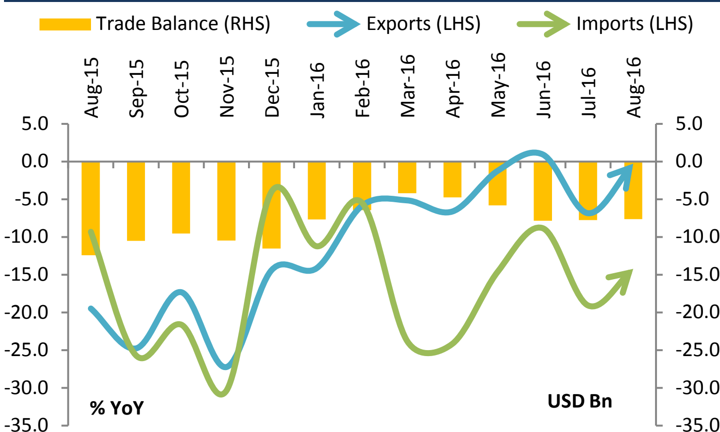
Trade deficit stood at USD 7.6 billion in August 2016

- *India's trade deficit stood at USD 7.6 billion in August 2016 vis-à-vis USD 12.4 billion in August 2015.*

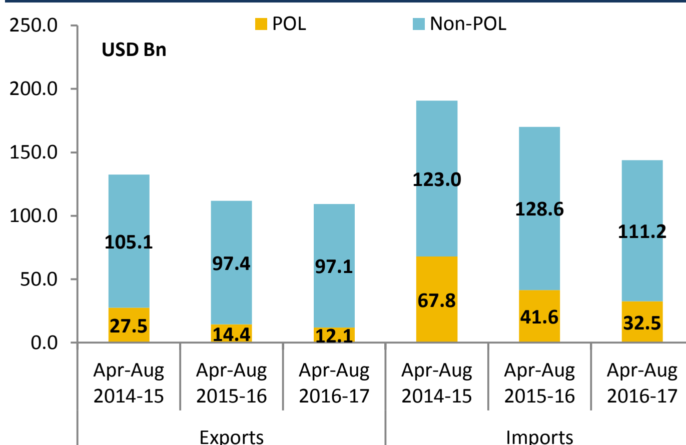
- *Total merchandise exports declined by 0.3 percent in the month of August 2016 as compared to a decline of 19.5 percent noted in the same month previous year. Overall exports were valued at USD 21.5 billion in August 2016. While oil exports contracted by 11.3 percent, non-oil exports posted a recovery, growing by 14.2 percent in August 2016. Major export commodities such as engineering goods, drugs & pharmaceuticals, gems & jewellery, electronic goods and readymade garments reported growth during the month.*

- *Overall imports for the month of August 2016 stood at USD 29.1 billion, declining by 14.2 percent as against USD 33.9 billion worth of imports in August 2015. Oil imports fell by 8.3 percent while non-oil imports noted a decline of 15.9 percent in August 2016. Gold imports remained in the contractionary zone and were valued at USD 1.2 billion during the month.*

Trend in India's Merchandise Trade



Non Oil- Non Oil Trade (Cumulative)

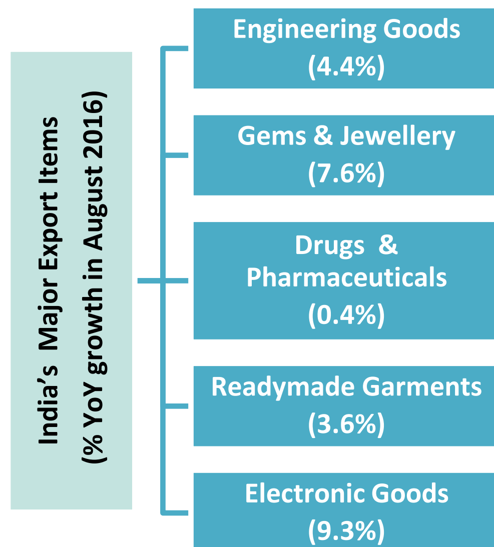


India's merchandise exports continued to report contraction in August 2016 after posting a weak recovery in June 2016. On the positive side, however, broadly all major non-oil export items reported growth during the month raising hopes for a better performance in the near term.

In addition, recent measures taken by the government to support outbound shipments is a step in the right direction.

Measures taken to aid exports:

1. Additional 2901 items, which fell under different product categories added under Merchandise Exports from India Scheme (MEIS).
2. MEIS rates of 575 product items falling under 11 products categories have been increased.
3. Finance Ministry has revised the declarations to be furnished by certain exporters.
4. CBEC has recently revised the Authorised Economic Operator (AEO) programme in order to expedite clearance of cargo from ports, and reduce time and cost in cross border trade.



Source: Ministry of Commerce and Industry, Economic outlook CMIE and FICCI Research

Economy Fact Sheet – Inflation
September 2016

FICCI

WPI inflation stood at 3.7 percent in August 2016

- *Headline WPI accelerated to 3.7 percent in August 2016 (-5.1% in August 2015), a twenty four month high, vis-à-vis an inflation of 3.5 percent in July 2016 (-4.0 % in July 2015).*

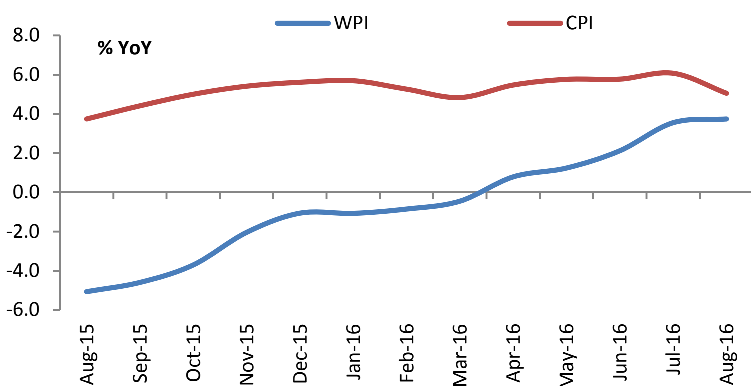
- *WPI based food inflation eased to 8.2 percent in August 2016 vis-à-vis 11.82 percent inflation noted in the previous month. Prices of non-food articles also moderated to 8.4 percent in August 2016 from 9.5 percent inflation noted in the previous month.*

- *Inflation for fuel & power stood at 1.6% in August 2016 vis-a vis (-) 1.0% in July 2016.*

- *Prices of manufactured products rose by 2.4 percent in August 2016 vis-a-vis a rise of 1.8 percent in July 2016. A surge in prices was also seen in manufactured food products (11.4 percent in August 2016 vis-à-vis 10.2 percent in July 2016). In Non-Food Manufactured Products, prices rose in textiles and in wood & wood products. Beverages and Tobacco Products, Non-metallic mineral products & transport equipment were other segments that noted inflationary pressures in August 2016.*

- *Retail CPI inflation decelerated sharply to 5.1 percent in August 2016 vis-à-vis 6.1 percent in July. CPI based food and beverages inflation stood at 5.8 percent in August 2016 as compared to 8.0 percent inflation noted in the previous month.*

Trend in CPI and WPI Inflation



Kharif Crop Sowing- Status as on September 23, 2016

In Lakh Hectare

Crop	Area sown in 2016-17	Area sown in 2015-16
Rice	387.04	377.35
Pulses	145.84	112.93
Coarse Cereals	189.58	183.59
Oilseeds	189.16	183.71
Sugarcane	45.77	49.60
Jute & Mesta	7.59	7.73
Cotton	102.55	115.98
Total	**1067.53**	**1030.89**

While the WPI inflation rate has edged up marginally in the month of August 2016 vis-à-vis July numbers, food prices which had been on an uptrend over the last few months indicated moderation with vegetable and fruit prices softening. This is also corroborated in the CPI numbers released earlier this week, which reported a fall in the CPI inflation rate on the back of decline in food prices.

The good monsoon has been a boon and with improved sowing for major crops, prices are expected to remain range bound this fiscal. Also, the government has been examining the situation closely and should continue the measures to improve supply side management

CPI Based Inflation for Select Food Items (% change Y-o-Y)

	May-16	June-16	July-16	Aug-16
Vegetables	10.85	14.81	14.0	1.02
Potato	36.89	40.17	47.11	51.48
Brinjal	6.32	9.97	16.18	9.92
Fruits	2.56	2.79	3.53	4.46
Sugar (other sources)	16.22	19.43	25.48	28.87
Pulses	31.57	26.86	27.53	22.01

WPI Based Inflation for Select Food Items (% change Y-o-Y)

	May-16	June-16	July-16	Aug-16
Vegetables	13.35	17.18	28.05	0.17
Potato	63.82	66.14	58.78	66.72
Brinjal	11.87	22.57	59.46	32.34
Fruits	3.88	6.42	17.30	13.91
Sugar, Khandsari & Gur	19.82	23.29	28.72	31.47
Pulses	35.80	26.64	35.76	34.55

Source: PIB, Office of the Economic Advisor, Economic Outlook – CMIE and FICCI Research

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