- **"ENABLING INDIA" : FICCI'S AGENDA FOR THE NEW GOVERNMENT**

FICCI has made certain suggestions via our agenda for **Enabling India.** FICCI assured the Government of its untiring efforts and participation in developing positive policies leading to job creation and growth across regions and sectors - particularly manufacturing.

The Imperatives

- Broad-based **regular communication from PM's level**
- **Cabinet-led decision making** with full authority and accountability
- **Roadmap to 8% growth by 2017 and 10%+ by 2020**
- **Creation of a Food Inflation Response & Strategy Team** (FIRST) under PMO
- Outline **National Agenda for Job Creation**
- Strong **Centre-State linkages**, greater decentralization for development

The Important

1. Mitigate Food Inflation
2. Revenue / Expenditure Management
3. Address Tax Environment
4. Strengthen Legal & Judicial Infrastructure
5. Sustainable Balance of Payments
6. Reform Factors of Production
7. Fast Track Project Investments
8. Accelerate Infrastructure Development
9. Improve Governance
10. Economic Diplomacy
11. Dividend of Better Education & Skill Development
12. Improved Healthcare & Wellness

- **FICCI COMMENTS ON GDP NUMBERS**

GDP growth reported at 4.7% for the fiscal year 2013-14 is marginally lower than the 4.9% growth estimated by CSO earlier this year. Various indications point out that growth deceleration has bottomed out and the economy could now be on a recovery course. As per FICCI's latest Economic Outlook Survey, GDP growth is forecast at 5.5% for the year 2014-15. Announcements made by the Hon. Prime Minister and his Cabinet Ministers over the last few days leave us with an encouraging outlook, as the governmental actions will definitely have a positive impact on the investment sentiment. Going forward, the emphasis has to be on effective implementation & timely action. As expected, manufacturing growth continues to disappoint. The trend needs to be reversed and the policy direction must aim at boosting manufacturing growth as an imperative for job creation.

- **<u>FICCI COMMENTS ON WPI DATA</u>**

The wholesale price index based inflation rate for the month of April 2014 was reported at 5.2%. This was marginally lower than 5.7% figure reported for March 2013. The headline inflation has shown a dip on the back of moderation in prices of food articles, fuel and power. However, given the recent increase in the diesel prices and uncertain outlook for monsoon, price movements will have to be critically watched going ahead. For the new government this would be the single biggest challenge. We look forward to a comprehensive action plan to tackle this situation.

- **<u>FICCI WELCOMES GOVERMENT MOVE OF CHARTING OUT ECONOMIC PRIORITIES</u>**

FICCI is delighted to note Prime Minister's articulation of priorities which is action oriented and goes beyond just positive tone and direction. Distribution of work to Ministers in generating detailed plans sends strong positive signals about the intention of the Cabinet to function as a cohesive group. This will ensure a conducive economic climate. Building trust and confidence in bureaucracy will improve governance, speed up decision making and restore credibility in our institutional mechanisms. Clarity, certainty and timely implementation of policies is what industry desires and when translated into action, a sound basis will be set for investments to flow in. In our Economic Agenda, the need for the Prime Minister to effectively communicate economic priorities has been spelt out.

The move towards implementation of 'minimum government maximum governance' is also welcome. Plans to restructure ministries, greater Centre-State ties and evolving long term development plans, clearly show the progressive mindset of the new leadership. A more responsive public administration with defined accountability will help restore credibility of institutions. We complement the new government on adopting true management excellence and seeking internal opinions and feedback on governance. Break up of Coal India has been a long standing demand in the interest of Energy Security and FICCI hopes that the new leadership will consider this reform at the earliest.

- **<u>FICCI MEETS FINANCE MINISTER, SOME PRE-BUDGET SUGGESTIONS</u>**

To support the forward looking development and delivery oriented agenda of the new government, a non-adversarial, conducive and fair tax regulatory environment is the need of the hour.

The Government could ideally declare as policy that retrospective action shall not be resorted to, save in rarest of cases, but never for creating a fresh onus or liability for a previous period. In fairness, retrospective change if needed must invariably favour the taxpayer. Also citing concerns related to taxation of capital, provisions which effectively deem portions of capital to be in the nature of income are serious deterrents to genuine transactions, while keeping the door open for aberrant behavior.

<u>Key suggestions include:</u>

- Implementation of a comprehensive Goods and Services Tax (GST) in 2015
- Changes can be examined in laws to aggressively widen tax base, simplify laws, rationalize exemptions,
- conducive tax environment with litigation moderated and only as exception
- Review relevance of a Direct Tax Code (DTC); most changes already incorporated in law
- Review GAAR; freedom from CFC-coverage to legal Indian holdings and structures abroad
- Possible steps on illegal assets abroad through tax net
- Rebated income tax periods for small start-up businesses, in essence individually owned
- Suggested START (= **Sart**up **R**ebated **T**ax) introduction in line with other Asian examples

- **SETTING UP OF NATIONAL ASSET MANAGEMENT COMPANY WOULD RESOLVE ISSUE OF MOUNTING NPAS IN BANKING SYSTEM**

A strong banking system is critical to effectively support the process of economic recovery. Indian banking system is going through a challenging phase due to build up of a large volume of stressed assets. FICCI has therefore suggested setting up a National Asset Management Company (NAMCO) as a new special purpose asset management company (AMC) to take over stressed assets from the banking system for effective recovery and rehabilitation.

The key features of National Asset Management Company (NAMCO) as proposed by FICCI include:

- NAMCO to be established as a 'special purpose' asset reconstruction company (ARC) with **sponsorship of the government.**
- To focus on large ticket stressed assets mainly in **Infrastructure, Power, Steel and Telecom sectors** to be transferred from the banking system quickly.
- Starts with **high level of capitalization** (up to Rs 5,000 crore) that will allow it to build up a sizeable portfolio of stressed assets.
- Majority (51 per cent) owned by private sector and managed as a board driven private company; the board to have adequate number of independent directors with right skills and capabilities.
- Government to encourage PSBs to participate in equity of NAMCO up to 49 per cent.
- NAMCO to issues security receipts (SRs) of up to 12 years maturity for **longer term** assets they acquire.
- Gets **government and regulatory support in its functioning** including support in encouraging banks to transfer assets, forbearance in amortizing over longer term the losses incurred by banks upon transfer of stressed assets and to provide additional working capital financing.

- **FICCI COMMENTS ON RELAXING THE IMPORT CURBS ON GOLD**

FICCI welcomes the RBI's move to relax the import curbs on Gold by allowing some large private gold importers i.e. star and premier trading houses, to import the yellow metal, although, within 20:80 scheme. This move will help in reduction of gold prices in the domestic market and will also help in reviving the growth of the industry slowly. Since last one year the growth of Indian Gems & Jewellery sector has been quite negatively impacted due to various restrictions imposed on gold imports. Whilst the move was to reduce the widening CAD, it had severely affected the industry and key macroeconomic variables attached with it like employment in the sector and exports. RBI has established its autonomous decision making authority by taking this step. Moreover now, with the stable and reduced CAD position, FICCI expects that the new Government will bring in further reforms in gold import policy to stimulate the growth of this high export earner sector of India. Jeweler community is positive about this development and would want the new government to take steps which would enhance the trust and relationship amongst all the stakeholders in this

- **PROSPECTS WEAKEN FOR MANUFACTURING IN Q-1 2014-15: WEAK EXPORT OUTLOOK COULD PULL DOWN GROWTH IN MANUFACTURING: FICCI SURVEY**

FICCI's latest quarterly survey on manufacturing has projected a weak outlook for the sector in April-June 2014-15 (Q-1). The survey indicates moderation in the manufacturing activity in Q-1 of 2014-15 as compared to Q-4 of 2013-14. The outlook on the basis of FICCI Manufacturing Survey for Q-1 2014-15 is less optimistic than in Q-4 2013-14 for the manufacturing sector. However, at the same time growth is expected in Q-1. The survey gauges the expectations of manufacturers for Q-1 (April-June 2014-15) for fourteen major sectors namely textiles, capital goods, metals, chemicals, cement, electronics, automotive, leather & footwear, machine tools, Food processing, Paper, tyre, textiles machinery, ceramics and others. Responses have been drawn from 352 manufacturing units from both large and SME segments with a combined annual turnover of over Rs 3.75 lac crore.

FICCI Survey observed that this time it is just not domestic factors but more importantly on export front the outlook seems to be weakening as a result of which manufacturing growth is likely to be pulled down. Based on expectations in different sectors, the Survey pointed out that five out of fourteen sectors were likely to witness low growth (less than 5%). Only three sectors namely, leather, chemicals and ceramics are expected to have a strong growth of over 10% in April-June 2014-15 and rest all the sectors likely to witness moderate growth.

- **93% CEOS FORESEE A SUBSTANTIAL IMPROVEMENT IN THE NEAR TERM ECONOMIC SITUATION – FICCI CEO's SURVEY**

FICCI conducted a quick survey amongst its members to gauge the sentiment post election. The survey results are based on responses from about 76 CEOs, who are members of FICCI's National Executive Committee.

The election outcome raises expectations, majority of participating CEOs expect near term economic situation in the country to see substantial improvement with the new government coming at helm...

- In the present survey a whopping majority of 93% CEOs said that they foresee a substantial improvement in the near term economic situation. The remaining 7% of the participants expected a marginal improvement.
- The decision making machinery at the government level has witnessed a significant slowdown in recent past which has had an impact on growth as well. With new leadership on board, a majority 93% of the participating CEOs said that they certainly see a reversal as far as this trend is concerned. The remaining 7% were a little sceptical about a change in the decision making machinery.

Business and Investment Prospects over next 12 months: A majority 82% cited a substantial improvement in their business and investment prospects over the next twelve months.

Critical challenges confronting the new government…

- Reform the factor market - Land/Labor/Capital/Power
- Transparency and Stability in Policies
- Tax reforms (Fiscal Deficit/ Subsidy Burden)
- Stabilise inflation
- Address corruption issue/ Trust Deficit
- Handling of Non Performing Assets in banking sector
- Infrastructure creation
- Review Free Trade Agreements

- **FICCI CMSME AND IDBI MOU TO OFFER CONCESSION OF 100 BPS ON INTEREST RATES FOR MEMBER MSMES**

FICCI CMSME and IDBI have partnered to address industry's concerns pertaining to financing. The FICCI-CMSME and IDBI partnership will grant best pricing offered at the relevant time by IDBI including concession of 100 bps and charging of processing fee as low as 0.10% to the proposals referred by FICCI-CMSME. Timely availability of credit at the right cost is the key expectation of industry from their banks. While large corporate manage to get the attention of bankers, often the smaller companies have a disadvantage in sourcing credit at right cost and right time. MSME sector is a backbone of economy and banks have an important role in propelling growth of this important segment.

- **LEADING JOURNOS RECOMMEND WOMEN TO ORGANIZE AS PRESSURE GROUPS TO INCREASE THEIR PARTICIPATION AND NUMBERS IN POLITICS**

Women make up less than 10 per cent of world leaders, only 21 countries out of 193 UN Member States have women at the helm, less than 15 Diplomatic Missions in India have Women Ambassadors or High Commissions out of 155 Missions in India and only 11.6 per cent are women Parliamentarians, in the country. Women continue to be largely under-represented as political leaders, as voters and elected officials despite representing 50% of the world's population. The true benefits of democracy can be reaped only when women are fairly represented in the political landscape of countries. FLO recently organized a special session to focus on need for women to organize themselves as pressure groups to be able to carve a niche in the political sphere.

- **DEFENCE INDUSTRY FACING SURVIVAL ISSUES DUE TO REGRESSIVE FDI NORMS**

While FICCI has welcomed periodic revision in FDI policies to keep pace with economic scenario of the country, there are several survival issues the policy circular has caused for the sector. With the implementation of this circular, no listed companies will be able to continue its defence business as it will be impractical to stop FII's to invest in large conglomerates or group holding companies. It is not feasible for any corporate to stop active trading of their stock on recognized stock exchanges as long as the portfolio investments are within limits defined under Schedule 2 of the Portfolio Investment Scheme, under holding prescribed under Schedule 2 of the FEMA regulations. The only option for the corporates is either close the defence business or de-list from the stock exchanges. Both the solutions do not seem to be warranted in the interest of vibrant defence industrial base in country.
We believe that the policy seem to have been inadvertently applied the norms meant for control and governing of the Defence joint venture companies specifically created by Indian Industrial houses, either private or public, to the parent companies, widely held by Indian public and Financial Institutions. Norms meant for such specifically created Joint Venture companies certainly need to consider the FDI and FII ownership together and be capped within the sectoral caps, defined from time to time. FICCI has further argued that the intent of the policy should be to exercise "control" over a strategic sector like defence while leaving the ownership subject to the current guidelines under RBI and FEMA.

- **'INDIAN IP LAW IS TRIPS COMPLIANT AND MORE. INDIAN COPYRIGHT LAW IS ONE OF THE STRONGEST AND BEST IN THE WORLD' USTR ANNUAL 2014 SPECIAL 301 REPORT**

Despite vehement and exhaustive submissions arraying the strength of the Indian IP regime India continues to be on the watch list along with China, Russia Algeria, Argentina, Chile, Indonesia, Pakistan, Thailand and Venezuela in the United States Trade Representative (USTR) 2014 Special 301 Report. The report however commends India for its achievements like digitization and upgradation of IP Offices and active copyright enforcement by the Delhi High Court through injunctive relief; to name a few. In the report, the US has also recognized the role of bilateral engagements between US and India to resolve concerns relating to Intellectual Property.

FICCI in its response to Hearing Testimony of India before USTR had strongly asserted that India has a well-established legislative, administrative and judicial framework to safeguard IPRs which meets its obligations under TRIPS, and has withheld the test of severe international scrutiny. We are glad to note that India has not been given the Priority Country status as this could have had serious ramification on economic, political and trade sanctions

- **STATEMENT FROM FICCI ON PRIME MINISTER'S ENGAGEMENT WITH SAARC LEADERS**

Describing the move to invite the South Asian leaders and their reciprocity as an "historic effort towards building strong ties with neighbours, FICCI added that substantive talks would pave the way for long lasting peace and multi-faceted cooperation among SAARC states, critical to put the region on a strong pedestal of sustained growth and development. Our Prime Minister has emphasized the idea of SAARC and spoken of regional connectivity and specific strengths of SAARC states which need to be nurtured. This is big in terms of confidence building. FICCI also hailed the landmark 'friendly and constructive talks' with Pakistan which dwelt on the importance of boosting trade and investments between the two sides.

- **PPP MODEL OF COOPERATION WILL UNFURL OPPORTUNITIES FOR INDIA AND AFRICA**

FICCI and EXIM bank with the support from the Government of India and the African Development Bank Group organized an 'Africa-India Partnership Day' during the 49th Annual Meeting of African Development Bank (AFDB). The objective was to ultimately establish the Africa-India Partnership Day as an integral part of the events associated with the Annual Meetings of African Development Bank Group.

The economic ties between India and Africa have strengthened over the years. It is satisfying to note that initiatives at both sides have increased trade between India and Africa from about $ 5.0 billion a decade ago to over $ 70 billion last year. This is expected to further increase to $ 100 billion next year. Similarly, Indian investments in Africa have also increased from under $ 10 billion in the year 2000 to the currently estimated $ 50 billion. Priority areas in identified sectors for successful engagement between the African Development Bank, the Government of India and the Exim Bank of India, were identified alongwith deliberations on multidimensional scope of the PPP model and unfurled opportunities for cooperation between India and Africa.

- **FICCI-IIFA GLOBAL BUSINESS FORUM**

The 7th FICCI-IIFA Global Business Forum (GBF) held in Florida was FICCI's endeavour to project Indo-US partnership as a catalyst for economic growth amidst the current challenges in India-US relations. The idea behind the GBF was to urge business leaders from both sides to look at opportunities beyond infrastructure and IT, driven by genuine interest in each other's economy so as to take forward the Indo-US strategic partnership.

FICCI also put forth its views on compelling issues in US-India trade related to energy partnership, resource efficiency, collaboration in life sciences, education and skills, media and entertainment, as well as on contentious ones like movement of skilled labour which affects the Indian IT industry. The main takeaway was FICCI's thrust on the need for both Indian and American industry to look beyond temporary irritants in our engagement and continue to gain from each other's strengths through business to business and people to people connects.

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