FICCI'S VOICE

Federation of Indian Chambers of Commerce and Industry

"SECRETARY GENERAL'S DESK"

DECEMBER 2014

- **GDP NUMBERS (Q2)**

The GDP growth of 5.3% for Q2 FY15 is lower than the 5.7% growth witnessed in the previous quarter, though better than the 5.2% growth recorded in same quarter last fiscal. While the growth in agriculture and services sector is in line with expectations, the subdued growth in manufacturing at 0.1% is a matter of concern. Recent FICCI surveys show that despite positive business sentiments, investors are still cautious about expansion due to subdued demand conditions and limited improvement in capacity utilization levels.

The current wave of optimism needs to be maintained through continued efforts by the government towards further improving the tax and policy environment to encourage enterprises to expand. We are cognizant of government's efforts to revive growth and believe that real turnaround in investments should take place in 12 to 18 months. We look forward to further action on all the pending reforms including early introduction of goods and services tax, changes to the Land Acquisition Act and further reforms in labour laws. Finally, an important element of the cost structure for manufacturing is interest rates and given the current inflation situation RBI should ease the monetary policy stance as this would give a boost to investment sentiment.

- **The WPI data**

The WPI data indicates considerable softening in prices, which comes as a great relief. Equally important is to note the decline in CPI inflation rate reported earlier this week. A drop in prices was noted across all major segments indicating significant easing in inflationary pressures.

The inflationary expectations are fairly tamed and we see no immediate upside risks with regard to prices. Given that, it is important to reiterate that demand remains subdued. The consumer durables segment reported negative growth for the fourth consecutive month in September 2014. It is extremely imperative that all levers are used to pep up demand. The government is committed towards achieving fiscal consolidation and this along with alleviated inflation creates room for a more accommodative stance from the Central Bank in terms of rate reduction in the policy to be announced.

- **IIP DATA FOR SEPTEMBER 2014**

FICCI said that it is heartening to see the positive growth of manufacturing in September which seems to be broad based too. We are hopeful that manufacturing growth will pick up in the coming months as a result of steps taken by the Government recently and also due to improved business sentiments. Fall in consumer goods growth is disturbing and we urge Government to take steps to arrest this fall. Faster implementation of large projects and improvement in business regulatory environment are required to have a sustainable growth in industry in the long run.

- **INVESTMENT OUTLOOK REMAINS SUBDUED IN MANUFACTURING: FICCI SURVEY**

FICCI's latest Quarterly Survey on Manufacturing remains optimistic about the Q-3 of 2014-15 but expects moderation in the manufacturing sector growth in Q-3 of 2014-15 as compared to Q-2 of 2014-15. The outlook on the basis of FICCI Manufacturing Survey for Q-3 of 2014-15 is less optimistic than in Q-2 2014-15

for the manufacturing sector as proportion of respondents expecting higher production vis-à-vis last year has fallen to 52% in Q-3 from 62% in Q-2. Since, only 11% respondents expect a fall in their growth in Q3 2014-15 vis-à-vis last year, growth, though low is expected in Q-3 2014-15 for manufacturing, as per the Survey. More importantly, the growth is likely to be more broad based as twelve out of thirteen sectors are expected to show improvement in production.

The survey gauges the expectations of manufacturers for Q-3 (October – December 2014-15) for thirteen major sectors namely textiles, capital goods, metals, chemicals, cement and ceramics, electronics, auto components, leather & footwear, machine tools, Food & FMCG, tyre, paper and textiles machinery. Responses have been drawn from 392 manufacturing units from both large and SME segments with a combined annual turnover of over Rs 4 lac crore.

Quarter	**% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter**
Q-3 (2014-15)	52%
Q-2 (2014-15)	62%
Q-1 (2014-15)	50%
Q-4 (2013-14)	56%
Q-3 (2013-14)	52%
Q-2 (2013-14)	48%
Q-1 (2013-14)	35%
Q-4 (2012-13)	36%
Q-3 (2012-13)	45%
Q-2 (2012-13)	44%
Q-1 (2012-13)	46%
Q-4 (2011-12)	36%

Source: FICCI Survey

- **FICCI TO INVESTIGATE FINANCING OPTIONS FOR CLEAN ENERGY & SUSTAINABILITY; RENEWABLES OBLIGATION ON POWER PLANTS TO BE ENFORCED RIGOROUSLY**

FICCI stated that reforming the financial system will be an essential aspect of the transition to a green and inclusive economy. Policy and institutional changes will need to address the financing gap for meeting the key priorities on clean energy, environment, and low carbon growth path. Bankers and investors are also recognizing the need for reforming the financial system to complement traditional environmental and sustainability policies.

FICCI has voiced the need for policy interventions that would empower the financial sector to direct financing towards areas such as clean energy, for example. Separate exposure norms, priority sector status, increasing liquidity through various other measures such as green bonds, and addressing the cost of borrowing through mechanisms to reduce hedging costs and other innovative measures will need to discussed and developed to allow the financial sector to re-focus financing needs in alignment with areas that need de-risking and de-bottlenecking to enhance project bankability.

- **FICCI REPRESENTATIONS LED TO RELAXATION OF GOLD IMPORT POLICY**

RBI on the 28th Nov. 2014 had removed a major restriction on gold imports by scrapping the 80:20 scheme wherein out of every 100 units imported, 20 units have to be exported. This move was taken as a measure intended to tackle the widening current account deficit last year. Now, as the CAD has improved, FICCI had made various representation to the Government and had also met senior authorities at RBI to relax the quantitative restrictions on Gold imports. FICCI Gems & Jewellery Committee recently had a meeting on 28th November, 2014 with the Executive Director, RBI to submit Industry representation on the Gold import policies. Removing 80:20 restrictions was also one of the asks. Following FICCI continuous pursuit, RBI has relaxed import regulations by announcing the removal of the 80:20 scheme.

- **HIGH-TECH MANUFACTURING TO GIVE A BOOST TO 'MAKE IN INDIA' PROGRAM**

FICCI said that the India-US trade trajectory hovers at $100 billion. There are robust statements from political and business leaderships of both countries that we must scale up by a factor of 5 by 2020. It's an uphill task but possible. High value technology-embedded trade is key to reach our stated goals. USIBC has of course been our long term partner for strengthening US-India commercial processes.

A wide range of issues are discussed in the HTCG ranging from market access, tariff and non-tariff barriers, strategic trade, and export controls. It tries to enable changes in policy and regulations that can facilitate high technology trade and strengthen controls on possible diversion of sensitive items. The global high technology market is currently estimated to be between US$ 800 billion and US$ 1 trillion and growing at 5% annually. With Prime Minister Modi's push for 'Make in India' and connecting India to global supply chains, staggering opportunities await both Indian and American companies in advanced technology sectors in India. Of immediate importance are civil nuclear and nuclear dual-use areas - a $ 30 billion market; chemical, pharmaceutical, bio-technology and bio-informatics sectors and R&D, manufacture and trade in conventional munitions, aerospace, electronics, and material sciences.

- **FICCI COMMENTS ON FINANCE MINISTER'S STATEMENT ADVOCATING MODERATION IN INTEREST RATES**

FICCI wholeheartedly welcomes Hon'ble Finance Minister's statement advocating moderation in interest rates to support economic growth. The domestic capex cycle has not yet shown any firm signs of turn around. FICCI's latest survey shows that though business confidence has improved, signs of sustained improvement in demand and capacity utilization levels are still elusive. Given the need to squarely address future supply side by manufacturing sector, reviving capex is essential to drive growth and create large employment opportunities, which is the cornerstone of the Government's agenda. With moderated inflation and no immediate upside risk to prices, we believe there is room for a progressive accommodative stance from RBI in its forthcoming policy.

- **NATIONAL INDUSTRIAL CORRIDOR DEVELOPMENT AUTHORITY IN THE OFFING TO FACILITATE SETTING UP OF ALL INDUSTRIAL CORRIDORS IN INDIA**

FICCI said that the emergence of a single-party led government in India has swung the mood decisively in India, among industry, investors and stock market, matching the optimism in the future of India-Japanese relations. The new Government has embarked on a more vigorous agenda of economic growth led by crucial reforms like hike in Foreign Direct Investment (FDI) limits in defence and opening up of FDI in some areas of railways. The Government has identified manufacturing, connectivity and infrastructure as the pillars of its nation-building task. India has ambitious plans for bullet trains, smart cities, sanitation and cleanliness, waste management, renewable energy and manufacturing across segments.

- **NEED TO FREE MAJOR PORTS FROM REGULATORY REGIME**

FICCI said that the tariff fixation under TAMP has had a negative impact on the performance of port projects developed through PPP mode due to anomalies in the tariff setting mechanism. Globally, tariff fixation is determined by the respective Port Authorities based on market forces and there is healthy competition in the sector. FICCI recommended that TAMP's role should be to focus on the regulation of performance standards and quality of service at major ports and not tariff setting, which must be left to the market, subject to non-restrictive practices. The deregulation of tariff setting of ports would go a long way and will encourage more and more private players to set up new ports, new terminals and berths. It will encourage much-needed investment in the sector that's constrained by a lack of capacity and needs to be expanded in step with India's economic growth aspirations.

- **REFORM OF LABOUR LAWS VITAL TO CREATE EMPLOYMENT-INTENSIVE MANUFACTURING INDUSTRIES**

FICCI said that the labour laws have a host of sections and these need to be unbundled first. Various sections of labour law come under the ambit of Union list, State list and Concurrent list, which makes the reform process complex. However, the reforms in labour laws will improve employment elasticity. He added that the government is conscious of the factor market also and would need finesse to confront the issue. The policies should encourage productive job creation and entrepreneurship, and labour laws reforms could be a step in the right direction. Also, investment in employment intensive industries was the need of the hour, besides ease of doing business. Enforcement of contract and ease of exiting a business were two other major concerns for business. To tame inflation, RBI and government policies were curbing demand instead of increasing supply. He said that investment needs demand and for that the government should focus on enhancing supply, which would eventually contain prices.

- **TWO NEW SCHEMES TO BEEF UP MATH & SCIENCE OUTCOMES IN SCHOOLS AND TEACHERS' TRAINING TO BE ROLLED OUT NEXT YEAR**

The Government will roll out the 'Rashtriya Avishkar Abhiyan' next year with a view to arresting the falling trend of learning outcomes in mathematics and science of students in classes 6-8 and upgrade the skills of teachers in line with the needs of modern-day society.

It was pointed out that FICCI's Vision 2030 for higher education in India proposes a three tiered higher education system representing research focused, career focused and foundation institutions. This differentiated approach will offer students a wider variety of unique and quality programs at both graduate and undergraduate levels. This way, while planned expansion will create capacity for the ever increasing numbers of students, the differentiated system will be instrumental in directing them to the right stream and the appropriate institution.

- **THERE IS AN URGENT NEED FOR MORE TRANSPARENCY IN BRINGING ABOUT GST, A MAJOR TAX REFORM INITIATIVE**

There is an urgent need for more transparency in bringing about this path breaking tax reform. The first discussion paper on GST was published in November, 2009. The trade and industry so far has not been updated on the status of various aspects of proposed GST like threshold limits, rates, items under the Negative List, GST compliance, the IT infrastructure, the administrative structure etc. Government should come out with a paper on the latest status of the proposed GST incorporating the decisions which have been finalized between the Central Government and the States. As a beginning, the reports of the Panels set up by the Empowered Committee on various aspects of GST should be placed in public domain and an opportunity be provided to the industry to submit its views.

- **FICCI SUGGESTS PPP, NEW BUSINESS MODELS AND TAX BENEFITS TO GIVE A FILLIP TO SCIENCE, TECHNOLOGY & INNOVATION SECTOR**

FICCI has made wide-ranging recommendations to give science, technology & innovation sector a shot in the arm. It has called for extending a slew of tax benefits and exemptions, simplifying customs and excise regulations, creating a robust IPR ecosystem, strengthening innovative institutional mechanisms and encouraging PPP and new business models for the growth of the sector.

- **GOVERNMENT MULLS INNOVATION FUND TO BOOST R&D IN MICRO, SMALL & MEDIUM ENTERPRISES**

FICCI emphasized that India has to dedicate more funds and time to its Research & Development programs. The recent success of the Mars Orbitor Mission speaks volumes of the R&D capabilities and given appropriate funds it is capable of scaling up its innovative productivity. The government has to play a vital role in promoting the R&D potential in India. There are certain policies in place which unfortunately are bound by tedious regulations. There is also a lack of awareness of the government policies. Most entrepreneurs are unaware that the government provides a weighted tax deduction of 200% on expenditure other than land and building. Over the last 10 years, only a Rs. 1000 crore have been deducted. The government therefore must first simplify its policies and then via a massive campaign increase the awareness of its benefits to entrepreneurs across the country.

- **MASSIVE OPEN ONLINE COURSE IS THE KEY TO BRIDGE THE GAP BETWEEN INDUSTRY AND ACADEMIA**

FICCI said that despite the rise in graduate unemployment, little research has been conducted in the past to identify the kinds of skills demanded by employers and measure by which graduates meet employers' expectation. FICCI and the World Bank are jointly conducting a follow up survey to understand employers' perception/satisfaction levels regarding the new engineering graduates, the results of which will be shared during the 10th FICCI Higher Education Summit to be held on November 13-14, 2014 in New Delhi. The first survey of this kind was carried out in 2009 jointly by FICCI & World Bank. The National Knowledge Functional Hub (NKFH), an initiative of FICCI to create an institutional mechanism for sustained industry-academia engagement and ensure employable engineering graduates for the manufacturing sector in India.

- **TO MAKE INDIA A SPORTING NATION: SECTOR SKILLS COUNCIL IN SPORTS BEING SET UP**

The government is launching a National Talent Search Scheme to scout for sports talent in various schools and institutions across the country. The National Institute of Sports Sciences and Medicine (NISSM), is already in place to support high performance of sports persons and integrate sciences and medicine into the training of elite sports persons and the curriculum of sport coaching in the country.

FICCI has finally received the approval for setting up Sector Skills Council in Sports, Physical Education, Fitness and Leisure sector. According to a latest study, this sector will require more than 4.3 million support personnel in various roles in sports in the coming 10 years. After FICCI's representation on industry status to sports, there was a committee setup under the chairmanship of Director General, Sports Authority of India, where FICCI prepared a report on 'granting infrastructure status to Sports Sector'.

- **FICCI STATEMENT ON EASING THE DECISION MAKING ENVIRONMENT BY THE GOVERNMENT**

The government under the leadership of Hon'ble Prime Minister Sri Narendra Modi has undertaken several efforts to turn around, develop and grow the economy. Several steps have been planned and taken to improve business confidence, encourage enterprises and persons to renew investment across all sectors. An enabled atmosphere of proactive, speedy and empowered decision making, particularly at the Centre and in States, is crucial in achieving our developmental goals.

Building confidence in bureaucracy was one of the ten point action plan announced by our Prime Minister soon after taking charge. We expect a suitable environment for decision making will be enabled going forward just as the government is taking steps to improve the environment for businesses. As per media reports, government could be considering legislative improvements to remove draconian provisions which can penalize honest decision making, while simultaneously ensuring that proven aberrant behaviour does not escape suitable action under the law. We hope appropriate key legislative amendments will be taken up and approved in the forthcoming Parliamentary session.

- **FICCI CALLS FOR A MINISTERIAL CELL TO ALLOW REGULAR INTERFACE BETWEEN INDUSTRY AND GOVERNMENT**

FICCI said that FICCI has set up a Committee on Private Security Industry which has submitted a number of recommendations to the government and other regulating agencies. Most important among them are the issues of recognition of armed private security guards as skilled and highly-skilled labour and issuance of arms licenses to private security agencies.

The private security industry in India is currently estimated at INR 30,000 crore, with a presence across 550 districts of the country. The sector has the potential to be the second-largest employment generator and a major source of revenue for the exchequer by way of taxes. India is projected to be amongst the top 10 security markets in the world by 2020. This would give rise to significant opportunities which should be leveraged.

- **FICCI COMMENTS ON THE E-VISA ANNOUNCEMENT BY THE GOVERNMENT**

Commenting on the E-Visa facility announced for 43 countries by the Government, FICCI said that this is an extremely positive measure and FICCI welcomes this initiative of the government. The rolling out of the E-Visa facility would give a tremendous boost to the tourism industry as it would make it convenient for visitors to travel to our country. The increase of tourism will benefit the entire travel, hospitality & related sectors, generate more jobs and contribute to the country's economy. However, we need to pursue measures to improve the infrastructure facilities in and around our key tourist destinations so that visitors leave with a memorable and pleasant experience.

- **<u>FICCI COMMENTS ON INDIA-US AGREEMENT ON FOOD RESERVES</u>**

Welcoming the latest development in the WTO talks FICCI said that we are pleased to know that India and USA have successfully resolved their differences on the issue relating to public stockholding for food security purposes. It is heartening to see that India's position on this topic has been vindicated, and other countries have now appreciated the merit in India's arguments on this point. Reconciliation of the difference between India and USA would also lead to resolving the impasse in WTO talks and open the way for implementation of the Trade Facilitation Agreement. These important developments are very critical for restoring the confidence in WTO and strengthening the multilateral trading system.

- **<u>NEW FOREIGN TRADE POLICY WILL FOCUS ON TRADE FACILITATION, SIMPLIFYING PROCEDURES AND DIVERSIFICATION OF MARKETS & PRODUCTS</u>**

The new Foreign Trade Policy (FTP) that is on the anvil will unveil trade facilitation measures, simplify procedures, reduce the interface between bureaucrats and industry for ease of doing business and make the system transparent. It would encourage exploration of new markets and product diversification for export. The Indian government recognizes the importance of trade for growth of economy and the new FTP would be dovetailed with the long term vision of the government. FICCI values its partnership with CUTS International and IPE Global Ltd, which provided full support to the round table deliberations.

- **<u>COTE D'IVOIRE URGES INDIAN INVESTORS TO CASH IN ON BUSINESS OPPORTUNITIES</u>**

FICCI said that Cote d'Ivoire, under the true spirit of South-South Cooperation, has received a mix of grant and soft credit from the Government of India for development projects in the areas of agro-processing, transport, electricity transmission, fisheries, etc. India has extended the Lines of credit of USD 136.3 million to Cote d'Ivoire through EXIM Bank of India for the agriculture sector, IT & Biotechnology Park, Development of Rice Production Programme and for power transmission line project in Cote d'Ivoire.

There was huge optimism on the growth prospects of Cote d'Ivoire for 2014-15, which has been pegged at nine per cent by the African Development Bank (AfDB) in its latest economic outlook. There was tremendous potential for both the countries to collaborate and form partnerships in sectors of ICT, agriculture, food processing, textiles and SMEs.

- **<u>ARAB INVESTMENT CRUCIAL TO COMPLETE INDIA'S GROWTH STORY</u>**

FICCI stated that a big opportunity awaits Arab companies to join hands with their counterparts in India in the areas of manufacturing, physical infrastructure, wind and solar energy and shale gas recovery.
Our relations today straddle shores that are as diversified as our geographies, economies, history and culture. Important Indian investments in the Arab world stretch from Oman to Egypt, Sudan and beyond and much of the external trade passes along the Suez Canal, the Red Sea and the Gulf of Aden. Collectively the Arab world is India's largest trading partner with total trade between India and the League of Arab States to the tune of US$185.6 billion in 2013-14 which shows an annual increase of 15 per cent.

Richly complementing these encouraging trends are new frontiers of cooperation that are being unleashed by the Modi Government with reforms in coal block auctions to improve transparency and hike in Foreign Direct Investment (FDI) in defence and insurance and opening up of FDI in some areas of railways with greater thrust on Public Private Partnership. The stock market is on a roll, matched by fresh confidence among investors in the Indian economy.

- **<u>CHINA TO INVEST IN INDIA TO REDUCE TRADE DEFICIT</u>**

FICCI said that we are happy that China has acknowledged that trade deficit is a matter of concern to us; our five year trade and economic cooperation pact is geared to addressing this. Market access issues faced by our firms in sectors like pharmaceuticals, IT and agricultural products should get resolved with renewed effort from China to import value added products from India.

FICCI had organized an India-China Business Meeting with the support of Ministries of Commerce on both sides, and Chinese companies signed buying orders for about US$ 740 million. A notable development was the agreements for setting up of Chinese industrial parks in India. Two agreements worth nearly US$ 7 billion were signed for Gujarat and Maharashtra. FICCI looks forward and is ready to support the goal set by Prime Minister Modi which is 'INCH (India-China) towards MILES (Millennium of Exceptional Synergy)'.

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