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Newsletter

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Narendra Modi takes charge as 15th Prime Minister of India

Mr. Narendra Modi was sworn in as India's 15th Prime Minister on 26 May 2014 at a grand ceremony attended by approximately 4,000 guests, including heads of state, representatives and envoys of foreign countries attending in large numbers, at the forecourt of the Rashtrapati Bhavan. He was sworn in as India's prime minister, exactly 10 days after his party won the biggest mandate in the last 30 years. Mr Modi, 63, was administered the oath of secrecy and office by President Pranab Mukherjee, an impressive function held in the forecourts of Rashtrapati Bhawan.

All 777 MPs of both Houses, the outgoing PM and his council of ministers, all governors, CMs (except Kerala CM who had already opted out), ambassadors and other constitutional authorities like the Chief Justice of India were among those who attended the event. Heads of governments of eight countries, including Pakistan Prime Minister Nawaz Sharif, Sri Lankan President Mahinda Rajapaksa, Afghanistan President Hamid Karzai, Bhutan Prime Minister Tshering Tobgay, Nepal Prime Minister Sushil Koirala and Mauritius Prime Minister Naveen Ramgoolam took part in the ceremony.

Bangladesh Parliament Speaker Shirin Chaudhury represented her country as Premier Sheikh Hasina was on a visit to Japan. This is the first time that the heads of states of SAARC nations have been invited to attend the swearing-in ceremony of an Indian prime minister.

Speaking to reporters in Lahore before leaving for New Delhi, the Pakistan prime minister said, "Pakistan wants good relations with India and I am going to New Delhi with a message of peace".

India voted for a regime change. And it has voted overwhelmingly in favour of the Bharatiya Janata Party giving it a clear majority and a massive mandate in the 2014 General Elections, sending its prime ministerial candidate Narendra Modi to 7 RCR. BJP on 16 May stormed to power at the Centre after a decade creating history and reaching the halfway mark on its own and along with the NDA crossing the 300 figure, sending the party workers in a tizzy and its leaders overjoyed beyond words. Addressing the media in the national capital, BJP president Rajnath Singh said that a new era has begun in the history of the country.

NDA which comprises BJP and 24 smaller parties bagged 335 seats. The BJP won 282 seats on its own. This is the biggest victory for any party after Rajiv Gandhi's massive 400 plus victory in 1984. The half way mark is 272 in the 543-member House.

This is the first time that any non-Congress party has won a majority on its own. Before the results were out most of the BJP leaders were sure that it would romp home and touch the halfway mark along with its allies riding on the 'Modi wave'. However, after the results were out, it seemed that a 'Modi Tsunami' had hit the country with BJP winning even in areas which was not traditionally its stronghold.

BJP has surely come a long way from a party of two Lok Sabha members in 1984. At the height of its popularity during Atal Bihari Vajpayee regime, considered to be BJP's tallest leader, the party got 182 seats in 1998 and 1999. This was in the backdrop of the Ayodhya movement and the Rath Yatra undertaken by the LK Advani.

In 2009, the Congress had won 206 seats with its vote share being 28.5 percent. The Congress won only two seats in UP - Nehru-Gandhi family pocket borough of Rae Bareli and Amethi.

Since he was anointed the BJP's PM candidate on September 13 last year, Modi undertook a whirlwind campaign criss-crossing the length and breadth of the country, addressing as many as four to five rallies in a day in the last lap. In all his rallies he talked of BJP's agenda of development and growth and taking on the Congress-led UPA government over issues of corruption, scams, price rise and inflation.

He also exhorted the crowd to give him 60 months as against 60 years that they had given the Congress. Given the results that have come in BJP's favour, it seems that the people did listen to Modi and decided to give him a chance to run the country.

In the outgoing Lok Sabha, BJP had 116 members on a national vote share of 18.8 percent. The Congress had 206 members with a vote share of 28.55 percent. In the 2014 polls, the BJP has got a vote share of 31.4 percent against Congress' 19.5 percent.

The immediate change Modi will need to deliver is an improvement in the economy, growing at its slowest rate in a decade, and his commitment to the BJP's Hindu nationalist agenda will be closely watched by India's 150 million Muslims. India is in the grip of stagflation -- growth has slumped to 4.9 percent from nine percent two years ago and consumer inflation is at a wage-eroding 8.6 percent.

While there is no doubt as to who won the election, the key question that needs a definite answer is who all lost the election. In the first place, the loss is decisive for dynastic politics and inept governance that defined the UPA rule for the last one decade. The manner in which governance was compromised especially in the last five years and the manner in which sycophancy and welfare of one dynasty got precedence over national governance and national interest, made the common Indian so horribly disgusted that this time they not only merely voted out Congress but voted against Congress with steely determination to make sure that it would take quite some time for Congress to even adjust to the bitter drubbing it got in this election, leave alone planning a resurrection.

The days of self-proclaimed blue blooded dynasties considering it their divine right to be the master of India is over. Days of scions of such dynasties presuming that a mere waving of hands for a few days before election dates would be enough to make the mass feel gratified and would be good enough to make them forget their daily woes and agony of mis-governance, are over.

Further, another big loser of this election is the bogus bogey of Secularism. Secularism, the manner in which it had been practised by Congress and several other so called Secular (rather pseudo-Secular) parties, by demonising the majority community and by making the minority community feel insecure, has been rejected by people at large. This victory of NDA and Narendra Modi is a vote for development which cuts across religious and caste lines. In a secular country, religion is essentially a personal thing and every community is an equal stakeholder. The manner in which Congress and many of its allies demonised Narendra Modi and BJP for the last several years, has backfired in a devastating manner for Congress and if it wants to resurrect itself in future, it would have to learn some bitter lessons and realise that selective spreading of misinformation and vilification of someone who got a clean chit even from Supreme Court, does not pay. The more Congress attempted to demonise Modi, the more Modi became popular and the more sinister designs of the Congress got exposed. While detailed analysis of voting pattern is yet to come out, it is for sure that this kind of victory for NDA and Modi would not have been possible without a certain portion of Muslims and Christians voting for BJP.

Also, this election is also perhaps a new beginning for a caste free India. Even though that dream might still be far away but at least the beginning has been good. This victory of BJP, especially in the Hindi heartland of Bihar and Uttar Pradesh would not have been possible without people cutting across caste lines voting for BJP. For long, political parties like BSP and Samajwadi Party as well as RJD have played the worst kind of caste based politics where development as a poll plank was never considered to be a winning formula. The poison of identity politics created such a vitiated atmosphere that people got habituated to voting on caste lines irrespective of performance or non-performance of candidates. The routing that BSP, Samajwadi Party, RJD and even JDU got this time, is a reflection of the possibility of uniting people beyond caste lines with development and welfare being the primary and core agenda. Parties like Samajwadi Party, RJD, and BSP thrived by pitting one caste against other and their decimation in this election is a step in the right direction.

Modi biggest challenge will be to revive an economy that is mired in its worst slowdown since the 1980s due to myriad issues such as strained public finances, persistently high inflation, high interest rates and rising bad loans at banks.

Public finances are in dire straits as government spending has outpaced revenues. The new administration will immediately need to take a decision on slashing subsidies spending, which is threatening a budget blow-out and a sovereign ratings downgrade. Modi needs to act fast as states hold the key for a revival in capital investments, which barely grew last fiscal year as delays in clearances grounded many infrastructure projects.

The leaders of Pakistan and other neighbors attended Modi's swearing-in ceremony, a first in India's history that signaled his aspirations to be a regional leader who could improve relations with surrounding countries. India's new leader will also face challenges in Afghanistan, whose security forces are preparing to take over from departing foreign troops in the fight against a Taliban insurgency. India's consulate in the Afghan city of Herat was attacked by armed insurgents last week.

Further afield, Modi will need to reinvigorate India's relationship with China and the United States. Ties between the two largest democracies have cooled due to trade disputes and the arrest of an Indian diplomat in New York.

India's main internal security threat is from Maoists. They have acquired guns, hand grenades and guerrilla war expertise over the years and routinely target security forces and other government officials in areas that contains the country's richest mineral deposits.

The new federal government will need to mend frayed ties with state governments, who often complain of New Delhi's big brother attitude.

A fear of losing fiscal powers forced some states to delay the rollout of a nationwide goods and services tax (GST), which economist estimate would have boosted India's economic growth by as much as 2 percentage points. Opposition from states blocked a plan of the previous government to counter terrorism.

If the scale of Narendra Modi’s victory has surprised much of the world, one region, East Asia, is waiting with enthusiasm for India’s prime minister to be. From Japan to Singapore, China to Australia and Vietnam to Myanmar, Asian chancelleries are hoping relations with India will get a big boost under Modi’s leadership. Unlike their Western counterparts, no one in the region sought to distance themselves from Modi all these years. Many in Asia were impressed by Gujarat’s business-friendly environment and reached out to Modi. Among the few nations that Modi visited as the chief minister of Gujarat were Singapore, Japan and China.

Beijing surely has concerns about Modi’s tough rhetoric on the border dispute and his plans for a rapid modernisation of India’s defences. Some in Tokyo might value Modi for precisely the reason that he is ready to make India count in the new geopolitics of East Asia. Many in Asean have long urged India to contribute more actively to the Asian balance of power. Most Asian leaders are betting that India under Modi might be a more purposeful interlocutor than the UPA government. That is one advantage of signalling strong political will; even those who have differences with Modi in one arena are likely to welcome the opportunity to do business in another.

Although India’s relations with the region have significantly expanded over the last decade, the frustrations of dealing with the UPA government, whether it was in the areas of commerce or defence, had taken their toll on the region. Much in the manner that the people of India have voted for a decisive national leadership, New Delhi's partners across Asia are cheering the arrival of an Indian government that they can productively engage with.

For Prime Minister Narendra Modi, securing India's energy needs over the next decade ranks among his greatest challenges and one that will likely see him both compete and cooperate with China, the United States and Russia. These three are the world's biggest energy consumers, with India in fourth spot. For all of them, energy security is a constant goal, driving their search for new resources, new technology and new investment opportunities around the globe.

According to the International Energy Agency's latest World Energy Outlook, India will overtake China in the 2020s as the principal source of growth in global energy demand. By 2025 India will be the world's biggest coal importer.

Modi prides himself that electricity is always on in his home state of Gujarat, where large coal-fired power stations run by groups such as Adani and Tata help deliver a surplus of power. That is certainly not the case for many other parts of the country -- more than 300 million people lack access to electricity, and a massive outage in July 2012 saw another 600 million across the northern, eastern and central parts of India lose power for two days. There are constant problems with energy infrastructure, ranging from the stability of the grid to supply-demand imbalances and illegal connections.

Bharatiya Janata Party (BJP) identifies energy as a "national security issue" in its policy manifesto, and says economic growth must not be "negatively impacted" by energy supply issues. If Modi is to achieve his goal of every Indian citizen having access to a house with water and power by 2022-23, then energy security becomes of paramount importance.

The role of renewables such as solar and wind is expected to grow in India's energy mix, but coal will remain the backbone of power generation until at least 2025, supported by oil and gas, hydro and nuclear power.

India-Russia relations have stood the test of time, and he wants to further strengthen them, which suggests that India may be keen to buy more Russian oil and gas in future. Price and delivery options will be the usual sticking points.

Modi says China is a country he can do business with, but energy competition between the two is likely to remain high. India is partnering with Vietnam to explore for oil in the same South China Sea waters where China's recent oil rig movements have brought China-Vietnam relations to an unhappy low.

For its part, China says it is willing to make joint efforts with the new Indian government and "bring the China-India strategic partnership to a new height."

India-U.S. relations should improve under Modi's pro-business outlook. His "minimum government, maximum governance" approach resonates with President Barack Obama, who has already invited Modi to visit the U.S.

From a 'tea-seller' to India's Prime Minister, Narendra Modi has proved that India's democracy is not only vibrant but offers everyone the opportunity to rise to the top. Born on September 17, 1950, in a middle-class family in Vadnagar in Mehsana district and running a tea stall with his brother, as a teenager, Narendra Damodardas Modi has travelled a long distance. From being a RSS pracharak in his young days, to being the Chief Minister of Gujarat four times in a row, to being the 15th Prime Minister of India, Modi's journey has truly been remarkable. Life for Mr Modi began in a caste of lowly oil-pressers as the third of six children of a poor tea-seller at Vadnagar Railway Station, in Gujarat. Later, he himself sold tea at the nearby bus station. As was the custom of the day, his future wife was identified when he was just four years old and a betrothal ceremony conducted when he was 13. But he is said to have never lived with his wife, instead choosing to immerse himself as a full-time worker with the militant Hindu outfit RSS, one of whose members had assassinated Mahatma Gandhi in 1948. Indian media quotes former school teachers as describing him as an average student but a keen debater. Mr Modi rose swiftly in the RSS system, heading the Gujarat state unit of its student wing. He went to Delhi University to study political science, followed by a master's from Gujarat University.

The President of the European Union MR JOSÉ MANUEL DURÃO BARROSO on 19 May congratulated Mr. Modi and his Party after the emphatic victory and called for stronger economic the relations between EU and India.

Message from Mr José Manuel Durão Barroso, President of the European Commission, to His Excellency Mr Narendra Modi, Prime Minister-elect of the Republic of India

“DEAR PRIME MINISTER -ELECT ,

IN THE WAKE OF THE VOTE , WE WISH TO CONGRATULATE YOU AND YOUR PARTY FOR THE VICTORY OBTAINED AT THE 2014 GENERAL ELECTIONS AND FOR THE STRONG MANDATE RECEIVED BY THE INDIAN ELECTORATE .

THE EUROPEAN UNION LOOKS FORWARD TO ENGAGING WITH YOU AND YOUR FUTURE GOVERNMENT , PARTNERING IN OUR COMMON GOALS AND SHARED AGENDA . WE LOOK FORWARD TO MOVING THE EUROPEAN UNION -INDIA STRATEGIC PARTNERSHIP TO NEW HEIGHTS .

TODAY , THE EUROPEAN UNION IS INDIA 'S LARGEST TRADING PARTNER AND MAJOR FOREIGN DIRECT INVESTMENT PROVIDER . BOTH TRADE AND INVESTMENT CAN BE FURTHER ENHANCED THROUGH AN EARLY CONCLUSION OF AN AMBITIOUS FREE TRADE AGREEMENT /B ROAD -BASED TRADE AND INVESTMENT AGREEMENT , STRONGLY CONTRIBUTING TO ECONOMIC GROWTH AND JOB CREATION BOTH IN EUROPE AND IN INDIA . WE LOOK FORWARD TO WORKING WITH THE NEW GOVERNMENT ON THESE AND OTHER ISSUES SUCH AS SECURITY , ENERGY , RESEARCH AND INNOVATION .

WE WISH TO CONVEY , TOGETHER WITH OUR HEARTY CONGRATULATIONS , OUR BEST WISHES FOR THE FUTURE GOVERNMENT .

PLEASE ACCEPT , DEAR PRIME MINISTER -ELECT , THE ASSURANCES OF MY HIGHEST CONSIDERATION” .

Banking on Modi, foreign investors to pour $60 bn into India

Foreign investment inflows are estimated to more than double and cross the $60-billion level this fiscal as overseas investors repose confidence in the Narendra Modi-led government that is expected to unleash reforms to reboot the economy, says an Assocham study.

“Riding on huge expectations from the incoming Modi government, global investors are gung ho on the Indian economy which is expected to witness over 100 per cent increase in foreign investment inflows — both FDI and FIIs — to above $60 billion in the current financial year, as against $29 billion during 2013—14,” the study projected.

The net foreign investment inflows, led by aggressive foreign institutional investors (FIIs) in the Indian equity and debt markets in 2014—15, are expected to even overtake the figure of $46.17 billion during fiscal 2012—13, one of the best years for overseas investment inflows, it estimated.

“The unfolding scenario also points to easing of prices and lowering of interest rates, the two major challenges that the Indian economy had been facing for some years now,” Assocham President Rana Kapoor said.

However, the emerging situation will pose a new challenge to the Reserve Bank to deal as it will have to balance the rupee rate and inflation from the increased liquidity into the system.

The new Finance Minister and the RBI, thus, will have to be on the same page in dealing with this scenario which will see strengthening of Rupee and a further improvement on the current account balance, Assocham said.

In the current fiscal, the FII investment would remain more than the FDI inflows, Assocham said. The expectations are that FII investment in both debt and equity could exceed $35 billion while the FDI money could be above $25 billion.

"If the Modi government is able to take some reform-friendly measures along with taming inflation and earning goodwill of the people, the FDI will do a fast catch-up with the FIIs. The euphoria must be taken advantage of and things will move on from there," Mr. Kapoor said.

Significantly, India will continue to outpace all other emerging economies in terms of FII inflows which would not be affected much by the tapering of the Quantitative Easing by the US Federal Reserve, the study found.

Besides, as the new government goes about removing obstacles in investment, FDI is likely to pick up again in the key infrastructure areas of ports, airports, roads and energy, the study said.

India has huge potential to attract FDI from Europe, says EICC Study Report

The Head of the EU Delegation to India Mr. João Cravinho on 7 May 2014 in New Delhi released the EICC Study Report titled: **European Companies in India: Reigniting Economic Growth** at a glittering function in Hotel Leela Palace organized jointly by European Business Group India, Europe India Chamber of Commerce and European Business and Technology Centre. A large number of business leaders and diplomats from various countries were present on the occasion. The Report authored by Adith Charlie has been produced with the joint collaboration between EICC and EBTC and is a follow up of the EICC Report titled: **Indian Companies in the European Union: Reigniting economic Growth** produced last year.
Speaking on the occasion, Mr. João Cravinho said that he appreciated the effort of the Chamber for producing the Report which follows one year after the launch by the EICC of a Report titled: "Indian Companies in Europe: Reigniting Economic Growth" dedicated to Indian investment Europe.

Mr. Cravinho said that European Union-India relations have grown exponentially from what used to be a purely trade and economy driven relationship to one covering all areas of interaction. The 2014 marks the 10th anniversary of the European Union-India Strategic Partnership Agreement. Even though EU continues to be India's largest trading partner FDI from the EU into India EU's economic ties with India are yet to achieve their full potential with total FDI into India still amounting to only 1 percent of EU outflows. A comprehensive free trade agreement and greater economic cooperation between the world's two largest economies would provide the economic stimulus that both regions sorely need, he added.

The report seeks to develop a better understanding of the potential for investment in India to foster economic growth and economic challenges facing the nation. The study uses a scenario-based approach to examine the current policies and emphasizes how teaming up of a Europe-based and India-based organisation, can serve as an ice-breaker to further the interests of the European business community in India. This Study Report gives information on presence and impact of European multinational corporations in India. Information on FDI of India, who are the shining European multinational corporation of India. The Report also summarises a stock taking exercise which marks coming of age of the importance European companies attach to India, now recognized as a critical component for building trade and economic relations. European corporate participation in India is important for policy-makers and social scientists given the present economic realities. Apart from playing an important role in globalization and international relations, European companies have notable influence in the country's economy.

Mr. Sanjay Dalmia, Co-Chair of the EICC and Chairman of Dalmia Group of Companies said that the study will make a substantial contribution to developing a deeper understanding of the potential for investment in India and will provide a foundation of analysis that can help India identify smart, sustainable economic and trade policies. Mr. Dalmia also spoke about the importance of an early conclusion of the free trade agreement between EU and India.

Expressing his disappointment over the state of the free trade negotiation between EU and India, he said that even after over 7 years of negotiation, no conclusion has reached. Improving economic relations between the EU and India is therefore essential for Indian and European companies, whose business links extend beyond import and export to include alliances and partnerships in supply chains, joint research projects and significant direct investments, Dalmia added.

The Director General of the EUROCHAMBRES Mr. Arnaldo Abruzzini said that the contributions to this study is an example of the effective partnerships that the EICC and EBTC are fostering as the Report epitomizes, the need for common European business interest that incarnates the reputation and visibility via which the EU strives to support the economic priorities of the EU Member States.

I am glad to see that cooperation between EICC and EBTC which started on an ad hoc basis has now blossomed in a full cooperation since last year when the EUD approved of the Partnership between both organisations, he added.

Chairman of EBG India Mr. Raman Sidhu said that EBG was delighted to join the launching of the Report and hoped that EBG and EICC will cement their collaboration in future.

The Europe India Chamber of Commerce (EICC) and European Business and Technology Centre (EBTC) in active co-operation with the European Business Group (EBG) released a special study report on 7 May high-lighting the growing spread of European FDI into India. Titled 'European Companies in India: Reigniting Economic Growth' the report is the first work of its kind at a pan-European level, serving as a comprehensive guide for information, statistics, analysis and trends pertaining to European investments for 2004 to 2013.

The following Press release was issued by EICC, EBTC and EBG on the occasion of the launching of the Report:

“”EUROPE FDI: LARGEST FDI PARTNER TO INDIA

European companies had spent $198 billion in the country during the last ten years. In the same period, Japanese and US firms channelised $138 billion and $50.7 billion respectively into their India units. This gives EU enterprises the distinction of being the largest inbound investor into India. EU firms have spent $118 billion on 2566 Greenfield projects. EU companies also acquired interests in 1442 companies for $80 billion.

“Tactical Greenfield investments, landmark acquisitions and steadfast dedication through uncertain economic cycles have been the key ingredients of the success enjoyed by European companies in India,” said Sunil Prasad, Secretary General of EICC. “The study finds that despite the challenges facing the Indian economy, EU firms are optimistic about the next five years. The common consensus is that the next government would usher in a fresh round of growth,” Prasad added.

The study shows that EU companies collectively provide direct employment to 1.5 million Indians as against a few 'hundred thousands' in the late 1990's. Of this, about 562,335 new jobs were added in the last 10 years alone through the Greenfield route.

“To ensure continued high levels of FDI, essential to India's future economic growth, Government and Industry alike must engage in novel thinking and disciplined implementation – only then will the so urgently required paradigm shift happen” said Mr. Poul V. Jensen, Director of EBTC.

INDIA IS WHERE BUSINESS IS - RECOMMENDATIONS FOR COMPANIES KEEN TO INVEST IN INDIA

There are significant value creation possibilities across sectors such as education, energy, food processing, life sciences, advanced engineering and infrastructure. The report says European companies that manage to succeed in India could replicate the same growth model in several other developing countries. It encourages EU companies to adapt their products and services to the mass market and take a long term view of India. "The global headquarters should not expect their India units to rake in the profits every quarter. Companies that invest in India need to have lot of patience and deep pockets to sustain cash flow uncertainties. They should focus on the potential and not the short-term challenges," said Adith Charlie, EICC's Research Head and author of the booklet.

Over the last two years, the Government has taken decisive steps to remove FDI barriers in a range of sectors. While the report lauds these measures, it calls for swift implementation. Modalities such as land acquisition, revenue sharing and others must be discussed and debated by the states and the Centre before a formal policy decision is taken. Many EU companies find out that the actual market scenario in India is distinctly different from their original understanding. Reforms need to be initiated in trade facilitation and export promotion. India must sort out some contours of its Intellectual Property Rights regime. The legal system must be fast-tracked and the use of compulsory licensing (CL) for essential pharmaceutical drugs must be the exception and not the norm, the report suggests"".

Highlights of the Report mentions that Europe Inc has invested $198 billion in India since 2004, a new study by EICC and EBTC titled 'European Companies in India: Reigniting Economic Growth' suggests that:

- 60% of European FDI directed towards Greenfield projects.

- Germany, UK and France, collectively account for 64% of the continent's overall investment spread in India.

- Direct employment to 1.5 million and indirect employment to 6.3 million in India.

- The business services sector, industrial Products segment, Technology, Media and Telecommunications segment (TMT) are the top 5 sectors.

- Domestic market growth potential, proximity to markets or customers and skilled workforce availability major reasons for investing in India.

Speaking to Reporters and other media journalists Secretary General of the EICC Sunil Prasad said that the report offers a comprehensive review of investment by some high value European companies in key industries in India and will help develop better understanding of the potential for investment in India to foster economic and social growth.

Prasad said the foreign direct investment (FDI) has played an important role in the long-term development of India not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities.

"However, investors have been deterred by the poor investment climate in India and vexing tax issues," Prasad said.

"While India has all the right ingredients to thrive many obstacles remain and unless these are addressed urgently with all seriousness, India risks losing out to other emerging countries," he said.

The EICC Study was supported by the EU-funded European Business and Technology Centre (EBTC) and was released just few days before the result of the General election in India.

"I believe this study will make a substantial contribution to developing a deeper understanding of the potential for investment in India and will provide a foundation of analysis that can help EU and India identify smart, sustainable economic and trade policies," the EICC secretary general said.

As expected, this report too received wide media and press coverage in India and abroad. The Report is available at:
http://www.eicc.be/Events/EiccEbtcColloboration/EICCStudyReport2014/EICC_Study_report_2014.pdf

The Chamber

Indian Government initiates exercise to raise FDI in defence sector to 100%

Within three days of taking charge, the Narendra Modi government has begun work on allowing up to 100% foreign investment in defence production, in a bid to send a strong signal to global investors as well as to try and move the production base of some equipment into the country.

The government is proposing to raise foreign direct investment (FDI) in the defence sector to 100 per cent through the approval route. Sources said the commerce and industry ministry had circulated a Cabinet note for inter-ministerial consultation.

The commerce & industry ministry has suggested a graded foreign investment ceiling. It has suggested a cap of 49% FDI for companies that do not transfer technology, while in ventures where the foreign partner is willing to transfer knowhow, the government intends to allow up to 74% FDI, and there will be no cap (100% FDI) for companies engaged in manufacturing state-of-the art equipment and machinery or those undertaking modernization projects.

The cap on foreign investment will include funds routed through FDI, portfolio flows (FII) and investment by non-resident Indians, said a source, who did not wish to be identified. To ensure security compliance, sources said, all proposals will be routed through the Foreign Investment Promotion Board (FIPB) which has representatives from the home ministry and other security agencies.

While the UPA government too had said that the FDI cap in defence would be raised there was no actual movement on the ground and the rules remained vague. The proposal to raise the FDI cap in the sector from 26 per cent to 100 per cent is aimed at giving a boost to manufacturing activities.

By the 15-page Cabinet note circulated on 29 May, portfolio investors, including foreign institutional investors, would be permitted to invest only up to 49 per cent. The note said a foreign company could take over a domestic entity, given it brought state-of-the-art technology.

This is the first major initiative of the ministry after Nirmala Sitharaman took its charge last week. Allowing FDI in the sector "would hugely help reduce the import bill for defence equipment, help boost manufacturing and create jobs."

The ministry is also readying other proposals to allow FDI in sectors such as railways, where the list of areas where investment will be allowed is being expanded, according to sources. Earlier, the government had planned to allow FDI in high-speed train systems, suburban corridors, high-speed tracks and freight lines connecting ports and mines. Similarly, there is a proposal to ease FDI norms in construction.

The United Progressive Alliance government had pegged FDI in the sector at 26 per cent but allowed the Cabinet Committee on Security to approve proposals entailing higher investments.

In May 2010, the Department of Industrial Policy & Promotion had issued a discussion paper suggesting an increase in the FDI cap for the sector.

India opened the defence equipment sector to the private sector in May 2001, but restricted foreign participation to 26 per cent in this capital-intensive and sensitive sector. India is one of the largest defence importers. Exports are few. It ranks among the top 10 in the world in military expenditure.

India imports $8-billion defence equipment and its defence Budget is growing at an average of 13.4 per cent annually since 2006-07. DIPP had said, "The bulk of the domestic output is met through ordnance factories or defence public sector undertakings. Even when products are made domestically, there is a large component of imported sub-systems."

Tesco upbeat on Trent tie-up for growth in India

British retail major Tesco remains optimistic about its partnership with Tata group firm Trent Ltd to capitalise on growth opportunities in India despite uncertainty over FDI in multi-brand retail as the new BJP Government, led by Narendra Modi, takes charge.

In his annual address to shareholders, Tesco Chief Executive Philip Clarke said the company has entered into an agreement with Trent Ltd, part of the Tata Group, to form a 50:50 joint venture with Trent Hypermarket Ltd, enhancing presence in the Indian market."We firmly believe that our partnerships in both China and India will allow us to capitalise on these enormously exciting markets in a way which is disciplined in our use of capital and focused on profitable growth," he added.

The British retail major Tesco and Trent Ltd had finalised their JV for multi-brand retail in March this year thus becoming the first foreign retailer to plan a foray into the segment after the outgoing UPA Government had allowed up to 51 per cent FDI.However, BJP had announced in its election manifesto that it would oppose FDI in the multi-brand retail segment and all eyes are on how the new Government under Modi will address the issue.

Tesco Chairman Richard Broadbent Chairman said: "Many of our choices this year, to enter partnerships in China and India or to invest modestly in an internet start-up in South East Asia, reflect this philosophy of establishing a position of opportunity and testing returns against our criteria as a basis for building long-term, value-enhancing positions."

The company said China, India and Turkey are the markets where it must refocus on a more profitable approach to growth. Tesco Chairman added the company continues to see "opportunity to create value internationally by leveraging our skills and scale in relatively rapidly growing economies with less developed modern retail sectors where the rate of economic growth coupled with switching to modern retail outlets can generate attractive returns."

The Competition Commission of India (CCI) on 28 May announced its approval of British retail major Tesco's acquisition of a 50 per cent stake in Tata Group firm Trent Hypermarket. This is also the first FDI transaction in multi-brand retail since the sector was opened up in 2012. The CCI noted that Tesco was not earlier engaged in the retail business in India and the transaction "is not likely to have appreciable adverse effect on competition in India".

While the central government has allowed FDI in this sector, some states have decided against implementing this FDI policy. "Government of India has allowed 51 per cent FDI in the multi-brand retail, subject to specified conditions and leaving its implementation upon the discretion of the state governments," the CCI said in its order.

"As the FDI policy regarding multi-brand retailing has not been implemented in the states of Gujarat and Tamil Nadu, Trent Hypermarket Ltd has entered into a stores transfer agreement on 31 March 2014, with Fiora Hypermarket Ltd (a wholly owned-subsidiary of Trent), to transfer its four stores operating in Gujarat and Tamil Nadu," the regulator said. "It is observed that while THL is engaged in the business of multi-format retail trading in India, including hypermarkets, supermarkets and smaller convenience stores, TOIL (Tesco Overseas Investments Ltd) is not present in the retail market in India and, therefore, there is no horizontal overlap between the business activities of THL and TOIL in the retail market in India."

Tesco Overseas Investments announced an equal joint venture with Trent, picking up a 50 per cent stake in the Tata Group firm for about 85 million pounds, on 21 March and subsequently, Tesco also approached the CCI seeking its clearance. Tesco Overseas Investments is the holding company for several of the Tesco Group's overseas retail businesses and is into retail trading of grocery and general merchandise through hypermarkets, supermarkets, convenience stores and franchised stores. Trent Hypermarket is a subsidiary of Trent Ltd engaged in the business of multi-format retail trading in India such as hypermarkets, supermarkets and smaller convenience stores for merchandise, including food and grocery. Trent currently operates 16 retail stores at various locations in India.

Trent Hypermarket's total revenue during 2012-13 was about Rs785 crore, "which is insignificant as compared to the size of the overall retail market as well as the organised retail market in India," CCI observed. The CCI also said the organised retail sector comprising hypermarkets and superstores accounted for an 8 per cent market share in the retail sector in 2012 and is estimated to have 20 per cent share by 2020. "Additionally, due to increased Internet penetration and changing lifestyles, the Indian retail market has also witnessed a surge in online retailers, which has widened the choice for the consumers," the regulator said. The Tesco Group through one of its entities, Tesco Hindustan Wholesaling, had, in 2008, executed a 'wholesale supply agreement' (WSA) with Trent Hypermarket to supply merchandise for the latter's retail stores.

In addition, Tesco Group provided expertise and technical know-how to Trent Hypermarket pursuant to a 'Franchise and Technical Services Agreement'. However, in March this year, Tesco Hindustan and Trent Hypermarket amended the pact in order to terminate the WSA. Instead, Trent Hypermarket and Tesco Stores Ltd agreed to pursue a joint venture in the more lucrative retail segment.

India cheapest major economy; Australia most expensive: Survey

Notwithstanding high inflation rate, India is the cheapest major economy in the world, according to a survey of global prices of products that are comparable across countries. According to a report by German banking giant Deutsche Bank, a weaker Indian rupee has allowed India to remain the cheapest major economy in the world despite persistently suffering the highest inflation rate.

"The fact that India still runs a large current account deficit illustrates that being competitive is more than just being cheap," the report titled The Random Walk, Mapping the World's Prices 2014 added. Australia is overall the most expensive major economy, while the United States is the cheapest developed country. Brazil remains very expensive for a developing country, the survey said adding that China remains very cheap in some categories like car rentals, while for a number of branded goods, it is more expensive than the US.

In many categories China is steadily converging on US prices. "For a number of branded goods like Levi's jeans, Adidas shoes and iPhones, we found it to be more expensive than the United States," the Deutsche Bank report said.

Singapore remains, by far, the most expensive place to buy a car and HK for renting office space. Zurich was also found to be exceptionally expensive in many categories so much so that a haircut in Zurich can cost about fifteen times that in an Indian city. Kuala Lumpur and Mumbai to be the cheapest places for a weekend holiday while

Sydney is the most expensive. It is much cheaper to spend a weekend in Tokyo than in Sao Paulo or Moscow.

Indian cities are the cheapest places for a movie-and-burger date, while Cape Town, Johannesburg, Manila and Mexico City are also affordable. London is the most expensive city for a date.

In terms of hiring and deployment of an MBA, Johannesburg is the cheapest place while we recognise the problem of comparing quality across countries and business schools, the US, UK and France are very expensive places to hire and deploy an MBA from a top school.

Interestingly, it is almost as expensive to deploy a graduate from a top school in Mumbai as it is in Singapore.

The survey is an overview of prices and price indices of a wide array of goods and services from around the world.

The data was culled both by directly surveying prices posted on the Internet and from secondary sources that have collated such data. "In order to ensure that prices are comparable across countries, we have tried to use products that are standard across countries or have close substitutes," the report said.

9 Indian firms in Forbes most innovative growth list

As many as nine Indian firms have made it to the Forbes World's 100 most innovative growth companies list, which has been topped by New Zealand software accounting firm Xero.

The list has been made on the basis of Innovation Premium, which Forbes described as a measure of how much investors have bid up the stock price of a company above the value of its existing business based on expectations of future innovative results (new products, services and markets).

Among the Indian companies, Godrej Consumer Products leads the pack and was ranked 31st globally on the list with an enterprise value of $ 4.25 billion.

Godrej Consumer Products was founded on November 29, 2000 and its brands include Good knight, Cinthol, Godrej No 1, Expert and Ezee; and it has an innovation premium of 58.7 per cent.

Other Indian firms on the list include ABB India, Marico, United Breweries, Siemens India, Asian Paints, Nestle India, Colgate Palmolive India and Divi's Labs.

ABB India is ranked 37, with an enterprise value of $ 2.7 billion and innovation premium of 56.4 per cent.

Only those companies were considered which have market value of less than $ 10 billion, spend at least 1 per cent of their asset base on R&D and have seven years of public data.

Marico was ranked 53, with innovation premium of 52.8 per cent, United Breweries (60, 51.5 per cent), Siemens India (63, 50.3 per cent), Asian Paints (76, 48.7 per cent), Nestle India (78, 48.3 per cent), Colgate-Palmolive India (87, 46.8 per cent) and Divi's Laboratories (99, 45.5 per cent).

"Our method relies on investors' ability to identify firms they expect to be innovative now and in the future," Forbes said.

The list excludes energy and mining firms, whose market value is tied more to commodity prices than to innovation.

The overall list was topped by Xero, which enjoys an innovation premium of as high as 91.7 per cent, followed by NetSuite (2nd, 89 per cent), Monitise (3rd, 85.6 per cent), Insulet (4th, 82.4 per cent) and DexCom (5th, 82.3 per cent).

Others in the top 10 include ASOS ranked 6th with an innovation premium of 78.3 per cent, followed by athenahealth (7th, 77.2 per cent), Ultimate Software (8th, 74.3 per cent), M3 (9th, 74.3 per cent) and Concur Technologies (10th, 72.1 per cent).

India needs to invest $834 bn for lower emissions by 2030

According to a Planning Commission expert group, the country will have to invest $834 billion in the two decades ending 2030 to reduce its emission intensity to gross domestic product by 42 per cent over 2007 levels.

As per the final report of the expert group on low carbon strategies for inclusive growth, the massive change in the energy mix by 2030 will result in lower demand of coal at 1,278 million tonnes from estimated 1,568 million tonnes.

It has also said the measures would help in reducing demand for crude oil to 330 million tonnes from an estimated 406 million tonnes by 2030.

However, it says that the low carbon emission strategy would increase the consumption of gas in energy mix and its consumption would be increase from 187 bcm to 208 bcm.

Under the low carbon energy mix, the installed capacities of wind and solar power need to increase to 118 GW and 110 GW respectively by 2030.

According to Kirit Parikh, a former member of the Planning Commission (Energy) and head of the expert group, who released the report in New Delhi, the huge investments in low carbon strategy would have little impact on economic growth.

He opined that the Indian economy is expected to be growing at a rate of 7.03 per cent per annum till 2030 and with the investment of $834 billion over two decades on low carbon strategy, it would growth at 6.87 per cent every year.

He, however, said this investment of $834 billion at 2011 prices, would result in reduced resources for other sectors which could in turn affect the GDP growth rate.

Highlighting other observations of the study, he said that people are buying higher star-rated appliances these days which are generally more energy efficient.

The report also highlights the importance of more efficient coal power plants in future and use of renewable energy resources.

It suggested that the aim should be that at least one third of power generation by 2030 be fossil-fuel free.

It also suggested that Government of India needs to allocate more resources to the Green India Mission to enhance the stock of growing forests, and to improve provisioning of ecosystem goods and services in the country.

UK licence rule to hit Rs 850-cr herbal medicine sales

As per the Medicines and Healthcare products Regulatory Agency (MHRA) order, unlicensed herbals can no longer be sold, must be removed from shelves by May 1.

The latest directive by the UK's Medicines and Healthcare products Regulatory Agency (MHRA) to ban all herbal medicines without registration or a product licence is likely to affect the Rs 850-crore annual sales of Indian herbal and Ayurvedic medicines in Europe.

The deadline for registration was April 30. It has since been deferred. The MHRA has warned people not to use a number of herbal medicines online such as the Indian-made Shwasa Sanjeevani for asthma, found to contain dexamethasone, a prescription-only medicine.

Ayurvedic drugmakers from India, under the Ayurvedic Drug Manufacturers' Association (ADMA), are protesting the ban. The body has approached the commerce ministry for resolution. The major challenge for registration is the MHRA's fee, which ranges from ^10,000 (Rs 8 lakh) to ^50,000 (Rs 45 lakh).

IN NEED OF HERBAL REMEDY

• Registration or licence made compulsory for herbal & ayurvedic medicines sold in Europe

• Deadline was April 30, 2014

• Earlier deadline of April 30, 2011, was deferred

• Indian herbal & ayurvedic drug sales in Europe about Rs 850 cr

• Registration charges range Rs 8-45 lakh a product

• Indian association demands reimbursement of fee

Indian companies are yet to start registering their products and are waiting for an intervention by the ministry. Besides registration fees, the MHRA also requires traditional medicines to have been used in the European Union for 15 years.

Shashank Sandu, the treasurer of ADMA, said, "We are studying the notification. We have shared our concerns with the ministry. We have tried talking to MHRA, but it did not respond.

“We are not sure how many years the registration will be valid. It is impossible to pay such a huge amount every year. We have approached the ministry for asking the MHRA for a reimbursement of the fee or a subsidy.”

The MHRA charges registration fee based on the number of ingredients in a product. “As ayurvedic drugs are poly-herbal, there is confusion on whether each ingredient is to be counted or be counted as a group of ingredients.”

He said the European Ayurveda Medical Association had shared these concerns with their respective authorities.

Indian ayurvedic drugs had been banned in the UK because of the presence of heavy metals and toxic elements. In 2004, a study by the Journal of the American Medical Association found 14 products by firms like Dabur, Zandu, Baidyanath and Himalaya had harmful levels of lead, mercury and arsenic. After the study, the UK, Canada and Singapore had issued warnings.

“Traditional Chinese Medicines and Ayurveda traditionally use heavy metals and other toxic elements as ingredients. These include realgar (arsenic sulphide), cinnabaris (mercuric sulphide), calomelas (mercurous chloride), hydrargyri oxydum rubrum (red mercuric oxide). The current Chinese Pharmacopoeia includes 48 products containing at least one of these ingredients)," a notification from MHRA said.

India overtakes Japan as third-largest economy in PPP terms

India has overtaken Japan to become the world's third biggest economy in terms of purchasing power parity (PPP), according to a World Bank report. Between 2005 and 2011, India's ranking in the bank's International Comparison Programme (ICP) moved up seven notches from 10th place to third, according to the report released recently.

PPP measures incomes of peoples through comparative prices of different economies by adjusting for differences in prices so as to make a meaningful comparison. The latest ICP survey, which covered 199 countries showed that India's share in World GDP in terms of PPP stood at 6.4 per cent in 2011 compared with China's 14.9 per cent and the USA's 17.1 per cent.

China's economy, which was less than half the size of the US, accounting for only 43 per cent of America's total in 2005, has grown much faster to 87 per cent of the US economy by 2011, according to the new study. "The US remained the world's largest economy, but it was closely followed by China when measured using PPPs," says the 2011 report. Against the 24 per cent growth that the Chinese economy is estimated to have logged between 2011 and 2014, the US economy is expected to have expanded by 7.6 per cent. China is likely to overtake the US this year. "The economies of Japan and the UK became smaller relative to the US, while Germany increased slightly and France and Italy remained the same," according to data released by the ICP. "The relative rankings of the three Asian economies - China, India, and Indonesia - to the US doubled, while Brazil, Mexico and Russia increased by one-third or more," the report said.

World GDP based on purchasing power parity (PPP) stood at to $90,647 billion, compared with $70,294 billion measured by exchange rates, the report said, adding that the share of middle-income economies in global GDP is 48 per cent when using PPPs and 32 per cent when using exchange rates. The six largest middle-income economies - China, India, Russia, Brazil, Indonesia and Mexico - account for 32.3 per cent of world GDP, whereas the six largest high-income economies - US, Japan, Germany, France, UK and Italy - account for 32.9 per cent, the report said. Asia and the Pacific, including China and India, account for 30 per cent of world GDP, Eurostat-OECD 54 per cent, Latin America 5.5 per cent (excluding Mexico, which participates in the OECD and Argentina, which did not participate in the ICP 2011), Africa and Western Asia about 4.5 per cent each.

"China and India make up two-thirds of the Asia and the Pacific economy, excluding Japan and South Korea, which are part of the OECD comparison. Russia accounts for more than 70 per cent of the CIS, and Brazil for 56 per cent of Latin America. South Africa, Egypt, and Nigeria account for about half of the African economy," said the report. "At 27 per cent, China now has the largest share of the world's expenditure for investment (gross fixed capital formation) followed by the US at 13 per cent. India, Japan and Indonesia follow with 7 per cent, 4 per cent, and 3 per cent, respectively," the report said.
