Europe India Chamber of Commerce

Newsletter

Issue: 76 Volume: 8 **August 2014**

Prime Minister Narendra Modi's first budget targets growth, curbs deficit

Indian Prime Minister Narendra Modi's new government on 10 July unveiled a first budget of structural reforms that seek to revive growth, while spurning the temptation to resort to higher borrowing.

Finance Minister Arun Jaitley tabled the first union budget of Prime Minister Narendra Modi government in the Parliament on July 10.

Here are the highlights of the budget presented by Finance Minister Arun Jaitley.

FISCAL DEFICIT

* Accepts fiscal deficit target of 4.1 percent of GDP for 2014/15

* Fiscal deficit seen at 3.6 percent of GDP in 2015/16

* Finance Minister says: "We cannot spend beyond our means"

* Tax-to-GDP ratio must be raised

GROWTH

* Aims for sustained growth of 7-8 percent in the next 3-4 years

* Finance minister says he is bound to usher in policies for higher growth, lower inflation

TAXATION

* Jaitley vows to maintain a stable tax environment but stops short of scrapping rules on retrospective tax

* All pending cases of retrospective tax for indirect transfers to be examined by committee before action is taken

* Government will not ordinarily bring any change retrospectively that creates a new liability, Jaitley says

* Aims to approve goods and services tax by end of this year

* Extends 5 percent withholding tax on corporate bonds until June 30 2017

* To provide necessary tax changes to introduce real estate investment trusts and infrastructure investment trusts

* Extends 10-year tax holiday for power generation companies

REVENUES and EXPENDITURE

* Estimates that total expenditure will be 17.95 trillion rupees in 2014/15

* Revenue deficit seen at 2.9 percent of GDP in 2014/15

* Capital receipts seen at 739.5 billion rupees in 2014/15

* Retains tax collection targets and makes no major changes to direct tax rates

* Allocates 2.29 trillion rupees for defence spending in 2014/15; capital outlay raised by 50 billion rupees over interim budget

* Earmarks 70.6 billion rupees to create 100 "smart cities"

* Proposes 50 billion rupees for warehousing capacity; 100 billion rupees of private capital for start-up companies; and 378 billion rupees of investment in national and state highways

* 40 billion rupees for affordable housing proposed through national housing bank; 80 billion rupees proposed for rural housing scheme

FOREIGN DIRECT INVESTMENT

* Raises limit on foreign direct investment in defence sector from 26 percent to 49 percent

* Raises FDI limit in insurance sector from 26 percent to 49 percent

SUBSIDIES

* Plans to make food and petroleum subsidies more targeted

* Rural job-guarantee scheme, which provides 100 days of paid employment a year, will become more focused on asset creation

AGRICULTURE

* Will focus on acheiving 4 percent growth per year in agriculture

* Sets farm credit target at 8 trillion rupees for 2014/15

* Proposes a long-term rural credit fund with an initial corpus of 50 billion rupees

FINANCE MINISTER COMMENTS

* "The fiscal deficit target of 4.1 percent put out by my predecessor is indeed daunting. But I have decided to accept the target."

* "The task before me is challenging because we need to revive growth in manufacturing and infrastructure. We need to introduce fiscal prudence and cannot spend beyond our means. For this, the tax-GDP ratio must be improved."

* "A high-level committee will scrutinize retrospective tax cases. We are committed to providing a stable tax regime."

* "We have no option but to take some bold steps to spurt economy; these are only the first steps and are directional."

* "[India's farming sector] has risen to the challenge of making India largely self sufficient in providing food for growing population" but there is "an urgent need to set up investment, both public and private"

Disappointment, uncertainty after India blocks WTO trade deal
Several member states of the World Trade Organisation voiced frustration after India's demands for concessions on agricultural stockpiling led to the collapse of the first major global trade reform pact in two decades.

WTO ministers had already agreed the global reform of customs procedures known as "trade facilitation" in Bali, Indonesia, last December, but were unable to overcome last minute Indian objections and get it into the WTO rule book by the July 31 deadline.

"We have not been able to find a solution that would allow us to bridge that gap," WTO Director-General Roberto Azevedo told trade diplomats in Geneva, just two hours before the final deadline for a deal lapsed at midnight of 31 July.

Most diplomats had expected the pact to be rubber-stamped this week, marking a unique success in the WTO's 19-year history, which according to some estimates would add $1 trillion and 21 million jobs to the world economy. They were shocked when India unveiled its veto and the eleventh-hour failure drew strong criticism, as well as rumblings about the future of the organisation and the multilateral system it underpins.

"Australia is deeply disappointed that it has not been possible to meet the deadline. This failure is a great blow to the confidence revived in Bali that the WTO can deliver negotiated outcomes," Australian Trade Minister Andrew Robb said recently.

"There are no winners from this outcome - least of all those in developing countries which would see the biggest gains." But the momentum on trade facilitation reforms means it may be hard to stop and some nations have already discussed a plan to exclude India from the agreement and push ahead regardless.

An Australian trade official involved in the talks, who requested anonymity to speak more candidly, said officials were exhausted with the process and that there was already discussion about major reforms at the WTO and the Doha Round of trade negotiations, which began in 2001. "Some see it as a final trigger for ending Doha and pressing ahead with plurilateral reform, leave behind those that don't want to come along," he said.

LET THOSE WHO WANT TO DO IT, DO IT

India had insisted that, in exchange for signing the trade facilitation agreement, it must see more progress on a parallel pact giving it more freedom to subsidise and stockpile foodgrains than is allowed by WTO rules.

The NDA government has insisted that a permanent agreement on its subsidised food stockpiling must be in place at the same time as the trade facilitation deal, well ahead of a 2017 target set last December in Bali.

After Azevedo's speech, US Ambassador to the WTO Michael Punke was downbeat. "We're obviously sad and disappointed that a very small handful of countries were unwilling to keep their commitments from the December conference in Bali, and we agree with the Director-General that that action has put this institution on very uncertain new ground," Punke told reporters.

But some nations, including the United States, European Union, Australia, Japan and Norway, have already discussed a plan to exclude India from the agreement and push ahead, officials involved in the talks said.

A Japanese official familiar with the situation said that while Tokyo reaffirmed its commitment to maintaining and strengthening the multilateral trade system, it was frustrated that such a small group of countries had stymied the overwhelming consensus. "The future of the Doha Round including the Bali package is unclear at this stage," he said. Asked about going ahead without India, he said: "I think it is all too premature to talk about specifics at this stage."

The failure of the agreement should signal a move away from monolithic single undertaking agreements that have defined the body for decades, Peter Gallagher, an expert on free trade and the WTO at the University of Adelaide.

"I think it is certainly premature to speak about the death of the WTO. I hope we've got to the point where a little bit more realism is going to enter into the negotiating procedures," he said.

"It's 153 countries. We can't all move at the same speed on the same things, and it's time to let those that want to do it, do it."

US scientist sees green opportunities in India's infrastructure development

India has the advantage of making use of green techniques in developing a more environment-friendly infrastructure, which the country is yet to develop, a top US-based environment scientist has said.

Outlining the importance of developing new infrastructure in the country, Amory B Lovins, chief scientist and chairman emeritus, Rocky Mountain Institute, Colorado, said there existed substantial opportunity for India to choose the green path. Speaking at an interactive meeting hosted by the CII Green Building Council (GBC), Lovins said, the US has an opportunity to generate 70 per cent of its energy requirements from renewable energy sources by 2050, which would result in a 150 per cent expansion of the economy and savings of about $5 trillion. Lovins said fostering and promotion of efficient and effective energy management practices across the sectors, retrofitting of existing buildings and focusing on distributing renewable energy could open up similar opportunities for India as well. This will go a long way in bringing down our dependency on oil, he underlined. He appreciated the catalytic role played by CII-Godrej GBC in spearheading green business practices in the country. Rocky Mountain Institute has said that it will extend all possible support in all of GBC's activities and initiatives.

India is among the first few countries in the world to have established a ministry overlooking the use and promotion of non-fossil fuel energy in the 1980s. But even after three decades, renewable energy share in the total power generation pie in the country has barely reached 30 GW.

FII inflows hit US$ 20 billion mark in first half of 2014

Overseas investors have pumped in a staggering over US$ 20 billion into the Indian market in the first half of the year, mainly on hopes of a stable and reform-oriented government at the Centre.

The net investments by foreign investors into equity markets stood at US$ 9.96 billion (Rs 59,795 crore) during January-June 2014, while the same for debt markets was at US$ 10.42 billion (Rs 62,834 crore) taking the total to US$ 20.4 billion (Rs 1.23 lak crore), latest data showed.

Market analysts believe that foreign investors have been betting on the Indian market mainly on hopes of a stable and reforms-oriented government.

The inflows are expected to surge further as the verdict met overseas investors' expectations in the Lok Sabha polls.

"Moreover, foreign investors continued their positive bias towards Indian markets after elections as well primarily on reforms oriented decisions taken by the new government," an analyst said.

FIIs (Foreign institutional Investors, the main driver of the equity market, have helped in pushing up the benchmark BSE sensex by over 20 per cent in the first six-month of the year.

Foreign investors had made a net investment of Rs 62,288 crore into the country's securities market in 2013 (January- December). This included a net investment of Rs 1.13 lakh crore in equities, while they pulled out a net amount of Rs 50,848 crore.

From the beginning of June, FIIs along with sub-accounts and qualified foreign investors have been clubbed together by market regulator Sebi to create a new investor category called Foreign portfolio investors.

The strong inflows in the recent months have taken the cumulative net investments of foreign investors into India to US$ 191 billion, while their investments in rupee terms is Rs 9 lakh crore level.

This is based on the data since November 1992 when the foreign investors began investing into Indian markets and includes about US$ 156 billion investments into equities and further about US$ 35 billion in debt markets.

Foreign investors raise India bets however, investor limits a problem for them; sector rotation away from defensives could be hit by limited room in cyclicals

Foreign portfolio investors (FPIs) have been increasing their investments in Indian equities but the restrictions on foreign ownership could affect their ability to raise bets on blue-chip names which might benefit from the uptick in the economy. Foreign investors have already used up close to three-fourth of the investible limits in cyclical sectors such as consumer discretionary, financials and industrials, according to a strategy report from the institutional equities division of Kotak Securities.

"We believe further sector rotation in the blue-chip segment may be hindered due to foreign ownership constraints. Based on average annual foreign institutional investor (FII) inflows, top-tier industrial stocks may be inaccessible within a year. Although the CNX Nifty Junior constituents may provide some incremental access to the industrials sector, foreign investors have already used about 70 per cent of the FII limit," said the report, authored by Saifullah Rais.

This comes even as foreign investors continue to buy into the India story. Bank of India Merrill Lynch, in its India Equity Strategy report dated Tuesday, noted global emerging market (GEM) funds had been increasing the weightage given to India in their portfolios in recent times.

"GEM funds are OW (Overweight) India and have been raising their OW in India constantly (see Chart 1). Investors believe the Indian growth story clearly stands out amongst the EM (emerging market) universe. However, future FII flows might be driven by global funds not as heavily positioned in India," said the report, authored by research analysts Jyotivardhan Jaipuria and Anand Kumar.

A Credit Suisse Securities' India Market Strategy report dated Monday noted India's premium to other EMs was near a five-year high and suggested more upside was likely. "We find the comparison with other EMs as a basket inappropriate…A more appropriate comparison in our view is India's premium versus MSCI World: it is up a mere 13 per cent from the bottom, and far below the peak of 46 per cent in July '10," said the report, authored by research analysts Neelkanth Mishra and Ravi Shankar.

FPIs own 23 per cent of the 50 Nifty companies, according to the Kotak report. This is equal to nearly half (45 per cent) of the publicly available shares. However, companies have limits on how much of their shares can be owned by foreign investors. Taking this into account, foreign ownership is at 60 per cent of permissible limits, it said.

In many individual sectors, foreign ownership is inching closer to their ceilings. "Cyclical sectors such as consumer discretionary (80 per cent), financials (77 per cent) and industrials (74 per cent) have used up most of their available FII limit. This implies foreign investors can incrementally buy only $2.2 billion in the industrials sector within the CNX Nifty 50," said the report, authored by Saifullah Rais.

Foreign investors have been net buyers by Rs 71,109 crore so far in 2014, even as the benchmark indices are up around 22 per cent. They are now looking at the broader market as a means of increasing exposure in India. They have increased their shareholding in 172 of the 350 mid-cap and small-cap companies which have declared their shareholding pattern so far, cutting stake in 114.

Among blue-chips, they have increased their bets in nearly twice as many stocks as they cut their holding in during the June quarter. They have raised their holdings in 33 of the 50 stocks that make up the National Stock Exchange's Nifty index.

Additional capital raising by companies could provide some room for further investments, according to Rikesh Parikh, vice-president at Motilal Oswal Securities. "The Initial Public Offer and Qualified Institutional Placement pipeline, coupled with the government divestment programme, could help absorb additional foreign inflows," he said. The government has a disinvestment pipeline of about Rs 60,000 crore for this financial year. Qualified institutional placements raised Rs 16,293 crore in the June quarter alone, according to statistics from Prime Database.

India to become third-largest economy in world by 2030: PwC

India is set to become the third-largest economy in the world by 2030, according to latest estimates by a PricewaterhouseCoopers (PwC) report. The London-headquartered accountancy giant said the rapid rise of the Indian economy with its young workforce would push it up from being the 10th largest economy in 2013 to the third-largest by 2030, pushing the UK back into sixth place.

"In the longer run, other emerging markets may overtake the UK, but only India looks set to do so before 2030 according to our latest projections," PwC said in its latest economic outlook. China, the world's second largest economy, is expected to close the gap with America by 2030, while Mexico is predicted to be the 10th largest economy by 2030, above Canada and Italy, both G7 nations.

Only a couple of years ago there were forecasts that Britain would rapidly become a second-class economic power and would need to defer to the BRIC countries of Brazil, Russia, India and China in the near future. China has ranked above Japan for a decade as the world's second-biggest economy. By some calculations Brazil leapfrogged the UK in 2012, with Russia and India close behind.

Britain's fall was partly related to the costs of the banking crisis and the recession that followed, coupled with a sharp decline in the exchange rate, which knocked about a quarter off the country's value in relation to its main rivals.

Top German business leaders meet Jaitley; eager to tap potential

The German industry is keen to invest more in India and would do so once there is a sign of pick up in industrial growth. This was conveyed to the Finance Minister, Arun Jaitely, by German industry's creme de la creme during a meeting in New Delhi recently.

This sense of commitment is significant as the feedback from many German companies operating in India had been not that positive in recent years.

The top German business leaders who called on Jaitley include Juergen Fitschen, co-Chief Executive Officer of Deutsche Bank, Ulrich Grillo, President and Chairman of Federation of German Industries and Hubert Lienhard, Chairman of Asia-Pacific Committee of German Business. The fact that this meeting happened a day after a new Government's maiden Budget was presented, reflected the interest of German industry in the Indian market.

Once right conditions for investment are put in place, there would be more German companies investing here, it was conveyed. In particular, the German industry leaders pitched for a transparent tax system, security of patents and investment protection. "India has lot of potential. It has to ensure the right conditions for investments," Fitschen said later at a press conference.

Currently, there are 1,500 German companies operating in India whereas nearly 6,000 German companies are operating in China. The German industry was encouraged by the latest Budget announcements to hike FDI limits in insurance and defence sectors, said Lienhard.

On his part, Jaitley is understood to have assured the German industry leaders that no fresh liability will arise on account of the retrospective amendment carried on indirect share transfers in budget 2012 by the erstwhile UPA government. This stance of the new Indian government was very encouraging for visiting German industry leaders, according to Michael Steiner, Ambassador for Germany in India.

Narendra Modi eyes first labour overhaul in decades to create jobs

Prime Minister Narendra Modi has set in motion the first major revamp in decades of India's archaic labour laws, part of a plan to revive the flagging economy, boost manufacturing and create millions of jobs. Successive governments have agreed labour reform is critical to absorb 200 million Indians reaching working age over the next two decades, but fears of an ugly union-led backlash and partisan politics have prevented changes to free up labour markets.

Now, with the benefit of a single party majority in the lower house of parliament for the first time in 30 years, laws that date back to just after the end of British rule are set for an overhaul. Officials at the labour ministry say this is a top priority in the government's first 100 days in office.

India has a forest of labour laws, including anachronisms such as providing spittoons in the work place, and are so complex that most firms choose to stay small. In 2009, 84 percent of India's manufacturers employed fewer than 50 workers, compared to 25 percent in China, according to a study this year by consultancy firm McKinsey & Co.

India has a slew of laws and rules that shape the labour market, regulating the terms of work, hiring and firing, and the working conditions. While the regulations are meant to enhance the welfare of workers, companies say they often have the opposite effect by encouraging them to stay small or hire contract workers to circumvent legal restrictions. The laws benefit only a fraction of the workforce, as 93 percent of workers are employed in informal sectors who lack any form of job or social security. Read more

The World Bank said in a 2014 report that India has one of the most rigid labour markets in the world and "although the regulations are meant to enhance the welfare of workers, they often have the opposite effect by encouraging firms to stay small and thus circumvent labour laws".

Business leaders hope Modi, who advocates smaller government and private enterprise, will be a liberaliser in the mould of Margaret Thatcher or Ronald Reagan. Perhaps the most important change, they say, is to rules making it hard to dismiss workers.

First up, though, to win public support, his Bharatiya Janata Party (BJP) government is looking to make changes that benefit workers, three senior officials at the labour ministry said. Among the changes:

making more workers eligible for minimum wages, increasing overtime hours and allowing women to do night shifts. "We are trying to provide a hassle free environment that helps both workers and industry," a senior labour ministry official involved in the deliberations said. "It is a priority for us."

Next on the reform agenda will be the most sensitive issue of loosening strict hire and fire rules. Officials said they have begun preliminary talks with concerned groups about slowly implementing the changes. "There is a definite push ... you will see more measures," said another official at the ministry who is privy to the discussions within the government.

REFORMS KEY TO MANUFACTURING JOBS

India's 20-year streak of fast economic expansion is often derided as "jobless growth" since the service sector-led model has been capital rather than labour intensive.

India does not produce reliable, regular jobless data, but long-term surveys by the statistics department show the country only created 5 million manufacturing jobs between 2004/5 and 2011/12. In the same period some 33 million people left farms looking for better paid work. The majority were absorbed into low productivity and irregular work on construction sites.

Moreover, research suggests India needs 12 million new jobs every year to absorb the largest youth bulge the world has ever seen. It has fallen far behind that target.

Companies complain that current laws requiring rarely granted government permission for layoffs make it impossible to respond to business downturns, and blame the laws for the country's relatively small manufacturing sector.

Manufacturing contributes just 15 percent to India's nearly $2 trillion economy. New Delhi says it wants to lift that share to 25 percent within a decade to help create 100 million jobs. Comparatively, manufacturing accounted for 45 percent of China's GDP in 2012. "If business cycles are volatile, the ability to downsize and upsize should be freely available," said R. Shankar Raman, chief financial officer at Larsen & Toubro, one of India's biggest conglomerates.

In what is seen as a test for Modi's labour reform agenda and is intended to inspire other states, Rajasthan this month proposed amendments to the federal law to allow firms in the northern state to lay off up to 300 workers without government permission. Currently, clearance is required to fire more than 100 workers and this is rarely granted.

LABOUR MILITANCY DECLINES

Labour unions cutting across party affiliations have opposed the state government's move and have asked Modi to intervene. The BJP's own union has called a meeting of its officials early next month to chalk out a strategy to protest what it said was a lack of consultation over the shake up in Rajasthan.

Since almost all the unions in India have political affiliations, their opposition to reforms has a risk of turning into a full-scale political agitation. But the risk that the reforms could also bring full-blown street protests similar to that seen in Thatcher's Britain are unlikely.

Labour militancy has declined in India, although sporadic violent protests like one at a Maruti Suzuki < factory in 2012 which resulted in a death of a company official are enough to make policymakers wary on the pace of reform. The labour ministry has asked for public comments by early July on the changes it plans to the Minimum Wages Act, which sets minimum wages for skilled and unskilled labours, and the Factory Act, which governs health and safety.

The proposed changes would standardize minimum wages nationally while increasing the frequency of salary revisions based on consumer prices. Although potentially inflationary, the move could bring millions of workers into the formal economy.

The ministry also wants to extend the amount of overtime workers can clock and scrap a 1948 rule that prohibits women working at night in factories, suggestions that have been welcomed by both labour groups and employers.

(Manoj Kumar and Tommy Wilkes in NEW DELHI; Editing by Frank Jack Daniel and Jeremy Laurence)

India slips 10 places in Global Innovation Index

India's slide as an innovation hub continues, with the country dropping off to 76th position, a slip of 10 places from last year, in the annual Global Innovation Index (GII) survey for 2014.

The annual rankings are jointly published by Cornell University, INSEAD, and the World Intellectual Property Organisation. It surveys 143 economies around the world, using 81 indicators to gauge innovation capabilities and results.

Interestingly, India is the worst performer among BRICS nations, with all the others improving their positions from that of the last year. China was the best among BRICS nations at 29th position, an improvement of six places. Russia went up 13 places at 49th rank. South Africa ranked 53rd, went up five places, while Brazil at 61st position, moved up three places.

India continued its dismal performance on GII for the fourth consecutive year from 62nd rank in 2011, 64th in 2012, and 66th in 2013, even though the India chapter notes that year-on-year comparisons are influenced by modelling and other changes.

Singapore (7th), Hong Kong(10th) and South Korea (16th) are the only Asian economies in the top 20 in this year's Global Innovation Index, headed by Switzerland, the United Kingdom, Sweden, Finland, Netherlands, the United States, among others.

The India Chapter notes that the country scores with quality of its universities, IT services exports, and export of creative goods, but these are outweighed by weaknesses in its institutional pillars such as political stability, ease of starting a business, as well as human capital and research. In fact, earlier this year in World Bank's "Doing Business Report" for 2014, India slipped three notches to 134th spot in a survey among 189 countries.

The Narendra Modi-government has initiated steps such as single-window clearances, stress on self-certification by industry and ease labour laws, among others, in a bid to improve the environment for doing business in the country.

4.83 lakh cos have women directors on their boards: Sitharaman

As many as 4.83 lakh companies have women directors on their boards, Parliament was informed on 15 July 2014.

In a written reply to the Rajya Sabha, Minister of State for Finance Nirmala Sitharaman said that a total of "4,83,323 companies including public limited companies are having women directors as board members". There are 1.26 lakh public limited companies in the country.

Companies Act makes it mandatory for every listed company and every public company having paid-up share capital of Rs 100 crore or turnover of at least Rs 300 crore to appoint at least one women director.

Besides, capital market regulator Sebi, in keeping with the new Companies Law, mandated that every publicly listed company have at least one woman director on its board. The deadline for that is October 1.

Meanwhile, according to Prime Database, 904 companies had not yet appointed a woman director on their board till 30 June.

In the four-and-a-half months since the Securities and Exchange Board of India (Sebi) announced its deadline, only 91 women have been appointed to 97 directorship positions in 94 companies, according to Indianboards.Com, a joint initiative of the National Stock Exchange (NSE) and Prime Database.

Of these 94 companies, 16 firms already had a woman on the board before the Sebi guideline was announced, implying that only 78 firms have since complied with the requirement.

"Within these 78 companies, 74 women have been appointed to 80 directorship positions. Significantly, at least 19 of these 80 directorship positions, or nearly one-fourth, have been filled by appointing women belonging to the promoter group," Prime Database managing director Pranav Haldea.

"These women shall have the same voice as the promoter, defeating the very purpose of genuine (independent) gender diversity," he added.

India's foreign debt up 7.6% at $440 bn in FY14 as NRI deposits rise

India's external debt stood at $440.6 billion as of end-March 2014, showing an increase of $31.2 billion or 7.6 per cent over the level at end-March 2013, according to provisional figures released by the Reserve Bank of India. The country's foreign debt had increased 13.5 per cent in the previous year.

The increase in total external debt during financial year 2013-14 was on account of rise in non-resident deposits, mainly attributed to mobilisation of fresh FCNR(B) deposits by commercial banks under the swap scheme offered by the Reserve Bank during September to November 2013, RBI stated. The borrowings under the swap scheme in combination with a decline in CAD and revival in equity flows helped in building up the foreign exchange reserves, RBI noted.

In terms of major components, the share of external commercial borrowings continued to be the highest at 33.3 per cent of total external debt, followed by NRI deposits (23.6 per cent) and short term debt (20.3 per cent).

The share of short-term debt in total debt witnessed a decline over the preceding quarter as well as the corresponding quarter of the previous year. Short-term debt at $89.2 billion accounted for 20.3 per cent of the total external debt as at end-March 2014 as compared to 23.6 per cent at end-March 2013, according to the release.

The ratio of short-term debt (original maturity) to foreign exchange reserves declined to 29.3 per cent as at end-March 2014 from 33.1 per cent as at end-March 2013.

Based on residual maturity, the short-term debt accounted for 39.6 per cent of total external debt as at end-March 2014 as compared to 42.1 per cent at end-March 2013. Within the short-term debt based on residual maturity, the share of NRI deposits was the highest at 31.4 per cent. The ratio of short-term debt by residual maturity to foreign exchange reserves worked out to 57.4 per cent at end-March 2014.

The valuation gain during 2013-14 amounted to $9.4 billion reflecting the appreciation of US dollar against the Indian rupee and other major currencies. Thus, excluding the valuation gains, the stock of external debt as at end-March 2014 would have increased by $40.6 billion instead of $31.2 billion over end-March 2013

US dollar denominated debt continued to be the largest component of India's external debt with a share of 61.8 per cent as at end-March 2014, followed by Indian rupee (21.1 per cent), SDR (6.9 per cent), Japanese Yen (5.1 per cent) and Euro (3.4 per cent).

Government (sovereign) external debt stood at $81.5 billion as of end-March 2014 against $81.7 billion at end-March 2013. The shares of government and non-government external debt in the total external debt were 18.5 per cent and 81.5 per cent, respectively, as at end-March 2014.

However, external debt indicators continue to be vulnerable with the external debt-to-GDP ratio touching a 14-year high of 23.3 in FY14 and the ratio of foreign exchange reserves-to-total debt hitting an 11-year low of 69 per cent.

On the other hand, increase in the magnitude of external debt was partly offset by the valuation change (gain) resulting from appreciation of US dollar against Indian rupee and other international currencies.

Further, share of short term debt in total debt in terms of original maturity as well as residual maturity also declined due to net repayments of short-term debt and withdrawal of FII investment from debt securities during 2013-14.

Chinese FDI in India set to touch $30 bn by 2025: study

Chinese investment in India could touch $30 billion by 2025, says a new book released on Monday. "We deem it entirely possible that, by 2025, the stock of Chinese foreign direct investment (FDI) in India could be $30 billion, and if Chinese industrial clusters come to be established (in India), even larger,'' says the book, titled The Silk Road Discovered.

It is co-authored by Singapore-based businessman Girija Pande, the Washington DC-based research consultancy China India Institute chairman Anil K Gupta, and the institute's managing partner Haiyan Wang. ''This projection refers only to equity ownership of 10 per cent or more in an India-based company. It does not include loans or minority stakes," said the authors.

The book notes that both Chinese and Indian companies have entered into each other's markets through third-party business acquisitions. The book was launched by Arnoud De Meyer, president of the Singapore Management University, today. "We are forecasting nearly $25 billion Chinese investment into India in the next five to seven years. "The Chinese investment into India will help build up infrastructure and export manufacturing," Pande told PTI during the book launch. He highlighted the increasing trade between China and India, citing among others Reliance Power's plant order of $8 billion signed with Shanghai Electric in 2010, perhaps the largest cross-border deal ever signed in the power sector worldwide.

Pande estimates India has placed about $10 billion worth of power plant orders with Chinese manufacturers. He is executive chairman of the investment-based Apex Avalon Consultancy in Singapore and former chairman of Tata Consultancy Services in Asia Pacific. Going forward, the Chinese must manufacture these plants, among others, in India, and be close to the market, said Pande.

He said the next step will be to get the Chinese manufacturers to set up shop in India, pointing out that the country is already relocating its low-end manufacturing to the South East Asian countries while focusing on high-end production. Pande said India needs to set up export-oriented manufacturing and utilise the opportunity to work with the Chinese major manufacturers, taking over component, parts and semi-finished product making contracts. He expressed confidence that the Indian manufacturing link-up with Chinese production houses could significantly help balance the current trade deficit between the two countries.

Protecting IPR: Customs authorities detain nearly 36 million fake goods at EU borders in 2013

Customs authorities in the EU detained almost 36 million items suspected of violating intellectual property rights (IPR) in 2013, according to the Commission's annual report on customs actions to enforce IPR. Although this is less than previous years, the value of the intercepted goods still represents more than € 760 million. Today's report also gives statistics on the type, provenance and transport method of counterfeit products detained at the EU's external borders.

Algirdas Šemeta, Commissioner for Taxation, Customs, Anti-fraud and Audit said: "Innovation and creativity is where Europe creates value. Protecting Intellectual Property Rights is not only important for health and safety of European consumers but also supports growth and job creation in the EU. The figures in today's report show that counterfeiting afflicts all products and that customs authorities do a good job intercepting fakes."

Clothing (12% of all articles detained) and medicines (10%) are among the top categories of goods detained. Postal and courier packages accounted for around 70% of customs interventions in 2013, with 19% of the detentions in postal traffic concerning medicines. Around 90% of all detained goods were either destroyed or a court case was initiated to determine the infringement. China continues being the main source of fake products with 66% of all products detained coming from China and 13% coming from Hong Kong. Other countries, however, were the top source for specific product categories, such as Turkey for perfumes and cosmetics and Egypt for foodstuffs.

As the EU 2020 Strategy underlines, the protection of IPR is a cornerstone of the EU economy and a key driver for its further growth in areas such as research, innovation and employment. Effective IPR enforcement is also essential for health and safety, as certain counterfeited products (such as foodstuffs, body-care articles and children's toys) which are produced in an unregulated environment can pose a serious threat to citizens.

Customs authorities in the EU play a crucial role in stopping products which are suspected of violating intellectual property rights from entering the EU's territory. Since 2000, the Commission has been publishing an annual report on the activities of customs in relation to enforcing intellectual property rights. These reports, based on data transmitted by national customs administrations to the Commission, are a valuable input to the analysis of IPR infringement in the EU by customs and by EU institutions like the Observatory on infringements of intellectual property rights.

In June 2013, a new Regulation on IPR enforcement at customs was adopted. This reinforces the rules for customs authorities to enforce intellectual property rights.

On 10 December 2012, the EU Customs Action Plan was adopted by the EU Council of Ministers to combat intellectual property right infringements for the years 2013 to 2017. The strategic objectives of this Action Plan are the following:

Effectively implementing and monitoring the new EU legislation on customs enforcement of IPR;

Tackling trade of IPR infringing goods throughout the international supply chain;

Tackling major trends in trade of IPR infringing goods;

Strengthening cooperation with the European Observatory on infringements of IPRs and law enforcement authorities.