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GDP rises 5.7% in April-June, fastest growth in 9 quarters

For the quarter ended June this year, India's economy grew at a nine-quarter high of 5.7 per cent, compared with 4.6 per cent in the previous quarter, driven largely by industry, even as the biggest segment of the services sector — trade, hotels, transport and communications — remained subdued, official data showed. For the June quarter of 2013-14, gross domestic product (GDP) had increased 4.7 per cent.

During the June 2014-15 quarter, the agriculture segment expanded 3.8 per cent, against 6.3 per cent in the previous quarter and four per cent in the corresponding period of 2013-14.

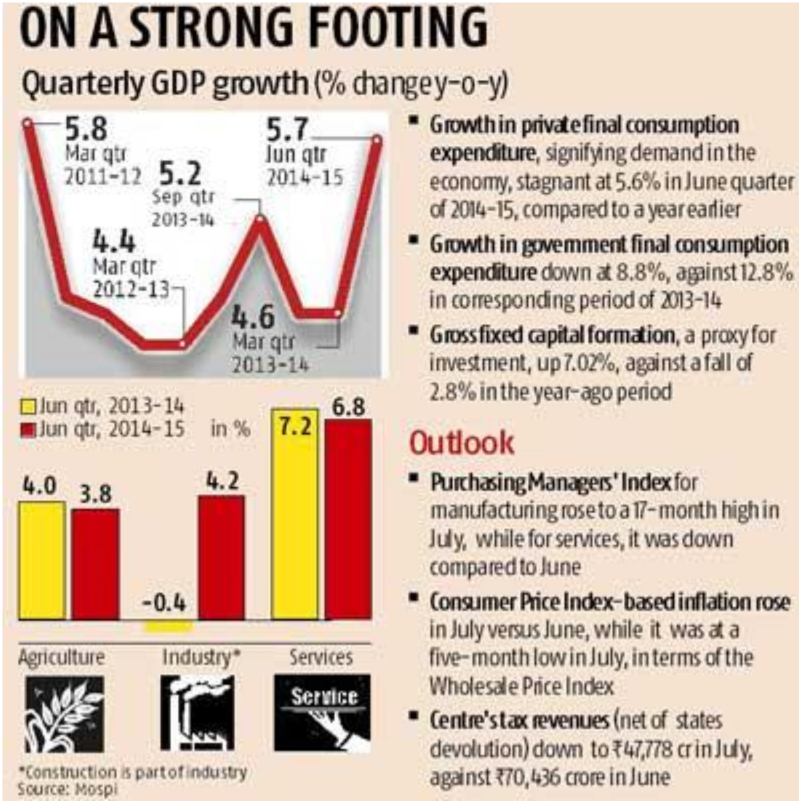
What primarily drove the economy in the June quarter was industry, which expanded 4.2 per cent, against contractions of 0.19 per cent in the previous quarter and 0.4 per cent in the corresponding period last year. The manufacturing sector expanded 3.5 per cent; this followed four consecutive quarters of contraction, suggesting a revival in business confidence. In the previous quarter, manufacturing contracted 1.4 per cent, while the decline in the June quarter of 2013-14 was 1.2 per cent.

The numbers will boost hopes the economy's growth this financial year will exceed five per cent, after sub-five per cent growth in the previous two financial years.

The finance ministry expressed hope growth would pick up further in the remaining three quarters. "With the improvement witnessed in some important sectors, including manufacturing and exports (which registered growth of 11.5 per cent at 2004-05 prices), along with the measures taken by the government, the economy can be expected to show further improvement in the remaining part of the year," it said.

However, the recovery in the coming quarters might be somewhat dampened by the agriculture segment, which is likely to be hit by an uneven monsoon, as well as the expected slowing of government-aided community, social and personal services to check fiscal deficit, cautioned YES Bank chief economist Shubhada Rao. The Centre's fiscal deficit has already exceeded 10 per cent of GDP in the June quarter; for the April-July period, it accounted for more than 60 per cent of the Budget estimate for the entire financial year. Rao pegged economic growth for 2014-15 at 5.4 per cent, with a little upside bias, against the government's expectations of 5.8 per cent.

Even as the National Democratic Alliance was in charge at the Centre only for about a third of the quarter, the data might provide a breather to the government, which is drawing criticism for high inflation, particularly for essential commodities. Electricity generation rose 10.2 per cent, against 3.8 per cent in the year-ago period. In the quarter ended March this year, this segment had expanded 7.2 per cent.



The construction space expanded 4.8 per cent in the June quarter, against only 0.7 per cent in the previous quarter and 1.1 per cent in the year-ago period. The key indicators of construction, production of cement and consumption of finished steel, registered growth of 9.5 per cent and 0.7 per cent, respectively. During the quarter, the mining segment recorded growth of 2.1 per cent, following eight quarters of declines or stagnation.

Services, the biggest sector of the Indian economy, didn't fare very well, rising 6.8 per cent, slightly higher than 6.42 per cent in the previous quarter. However, it was lower compared with the 7.2 per cent growth seen in April-June, 2013-14.

Trade, hotels, transport and communications, the largest segment of the services sector, primarily came in the way of good services growth; this segment expanded 2.8 per cent, against 3.9 per cent in the previous quarter and 1.6 per cent in the year-ago period.

"Agriculture and the trade and hotels segments of services were negative surprises," Rao said.
Community, social and personal services expanded 9.1 per cent, significantly higher than 3.3 per cent in the previous quarter, largely explaining the strain on fiscal deficit. However, it was lower compared to the 10.6 per cent growth in the corresponding period of 2013-14.

Financial and other services, however, rose 10.4 per cent in the June quarter, the highest growth in any segment during this period. Growth in this segment was 12.4 per cent in the previous quarter and 12.9 per cent in the year-ago period.

Demand in the economy didn't pick up much, as private final consumption expenditure growth was 5.6 per cent, the same as in the corresponding quarter last year. National Statistical Commission Chairman Pronab Sen attributed the slow growth in trade and hotels segment to low consumption demand in the economy. "Trade is completely linked to what is happening to the commodity economy, particularly consumption," he said.

At seven per cent, growth in gross fixed capital formation, a proxy for investment, was high, against a fall of 2.8 per cent in the year-ago period. Rao said this was largely due to a low base, adding investment would gradually pick up from November-December.

WTO to meet in September as Geneva talks deadlock

Roberto Azevedo, director general of the World Trade Organisation has asked all members to come back to the negotiating table in September to discuss a way forward after the Geneva talks aimed at facilitating a trade protocol ended in stalemate over the issue of food security. With India and other developing countries steadfast in their stand that any agreement on trade facilitation would be possible only if a permanent solution for its concerns on food security is arrived at, the Geneva talks failed to meet the 31 July deadline for a trade facilitation pact set in the WTO Ministerial in Bali in December last.

"We have not been able to find a solution that would allow us to bridge the gap," Azevedo said in a statement after the passing of the 31 July deadline for the deal. The US said the failure of the WTO's 160 members to agree on a landmark trade facilitation deal has left the world trade body on "uncertain new ground".

The Geneva meet solely focused on the Trade Facilitation Agreement aimed at streamlining global customs procedures, as was agreed to at the Bali conference in December last year, and did not take up issues like food security that are more important to the Doha Round of world trade talks.

Talks failed mainly over demands from India and other developing countries that the WTO give the developing and poor countries' right to stockpile food for their poor, which the elite club tried to sidestep.

Existing WTO rules cap the value of food subsidies at 10 per cent of the total value of production and that too at prices that are two decades old. This means that many countries would find it difficult to stay within the limit potentially attracting strong penalties from the trade body.

This will affect India's food security programme and food grain procurement through the minimum support prices (MSP), government sources said.

"We are obviously sad and disappointed that a very small handful of countries were unwilling to keep their commitments from the December conference in Bali," US ambassador to the WTO Michael Punke said after the meeting in Geneva.

Meanwhile, US secretary of state John Kerry has said he was hopeful that a compromise in a global trade deal to ease customs rules incorporating India's concerns over the food security was still possible, even as the Geneva meet failed to meet the agreed deadline of 31 July.

''We are obviously encouraging our friends in India to try to find a path here where there is a compromise that meets both needs, and we think that's achievable. We hope that it's achievable,'' Kerry told reporters after talks with Indian leaders as part of an annual strategic dialogue.

India had clearly told the WTO that it will only back a Trade Facilitation Agreement (TFA) – the so-called customs rules - only if its demands on rules for government-led food procurement and welfare schemes are implemented in the same timeframe. WTO director-general Roberto Azevedo said in Geneva he remained hopeful a compromise could be found.

Here are nine reasons why they say India's stance made no sense.

1. India has been a vocal backer of world trade reform. It has criticised the small clubs of countries, led by the United States and European Union, that lost patience with the slow pace of global reforms and started to discuss faster liberalising of trade in certain areas, such as services and information technology products. India is not in any of these groups. But the veto is likely to give them even more momentum as hope of a global trade pact, long in doubt, appears to be over.

2. India's veto may be the beginning of the end for the WTO. Trade experts say that if the WTO's 20-year-old rulebook does not evolve, more and more trade will be governed by new regional agreements such as the Trans-Pacific Partnership, which will have their own rules and systems of resolving disputes. That could lead to a fragmented world of separate trade blocs.

3. India's new government was widely seen as being pro-business. And yet it blocked a deal on "trade facilitation", a worldwide streamlining of customs rules that would cut container handling times, guarantee standard procedures for getting goods to and from their destinations and kill off vast amounts of paperwork at borders around the world. Some estimates said it would add $1 trillion to the world economy as well as 21 million jobs, 18 million of them in developing countries.

4. Nobody else was negotiating. The meeting was simply supposed to formally adopt the final trade negotiation text into the WTO rulebook, following its agreement by ministers at a meeting in Bali last December. India's then Trade Minister Anand Sharma hailed the Bali deal as a landmark in the history of the WTO. "We were able to arrive at a balanced outcome which secures our supreme national interest," Sharma said at the time. India did not hint at any further objection until days before it wielded its veto, and even then it made no concrete demands until the WTO meeting to adopt the new rules was in progress.

5. India did not object to the deal it vetoed. Its objections were unconnected to trade facilitation. It blocked the trade facilitation deal to try to get what it wanted on something else: food security.

6. India had already got what it wanted on food security. At Bali, it forced a big concession from the United States and European Union, which initially strongly opposed its demands, but agreed that India could stockpile food at subsidised prices, reversing the trend of trying to reduce and remove trade-distorting food subsidies globally. The arrangement was temporary, but the WTO agreed to work towards a permanent solution within four years, by the end of 2017.

7. India's demands reversed its previous position. India blocked the trade facilitation deal because it wanted the WTO to move to a permanent solution more quickly than the four-year timeline. But diplomats say that India was offered a two-year timeframe before Bali but it insisted on four.

8. India's veto could put it in legal danger. As part of the Bali deal, India won a pledge that nobody would bring a trade dispute to challenge its food stockpiling programme, which is widely thought to have broken the WTO rules. However, diplomats say that Bali was a "package" of 10 agreements, and the only legally binding part was trade facilitation. If that fails, the package unravels, and India may lose its protection.

9. India was isolated. Cuba, Venezuela and Bolivia voiced support, but diplomats say other big developing countries such as Russia, China and Brazil, as well as India's neighbour Pakistan, were among the chief opponents of its veto. Poorer countries stand to lose most, WTO chief Roberto Azevedo told the WTO meeting after the deal collapsed. "They're the ones with fewer options, who are at risk of being left behind. They're the ones that may no longer have a seat at the table."

India has said that it has submitted a counter proposal that would address developing countries' concerns over the WTO move to implement the Bali deal, in part, by leaving out proposals relating to agriculture and food security.

New Delhi also sought to dispel fears that 31 July was the dead-end for WTO – that there are still ways to break the deadlock over the trade facilitation agreement (TFA), if only the developed countries ease undue pressure on developing and poor countries and listen to reason.

New Delhi has been seeking a permanent solution to the issue of public stockpiling for food security because the current WTO rules cap subsidies at 10 per cent of value of total production, that too at 1986-88 prices. This is a crucial issue concerning lives of millions of poor in India and other developing and poor countries and needs to be solved first before addressing any trade issues.

The country buys rice and wheat from farmers at a higher support prices to provide a reasonable income to producers and stockpile it to provide food to the poor at heavily subsidised prices. India has been insisting that it would not agree to the TFA unless the entire Bali package, which includes allowing developing countries to buy food from farmers for food security needs, is simultaneously firmed up.

India had suggested the complete package could be sewn up by 31 December, in time for the 31 July 2015 deadline for the rollout of trade facilitation.

On the other hand, countries that clamour for early implementation of TFA say a deal would speed up global trade by reforming customs procedures and cutting red tape, resulting in a $1-trillion increase in annual world trade.

Meanwhile, developed countries tried to pressure India saying that other countries could go ahead with the agreement and that a deal can be hammered out even if New Delhi did not change its stance. They also warned that India will lose the 'peace clause' available to it under the Bali agreement that says no member can take action against another on the food subsidy issue till a final agreement is reached, the deadline for which is the 11th ministerial in 2017.

Union cabinet approves FDI in defence, railways

The Union Cabinet of the Government of India on 6th August approved a proposal to raise the cap on Foreign Direct Investment (FDI) in the defence sector from 26% to 49%, a move aimed at accelerating indigenisation and bringing in modern technologies to meet the requirements of the armed forces.

Finance minister Arun Jaitley had announced in his budget speech that the FDI cap in defence manufacturing would be increased to 49%, with full Indian management and control through the Foreign Investment Promotion Board (FIPB) route.

Foreign firms haven't made significant investments or set up defence manufacturing facilities, with the 26% cap on FDI dampening their enthusiasm to pump money into the country.

Barely $5 million of FDI has flowed into India since the defence sector was thrown open to private companies in 2001 by then NDA government.

However, it remains to be seen if lifting the FDI cap to 49% would lead to a significant inflow of foreign investment into the country and lead to greater indigenisation as there are some who have been advocating raising the limit to 74%.

Former defence minister AK Antony had opposed lifting the 26% cap on FDI. He had attacked the NDA government last month for increasing the FDI cap to 49% in the Budget, saying that it would hurt national security.

He had said, "I know a very strong lobby is working. Their demand is 100% FDI in defence. Successive governments since 1991 have overcome such pressure tactics. Their decision not to grant FDI beyond 26% was well thought out."

However, the commerce ministry under the UPA regime had battled for raising the FDI cap to 74% to encourage foreign firms to invest in India.

100% FDI in railways: The government also approved a proposal to allow 100% foreign direct investment (FDI) for building railways infrastructure. Foreign capital in railways was not allowed till now.

However, the new government led by Prime Minister Narendra Modi has been pushing for it to build infrastructure projects such as high-speed railways and railway lines to and from coal mines and ports.

Currently, the cash-strapped railways cannot fund these projects without private participation. Foreign players from Japan and China are said to be keen to participate in building up of the infrastructure.

NDA eases green rules to push investments: Through a quick series of notifications, the Union environment ministry has eased rules for mining, roads, power and irrigation projects and other industrial sectors. It has diluted a host of regulations related to environment, forest and tribal rights. Besides, sources in the ministry say, more changes in regulations are in the pipeline.

Environment Minister Prakash Javadekar had earlier done away with the requirement of public hearing for coal mines below 16 million tonnes per annum (mtpa) wishing to expand output by up to 50 per cent. This has now been extended to mines above 16 mtpa, permitting them to mine up to five mtpa more without consulting affected people. Public hearings, the only occasion when affected people are consulted for clearances, have in the past turned violent at times, or seen protests leading to litigation.

Union Power & Coal Minister Piyush Goyal had approached the environment ministry in May requesting similar rules for expansion of coal output in big and small mines. The environment ministry had on May 30 exempted public hearing if the increased mine output was up to four mtpa. The Centre, on the request of the coal ministry, had in June also decided to consider group clearances for Coal India Ltd mines that were in close proximity, rather than individual project proposals.

The need for consent from gram sabhas for prospecting in forests has also been done away with. This dilutes the Forest Rights Act, which requires the consent of tribals before forest land is diverted to industrial activity. Alongside, inspection of mining projects by ministry officials for plots less than 100 hectares has been removed. The ministry has also set aside the requirement of compensatory afforestation for prospectors.

The government recently laid down that instead of tribal village councils certifying their rights had been settled and they had consented to projects, the district administrations would be empowered to do so in 60 days, regardless of the number of villages affected by the projects. Settling of rights is a lengthy process and in many parts of the country it is far from complete.

Besides these, the government has also amended the environment impact assessment notification of 2006, letting several industries up to a certain size go to state governments for clearance, instead of approaching the Centre. Industry has usually found it easier to get clearance from state governments.

The government of India on 26 August notified an increase in the foreign direct investment (FDI) limit in the defence sector to 49 per cent from 26 per cent, in a move aimed at boosting domestic production in the country which imports 70 per cent of its defence equipment.

The increase in FDI ceiling in the sensitive defence sector is subject to the condition that the company seeking permission of the government for FDI up to 49 per cent should be an Indian company owned and controlled by Indians.

Further, foreign direct investment proposals above 49 per cent will have to seek the approval of the Cabinet Committee on Security on ''case to case basis, wherever it is likely to result in access to modern and state of the art technology in the country," according to the press note issued by the Department of Industrial Policy and Promotion (DIPP).

It also said that FDI limit of 49 per cent is composite and includes all kinds of foreign investments FDI, FIIs, FPIs, NRIs, foreign venture capital investors (FVCIs) and qualified foreign investors (QFIs).

However, portfolio investments by FPIs/FIIs/NRIs/QFIs and investments by FVCIs together will not exceed 24 per cent of the total equity of the investee/joint venture company. "Portfolio investments will be under automatic route," it added. As such, there would be no minimum capitalisation for FDI, but the management of the applicant needs to make a proper assessment of the company depending on the product and technology involved, the ministry stated. Further, the licensing authority would satisfy itself about the adequacy of the net worth of the non-resident investor taking into account the category of weapons and equipment that are proposed to be manufactured.

The foreign equity would be subject to a three-year lock-in before it can be transferred to another non-resident investor (including NRI and erstwhile OCBs with 60 per cent or more stake) and any such transfer would be subject to government approval. The ministry will not also give any guarantee on purchase of products, although it would give broad indications of the defence sector requirements over a period of time. Products have to ensure quality, testing of which would be carried out by a nominated agency; self-certification would also be allowed depending on the company and the government's assessment. The move is aimed at reducing reliance on imports, which meet 70 per cent of India's military hardware requirements.

Sebi signs MoU on alternative investment funds with 27 EU regulators

Securities and Exchange Board of India (Sebi) and securities market regulators of 27 member states of the European Union (EU) / European Economic Authority (EEA) have signed bilateral memorandums of understanding (MoU) under which they will consult, cooperate and exchange information related to the supervision of the 'alternative investment fund managers' (AIFMs).

The bilateral MoUs, signed on 28 July 2014, are in line with the EU Alternative Investment Fund Managers Directive (AIFMD) that was adopted by the European Council and Parliament in July 2011. The MoU would ensure that adequate supervisory cooperation arrangements are put in place between EU and non-EU supervisory authorities, including Sebi. Under the framework of AIFMD, co-operation arrangements between EU and non-EU authorities are a precondition for allowing greater market access and cross border functioning of the AIF business. These MoUs would thus enable Indian fund managers to manage or market AIFs in the EU region and the EU fund managers to manage or market AIFs in India. As such, these MoUs would mutually benefit the Alternative Investment Funds Industry of the two jurisdictions.

Through these MoUs, SEBI and the EU authorities expressed their willingness to cooperate with each other in the interest of fulfilling their respective regulatory mandates, particularly in the areas of investor protection, fostering market and financial integrity, and maintaining confidence and systemic stability, SEBI said in a release. The text of the MoU was finalized by SEBI and the European Securities and Markets Authority (ESMA), the independent EU Authority that works in close co-ordination with the EU in standard setting and international supervisory co-operation. While ESMA negotiated these MoUs centrally on behalf of the EU/EAA securities regulator, the said MoUs will operate as bilateral arrangements between SEBI and each of the said securities regulators.

These bilateral arrangements mark a crucial step in SEBI's commitments towards enhancing mutual co-operation with the securities markets' regulatory authorities world over. So far, SEBI has signed 20 bilateral MoUs and one letter of intent for mutual assistance and cooperation. SEBI is also a signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), the release added.

Five Indian firms among Forbes' most innovative companies

Five Indian companies, including Hindustan Unilever and Tata Consultancy Services, are among Forbes' list of the world's 100 most innovative companies that investors think are most likely to "generate big, new growth ideas".

The annual 'World's Most Innovative Companies' list, released recently, has been topped by California-based global cloud computing company Salesforce for the fourth year in a row.

The five Indian companies on the list are consumer goods company Hindustan Unilever, ranked 14th, followed by information technology major Tata Consultancy Services (57), construction services firm Larsen & Toubro (58), pharmaceutical major Sun Pharma Industries (65) and Bajaj Auto (96).

Hindustan Unilever recorded an innovation premium of 54.7 per cent.

Forbes said the innovation premium is a measure of how much investors had bid up the stock price of a company above the value of its existing business based on expectations of future innovative results like new products, services and markets.

The innovation premium of TCS was 39.58 per cent. The Mumbai-based company had a market cap of $71.25 billion as of May.

Larsen and Toubro had an innovation premium of 39.4 per cent and had a market cap of $19.81 billion.

Sun Pharma had an innovation premium of 38.34 per cent with a market cap of $19.88 billion.

Bajaj Auto recorded an innovation premium of 31.73 per cent and a market cap of $10 billion.

Salesforce, with a market cap of $35.87 billion, had an innovation premium of 75.9 per cent.

"A key to Salesforce's success has been its ability to move into bigger companies, selling to enterprise-class large customers who require more modifications and attention than a small or medium business," Forbes said.

The other companies making up the top five on the list are Connecticut-based biotech firm Alexion Pharmaceuticals (2), British semi-conductor company ARM Holdings (3), fast-moving consumer goods company Unilever Indonesia (4) and New York-based biopharmaceutical company Regeneron Pharmaceuticals (5).

The US was home to a majority of the companies on the list, with 41 firms headquartered in the country, followed by Europe with 29 companies.

Cipla seeks adoption of pragmatic IPR policy

Pharma major Cipla Ltd has sought adoption of a pragmatic Intellectual Property Rights (IPR) policy including in-licensing within the present framework of its international obligations.

“We have always believed that free competition is the only way to ensure fair prices and better availability of drugs. We strongly believe that there should be no monopolies in healthcare; and in that context, India should adopt a pragmatic Intellectual Property Rights (IPR) policy including in-licensing within the present framework of our international obligations,” Cipla Chairman YK Hamied said in its annual report.

Many countries such as Brazil, Thailand, Indonesia and Malaysia have already introduced compulsory licensing provisions. The Republic of South Africa is seriously reconsidering their position on IPR in order to promote affordable healthcare. India must also examine the monopoly position of drugs and build safeguards to ensure that this does not happen. India has always stood for the promotion of knowledge and consideration for the greater good, Hamied said.

India’s pharmaceutical exports registered the slowest growth in at least 15 years at 1.2 per cent to $14.84 billion last fiscal amid growing tension with the US over intellectual property rights (IPR)-related issues.

As the IPR issues raised by the US--India’s biggest market--are unlikely to be resolved any time soon, industry observers say that pharma exports will miss the target of $25 billion set for 2014-15 in a

Government strategy paper. According to commerce ministry data, in 2012-13, the country's pharma exports aggregated $14.66 billion. The growth registered in 2013-14 is the slowest in nearly 15 years. The previous slowest was in 2009-10 when the pharma exports grew by just 5.9 per cent. In calendar year 2000, they grew by 7 per cent.

Top 5 richest Indians have half of nation's billionaire wealth

The top five Indian billionaires led by Reliance Industries Chairman Mukesh Ambani collectively control $ 85.5 billion (about Rs 5,23,897 crore) in personal wealth, accounting for nearly half of the country's total billionaire wealth, a new study revealed.

According to the analysis by wealth research firm Wealth-X of India's richest individuals, Mukesh Ambani remains the richest man in the country with an estimated net worth of $ 24.4 billion (about Rs 1,49,474 crore).

Ambani is followed by steel tycoon Lakshmi Mittal, drugmaker Sun Pharma's Dilip Shanghvi, IT giant Wipro's Azim Premji and Tata Sons' shareholder Pallonji Shapoorji Mistry among the top-five wealthiest individuals from India. "The five billionaires collectively control $85.5 billion in personal wealth, accounting for 47.5 per cent of India's total billionaire wealth," Wealth-X said.

India Ranked Cheapest for Air Travel: Report

Despite high fuel costs and airport fees, air tickets in India are the cheapest in the world, says a study. The study done by GoEuro, a European travel website, said it costs $10.36 (Rs. 621.60) on average to travel 100 km on a commercial flight in India.

Cost of air travel in India is almost half that of in China ($20.06 or Rs. 1,203) and about one thirteenth in the most expensive country in terms of air travel, Finland ($138.90 or Rs. 8,334), says the study.

The study pegged the average cost of 100 km of air travel in the UK at $30.45 (Rs. 1,827) and the US at $13.89 (Rs. 833).

The study found the cheapest regular flights between the most populous cities in each country and then calculated the average price per 100 km.

Most of the domestic carriers in India are losing money due to the fierce competition and high operating costs. Domestic carriers in India are expected to post losses to the tune of around $1.4 billion (Rs. 8,400 crore) in 2014-15, forecasts aviation think-tank Centre for Asia Pacific (CAPA).

The aviation consultancy said that in the last seven years accumulated losses of domestic carriers have reached $10.6 billion, or nearly Rs. 63,600 crore.

The competition for domestic carriers in India is likely to grow further as AirAsia expands its operations and Tata-Singapore Airlines start their full-service airline joint venture called Vistara later this year.
