

Daily Economic News Summary: 22 May 2017

1. Modi is quietly pushing for a counter to China's OBOR with Russia, Iran's help

Source: The Economic Times ([Link](#))

Inching closer to making the International North South Transportation Corridor (INSTC) a reality — connecting India with Russia and Europe via Iran — a dry run of container movement via the green corridor (smooth customs facilitation) will be conducted during the next fortnight, marking the 70th anniversary of Indo-Russian diplomatic ties. INSTC will substantially reduce time taken and cost for transport of goods between India and Eurasia once fully functional and increase economic activities between India and the resource-rich Russia as well as markets of Europe. The INSTC has moved closer to implementation after India decided to join international customs convention TIR following cabinet approval. The modalities of making INSTC functional was a discussed at a multi-stakeholder meeting on Monday, people familiar with the developments told ET. INSTC is one of corridors that Delhi is working on as part of connectivity initiatives parallel to China's One Belt One Road strategy. PM Narendra Modi might visit Astrakhan entry point of INSTC in Russia during his June trip to St Petersburg for International Economic Forum. India and Russia celebrates 70 years of diplomatic ties on April 13 and a series of events and visits are planned through the year.

2. India's economy to improve, cost of funds may rise: Report

Source: Financial Express ([Link](#))

India's economy is set to witness improvement in the overall conditions, owing to growth of external financial linkages, ample funds and pickup in the domestic economic activity, according to a survey. However, 31 leading banks and financial institutions participating in the survey for the April-June quarter also anticipate the cost of funds to rise due to tightening of liquidity in the near future, thereby dampening corporate lending which is already grappling with issues like high NPAs. The survey was carried out to map the expectations of banks and financial institutions. The government recently gave wide-ranging legislative powers to the Reserve Bank to issue directions to lenders to initiate insolvency proceedings for recovering bad loans, as non-performing assets (NPAs) of public sector banks zoomed to unacceptably high levels of over Rs 6 lakh crore. High

NPAs limit the capacity of the banking sector to lend to corporates. However, the CII-IBA Financial Conditions Index for the first quarter of the current financial year (April-March) stood at 56.9 (as against 48 in the January-March quarter), signalling that majority of the respondents expect improvement in the overall economic conditions of the country. “The improvement of Financial Conditions Index projects overall optimism in the Indian financial sector on the back of increase in consumption, infrastructure spending amplified by slew of landmark reforms as evidenced by roll out of GST and formulation of the stressed loans resolution package through an ordinance by amending the Banking Regulation Act,” CII Director General Chandrajit Banerjee said.

3. RCEP talks: Heat on India to scrap import duty on 90% of goods

Source: The Hindu: Business Line ([Link](#))

India is under pressure to agree to eliminate import duty on at least 90 per cent of its traded goods as part of the Regional Comprehensive Economic Partnership (RCEP) pact being negotiated by 16 countries, including China and ASEAN members. Trade ministers from all member-countries, which include South Korea, Japan, Australia and New Zealand, will meet in Hanoi this week to push the negotiations forward. “New Delhi is firm about not opening its market extensively to at least China and offer the country much lower concessions by working out country-specific deviations. Philippines suggestion: But what has made the negotiations tougher is the ‘opt out and reciprocity’ flexibility suggestion made by the Philippines,” a government official told *BusinessLine*. The ‘opt out and reciprocity’ principle proposes that if a country cannot agree to what the majority of members were ready for, it can opt out from that provision and wait for a time till it is ready to sign up... Yes to ASEAN, no to China: “It is difficult for India to agree to eliminate duties on 90 per cent of items for all members,” the official said. “While it might still be considered for ASEAN countries, with which India already has an ambitious free trade agreement in place offering concessions on over 80 per cent items, it will be impossible to agree to such deep cuts for China, as there won’t be an economic or a political mandate for it domestically.” It is also difficult to give such liberal market access to New Zealand and Australia, with which India is yet to sign bilateral free trade agreements, he added.

4. WTO's call for a review meet might be a backdoor attempt to push e-commerce

Source: The Economic Times ([Link](#))

The World Trade Organisation has called a review meeting to promote connectivity through digital trade in developing countries, particularly least developed countries, amid strong opposition by India owing to apprehensions among experts that this may be a back door attempt to push e-commerce. The aim of the evaluation, which will take place, in July is development of e-commerce, infrastructure investment, services markets and investment in climate reforms. Moreover, the global review of Aid for Trade is influential in galvanising support and directing strategies to help developing countries derive the maximum development benefit from trade. "The strategy is to sell e-commerce to the African nations and get their critical support. If Africa comes in support, then the ecommerce deal is done. It will be pushed as being development friendly," said a Delhi-based trade expert, requesting anonymity. In 2015, the Aid for Trade meeting was based on reducing trade costs which culminated in the trade facilitation agreement for goods. Unlike trade facilitation, though, there is no mandate for e-commerce to be taken up in the agenda, and hence India is opposed to its inclusion.

5. Three years of Narendra Modi government: Many big bang reforms implemented, more to follow, says Nirmala Sitharaman

Source: Financial Express ([Link](#))

The government has initiated a lot of big ticket and systemic reforms in the last three years and will continue efforts to consolidate the gains as also take up more economic measures in the remaining two years, Union Minister Nirmala Sitharaman has said. The commerce and industry minister said the government pursued reforms in a host of sectors, including banking, real estate, taxation, aviation and commercial dispute resolution. "In the three years, both big ticket and systemic reforms have been taken in a calibrated fashion," she told PTI on the occasion of the NDA government completing three years in power. The reforms have been undertaken at every level of governance, she said, adding the government has the mandate for five years and there are two more years to go during which consolidation would happen. "We need to consolidate" on reforms and take up new things in the months to come with a view to boost economic development, Sitharaman said. She further said that because of the various initiatives taken by the government,

the confidence of overseas and domestic investors have improved. Foreign direct investment (FDI) into India increased by 9 per cent to a record level of \$43.48 billion in 2016-17. After coming to power in May 2014, the government started a range of reforms in various sectors like taxation, FDI policy, power, aviation and infrastructure.

6. 'India govt working with stakeholders to devise new rules for clinical trials'

Source: The Hindu: Business Line ([Link](#))

India is expected to roll out a new drug policy and devise rules for clinical trials that may bring new projects to the country, a top Indian official have said. A team of Indian officials led by G N Singh, Drug Controller General of India, said a set of new procedures to facilitate clinical trials are expected to be unveiled shortly. Addressing the annual US-India BioPharma and Healthcare Summit in Boston on Thursday, Singh said the Indian government is working with stakeholders to devise new rules for clinical trials that are expected to bring new projects to India. Over the last few years, clinical trials in India have slowed down amid tedious court litigation and rising protests from health activists on issues related to informed consent and compensation norms, an official statement said. The government, in consultation with stakeholders, has devised new rules that will require more information of the patients enrolling themselves for clinical trials, Singh said at the day-long conference organised by the 'USA-India Chamber of Commerce'. In his remarks, Singh talked of efforts to integrate scattered laboratories that can help avoid duplication of research and accelerate the process of drug development.

7. Tourism in India, a sector untapped

Source: Deccan Herald ([Link](#))

The tourism industry has made major advances in India in the past few years, and the progress has been steady and significant. Last year, the country received an all-time high number of tourists. The number of tourists in 2016 was 8.89 million; a jump from the 2.65 million tourists in 2000. The World Economic Forum has reported that India's progress is commendable. In its Tourism Competitiveness Index, released recently, India has moved up 12 places and now ranks 40th among 136 nations. India made the biggest leap by any country in the top 50. While the performance is remarkable, it still shows underachievement because India has much more potential than is seen by the numbers. The performance of India in comparison with other countries

underlines the potential which is yet to be tapped and this is what the government and others in the area should focus on. France had the highest number of tourist arrivals at 84.5 million last year. China had 56.9 million and the tiny Singapore had 15 million visitors... India's geographical, cultural and climatic diversity, historical and other monuments, places of great scenic beauty and other attractions should draw many more tourists to the country. If its strengths are showcased well, the country can even be among the top 10 destinations in the world...Inadequate travel infrastructure, poor sanitation, cumbersome visa regulations, apprehensions over law enforcement and women's safety, and inadequate promotional efforts and strategies are among the many reasons which have held the country back. There are improvements in many of these areas and that is why the industry has looked up in the recent past. Economic development and growth of areas like business tourism and medical tourism should help the industry to grow. Tourism is the industry which produces the maximum number of jobs for unit of investment and a thriving tourism industry should help many other sectors to grow. A happy tourist also carries home goodwill about the country of visit and thus raises its reputation and stature.

GST Special:

8. GST blow: Medicines to get costlier as raw materials to be taxed at 18%

Source: Business Standard ([Link](#))

The pharmaceutical industry was hoping the goods and services tax (GST) rate on life-saving drugs would be zero, even as it has been capped at 5 per cent and that of all other formulations at 12 per cent. The rates in the GST regime will be slightly higher than what prevail now. Kanchana TK, director general of the Organisation of Pharmaceutical Producers of India (OPPI), said: "The research-based pharmaceutical industry hoped there would be a reduction in the tax incidence on pharmaceutical products. We believe this reduction would have helped in reducing the medicine prices and impacted patients positively." In the GST regime, essential drugs that treat malaria, HIV-AIDS, tuberculosis, and diabetes fall in the 5 per cent bracket. Almost all other drugs are in the 12 per cent net. The tax on nicotine is fixed at 5 per cent, while nicotine gum comes in the 18 per cent slab. Cipla, which markets nicotine gum under the Nicotex brand, declined to comment on how the new tax rate would impact the sales of the product. Active pharmaceutical ingredients, or raw materials, will be taxed at 18 per cent.

9. Shampoos, soaps are a ‘luxury’; maple syrup is not

Source: The Hindu: Business Line ([Link](#))

Maple syrup, pastas and ice creams are not luxury goods but shampoos, liquid soaps, shaving products and shoe polish are. Maple syrup and a range of pastas from spaghettis to raviolis, all of which are mostly imported into the country and consumed by the elite urban households, will attract 18 per cent goods and services tax (GST) compared with 28 per cent for shampoos, liquid soaps, shaving products and shoe polish...The rates on individual items were finalised at the recently concluded Srinagar meeting of the GST Council chaired by Finance Minister Arun Jaitley. While many of these classifications come across as bizarre, the GST Council is not to blame. The distorted structure has been in existence for years – all that the GST Council did was add up the centre excise duty and State value added tax on each item and placed it into one of the four GST slabs that was closest to the sum of the two taxes. This was done to minimise impact of changes in taxes on different items, and in the process prevent inflationary pressures and protect tax revenues of the Centre and States. The GST Council in an earlier meeting had decided to have four tax rates – 5, 12, 18 and 28 per cent – for goods. That apart there is an exempt category and also a cess on certain items considered luxury or demerit such as automobiles, cigarettes and aerated water.

10. GST to cut inflation by 2% created buoyancy in economy: Hasmukh Adhia

Source: Financial Express ([Link](#))

Inflation will fall by 2 per cent on implementation of the goods and services tax (GST) and create buoyancy in the economy, Revenue Secretary Hasmukh Adhia has said. With the stage set for the biggest overhaul of India’s tax system since Independence, the government will launch a massive awareness campaign to educate consumers about GST so that they are not fleeced by traders in the name of new tax. In an interview to PTI, he said the all-powerful GST Council will meet next week to decide on tax rates of contentious items like gold, bidi and biscuits, just in time for its rollout from July 1. The Council over the two days last week assigned tax rates to more than 500 services and 1,200 goods by setting them in five broad rates of 5, 12, 18 and 28 per cent...GST will be a single nation-wide sales tax replacing a string of central and state levies. “That is how we have managed to keep our inflation basket under control,” Adhia said, promising to fix any compliance issues that crop up during implementation. The revenue secretary said GST will create

buoyancy in the economy through better compliance and ease of doing business. “I wouldn’t say anything is pending, but I would say the government has to reach out to the trade and industry and also the machinery of explaining the GST procedures in townhall meetings. We need to accelerate this,” he said on the task ahead. Most importantly, consumer education campaign has to be taken up, he added.

11. Record FDI, start-up push result of big, brave reforms, says Nirmala Sitharaman
Source: Financial Express ([Link](#))

The goods and services tax (GST) regime will make Indian exporters more competitive, as the cascading effects of existing indirect taxes will be curbed and input tax credit facility will be available, according to commerce and industry minister Nirmala Sitharaman. The GST council has decided to provide 90% of duty refunds within a week of acknowledging an exporter’s application, acceding to the persistent demand of the commerce ministry to soften the blow for exporters, most of whom are running small and medium enterprises, she said on Saturday, addressing reporters to outline achievements of her ministry in the past three years...The GST system mandates that all duties must be paid at the time of a transaction, and refunds for these can be obtained after exports. The GST council is also committed to the principle that exports should be tax free. Speaking about achievements since coming to power, Sitharaman said FDI has witnessed tremendous growth in recent years — 25% in 2014-15, 23% in 2015-16 and 8% in the last fiscal. Total FDI inflows touched a record \$60.08 billion in the last fiscal.

12. GST Council’s next step: Ensuring tax benefits are passed on to consumers
Source: Live Mint ([Link](#))

After having fixed the rates of the goods and services tax (GST) on almost all commodities and services, the powerful federal tax body GST Council is trying to ensure that businesses pass on any tax reduction benefit to consumers when the new indirect tax regime comes into force on 1 July. The most important issue related to the implementation of GST is whether the tax cuts will be passed on to consumers, Kerala finance minister Thomas Isaac said, adding that the council, which debated it prior to bringing in the anti-profiteering clause in GST law, will discuss this matter further. Union finance minister Arun Jaitley has assured that we may even have a special session (of the council) on this. It is noteworthy that no industry has come forward and said

maximum retail prices will be reduced in line with tax reduction,” Isaac said in an interview. For the government, which insists that GST rates are not inflationary, it is essential for consumers to feel a cooling of prices to make the most radical tax reform since Independence politically acceptable. The GST Council has to recommend to the government whether a separate authority is needed or the Competition Commission of India (CCI) could be authorized to ensure that the reduced tax incidence on commodities has resulted in corresponding price cuts.