Daily Economic News Summary: 25 May 2017

1. PM Narendra Modi makes big reforms push, scraps FIPB
Source: Financial Express (Link)

Twenty-five years after it was set up as the country opened its economy inviting larger foreign investments, the Union Cabinet on Wednesday abolished the Foreign Investment Promotion Board (FIPB) as it had outlived its utility. The government, which first mooted the proposal to abolish this body in this year's Budget, said on Wednesday that in the last three years 91-95% of foreign investments came under the automatic route. Briefing reporters, finance minister Arun Jaitley said that there are now only 11 sectors where foreign investments require prior government approval. He said that with the abolition of the FIPB, foreign investments in these 11 sectors would be handled by the respective administrative ministries in consultation with the department of industrial policy & promotion (DIPP), ministry of commerce, which will also issue the standard operating procedure (SOP) for processing of applications and decision of the government under the extant FDI policy…India's total FDI inflows, including in equity, touched a record $60.08 billion in the last fiscal. Devraj Singh, executive director, tax & regulatory services at EY, said, "It will help in ease of processing of foreign investment approval request. Earlier proposals were considered by FIPB in consultation with multiple ministries including the line ministry which were time consuming process." However, with the new arrangement that only administrative ministry will consider the foreign investment proposal, it will reduce the approval processing time, he said.

2. Trade calculations: India offers to parley on RCEP tariff terms
Source: The Economic Times (Link)

Faced with slow progress on the issue of easier movement of professionals across borders, there is now increased pressure on India to eliminate import duties on 92% of its traded goods with 15 countries including China under a regional trade agreement. India, instead, has offered to eliminate tariffs on 80% of products with a margin of 6% depending on level of development of the other country as part of the Regional Comprehensive Economic Partnership (RCEP). With this math, India may have to eliminate duties on 74% of its traded goods with China over the long run. ndia's trade deficit with China was about $53 billion in 2015-16. Officials said countries are likely to ask India to reduce this margin (known as deviation in trade parlance) to 1% as India prepares to host the next round of negotiations in July in Hyderabad. "Ambitions will have to be elevated to keep deviations at minimum and reduce the staging period," said an official aware of the matter, referring to a second offer on duty cuts before July.

3. Make in India gets major sourcing push from Modi govt
Source: Business Standard (Link)

The Union Cabinet on Wednesday approved a policy providing preference to domestically manufactured goods for government procurements, in a major step to boost the government's Make in India initiative. It also approved the abolition of the Foreign Investment Promotion Board (FIPB), which has, for 25 years, been the single-point window for clearing foreign direct investment (FDI) proposals requiring government nod. The Cabinet, headed by Prime Minister Narendra Modi, also gave its nod to a "strategic partnership" model under which select private firms would be engaged to build military platforms like fighter jets, submarines and battle tanks.The Cabinet Committee on Economic Affairs (CCEA), which met before the Cabinet, approved the closure of Janpath hotel in the national capital. The property will be used for setting up government offices. It also cleared the hike in fair price for sugarcane by Rs 25 a quintal, a move that will benefit about five crore farmers across cane-producing states. The new procurement policy mandates that only local suppliers will be eligible for procurement of goods and services above Rs 5 lakh, provided that the specific ministry determines that there is sufficient local capacity as well as competition. The policy also has provisions for procurements beyond Rs 50 lakh, or where there is insufficient local capacity or competition. In this case, if the lowest bid is not from a foreign supplier, the lowest-cost local supplier, who is within a margin of 20 per cent of the lowest bid, will be given opportunity to match the lowest bid. Further, if the procurement is of a type which can be divided between more than one supplier, the foreign supplier who is the lowest bidder will get half of the order, while the local supplier will get the other half if it agrees to match the price of the lowest bid.

4. Industry experts credit Modi government for boosting tourism
Source: The Economic Times (Link)

The GST rates announced last week may have caused some heartburn to travel and tourism companies, but industry insiders like online travel portals and booking operators are encouraged by the prospects in a sector that has been growing at a quick pace since the Narendra Modi government took charge three years ago. Government initiatives such as e-visas and visa on arrival, as well as the focus on tourism and infrastructure development, have kept the momentum high, industry players said. They expect new steps like the new UDAN scheme for regional air connectivity to further boost growth. According to data shared by Yatra.com, in the period between May 15 2014 and May 14, 2017, flight bookings on the portal have increased more than 25%. While international flight bookings are growing at almost double the rate of domestic bookings, room bookings saw an increase of 30%. The average room rate dropped 10-15%, owing to increased options of budget accommodation available to users…According to the Ministry of Tourism, foreign exchange earnings through tourism increased to Rs 14,692 crore in April 2017 from Rs 11,495 crore the same month in 2016 and Rs 10,091 crore two years earlier. The number of foreign tourist arrivals in April 2017 was 7.40 lakh, compared with 5.99 lakh in April 2016 and 5.42 lakh in the same month of 2015.

5. Healthcare, technology seen boosting India offshore loan volumes
Source: Live Mint (Link)

India's drug, health-care and technology borrowers are emerging as key drivers for the nation's international loan volumes. Foreign-currency borrowings undertaken by these companies hit a record $1.05 billion in 2017, compared with $760 million in the same period a year earlier, data compiled by Bloomberg show. Health-care and pharmaceutical companies will seek international loans this year to fund capital expenditure, while technology borrowers might require funding for potential acquisitions, according to Sidharth Rath, group executive for corporate and transaction banking at Axis Bank Ltd., India's third-largest private sector lender. "There is scope for further event-driven funding by pharma and tech companies as these sectors are constantly seeking acquisition opportunities," said Manmohan Singh, head of banking at the Indian unit of Bank of Nova Scotia.

6. Strategic partnership model for defence manufacturing gets cabinet approval
Source: Live Mint (Link)

The Union Cabinet has approved the much-awaited strategic partnership model which will allow local private sector companies to form manufacturing joint ventures with foreign defence equipment makers—a shot in the arm for the government's 'Make in India' programme as well as efforts by the Indian private sector to make inroads into the lucrative defence equipment business. "The capacity building of the private sector in defence (equipment) manufacturing will begin now," finance and defence minister Arun Jaitley said after the Cabinet meeting. Indian firms Larsen and Toubro Ltd, Ashok Leyland Ltd, Mahindra and Mahindra Ltd, Reliance Infrastructure Ltd, Tata Group, Punj Lloyd, Adani Group and Bharat Forge Ltd, which have existing defence businesses, are likely to benefit the most from the decision…The Indian defence industry is currently dominated by state-owned manufacturers, including HAL. Jaitley said the policy was designed to ensure firms do get orders. "You don't set up a manufacturing facility if you don't have any hope of getting orders," he said. Under the "strategic partnership" model, the government will shortlist and then pick Indian companies to join forces with foreign firms to make fighter jets, helicopters, armoured vehicles and submarines.

7. Vision document for Asia-Africa Growth Corridor unveiled
Source: Financial Express (Link)

The vision document for the proposed "Asia-Africa Growth Corridor (AAGC)" supported by Japan and India has been unveiled today during the 52nd Annual Meeting of the African Development Bank (AfDB) here. The vision document has been prepared jointly by three agencies, namely the Research and Information System for Developing Countries (RIS) New Delhi, the Economic Research Institute for ASEAN and East Asia (ERIA) Jakarta, and Institute of Developing Economies (IDE-JETRO), Tokya. The vision document was presented during a seminar on 'Japan-India cooperation for the development of Africa' at Mahatma Mandir in the presence of Union Minister of State for Finance Arjun Ram Meghwal. Yesterday, Prime Minister Narendra Modi, who was here to inaugurate the annual meetings of the AfDB, pushed for AAGC, a pitch coming days after China's ambitious OBOR (One Belt, One Road) initiative taking off. The pitch came close on the heels of China launching its multi-billion dollar OBOR initiative, a pet project of Chinese President Xi Jinping, which aims to connect the Eurasian landmass and Indo-Pacific maritime routes. Modi had informed the audience that research institutes of India and Japan have come up with vision document in consultation with African think-tanks on how to take forward this growth corridor. As per the vision document, AAGC will be based on four key pillars – Enhancing Capacity and Skills, Quality Infrastructure and Institutional Connectivity, Development and Cooperation projects and people to people partnership. Giving insight into the document, Director General of RIS, Sachin Chaturvedi, said unlike China's OBOR initiative, AAGC was more consultative.

8. Ecuador seeks preferential trade agreement with India
Source: Financial Express (Link)

South American country Ecuador has expressed interest in negotiating a trade agreement with India to further boost commercial ties between the two nations. Commerce secretary Rita Teaotia led an official delegation to Ecuador and Colombia last week from May 16-19, as the two countries hold huge potential for exports and investments…Ecuador wants to negotiate a preferential trade agreement (PTA), under which two trading partners reduce or eliminate customs duties on only a certain number of products traded between them. The matter was recently discussed during the meeting between Teaotia and Ecuador's vice-minister of trade Humberto Jiménez. The visit by the commerce secretary to Ecuador was made to attend the first meeting of the Joint Economic and Trade Committee (JETCO) and in Colombia to attend a business development cooperation meet. The commerce secretary had led an official and a business delegation to Ecuador and Colombia from May 16-19…Bilateral trade with Ecuador stood at $716 million in 2015-16. Both the sides also agreed to deepen cooperation between their respective investment promotion agencies to promote a greater exchange of information on investment and business opportunities in both the countries. Besides an IT centre set up with the help of India, expansion of the trade basket has been on the agenda, as Ecuador offers a privileged location, extended production diversity, great potential in agri-business, fishery, aquaculture, forestry, mining, tourism and services and has a favourable legislation on foreign investment, offers preferential commercial access to different markets and the US dollar is its official currency. Besides oil, defence and pharmaceuticals, India could look at importing gold and silver from Ecuador.