Daily Economic News Summary: 30 May 2017

1. India seen staying fastest growing major economy in Jan-Mar qtr: Reuters
Source: Business Standard (Link)

India remained the fastest growing major economy in the world last quarter, with growth buoyed by an improved performance in manufacturing and services, a *Reuters* poll of economists found. Prime Minister Narendra Modi's ban of high-value currency notes last year had a major short-term impact on demand but private and public consumption has recovered. The median forecast from a poll of 35 economists showed the economy grew 7.1 per cent annually in the first three months of this year. Forecasts ranged from 6.5 to 7.8 per cent. Annual growth was seven per cent in the quarter ending December, and 7.9 per cent in the January-March quarter last year. "The demonetisation drive barely impacted the economic momentum in the second half of FY17. Most of the high-frequency indicators showed only a marginal slowdown and were quick to recover," said Tushar Arora, senior economist at HDFC Bank. India's industrial output rose 2.7 per cent in March from a year earlier, beating the median consensus of 1.5 per cent growth in a *Reuters* poll.

2. Modi in Germany: Will India's FTA pragmatism bring EU out of its shell?
Source: Business Standard (Link)

Trade in general and FTAs in particular are increasingly playing an important role in India's diplomatic landscape at a time when its benefits are being questioned in several capitals. Prime Minister Modi has displayed a clear inclination for leveraging external sector for domestic economic growth. It is therefore not surprising that even before the reports on RCEP (Regional Comprehensive Economic Partnership) negotiations have ceased, talks about India-European Union (EU) Free Trade Agreement have begun to surface. The issue is simple. Can the EU really come out of its shell and move for a deal. The context is provided by Brexit which has spurred UK to push for a separate trade deal with India and so is a competition for EU and the victory of Mr Macron as President in France, that would be expected to tame the insular lobby within the EU… The European political leadership seem to be extremely open to the idea of FTA with India. The recent visit by Ms Sitharaman to Italy and an earlier visit of a delegation from Germany are pointers to this political commitment. Given the way EU's other partnerships with the rest of the world has not shaped up too greatly for the continent, there is a good indication that it would want a deeper cooperation with India. But of course there are worries? Some of them are the EU concerns about whether larger integration with India would help its economies where the best of them are growing at only 1.9 per cent. Is the EU anxious about currencies being so volatile particularly the Euro? These are tough questions, made more significant as its bilateral trade with India has grown quite impressively. It has increased from $ 55 billion in 2006 to $96 billion in 2016. With these in mind, one can examine the two specific areas of strain holding up the FTA…First among them is the proposed EU-India Bilateral Trade and Investment Agreement (BTIA). Since 2015, India has come up with a new template on BTIA, which includes a strong provision on tax liabilities in accordance with India's laws. The new FTA talks would have to factor in these provisions for the BTIA…Launching of new IPR policy by India may have addressed several of the European concerns. Apprehensions still abound on exclusive rights over clinical trial data and avenues available for redressal. Since several Indian bio-pharmaceutical companies have also entered in drug development, a fresh look may be required in this sector. It is also important to point out here that within the ambit of IPR issues related to geographical indications, bringing in enhanced market access for spirits and wines is also being pressed for by the EU…India-EU FTA thus makes strong sense. Yet as both of them are strong economies with a decentralised structure which spawns powerful domestic lobbies, getting to allow more market access in each other's territory is not easy.

3. Will Angela Merkel find a Trump card in Narendra Modi?
Source: The Economic Times (Link)

As PM Narendra Modi landed here on Monday evening, Chancellor Angela Merkel's recent outburst appears to have centred attention on the Germany-India relationship. Addressing an election rally in Munich on Sunday, Merkel said in remarks that have echoed around the world, "The era in which we could fully rely on others is over to some extent. That's what I experienced over the past several days." While the obvious target of her remarks was US President Donald Trump, and the challenges presented by Trump's potential reversal from the Paris climate accord, the fact that she is meeting the leaders of India and China this week has raised questions about the new weight being placed on these relationships. The emphasis on the Asia relationships featured prominently at the government briefings for journalists on Monday…Merkel and Modi held one-on-one talks in her country retreat on Monday evening, which covered regional and global issues from climate change to Afghanistan and terrorism. Modi has clarified that India would continue on its path towards a cleaner future, regardless of what the US does. A similar message has come from China. Chinese Premier Li Keqiang will be in Berlin on Wednesday, hours after Modi's visit, to work with Germany. Senior government sources said Germany would not make their ties with India and China a "zero-sum game". However, it would be hard not to compare the two.

4. India needs jobs for women to boost growth: World Bank
Source: The Economic Times (Link)

India must reverse a trend of falling women's participation in the job market if it is to achieve its ambition of double-digit growth, the World Bank said on Monday. India is the world's fastest growing major economy, but has one of the lowest rates of female employment, a trend that has worsened over the last decade. The World Bank in its latest report said just 27 percent of Indian women were working or actively looking for a job, a matter of "serious concern" that was holding back economic growth. "(A) higher level of women participation in the economy can help propel India closer to double digit growth," said country director Junaid Ahmad. The bank said the fundamentals of India's economy remained strong and the impact of last year's shock move to take most of the country's currency out of circulation had been limited…The World Bank report said a new national goods and services tax due to be introduced on July 1 would "yield substantial growth dividends from higher efficiencies" and increase state revenues in the long term. But it warned India needed to create jobs for the large number of women currently not in the labour market. "India's female labour force participation rate is uniquely low for all levels of education," said senior World Bank economist Frederico Gil Sander.

5. India loses global market share in 61 export items
Source: The Economic Times (Link)

Readymade garments, gems and jewellery, and agricultural products, which have traditionally represented India's exporting prowess, all lost market share in the past five years. Cars, diamonds, maize, trousers, make-up and skincare items, handbag and cotton sweaters figure in the list of 61 products where India lost market share between 2011 and 2016. Although India failed to cater to increasing demand for high-end cars and handbags, it lost market share in gold and silver jewellery due to the rise of competitors such as China, and Cambodia and Bangladesh in readymade garments. India's market share in the medium-end car segment fell from 8.84% in 2011 to 5.77% in 2016 and for high-end cars, it fell from 1.77% to 1.57%. This considerable loss in share is attributed to South Korea and Japan, the leaders in manufacturing passenger vehicles. Lack of skilling of artisans in the gems and jewellery sector has cost India heavily, especially in diamonds, in which the country's share declined from 31.36% in 2011 to 30.79% in 2016. India ceded much of the market to China and Vietnam, which emerged as the key competitors. Exporters have raised the red flag on 61 such products and asked the commerce ministry to revisit its strategy to promote their exports.

6. Now enforcement will be done by GST, customs officers with access to details
Source: Financial Express (Link)

Most fiscal statutes follow the usual rigmarole of incorporating elaborate provisions relating to civil and criminal liability through demand and recovery of interest, duty and penalty, prosecution, etc, after conducting scrutiny, audit, searches, investigations, etc. GST laws as enacted, however, have certain special regulatory provisions to provide further teeth to the enforcement framework. The provision of an e-way bill is unique in the Indian context and virtually ensures a physical control through an eye in the sky, on goods being transported through digital medium. It is more effective than the intrusive inspector raj under the physical control system. It also blocks the possibilities of human compromises, as contraventions can be detected anywhere when flagged by the system. The GSTN is to be informed of movement of any good valued more than Rs 50,000 by any registered dealer or a transporter to generate an e-way bill number, which will be mentioned in the e-way bill and produced during checks. The transport to be used shall be radio frequency identification device (RFID)-enabled to facilitate tracking. This requirement even extends to transporters who may carry more than one consignment or may shift part or whole to another vehicle. At the time of shifting goods, another e-way bill will be required to be generated. The system needs to be followed even for imported consignments before being moved out from the port of import. There is a number of stipulated days in which goods must reach the destination depending upon the distance involved for transportation. The manpower for enforcement will not only be provided by the states and the staff under CGST, but the Directorate General of Goods and Service Tax Intelligence will also be required to have a much greater sleuth presence—up from about 700 at present in the Directorate General of Central Excise Intelligence (DGCEI) to about

6,000 in the rechristened outfit. Other officers of the Union and the state, as empowered, shall be required to provide assistance.

7. Jaitley to sign OECD tax pact next week
Source: The Hindu: Business Line (Link)

Finance Minister Arun Jaitley will travel to Paris next week to sign the OECD multilateral convention that aims to check crossborder tax evasion by multinational companies. During his three-day visit beginning June 7, Jaitley will also attend the OECD Ministerial Council meeting, in which ministers from the OECD and partner countries will discuss issues of global relevance. The Union Cabinet had earlier this month approved signing of the multilateral convention of the Organisation for Economic Cooperation and Development (OECD). The convention is an outcome of the OECD-G20 BEPS project to tackle base erosion and profit shifting (BEPS) which is resorted to by MNCs through tax planning strategies by exploiting gaps and mismatches in tax rules.

8. With FIPB gone, investments will hinge on inter-ministerial coordination
Source: The Hindu: Business Line (Link)

The dismantling of the Foreign Investment Promotion Board (FIPB), which served as the gatekeeper for foreign direct investment (FDI) into the country for the past 25 years, is more symbolic than substantive as over 90 per cent of inflow into the country in recent years has been through the automatic route. As symbols go, it might be an important one as it attempts to declare to foreign investors that they need not see India as a country of red tape. But for that to happen, the alternative mechanism for clearance of proposals in the 11 sectors that still need government approval has to be without glitches. "Critical sectors such as telecom, broadcast, civil aviation, defence, retail and private sector banking continue to need government approval. The important question is whether the line Ministries/Departments dealing with the sectors will get a free hand in dealing with the proposals and be in a position to give independent decisions," a member of one of the leading industry associations told *BusinessLine*. The relative easing of clearances would be key to a continuous increase in FDI which touched a high of over $60 billion in 2016-17, he added. Finance Minister Arun Jaitley, in a media briefing last week, said a notification would be issued soon giving details about the Ministries/Departments that would be responsible for FDI clearances in the 11 sectors which need approval.

9. Now Apple iPhone plans in India to export refurbished smartphones generate environmental backlash
Source: Financial Express (Link)

The government has toughened its stance against Apple's proposal to use its facility in India to export "certified pre-owned iPhones" — one of the pre-conditions the company had set to establish a larger manufacturing base in the country. Official sources told FE that a section of the government fears allowing Apple to bring in such second-hand iPhones from all over the world to service or upgrade here for subsequent exports could pose environmental risks. "Apple wants to refurbish iPhones in India and export them. But there are serious questions regarding the issue of e-waste. The environment ministry has reservations about the issue, so has MeitY (ministry of electronics and information technology). Until a concrete strategy is firmed up on how to deal with e-waste effectively, it's very difficult to approve such a proposal," said one of the sources. What also seems to have gone against Apple is the fact that while it was quick to hand over a list of pre-conditions—from tax concessions to permission to export refurbished phones—to set up a large manufacturing unit in India, it didn't share with the central government any details on the quantum of investment it is planning to make or specific employment opportunities it will create here. Sources had earlier told FE that the iPhone maker would set up only a "pilot project" near Bengaluru (to produce around 3-5 lakh phones), and the likelihood of a larger manufacturing unit in India hinged on the kind of concessions the central government would offer to the tech giant.