Daily Economic News Summary: 8 August 2017

1. India, Peru to start FTA negotiations this week
Source: The Economic Times (Link)

India and South American nation Peru would start formal negotiations for a proposed free trade agreement (FTA) from this week, a senior official said today. The FTA aims at liberalising norms for trade in goods and services with a view to further boost bilateral economic ties between the countries. "This will be the first round of negotiations," the official said. The two-day deliberations would focus on contours of negotiations and decide on structure of different working groups such as goods, services and investments. Approval for the talks was given by the Union Cabinet earlier this year…In an FTA, two countries significantly reduce or eliminate duties on most of the goods traded between them besides relaxing norms and rules to promote trade in services and increase bilateral investments. Peru ranked third among export destinations for India in the Latin America and Caribbean (LAC) region during 2015-16. The bilateral trade between the nations increased to USD 1.8 billion in 2016-17 from USD 1.52 billion in 2015-16.

2. India-China standoff casts shadow over power projects
Source: Live Mint (Link)

With around 60% of India's stressed power projects working with Chinese equipment, concerns have emerged over the quality and supply of spares amid the country's military standoff with China in the Doklam region of Bhutan. This comes at a time when India is trying to tackle the vexed issue of stressed assets. The status of 34 stressed coal- fuelled power projects, with an estimated debt of Rs1.77 trillion, have been reviewed by the government after being identified by the department of financial services…While several Indian power project developers have placed orders with Chinese firms, some power plants that have used Chinese equipment have earlier run into trouble…Some Indian companies have raised concerns about Chinese firms' participation in India's infrastructure projects given their strategic importance. There have been instances in the past when India stopped giving clearances to telecom equipment imported from China over security concerns. The National Democratic Alliance (NDA) government is working on a strategy for the resolution of stressed power projects. According to the government, the major reasons for these stressed assets are; nonavailability of regular fuel supply arrangements, lack of power purchase agreements, promoter's inability to infuse equity and service debt along with regulatory and contractual issues.

3. India tighten rules for foreign ships to ply on local routes
Source: The Hindu: Business Line (Link)

State-runs firms have been vested with powers to scrap contracts awarded to fleet owners on the basis of Indian registered ships offered by them under a local rule if they convert their ships into foreign flag before the tenure ends, the country's maritime administration has said. The so-called right of first refusal or RoFR allows fleet owners to take the benefit available to Indian registered ships for doing business along the Indian coast. In a public tender, an Indian flag ship or ships registered in India has the right of first refusal to match the lowest rate quoted by a foreign flagship and take the contract, according to rules set by the Directorate General of Shipping (DGS) to support the local shipping industry. The country's coastal trade is reserved for Indian-registered ships and foreign ships can be hired to operate in Indian territorial waters only when Indian ships are not available and that too with the regulator's approval. "The vessel needs to continue to be Indian flag vessel at all times from the date of opening of tender till the end of the contract period to avail the benefits of RoFR failing which the contract awarded to it shall be withdrawn," Ash Mohomad, a deputy director general of shipping, wrote in a circular dated August 7, 2017. There have been instances where entities are seen applying for tenders by offering Indian flag vessels to take advantage of the right of first refusal…"The intention is to promote Indian tonnage so that fleet owners come and register in India", Mohomad added.

4. India maps FMD-free zones to unlock markets for buffalo meat
Source: The Hindu: Business Line (Link)

The controversy surrounding sale of cattle for slaughter notwithstanding, the Centre is taking steps to expand the export of buffalo meat to countries such as China and the US, where the commodity is banned due to the existence of foot and mouth disease (FMD) virus in some places in India. The Department for Animal Husbandry, Dairy & Fisheries has identified FMD-free zones across the country where there is scientific proof of the virus being absent and has sent the list to global standards body OIE for recognition, a government official told. "We hope that once the OIE recognises the FMD-free zones, India can start exporting from such zones to markets such as China, US and the EU, which do not import from the country as certain strains of the virus still exist here," the official said. Although OIE guidelines lay down that export of meat, if de-boned, de-glanded and frozen under certain conditions, is safe even from FMD-afflicted areas, certain trade partners are not comfortable with the idea. In fact, even after extended negotiations for lifting the ban on buffalo meat from India, a team of quality inspectors from Beijing refused to greenlight exports at the last minute as the country is still not free of the virus…India is tied with Brazil as the world's top buffalo meat exporter, although exports remained almost static at $4.2 billion in 2016-17. Despite the ban on sale of cattle for slaughter in animal markets, exports of buffalo meat grew 4.3 per cent to $849 million in the April-June 2017-18 period, compared to the same period last year.

5. Health ministry warns on rushed implementation of generics plan
Source: Live Mint (Link)

The ministry of health and family welfare has recommended that the prime minister's idea of mandating doctors to prescribe medicines by chemical names and not brands be implemented carefully, and over time, to ensure that the right quality and quantity of drugs are available. The ministry said "it will not be possible" to do this "in the next two-three years even if it is made mandatory". "On the other hand, it will cause scarcity of quality medicines", it said in a July presentation to the prime minister's office. *Mint* has reviewed a copy of the presentation. In April, Prime Minister Narendra Modi said that the government was considering enacting a law making it mandatory for doctors to prescribe generics. He meant getting doctors to prescribe drugs by their chemical names in an effort to break the Doctor-Big Pharma nexus that often increases the cost of healthcare. Many doctors prescribe generics (off-patent drugs) but branded ones…In its presentation, the health ministry expressed concerns over the efficacy, safety and effectiveness of some generic drugs because they do not undergo bioavailability and bioequivalence (or BABE) studies. These measure the rate and extent of absorption of drugs in the human body. "Many generics currently available in the Indian market have not undergone BABE studies. The government has recently made BABE mandatory.

6. Strong Rupee is good news for containing inflation: DBS
Source: The Economic Times: (Link)

The rupee has strengthened nearly 6.8% against the US dollar so far this year despite talks of the US Fed raising key policy rates, causing reversal of capital. But a strong rupee is good for containing inflation, besides it is also a good news for import-depended exports, says a report by Singapore based DBS. The rupee recently touched a two year high against the dollar, adding to expectations that the greenback will further strengthen to Rs 62 to the dollar by end March'18. This trend could contribute further to a slowdown in inflation. "A strong currency is positive for the inflation outlook, even better when accompanied by soft global oil prices" said Radhika Rao, chief economist, DBS. RBI estimates that a 5% appreciation in the rupee leads to a 10- 15bp decline in headline inflation. This adds to a disinflationary trend that is already underway, alongside cyclical and structural improvements which will keep medium-term inflation near the targeted 4.0%. Besides, imports will be cheaper, which is positive for consumer purchasing power. But a strong currency poses risks to exports and manufacturing growth. However, imports-intensive industries fare better due to cheaper inputs, said the DBS report. Broadly, the import content of India's exports rose to 25% of gross exports in 2010-11 from sub-10% in 1990s, implying that a decent proportion will stand to benefit…

7. Indians can't get enough of flavoured milk: study
Source: Live Mint (Link)

Indian consumers like their milk flavoured—more than ever. Food and beverage companies are launching more ready-to-drink flavoured milks in India, unlike experimental products a few years ago. In 2016, about 43% of all new products introduced in the dairy drink segment in India was flavoured milk, according to a study by global market intelligence agency Mintel. In 2012, the number was just around 20%. Flavoured milk may outpace ready-to-drink plain milk, in terms of new product introductions. Flavoured milk already accounts for more than 39% of all new products introduced in ready-to-drink milk segment during the first six months of 2017, noted the Mintel study released on Wednesday. And, people are consuming more of flavoured milk. In 2015, Indians drank about 72 million litres of it, up 31% from 55 million litres in 2012, according to the Mintel study. The retail value of flavoured milk sold in India in 2015 was estimated at Rs800 crore, up from Rs570 crore in 2012, it added. "Much of the category's retail growth in India can be attributed to the fact that urban Indian consumers are opening up to value-added dairy, particularly for its convenience and health benefits. The popularity of packaged flavoured milk in India is also due to consumers' preference for assurance of safety," said Ranjana Sundaresan, global food and drink analyst at Mintel…There's a reason for companies launching more of such products. The Mintel research revealed that about 64% of ready-to-drink dairy drink consumers (1,243 adults aged 18-64 years) believe that the ready-to-drink products are a healthier option compared to fresh milk, 54% said these are convenient choices and 46% said ready-to-drink is hygienic.

8. Amazon India posts 88% jump in gross sales volume for June quarter
Source: Live Mint (Link)

Amazon India (Amazon Seller Services Pvt. Ltd) said it posted an 88% jump in gross sales volume for the June quarter, outpacing the growth of the broader online retail market. While the firm declined to share its sales numbers by value, two Amazon India executives said it reported an increase of nearly 60% by value in the June quarter, compared with a year earlier…"Amazon's growth has been largely driven by both existing and new customers, with key market share gains in categories such as smartphones— where we have won key exclusive deals with brands such as Samsung, Moto and Redmi— and large appliances. We also continue to be leaders on key metrics such as website and mobile app visits, which is testament to our strong brand recall and loyalty among our customers. Over the past one year, most of our key initiatives, including the launch of Prime—has helped expand the e-commerce market in India, and we will continue to invest strongly to grow our business in India," said an Amazon India spokeswoman. Amazon India's local rival Flipkart also said it grew at a fast clip during the same period. Both Flipkart and Amazon numbers indicate the firms are growing faster than the e-commerce market, implying that they are taking a large market share from rivals such as Snapdeal, which has seen sales collapse due to a funding crunch. "The online retail market continues to grow, but at a slower pace than was previously expected. There was a temporary break in growth rates last year, due to demonetization—without that, the market was growing at a good pace and had gathered momentum. What has also happened is that discounting has come down over the past few quarters—so, now you will see more realistic growth rates from the market leaders," said Harish H.V., partner at Grant Thornton.

GST FOCUS

9. Textiles industry cheers lowering of GST rate from 18 to 5 per cent on job work
Source: Financial Express (Link)

The Confederation of Indian Textile Industry (CITI) today welcomed the GST Council's move to slash the rate on job work like weaving, cutting, knitting and embroidery to 5 per cent from 18 per cent decided earlier. The GST Council, headed by Finance Minister Arun Jaitley comprising representatives from all states, last week decided to tax all job works in the textile sector at 5 per cent. This 5 per cent rate will be applicable for job works in apparel, shawls and carpets. In a statement, CITI Vice Chairman Sanjay K Jain described it as a big breather to small job work manufacturers in all segments of textile value chain which will allow the free flow of business across the value chain…He said the 5 per cent GST rate on job works would enable the industry to claim full input credit and also avoid any inverted duty and strengthen the global competitiveness of the textile sector apart from benefiting the domestic consumers. However, Jain said the reduction of GST rate for manmade fibre and synthetics from 18 to 12 per cent being postponed is disappointing. He claimed that imports are now cheaper than domestic products as the countervailing duty (CVD) and special additional duty (SAD) on imports have become Integrated GST.

10. More food and daily use items to face lower level of GST
Source: Financial Express (Link)

The Goods and Services Tax (GST) on a clutch of food and other daily-use items could be reduced by the GST Council as it meets in Hyderabad on September 9. The council's fitment committee, after vet-ting several recommendations from industry and state governments, have identified these items for tax relief, official sources told. Additionally, the council may also bring amendments to thwart the practice of registered cereal brand owners de-registering the brands to avail zero GST benefit. The tax treatment of branded and unbranded grains under GST has created a curious situation where some of the leading companies in this business escape the tax while others pay a tax of 5%. While the All India Rice Exporters Association had written to the finance minister Arun Jaitley seeking to remove the anomaly, the ministry has so far been maintaining that "unless the brand name or trade name is actually on the Register of Trade Marks and is in force under the Trade Marks Act, 1999", the 5% GST will not be applicable on the supply of such goods.

11. Exporter facing difficulties post GST as refunds schedule disturbed: EEPC
Source: Business Standard (Link)

Engineering exporters' body EEPC India on Monday said that shipping companies are facing difficulties post-GST as their drawback refunds will not be released till September-end or October. Moreover, the supplies of goods to the export-oriented units from the domestic tariff area are not considered as "deemed exports" under the Goods and Services Tax (GST) regime, resulting in denial of duty free imports of inputs under the 'Advance Authorisation' scheme of the government, the exporters' body said in a statement. "In fact, several schemes for giving a boost to exporters by the commerce ministry have been turned upside down and their functioning has become extremely difficult or not viable," EEPC India Chairman T S Bhasin said in a statement. Exports of engineering goods constitute the biggest share in India's overall export basket and are therefore, vital for job creation, particularly in the small and medium enterprises segment…According to the exporters' body, as supply of goods to the export oriented units (EoU) from domestic tariff area are not considered as "deemed exports" in the GST regime, shippers are not allowed to import the inputs without payment of duty under Advance Authorisation. Moreover, exporters will have to pay the basic customs duty, cesses and IGST for imported inputs to be used for supplies to EoU. They are entitled to input tax credit of only IGST. Basic customs duty and cesses are thereon a cost to them.

12. Demonitisation & Operation Clean Money effect: ITR filing for 2016-17 grow 25% to 2.82 crore
Source: The Economic Times (Link)

Individual income tax returns jumped 25% so far in the current financial year as the authorities turned up the heat on evaders after demonetisation. The returns filed by individuals were 25.3% higher at 2.79 crore as of August 5, an addition of about 55 lakh from 2.23 crore in the corresponding period of 2016-2017. Growth in filing in the previous year was 9.9%. This clearly shows that substantial number of new taxpayers have been brought into the tax net subsequent to demonetisation," the Central Board of Direct Taxes said in a statement on Monday…The CBDT said there was also an increase in direct tax collection. Advance tax collection of personal income tax in the period under review grew 41.79% over the corresponding period in FY17. Personal income-tax under self-assessment tax grew 34.25%. "The above figures amply demonstrate the positive results of the government's commitment to fight the menace of black money," it said.