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# Trade & Investment Facilitator (TIF)


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# Executive Summary

India's external sector has shown mixed trends of rise and fall in terms of trade, foreign exchange reserves, exchange rate and capital flows.

India's June exports growth in consistent with the previous month posted double digit growth at 10.22%, however surge in gold imports widened the trade deficit to US$ (-) 11.8 billion as compared with US$ (-) 11.2 billion in May 2014. The trade balance in services remained in surplus at US$ 5.8 billion for the month of May 2014.

The FDI equity inflows in the month of May 2014 are estimated at around US$ 3.6 billion as against about US$ 1.6 billion in May 2013, posting a growth (Y-O-Y) of 121%. According to a global deal tracking firm Mergermarket, Mergers and acquisitions (M&As) in India witnessed a significant rise to US$17.1 billion, with a growth (Y-O-Y) of 47% in the first six months of the current year.

According to Economic Survey 2014-15 'External Sector' of India reported positive developments. Agricultural exports from India rose by 5.1% in FY2014 and India's service sector is recognized as the second fastest growing services sector in the world with a CAGR of 9%. CAD in proportion to GDP declined from 4.7% of GDP to 1.7% of GDP. India's foreign exchange reserves also posted a rise to US$304.2 billion at end March 2014.

External debt remains within manageable limits due to prudential external debt management policy. In contrast to these developments, Capital flows registered a sharp decline to US$ 47.9 billion in FY2014. Rupee was also depreciated significantly from Rs.47.92 per US dollar in FY2012 to Rs. 60.50 per US dollar in FY 2013-14. While, overall BOP position recorded a significant improvement on account of measures taken by the Government and the RBI.

Budget 2014-15 announcement pertaining to India's External Sector are also positive and optimistic. Composite cap of FDI to be raised to 49% is announced to promote FDi in several sectors. SEZ will also be given special focus for their revival and strengthening. Basic Custom Duty of several items is reduced significantly inclusive of LED TV Panels, steel products etc.

With respect to WTO developments, WTO has raised questions over India's move to subside exports of sugar. While, WTO dispute panel report finds US CVD on India's steel products exports inconsistent with WTO law on subsidies. The most significant development at the global trade system was the holding of Trade Facilitation Pact by India, until a permanent solution on public stockholding for food security is found.

A historic signing by BRICS economies was done for establishing the New Development Bank (NDB) in Fortaleza, Brazil. The primary purpose of the bank is to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies. The Bank shall have an initial authorized capital of US$ 100 billion.

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## Highlights:

- June merchandise exports rises by 10.2%
- May FDI stands at US$ 3.6 billion and posted a (Y-O-Y) growth of 121%
- CAD declined to 1.7% of GDP in FY2014
- Composite cap of Foreign Direct Investment (FDI) to be raised to 49% -
- WTO dispute panel reported US CVD on India's steel products exports
- India in talks with a number of countries for new tax treaties
- RBI allows issue of partly paid equity shares and warrants to foreign
- Sixth BRICS Summit declares establishment of New Development Bank'

# 1. India's foreign trade developments

**1.1 June merchandise exports rises by 10.2% -** According to Department of Commerce, India, India's exports for the month of June 2014 stand at around US $ 26.4 billion with a (Y-O-Y) growth of 10.2 % as compared to US $ 28 billion in May 2014 with a (Y-O-Y) growth of 12.4% . During June 2014, the imports were US $ 38.2 billion with a (Y-O-Y) growth of around 8.3% as compared to US$ 39.2 billion in May 2014 with a (Y-O-Y) growth of (-) 11.4% .The balance of trade stands at around US$ (-) 11.8 billion during June 2014 as compared to US$ (-) 11.2 billion during May 2014. The widening of trade deficit is primarily attributed to a sharp rise in imports of gold which surged to US $3.12 billion in June from US $1.88 billion in the same month last year.

**1.2 May services exports estimated at US $ 14 billion -** According to Department of Commerce, India, India's services exports for the month of May 2014 stand at around US $14 billion and services imports stand at US $ 8.02 billion for the month of May 2014. The trade balance in services stands at US$ 5.8 billion for the month of May 2014.

**1.3 Gold imports surges 65% in June -** Gold imports registered a growth of around 65% to US $3.12 billion in June 2014 as compared to US $1.88 billion during the same month last year. The surge is mainly attributed to partial easing in import restrictions during the first quarter whereby Star Trading Houses / Premier Trading Houses (STH/PTH) which are registered as nominated agencies by the Director General of Foreign Trade (DGFT) were permitted to import gold under 20:80 scheme subject to the various conditions.

**1.4 Imposition of minimum export price (MEP) of onion to US$ 500 per tonne –** Ministry of Commerce and Industry in Notification No.86 (RE-2013)/2009-2014 dated 2nd July, 2014 raised MEP on export of onions at US$ 500 per MT which translates to Rs.30 per kg. in order to arrest domestic price rise and to augment domestic supply. The decision was taken in consideration of the consistently going up the wholesale and retail prices of onion are going up in producing and consuming mandies and despite MEP at US$ 300 PMT there is no appreciable decline in the exports of onion.

**1.5 Govt to import 1 lakh tonne onions soon to check prices -** In anticipation of a further hike in onion prices in coming months, the government has decided to import about 1 lakh tonne of onions in the next few weeks to augment domestic supplies. Onions are likely to be imported from Malaysia or Iran which would be used to increase supplies in August and September when prices are expected to rise sharply.

**1.6 India's Q1 Oilmeals exports fell 31% -** According to the Solvent Extractors Association (SEA), India's oilmeal exports fell by 31% to 5.92 lakh tonne in the April-June period of the current fiscal as reflected in sharp decline in soyabean shipments to Iran, South Korea and other countries. Export of Oilmeals, used as animal feed, were 8.56 lakh tonne in the same period of 2013-14. The association reported that this is mainly attributed to poor supply of soyabean coupled with high price which led to total disparity in the international market.

**1.7 Vegetable oil imports reduce 4%** - According to Solvent Extractors' Association of India (SEA) Vegetable oil imports dipped 4% in June to 883,679 tonnes compared with 947,591 tonnes recorded in the same period last year. The weak demand and coupled with inverted duty structure followed by exporting countries such as Indonesia and Malaysia led to the drop in imports. The overall import of vegetable oils during November to June 2014 was recorded at 7,082,220 tons compared to 7,145,060 tons in the same period last year.

**1.8 Engineering exports up 24% in Q1** – Engineering exports grew at rate of 24.15% to US $16.94 billion during the Q1 FY2015 on account of robust expansion in shipments of aircraft and spacecraft parts and automobiles. Exports of aircraft and spacecraft parts rose to US $ 1.5 billion in the first quarter of 2014-15 from US $ 574 million in the year-ago period. The second best performing sector was non-ferrous metals and metal products logging in an expansion of 36.12% at $ 1.48 billion for the period. Shipments of motor vehicles/cars, two and three-wheelers and other automobile parts grew 24.52 per cent to $ 3 billion in the April-June period of the current fiscal.

**1.9 Iran increases import duty on basmati rice to 40%** - Iran has increased the import duty on basmati rice to 40% from 22% last month. This move would discourage India's basmati rice exports to Iran. In addition to increasing import duty on basmati rice the Islamic countries has also set a new set of import standards. Iran has revised the accepted level of arsenic in basmati rice from 120 ppb to 80 ppb (parts per billion). Due to this change also basmati exports to Iran may have affected India's export business of rice.

**1.10 Saudi Arab impose ban on pepper import from India** - Saudi authorities have decided to impose temporary ban on the import of all types of pepper from India with effect from May 30. Presence of high levels of pesticides in the Indian consignment was the reason to put the import restriction.

**1.11 Provisional anti-dumping duty imposed on PTA imports** - The government has imposed anti-dumping duty on purified terephthalic acid (PTA), a raw material for polyester production, in the range of $23.75 to $117.09 a tonne, on imports from China, Korea, Thailand and the European Union in order to remove injury to the domestic industry. In the preliminary findings, issued vide notification No. 14/7/2013-DGAD dated 19th June, 2014, the Directorate General of Anti dumping and Allied Duties (DGAD), had come to the conclusion that (a) the PTA have been exported to India from China, EU, Korea & Thailand below their normal value thus resulting in the dumping; (b) the domestic industry has suffered material injury due to dumping of the PTA from the said countries; and (c) the material injury has been caused by the dumped imports from the said countries.

# 2. Foreign Investments

**2.1 May FDI stands at US$ 3.6 billion** - The FDI equity inflows in the month of May 2014 are estimated at around US$ 3.6 billion as against about US$ 1.6 billion in May 2013, posting a growth (Y-O-Y) of 121%. The growth in FDI equity inflows stands at around (-) 26% in April 2014, 131% in March 2014, at 12% in Feb 2014, and 15% in Jan 2014. The total FDI equity inflows, in the period

April-May 2014-15 are estimated at around US$ 5 3 billion; representing an increase of around 34% over the FDI equity inflows of about US$3 9 billion for the corresponding period last year.

**2.2 FPIs infuse Rs 1.22 lakh crore in securities -** Foreign Portfolio Investors (FPIs) have pumped in over Rs 1 22 lakh crore in Indian stock markets during the first six months of 2014. Investments in Indian securities (equity and debt) made by Foreign Institutional Investors (FIIs)/FPIs in 2013 was Rs 62,288 crore, Rs 1.63 lakh crore in 2012 and Rs 39,353 crore in 2011.

**2.3 Overseas direct investments rose to US $5.03 billion -** Reserve Bank of India (RBI) reported rise in overseas direct investments by Indian corporate to US $5.03 billion in June from US $1 58 billion in the previous month. Total overseas direct investments from India in June included US $131.4 million in equity financing, US $322.9 million in loans and US $4 58 billion in guarantees.

**2.4 ECBs stood at US$ 1.46 billion -** Indian firms have raised US$ 1.89billion through external commercial borrowings (ECBs) in the month of Jun 2014 and US$ 1.46billion during May 2014 by automatic and approval route. The borrowings stood at US$ 1.89billion in Jun 2014 as compared to US$ 1.95billion in Jun 2013.

**2.5 M&A deals up 47% at US $17 billion in H1 -** According to a global deal tracking firm Mergermarket, Mergers and acquisitions (M&As) in India witnessed a significant rise to US $17 1 billion, with a growth (Y-O-Y) of 47% in the first six months of the current year. During H1 2013 it stood at $11.6 billion. Q2 (April-June) of this year registered 78% of the total first half deal value worth US $13 4 billion. While In the January-March quarter there were M&A transactions worth $3.7 billion only. The second quarter was the most active quarter by value since the Q2 of 2012.

**2.6 FDI flows to India rise by 17%: UNCTAD -** UNCTAD in its World Investment Report (WIR) 2014 reported India as a dominant recipient of FDI in South Asian region with 17% increase in inflows to US $28 billion in 2013. However, amongst top 20 host economies for FDI inflows globally, India ranked 14th in 2013. The report highlights that macroeconomic uncertainties in India continue to be a major concern for foreign investors. High inflation and the other macroeconomic problems have cast doubts on prospects for FDI, despite the Government's ambitious goal to boost foreign investment. Policy responses to macroeconomic problems will play an important role in determining FDI prospects in the short to medium run.

# Key Section of the Month

## Economic Survey 2014-15: Key Highlights 'External Sector'

- **Agricultural exports rise by 5.1%** - Agricultural exports (including marine) grew by 5.1% in 2013-14 over 2012-13 to around US$ 37.2 billion on account of jump in exports of rice. Since the opening up of exports of rice in 2011, there has been a surge in its share in total exports from around US$ 3 billion, in 2010-11 to around US$ 8 billion in 2013-14. Exports of total dairy, poultry, meat, and marine products have doubled their share in agricultural exports between 2008-09 and 2013-14.

- **India's services sector is the second fastest growing** - India has the second fastest growing services sector in the world with a compound annual growth rate(CAGR) at 9%, just below China's 10.9%, during 2001 to 2012. Also, India ranked 12th in terms of services Gross Domestic Product (GDP) in 2012 among the world's top 15 countries in terms of GDP.

- **CAD declined to 1.7% of GDP in FY2014** - Current account deficit (CAD) declined sharply from a record high of US $ 88.2 billion (4.7% of GDP) in 2012-13 to US $ 32.4 billion (1.7% of GDP) in 2013-14. After staying at perilously unsustainable levels of well over 4 % of GDP in 2011-12 and 2012-13, the improvement in BOP position is a welcome relief and there is need to sustain the position going forward.

- **Capital flows decline to US $47.9 in FY2014** - Capital flows (net) moderated sharply from US$ 65.3 billion in 2011-12 and US$ 92.0 billion in 2012-13 to US$ 47.9 billion in 2013-14. This moderation in levels essentially reflects a sharp slowdown in portfolio investment and net outflow in 'short-term credit' and 'other capital'. However, there were large variations within quarters in the last fiscal, which is explained partly by domestic and partly by external factors.

- **Annual average exchange rate goes up** - Annual average exchange rate of the rupee rose from Rs. 47.92 per US dollar in 2011-12 to Rs. 54.41 per US dollar in 2012-13 and further to Rs 60.50 per US dollar in 2013-14. The large depreciation of the rupee during the course of the year, notwithstanding sizeable accretion to reserves in 2013-14, could partly be attributed to frictional forces and partly to the role of expectations in the forex market. The rupee has stabilized recently, reflecting an overall sense of confidence in the forex market as in other markets.

- **India's BOP position improves significantly** - India's Balance of Payments (BOP) position improved significantly in 2013-14, particularly in the last three quarters. This owed in large part to measures taken by the Government and the Reserve Bank of India (RBI) and in some part, to the overall macroeconomic slowdown that fed into the external sector.

- **India's foreign exchange reserves posted rise in FY2014** - India's foreign exchange reserves increased from US $ 292.0 billion at end March 2013 to US $ 304.2 billion at end march 2014. The Survey underlined that India continues to be one of the countries that have sizeable foreign exchange reserves particularly considering that some of the other major reserve holders are nations with large current account surpluses. Intervention in the foreign exchange markets by the RBI so as to manage the exchange rate of the rupee and guard against volatility without targeting a specific rate is behind the accumulation of reserves generally.

- **External debt remains within Manageable Limits** - India's external debt has remained within manageable limits due to the external debt management policy, with prudential restrictions on debt varieties of capital inflows given the large interest differential. India's external debt stock at end of March 2013 stood at US $ 404.9 billion recording an increase of US$ 44.1 billion (12.2%) over the previous year's level of US $ 360.8 billion. Component-wise, long-term debt increased by 9.1 % to US $ 308.2 billion at end March, 2013 from US $ 282.6 billion at end March 2012, while short-term debt, increased by 23.7% to US $ 96.7 billion from US $ 78.2 billion at end March 2012, reflecting elevated levels of imports.

## Budget: 2014 -15 - Key Highlights 'External Sector'

- **Composite cap of Foreign Direct Investment (FDI) to be raised to 49%** - Government has announced several steps to promote Foreign Direct Investment (FDI) selectively in sectors where it helps the larger interest of the Indian economy. The composite cap is proposed to be increased from the existing 26% FDI to 49% in defence manufacturing and in insurance sector with full Indian management and control through the FIPB route.

- **Special Economic Zones will be strengthened** - The Government is committed to revive the Special Economic Zones (SEZs) and make them effective instruments of industrial production, economic growth, export promotion and employment generation. Effective steps would be undertaken to operationalize SEZs to revive investors' interest to develop better infrastructure and to effectively and efficiently use the available unutilized land.

- **Import relief for road developers** - The government has eased the norms for customs duty exemption on equipment for road developers. Now, road developers will not require certification from the road ministry or National Highways Authority of India (NHAI) for availing Customs duty exemption on specified goods. And, if the developers sell the equipment within five years, they will have to pay Customs duty on the depreciated value of the equipment.

**Basic Custom Duties (BCD) Reduced on Certain Items to Encourage Investment and Domestic Production:**

***Customs***

| S.No. | Particulars | Proposed | Existing |
|---|---|---|---|
| 1 | BCD on LCD and LED TV panels of below 19 inches | Nil | 10% |
| 2 | BCD on imported flat-rolled products of stainless steel | 7.50% | 5% |
| 3 | BCD on forged steel rings used in the manufacture of bearings of wind operated electricity generators | 5% | 10% |
| 4 | BCD on metallurgical coke | 2.50% | Nil |
| 5 | BCD on ship breaking scrap and melting scrap of iron or steel | 2.50% | 5% |
| 6 | Export duty on bauxite | 20% | 10% |

# 3. India and WTO

**3.1 WTO raises question on sugar subsidy-** Ministry of Commerce and Industry reported that World Trade Organization (WTO) has raised questions over India's move to subsidise export of sugar. WTO member countries, Brazil, Columbia, Australia and the European Union have especially expressed concerned at the WTO's Committee on Agriculture and sought information on various aspects of the scheme under which the government had notified an export subsidy of Rs3,300 a tonne on export of raw sugar of up to 4 million tonnes during the period February - March 2014. The scheme provides an incentive on marketing and promotion services of raw sugar production which will be reviewed before the commencement of the next sugar season 2014-15.

**3.2 WTO dispute panel report finds US CVD on India's steel products exports inconsistent with WTO law on subsidies –** This is in result of challenging imposition of countervailing duties by the United States on certain hot rolled carbon steel flat products from India and requesting for the consulation on On 12 April 2012, Panel has ruled that the imposition of CVD by the US is inconsistent with WTO law on subsidies and the US law mandating cumulation of non-subsidized imports with subsidized imports while determining injury in a CVD investigation is inconsistent with WTO obligations. This Ruling potentially questions the validity of a number of other CVD proceedings conducted by the United States on products of Indian origin. The government is undertaking an evaluation all other products of Indian origin on which the US has applied the same provision to arrive at CVD. This provision has been in existence in the US for many years and India is the first country to successfully challenge this provision.

**3.3 India set to pursue steel import duty row with US -** Despite a favorable order from the World Trade Organization (WTO), India is set to pursue the steel import duty case against the US. Because it is believed that there are several smaller procedural issues where the decision is still in favour of the US.

### India holds WTO Trade Facilitation Agreement

***On 25 July 2014, India made a statement in the WTO General Council conveying, inter alia, that the adoption of the TF Protocol must be postponed till a permanent solution on public stockholding for food security is found.***

The Bali Ministerial Declaration was adopted on 7 December 2013 on conclusion of the Ninth Ministerial Conference of the WTO in Bali. Ministerial Decisions were adopted on ten issues relating to the Doha Development Agenda which is the agenda for the unfinished Doha Round of trade negotiations, underway in the WTO since 2001. Amongst these Ministerial Decisions, two are of particular significance - the Ministerial Decision for an Agreement on Trade Facilitation and the Ministerial Decision on Public Stockholding for Food Security Purposes.

The Trade Facilitation Agreement is basically aimed at greater transparency and simplification of customs procedures, use of electronic payments and risk management techniques and faster clearances at ports. The Protocol of the Trade Facilitation Agreement (TFA) was to be adopted by 31 July 2014 by the WTO. After this the Agreement would automatically come into force from 31 July 2015 if ratified by two-thirds of the members of the WTO. While, some developed countries were seemed to be reluctant to engage on other issues. On this account, the apprehension of developing countries was that once the process of bringing the Trade Facilitation Agreement into force was completed, other issues would be ignored, including the important issue of a permanent solution on subsidies on account of public stockholding for food security purposes.

India, therefore, took the stand that till there is an assurance of commitment to find a permanent solution on public stockholding and on all other Bali deliverables, including those for the Least Developed Countries (LDCs), it would be difficult to join the consensus on the Protocol of Amendment for the Trade Facilitation Agreement.

Without a permanent solution, public stockholding programmes in India and other developing countries will be hampered by the present ceiling on domestic support which is pegged at 10% of the value of production and is wrongly considered as trade-distorting subsidy to farmers under existing WTO rules.

The existence of such a subsidy element is determined by comparing present day administered prices with fixed reference prices of the 1986-88 period which is unrealistic.

The matter came up for discussion in the margins of the BRICS Trade Ministers meeting in Brazil on 14 July and the G20 Trade Ministers meeting in Sydney on 19 July. It was also raised by the representatives of some countries in their interactions with the Indian government.

Agriculture is the mainstay of the Indian population. In a country of the size of India with 60% of the population dependent on a relatively unremunerative agriculture sector, we cannot give up administered prices. This is the only way we can procure food for the Public Distribution System (PDS), the central pillar on which our efforts to ensure food security, rest. Public stockholding is a widely used means to ensure food security in many developing countries where agriculture is largely rainfed.

On 25 July 2014, India made a statement in the WTO General Council conveying *inter alia*, that the adoption of the TF Protocol must be postponed till a permanent solution on public stockholding for food security is found. India offered a way to achieve not only a permanent solution on the issue of public stockholding for food security but also to implement the Trade Facilitation Agreement in the agreed timeframe as well as deliver favourable outcomes for LDCs.

However, despite India's efforts, our concerns The Director General of the WTO reported to an informal meeting of the Trade Negotiations Committee on 31 July 2014 that a solution could not be found to bridge the gap. The General Council meeting was, thereafter, formally declared closed without adopting the TF protocol

## 4. India and Bilateral Trade Developments

**4.1 India conveys disagreement to European Union on mango export ban -** The Ministry of Commerce & Industry has conveyed its "disagreement" to the European Union on the issue of ban on Indian mangoes and a few vegetables and also informed the EU regarding implementation of several control systems including enhancement of capacity and numbers of inspecting staff and improvement in infrastructure, implementation of a Standard Operating Procedure to guarantee safe exports and routing of all export consignments of perishables to EU through approved pack houses from 01.04.2014 to enable better inspection and certification. The EU has prohibited import from India of five fruits and vegetables, which include mangoes, on account of interceptions of export consignments not compliant with EU phytosanitary (relating to plant life) regulations w.e.f 1st May, 2014.

**4.2 Seventh Round of Ministerial Level India-UK Economic and Financial Dialogue (EFD) -** The UK Chancellor of the Exchequer and the Finance Minister of India during the Seventh Round of the UK-India Economic and Financial Dialogue on 8th July, 2014 discussed ways to strengthen the mutual cooperation and further boost trade and investment between the two countries. The UK and India share a common commitment to take the necessary steps to support growth and jobs, ensure financial stability and restore fiscal sustainability. Both countries agreed to pursue joint work on the common aim of exploring ways to encourage increased institutional investment in infrastructure. The ambitious package of measures to support investment in Indian infrastructure will include a £1 billion line of credit from UK Export Finance (UKEF) to support Indian infrastructure projects, such as Bengaluru-Mumbai Economic Corridor (BMEC). Both the representatives also discussed the steps that are being taken to harmonise financial services legislation in each of our countries.

**4.3 India has signed Bilateral Investment Promotion and Protection Agreements (BIPA)** - Ministry of Commerce and Industry reported that India has signed Bilateral Investment Promotion and Protection Agreements (BIPA) with 83 countries, of which 72 are currently in force. The salient features of these Agreements include assurance of fair and equitable treatment, most favored nation status, national treatment status and mechanism for dispute resolution. These Agreements are intended to promote foreign investment.

**4.4 Coastal Shipping Between Ports of India and Bangladesh -** India and Bangladesh are working towards an agreement and setting up of Standard Operating Procedures for undertaking coastal shipping between the ports of Bangladesh and the eastern ports of India. The two countries agreed to confirm to standards of River Sea Vessels (RSV)-4 for the vessels operating on the coastal routes between the two countries. India agreed to assist Bangladesh through Indian Register of Shipping (IRS) for classification of Bangladesh vessels , Both the countries have also agreed to buy insurance cover for a limit of 10 million US $ from the respect domestic insurance companies. Discussion were being held through diplomatic channels to formalize coastal shipping arrangements between the two countries over the last two years and a trial run is expected to be undertaken by October this year.

**4.5 India and China signed the MOU on the creation of industrial parks -** India has agreed to extend the benefits of special economic zones (SEZ) and National Investment and Manufacturing Zones (NIMZ) to the proposed industrial parks which would be developed in collaboration with China. With this regard, India and China signed the memorandum of understanding (MoU) on the creation of industrial parks. The parties confirm that the cooperation on industrial parks shall enjoy the support that the Chinese government grants to overseas economic and trade cooperation zones, as well as the benefits not lower than that envisaged under the prevailing policy frameworks in India, such as SEZ, NIMZ, and existing policies of the state governments, as applicable,"

**4.6 India in talks with a number of countries for new tax treaties -** India said negotiations are going on for signing new Double Taxation Avoidance Agreements (DTAAs) with Hong Kong, Iran, Nigeria and three other nations Azerbaijan, Chile and Venezuela. Besides, negotiations are also going on for entering into new Tax Information Exchange Agreements (TIEAs) with a host of jurisdictions, including Costa Rica, Panama, Maldives, Saint Kitts and Nevis, Seychelles, Barbados, Cook Islands, Jamaica, Peru and Saint Lucia. Under these tax agreements, information on money deposited by Indians in specific cases can be received.

**4.7 India may soon sign first bilateral advance-pricing pact with Japan -** Indian tax authorities are likely to soon sign their first bilateral advance-pricing agreements (APAs) with a clutch of Japanese trading companies. These agreements are designed to avoid conflicts with multinational companies (MNCs) over sharing of taxes between India and the countries where these firms are based. After signing five unilateral APAs with MNCs to specify in advance the arm's-length price in cross-border transactions, India is discussing 50 bilateral agreements involving companies and the tax administration of their respective countries of origin.

# 5. Policy Developments

**5.1 Imposition of minimum export price (MEP) of onion to US$ 500 per tonne -** Ministry of Commerce and Industry in Notification No. 86 (RE – 2013)/2009-2014 dated 2nd July, 2014 raised MEP on export of onions at US$ 500 per MT which translates to Rs. 30 per kg. in order to arrest domestic price rise and to augment domestic supply. The decision was taken in consideration of the consistently going up the wholesale and retail prices of onion are going up in producing and consuming mandies and despite MEP at US$ 300 PMT there is no appreciable decline in the exports of onion.

**5.2 RBI increases diamond imports' credit time to 180 days -** Reserve Bank of India (RBI) in its notification RBI/2014-15/119 A.P.(DIR Series) Circular No. 2 dated 7th July, 2014 has relaxed norms governing import of rough, cut and polished diamonds by doubling the credit time period to 180 days. The bank stated that in consultation with the government, that the Clean Credit i.e. Credit given by a foreign supplier to its Indian customer/ buyer, without any Letter of Credit (Suppliers' Credit)/Letter of Undertaking (Buyers' Credit)/Fixed Deposits from any Indian financial institution for import of rough, cut and polished diamonds, may be permitted for a period not exceeding 180 days the date of shipmen. Earlier the time frame was of 90 days.

**5.3 RBI allows issue of partly paid equity shares and warrants to foreign investors -** Reserve Bank of India (RBI) in its notification RBI/2014-15/123 A.P.(DIR Series) Circular No 3 dated 14th July, 2014 allowed Foreign investors to invest in partly paid equity shares and warrants issued by an Indian company which are now eligible instruments for the purpose of FDI and foreign portfolio investment (FPI) by foreign institutional investors (FIIs). The pricing of the partly paid equity shares shall be determined upfront and 25% of the total consideration amount (including share premium, if any), shall also be received upfront; The balance consideration towards fully paid equity shares shall be received within a period of 12 months. Until now, such investors were only allowed to invest in equity shares and compulsorily and mandatory convertible preference shares or debentures recognized as foreign direct investment (FDI) compliant instruments. And FDI was permitted through the government route by seeking Foreign Investment Promotion Board (FIPB)'s approval on a case to case basis which used to take a long time. This move is expected to help smaller Indian firms in reducing administrative hassles and attracting foreign capital more easily.

**5.4 Revised Pricing Guidelines for Issue/ Transfer of Shares or Convertible Debentures under FDI in India -** Reserve Bank of India (RBI) in its notification RBI/2014-15/129 A.P. (DIR Series) Circular No.4 has issued Revised Pricing Guidelines for Issue/ Transfer of Shares or Convertible Debentures under Foreign Direct Investment (FDI) in India. The new pricing guidelines are: (i) In case of listed companies: The issue and transfer of shares including compulsorily convertible preference shares and compulsorily convertible debentures shall be as per the SEBI guidelines and the non-resident investor shall be eligible to exit at the market price prevailing on the recognised stock exchanges subject to lock-in period as stipulated, without any assured return. (ii) In case of unlisted companies: shall be at a price worked out as per any internationally accepted pricing methodology on arm's length basis.

**5.5 RBI increases FII investment sub-limit in G-secs to US $5 billion -** RBI in its notification RBI/2014-15/145 A.P. (DIR Series) Circular No.13 has decided to enhance the investment limit in government securities available to FIIs (Foreign Institutional Investors)/QFIs (Qualified Foreign Investor)/FPIs (Foreign Portfolio Investors) by US$ 5 billion by correspondingly reducing the amount available to long term investor from US$ 10 billion to US$ 5 billion within the overall limit of US$ 30 billion. RBI also mentioned that the incremental investment limit of US$ 5 billion shall be required to be invested in government bonds with a minimum residual maturity of three years. Further, all future investment against the limit vacated when the current investment by an FII/QFI/FPI runs off either through sale or redemption shall also be required to be made in government bonds with a minimum residual maturity of three years. However, there will be no lock-in period and FIIs/QFIs/FPIs shall be free to sell the securities (including that are presently held with less than three years of residual maturity) to the domestic investors.

**5.6 Sixth BRICS Summit declares establishment of 'New Development Bank' (NDB) -** The BRICS nations including the leaders of Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa, announced the signing of the Agreement for establishing the New Development Bank (NDB), during the Sixth BRICS Summit held in Fortaleza, Brazil, on 15 July 2014. The primary purpose of the bank is to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies.

# 6. Miscellaneous

**6.1 Forex reserves at $320.564 billion - RBI** reported foreign exchange reserves at US $320 56 billion as on 25th July, an increase of US $2.7 billion in one week. This is on account of heavy dollar buying by the RBI in recent months amid steady inflow.

**6.2 Government initiated dumping probe into chemical imported from China -** The government has initiated a probe into alleged dumping of a chemical, used in paint industry, by China and Switzerland in the domestic market on account of a sufficient prima facie evidence of dumping of "Diketopyrrolo Pyrrole Pigment Red 254" from China and Switzerland. The investigation would enable to determine the existence, degree and effect of any alleged dumping and to recommend the amount of anti-dumping duty, which if levied would be adequate to remove the 'injury' to the domestic industry.

**6.3 EU ban on Indian mango may be lifted pre schedule -** The European Union will lift its ban on Indian mangoes and vegetables earlier than scheduled if its quality inspectors are satisfied with the new stringent packaging norms for perishables put in place by the country. A team of experts from the EU's Plant and Health Department will be in India in September to inspect packaging facilities and mandatory inspection norms. Once they are satisfied that we are exporting high quality products packaged in sanitised conditions, the EU is expected to lift the existing ban on exports. The Union had imposed a ban on import of mangoes, bitter gourd, taro, egg plant and snake gourd from India in May this year, after insects were detected in some consignments. The ban was imposed for 20 months till December 2015.

## Key Approvals: 'External Sector'

### Cabinet approves FDI in Insurance upto 49%

*The Cabinet Committee on Economic Affairs has approved raising of FDI cap in insurance sector to 49% from 26%, through the FIPB route ensuring management control in the hands of Indian promoters. The proposal to raise FDI cap has been pending since 2008 when the Insurance Laws (Amendment) Bill was introduced. The move is expected to help insurance firms to get much needed capital from overseas partners.*

### Govt approves Adani Ports' SEZ project in Gujarat

*The Ministry of Environment and Forsets (MoEF) given approval to Adani Ports and Special Economic Zone Ltd (APSEZL) to set up a special economic zone covering 8,481 hectares in Mundra taluka of Kutch in Gujarat. This would enable the company to set up SEZ-related infrastructure to facilitate Indian exports from Mundra SEZ, located next to the country's biggest privately-run, multi-commodity commercial port. APSEZL is India's largest port developer and it is believed that the grant of environmental clearance to Mundra SEZ by the MoEF will encourage investment in SEZ and the development is expected to be at a much faster pace as it provides seamless connectivity through sea, rail and road.*

### Indian companies allowed buying and flagging ships abroad

*The government has allowed shipping companies to acquire ships abroad and also flag them in the country of their convenience. This will enable Indian companies to have access to cheaper sources of funds abroad to acquire additional tonnage while not having to set up multiple enterprises abroad to acquire and maintain such tonnage.*

# *Key Proposals: 'External Sector'*

### *Composite foreign investment cap proposed for most sectors*

*The department of industrial policy and promotion (DIPP)) has prepared a draft Cabinet note proposing the limits for foreign direct and portfolio investment be merged into composite caps. The note has proposed a combined cap in most sectors where foreign direct investment (FDI) is allowed or where foreign institutional investors (FII) have a separate limit. Composite caps have been suggested for sectors like agriculture, tea plantations, petroleum and natural gas, manufacturing, airports, real estate, telecommunications, mining, non-banking financial companies and pharmaceuticals.*

### *Shipping Ministry to set up new co to develop port rail projects*

*The Shipping Ministry, as part of its initiative to fast-track port connectivity, proposes to incorporate a new company to undertake rail projects at all Government ports. The new entity, which will have equity participation from the 12 Major Ports, is expected to implement all new rail projects and also to undertake the existing rail line operations with in the port area. Currently, rail projects at ports are implemented by special purpose vehicles created by individual ports with the support of Rail Vikas Nigam Ltd. However, projects often get delayed under this model.*

### *Textile policy aims to create US $300 billion exports*

*Keeping in view the various changes in the textile industry on the domestic and international fronts and the need for a road map for the textile & apparel industry, Ministry of Textiles had initiated the process of reviewing the National Textile Policy, 2000. Accordingly, an Expert Committee was constituted including leading industrialists from the textile sector to make fresh recommendations. The committee, on July 28 submitted the draft of the new National Textiles Policy, which aims to achieve $300 billion exports by 2024-25, and creation of additional 35 million jobs by attracting investments. The blueprint termed as the draft 'Vision, Strategy and Action Plan' to revitalize the textiles and apparel industry envisages an additional investment of $120 billion. The key objectives of the Government is to formulate a new improved Textile Policy to address concerns of adequate skilled work force, labour reforms, attract investments in the textile sector, and to provide a future road map for the textile and clothing industry. The draft Vision, Strategy & Action Plan for Indian Textiles & Apparels (2024) shall remain open for comments till August 18, 2014 after which feedback will be considered and a final Vision, Strategy & Action Plan would be finalised for seeking approval of Cabinet and adoption.*

# Key International Visits and Trade Fairs

## India's PM Visit at Bhutan

At the invitation of His Majesty Jigme Khesar Namgyel Wangchuck, the King of Bhutan, Prime Minister of India paid a State Visit to Bhutan from 15-16 June, 2014. Their discussions covered all areas of bilateral cooperation including trade, economic cooperation and cultural, educational exchanges.

## Visit of Chinese FM to India

Foreign Minister of China Mr. Wang Yi visited India on 8-9 June, 2014 as the Special Envoy of the President of China. The objective of the visit was to establish contact with the new government. Foreign Minister Wang Yi held extensive talks with External Affairs Minister Smt. Sushma Swaraj. Both sides agreed to maintain the momentum of high-level exchanges and deepen cooperation with a determination to add new content and substance to the relationship.

## US Commerce Secretary Penny Pritzker and US secretary of state John Kerry Visit India

The Minister of State (Independent Charge) Commerce and Industry Smt. Nirmala Sitharaman met Ms. Penny Pritzker, US Secretary of Commerce wherein US Gives Draft MoU On US-India Infrastructure Initiative Proposal. The two sides agreed to initiate identification of real projects where partners from both the countries will collaborate. The proposal was termed "a very positive step" that will be taken forward. US Secretary of State John Kerry visited India hold the 5th Indo-US Strategic Dialogue.

## 53rd India International Garment Fair

The 53rd India International Garment fair (IIGF) was organized by the top Associations of Exporters, supported by the Ministry of Textiles and other related Government departments. The fair featured womens wear, menswear, kidswear and fashion accessories from the spring/summer collections of 2015. Over 400 exhibitors of High Fashion & Occasional wear, Casual Wear & City Wear, and Sportswear displayed their products at the Fair. These exhibitors were from traditional and non-traditional market which is an indication that the buyers from the non-traditional markets have started showing faith and see India to be a safe and compliant destination for sourcing garments.

PHD Research Bureau

# India's External Sector – A Snapshot

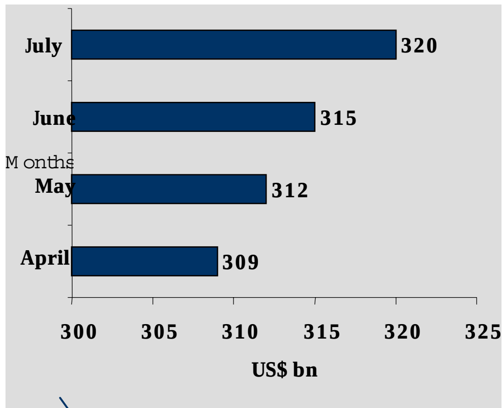
**Value of Merchandise Trade** **USD billion**

| Period | May | June | April-June |
|---|---|---|---|
| **Exports** | | | |
| FY 15 | 28 | 26.4 | 80 |
| Growth (%) y-o-y | 12.4 | 10.2 | 9.3 |
| **Imports** | | | |
| FY 15 | 39.2 | 38.2 | 113.2 |
| Growth (%) y-o-y | -11.4 | 8.3 | (-) 6.9 |
| **Trade balance** | | | |
| FY 15 | (-)11.2 | (-) 11.8 | (-)33 |

*Source: PHD Research Bureau, compiled from Ministry of Commerce and Industry, Govt of India*

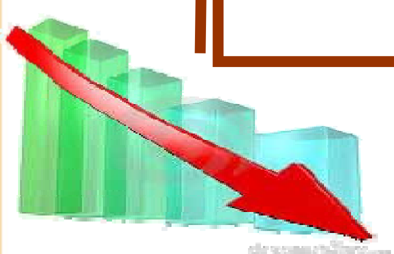
India's exports for the month of June 2014 stand at around USD 26.4 billion with a (Y-O-Y) growth of 10.2% as compared to USD 28 billion in May 2014 with a (Y-O-Y) growth of 12.4%.

**Forex reserves stand at USD 320.564 bn in the week to July 25th**




**July FY15 Foreign Exchange Reserves grew 14.3% (M-o-M)**

**CAD to GDP declined from 4.7% in FY2013 to 1.7% in FY2014**



| Financial Year 2014- 2015 (Apr - March) | | Amount of FDI inflows (In Rs. Crore) | Amount of FDI inflows (In US$ mn) |
|---|---|---|---|
| 1 | Apr-2014 | 10,290 | 1,705 |
| 2 | May-2014 | 21,373 | 3,604 |
| **2014-15 (up to May 2014)** | | **31,663** | 5,309 |
| **2013-14 (up to May 2013)** | | **21,596** | **3,953** |
| **%age growth over last year** | | 47% | 34% |

The FDI equity inflows in the month of May 2014 are estimated at around US$ 3.6 bn as against about US$ 1.6 bn in May 2013, posting a growth (Y-o-Y) of 121%.

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The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers.

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