

## Weekly Economic Bulletin

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## News Feature

### Services exports to pick up steam by year-end: Ficci

India's exports of services, which declined in the first two quarters of 2009, will return to growth by the year-end, according to a report by the Federation of Indian Chambers of Commerce and Industry (Ficci).

The overall services exports declined by 7% during the January-March period this year, and by 3% in the subsequent quarter, compared with a positive growth of 14% and 22%, respectively, in the first two quarters of 2008. "All the major segments of services exports, except insurance and financial services, witnessed contraction since January 2009," said the chamber in the report.

Ficci president Harshpati Singhania added: "This has resulted in a subdued growth of 12.4% in India's total services exports in 2008-09, compared with over 22% increase in 2007-08."

The report said India's exports of software services declined by 14% in the first half of 2009. Earnings from travel fell by 26% during the January-March quarter, and by 9% in the subsequent quarter, signifying the effect of the slowdown on tourist arrivals. Tourist arrivals were down by 9.5% in the second half of 2008-09, and by 1.8% in the first quarter of the current fiscal, said the FICCI report.

Receipts from trade-related services dipped sharply by 56% and 27%, respectively, in the first and second quarters of 2009, it added. Among other major segments, communication and business camp, professional services, including management consultancy, architectural, engineering, technical and other business services, also registered negative growth ranging from 4% to 53 %

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Services-exports-to-pick-up-steam-by-year-end-Ficci/articleshow/5187457.cms>

### Economy likely to grow by 8% next fiscal: Plan panel

India's economic growth rate is expected to accelerate to eight per cent in the next fiscal from 6.3 per cent projected for the current financial year, the Planning Commission has said.

The Commission in its recent assessment of the economy also expects economic growth to go up to nine per cent in 2011-12, and further to 10 per cent in 2014-15.

These assumptions were made by the Planning Commission while projecting the state of government finances before the Eleventh Finance Commission recently.

The global slowdown has pulled down India's economic growth to 6.7 per cent during 2008-09 from about nine per cent a year ago. During the current fiscal, as per the Planning Commission estimates, growth rate may fall to 6.3 per cent.

In the first quarter of this fiscal, economy expanded by 6.1 per cent, and it is expected that growth rate would decelerate further in the second quarter before picking up.

In order to combat the impact of global crisis on the economy, the government and the Reserve Bank had come up with a host of stimulus measures, including tax cuts and making available liquidity to the cash-starved industries.

However, stimulus measures, comprising a cut in taxes and increase in plan expenditure, to boost up the economy widened the fiscal deficit to 6.2 per cent last year.

<http://economictimes.indiatimes.com/news/economy/indicators/Economy-likely-to-grow-by-8-next-fiscal-Plan-panel/articleshow/5189707.cms>

## **Overseas News**

### **Forex reserves up \$684 mn to \$285 bn**

India's foreign exchange reserves rose by \$684 million for the week ended October 23 to \$285.520 billion from \$284.836 billion in the previous week.

Foreign Currency Assets (FCAs), during the period, grew to \$268.348 billion as against \$267.898 billion in the week ago, the RBI said in its weekly report.

FCAs, expressed in US dollar terms, include the effect of appreciation or depreciation of non-US currencies such as Euro, Sterling, Yen held in reserves, the RBI said.

Gold reserves, during the week, stood unchanged at \$10.316 billion, while the Special Drawing Rights (SDRs) stood marginally up at \$5.267 billion from \$5.250 billion in the previous week, the central bank said.

India's reserve position in the International Monetary Fund grew to \$1.589 billion from \$1.372 billion in the week-ago, the RBI said.

<http://economictimes.indiatimes.com/news/economy/indicators/Forex-reserves-up-684-mn-to-285-bn/articleshow/5181396.cms>

### **Capital inflows from EU recovering, FDI on the rise**

Capital flows from the European Union (EU) are coming back to India and the foreign direct investment (FDI) is on the rise, a European Commission (EC) official has said.

“The situation (on capital flows) is equilibrating again. This is a positive development after a period where trade and capital flows had gone down dramatically,” Mr Marco Buti, Director-General for Economic and Financial Affairs, said.

The year 2008 saw a dramatic shrinkage in FDI from Europe to India amidst the global economic slump. FDI into India from the EU plunged to €0.9 billion in 2008 compared with €5.4 billion in 2007.

India's investment into the EU, which boomed in 2007 to about €10 billion, dropped drastically to €2.4 billion in 2008.

"We don't see the shrinkage continuing," Mr Buti said, striking an optimistic note on the capital flows front.

In the future, one will see much stronger capital flows from both sides, it was noted.

"Recovery of economic growth (to 6.5 per cent levels) will make India an interesting place to invest.

"Similarly, Indian companies can get good bargain to invest in the EU in the backdrop of the financial crisis and the fact that the EU is very open to FDI," said EC officials who visited New Delhi for the third India-EU macroeconomic dialogue.

The EU has an open foreign capital environment, remains very open to FDI and India is very much welcome, Mr Buti noted.

Foreign investor interest in India has been up sharply this fiscal, especially on the portfolio capital front.

In fact, there has been a deluge with foreigners having invested \$13.8 billion in India's stock market since April this year.

<http://www.blonnet.com/2009/11/03/stories/2009110351741000.htm>

## **Trade News**

### **Bilateral trade between Malaysia, India to grow**

Despite bilateral trade between Malaysia and India hit by recession, it is likely to witness a growth by early next year, Malaysian International Trade and Industry Minister Mustapa Mohamed said.

"Currently the bilateral trade between the two countries is USD 10.5 billion. Around 20 per cent of trade was affected due to recession. We are hoping to see the trade grow by early next year," Mohamed told.

Earlier, participating as the chief guest at the 10th Anniversary celebration of Marrybrown Family Restaurant here, he said the success of Marrybrown would motivate other companies in Malaysia to venture into the Indian market.

There were around 15 Malaysian companies present in the country while 20 Indian companies were present in Malaysia.

Marrybrown Founder and Malaysian operations Managing Director Nancy Liew said the restaurant was present in 13 countries having more than 300 outlets. As part of increasing their presence, new restaurants were recently opened in Dubai, Qatar, Saudi Arabia, Kuwait, Syria, Tanzania and Iran.

Marrybrown India Managing Director MGM Anand said 12 more outlets would be added to the existing 30 restaurants in South India.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Bilateral-trade-between-Malaysia-India-to-grow/articleshow/5186535.cms>

### **India, Nepal renew trade treaties**

India and Nepal updated two treaties, including a 60-year-old trade agreement that would provide the Himalayan nation duty-free access to more products and allow Nepalese exporters to sell Indian goods to a third country.

Talks for both agreements were concluded during the visit of Nepalese PM Madhav Kumar to New Delhi in August 2009.

For the first time, India has allowed goods consignments to and from Nepal through Delhi, Mumbai, Kolkata and Mumbai airports. Four more land-customs routes have been approved to facilitate trade with Nepal, taking the total tally to 26.

The India-Nepal trade treaty, which was first signed in 1950 has been updated regularly. The trade treaty was last updated in 1996, but with a provision to review it after every five years. As per the new norms, the treaty will now be reviewed every seven years.

"The new treaty retains the positive features of the previous one and has some additional features," commerce minister Anand Sharma said after signing the treaty.

Under the new treaty, Nepal will export additional primary goods duty free to India without any cap on the quantity, which includes wheat flour, bran, husk, bristles, herbs, stone aggregates, boulders, sand and gravel.

The updation of the treaties comes in wake of Nepal insisting on removal of trade barriers and greater access to the Indian market. Meanwhile, China has been making considerable inroads into the economy of Nepal, a trend which made India uncomfortable.

According to the treaty, trade between the two countries in rupee terms will now be at par with convertible currency like dollar and euro. This will lead to easier reimbursement of duties like central excise. This will make imports from India cheaper for Nepal. Indian companies that have presence in Nepal include Dabur, Hindustan Lever, Asian Paints, Bajaj Auto and ITC. "The treaty will lead to enhanced manufacturing activity in Nepal, which will increase jobs," said a commerce ministry official.

"The treaty will add to the trade volumes between the two countries," said Rajendra Mahato, Nepalese minister of commerce and supplies.

<http://www.financialexpress.com/news/india-nepal-renew-trade-treaties/534075/>

### **India, US agree on trade pact framework**

India and the US agreed on a framework to promote trade and investment and hoped to sign an agreement, even as US Trade Representative Ron Kirk pressed for further opening up of India's services sector, especially the financial market.

"The two governments agreed to work together on a framework for promoting real and meaningful cooperation in trade and investment," a joint statement issued after the sixth ministerial meeting of the bilateral Trade Policy Forum (TPF) said.

After his meeting with Kirk, commerce minister Anand Sharma said he hoped the agreement would be signed soon. Sharma said India and the US had also agreed to sign agreements on intellectual property rights and sharing of traditional knowledge digital library.

The two sides also agreed to work together to support greater involvement by small and medium enterprises in each other's markets, and to pursue initiatives in the future development of India's infrastructure, and collaboration on clean energy and environmental services and other sectors.

Pitching for greater access to the Indian services sector, Kirk hoped India would further strengthen its IPR regime. "The US has long sought greater access to the Indian market in the financial services and goods and services market and a number of areas in which there are no differences," he told reporters.

He also said the issue of H1-B visas for Indian professionals did figure in his discussions. "The US administration is working with (US) Congress to see if we can resolve these outstanding concerns related with the H1-B visas."

Officials of the two countries will meet twice a year to complete the remaining task of the TPF, formed in 2005 to discuss trade and investment issues. Kirk termed the TPF meeting as "productive" and said the two governments agreed on a framework for "promoting real and meaningful cooperation" in trade and investment.

<http://economictimes.indiatimes.com/Foreign-Trade/India-US-agree-on-trade-pact-framework/articleshow/5166410.cms>

### **Egypt invites Indian cos to set up JVs**

Egypt has invited India to build an 'India industrial zone' in the Suez development area for setting up joint ventures with Egyptian companies. Egypt's Prime Minister Ahmed Nazif, at a meeting with commerce and industry minister Anand Sharma in Cairo, offered to designate an area for setting up of the zone exclusively for Indian companies.

India could gain significantly from the offer as it would give it easier entry to the European and African markets, since Egypt has preferential access to both, commerce & industry minister Anand Sharma said. "We are very happy to receive the offer and will work on taking it forward," Mr Sharma said.

The Suez development area, located on the north-west coast of the Gulf of Suez, has lower bureaucratic barriers to business formation and provides tax incentives. The law gives more incentives for priority areas, such as infrastructure, auto parts, software, oil field services, tourism and manufacturing. The terms and conditions of investing in the proposed India zones and the tax benefits to industry are to be worked out.

"Special industrial zones in Egypt do get a lot of tax benefits. The exact structure of the benefits to be given to the proposed India zone will be worked out," a government official, said.

Indian companies have, till now, invested about \$750 million in 40 projects in Egypt. It has a significant presence in the IT and automobile sector with companies like Wipro, Satyam, Mahindra and Tatas, having invested in the country. Mahindra, which sells Scorpio in the country, is also in talks for setting up a production zone in the country while IT company TCS is expected to set up shop shortly. "Indian companies are already interested in Egypt. The India zone will help attract more investments," the official added.

Mr Sharma, who also participated in the informal mini-ministerial meeting of the African group on the on-going Doha round of the WTO trade negotiations, emphasised India's support to the cause of the least developed countries.

"It was already agreed in the September informal ministerial in Delhi that the work agenda for LDCs on all issues should be put on fast track for negotiating convergence," he said. India and the African group reviewed progress at the WTO on issues of joint interest like protecting farmers against import surges and ensuring that developed countries brought down their trade distorting farm support. The meeting was also attended by WTO director-general Pascal Lamy.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Egypt-invites-Indian-cos-to-set-up-JVs/articleshow/5187294.cms>

## **Sectoral News**

### **Investment in food industry to shoot up by 42.5%**

Investment opportunities in the Indian food industry are set to shoot up by a huge 42.5% now to US\$ 181 billion in 2015 and to US\$ 318 billion by 2020, a FICCI-E&Y study on India's food industry has said. The study Flavours of Incredible India-Opportunities in the Food Industry has noted that the food industry accounts for a big 30% of the consumers wallet.

Infact, 70% of the current food spend by the Indian consumer is on agri produce, the study says. Two thirds of this is sepnt on primary and secondary processed products. Among

agri products, Fruits and Vegetables (F&V) is the largest consumption category and accounts for over 50% of the total consumption. Milk, milk products, meat and meat products account for the remaining 30% spend and have been growing at a faster rate as compared to agri products.

The key drivers of the sector have been identified as an increase in per capita disposable income by 8% over the last five years, leading in turn to an additional per capita spend on food by 20% in the same period. The current per capita income on food is 1/6th that of China and 1/16th that of the USA; growth in the size of the middle class to an ever rich class that is projected to increase at more than 300% between 2005 and 2015 even as the youth population catapults annually by 11%. This will lead to an increasing demand for food products to meet demands of convenience, health, variety and changing palate, the study says.

The study said the growth in food sector would help in re-organising the supply chain to enable reduction of post harvest losses, especially in fruits and vegetables which now amounts up to 25 per cent by value. "This would mean an opportunity to set up warehouses, cold stores and logistics infrastructure," it said.

The sector would also create a base for exports of value added food products with current shipments of tertiary food products only at 9 per cent of overall food exports, it said, adding that launch of new products and increasing penetration of processed foods has a huge investment potential.

<http://economictimes.indiatimes.com/Food/Investment-in-food-industry-to-shoot-up-by-425/articleshow/5165531.cms>

### **Indian direct selling market to touch Rs 5,320 cr by 2012-13**

Driven by a robust growth in the health segment, Indian direct selling market that grew 17 per cent last fiscal is poised to touch Rs 5,320 crore by 2012-13, according to a report by consultancy firm Ernst & Young.

The report said direct selling market--selling to customers without the use of intermediaries--was valued at Rs 3,300 crore last fiscal and will grow at 10-15 per cent for the next 1-2 years.

"This is expected to take the overall, direct selling industry, excluding insurance to Rs 5,320 crore by 2012-2013," it said.

The E&Y report attributed the robust growth of the sector to expansion by several direct selling companies to Tier I and II as well the rural areas.

It said health, comprising of products related to nutrition, wellness and supplements, has emerged as the leading category, contributing 32 per cent to the overall revenues of the direct selling companies.

"At this time of the slowdown, this market has grown because of the good growth of the health sector, which is largely recession free. Besides, it has also become a source of employment for several people," Indian Direct Selling Association Chairman and Managing Director Oriflame India Fredrick Widell said.

<http://economictimes.indiatimes.com/news/economy/indicators/Indian-direct-selling-market-to-touch-Rs-5320-cr-by-2012-13/articleshow/5168945.cms>

### **New policy to boost Indian defence sector**

In an effort to promote indigenisation of the Indian defence industry, the new defence procurement procedure (DPP) 2009, would have a new category of 'Buy and Make (Indian)' under transfer of technology.

The DPP-2009 would also ensuring transparency and accountability in all procurement cases and liberalise offset provisions to enable vendors to fulfil their obligations. The DPP-2009 will be effective from November 1, 2009.

A new category of 'Buy and Make (Indian)' has been introduced. If a project is selected by the Defence Acquisition Council to be categorised as 'Buy and Make (Indian)', Indian firms, both public and private, will play a lead role in negotiating and obtaining technology and co-production arrangements with the foreign original equipment manufacturers (OEMs). As such, the request for proposal will be issued to the Indian firms and not to the foreign OEMs. Under the existing procedure, if an item is categorised as 'Buy and Make', the government identifies a production agency for transfer of technology. This method did not encourage formation of joint ventures (JVs) or alliances for co-production with Indian companies. Under DPP-2009, Indian firms identified to have requisite technical and financial capabilities would be required to submit project proposals indicating detailed roadmap for development and production of the items over its life cycle. They will also be required to spell out the proposed production arrangement with the foreign OEM along with the content of the transfer of technology (ToT). The product so manufactured and supplied by the Indian company must have 50% indigenous content.

DPP-2009, would enable pro-active participation of Indian industry in manufacturing defence products through co-production arrangements, such as JV, with foreign manufacturers and through transfer of technology. A major impediment in the growth of defence industry in the country has been lack of information with the domestic industry on defence requirements. Such information has generally been treated as classified. Consequently, the indigenous industry is unable to plan R&D technology, upgradation or joint collaboration with associated foreign industries. Under Amendment 2009 to the DPP-2008, a public version of the Long Term Perspective Plan of the Armed Forces outlining technology perspective and capability roadmap covering a period of 15 years will be widely publicised and made available on MoD website. Further, to facilitate active participation of domestic industry in acquisition planning, representatives of companies and Industry Associations will be invited for presentations and consultations in procurement meetings before decisions on the source of procurement.

<http://www.financialexpress.com/news/new-policy-to-boost-indian-defence-sector/534972/>

## News Round-Up

### India among top 10 Asian countries in CSR practice

India has been named among the top ten Asian countries who are paying an increasing importance towards corporate social responsibility (CSR) disclosure norms, a survey says.

According to social enterprise CSR Asia's Asian Sustainability Ranking (ASR), India was ranked fourth in the list, which was topped by Australia.

The other countries in the list include China (second), Hong Kong (Third), Japan (fifth), Malaysia (sixth), Pakistan (seventh), Philippines (eighth), Singapore (ninth) and Thailand (tenth).

The 2009 ASR list was dominated by Australian companies, with eight out of the top ten companies analysed coming from there, followed by India, the survey said.

However, the report further said although there are increasing levels of disclosure in the Asian region, it still is generally poor compared with Europe and North America.

"In India we find surprisingly high levels of disclosure, particularly from large companies with recognised brands such as Tata and Infosys. Leading oil companies (such as ONGC and the Indian Oil Corporation) also have reasonable levels of disclosure," the report said.

<http://www.financialexpress.com/news/india-among-top-10-asian-countries-in-csr-practice/534404/>

### Indians most optimistic lot in the world: Nielsen

Indians have emerged as the most optimistic lot globally, with improving economic conditions, better growth and job prospects making them more confident, a report by global consultancy firm The Nielsen says.

According to the survey, India has topped latest round of Nielsen's Consumer Confidence Survey with 120 index points.

The country is followed by Indonesia and Norway with 115 and 110 index points, respectively.

Indicating a rebounding consumer confidence across the world, Nielsen's global consumer confidence index has also seen an increase and has jumped to 86 points this month from 77 index points in April this year.

The consumer confidence is a reflection of the optimism in a country towards job prospects, personal finances, and their willingness to spend on discretionary items.

"Economic downturn is finally subsiding not only in India but across the world and improving economic condition and prospect of growth are infusing more confidence in people," The Nielsen Co Director(Consumer Research) Vatsala Pant said.

Indians are also most optimistic lot globally when it comes to job prospects and state of personal finances for the next 12 months.

"At present it looks like Indian economy and people's confidence is on a fast improving trajectory. Everything looks positive from point of view of job market, people's finances and investments. If things continue the way they are downturn in India will soon become history," Pant said.

<http://economictimes.indiatimes.com/news/economy/indicators/Indians-most-optimistic-lot-in-the-world-Nielsen/articleshow/5181353.cms>