

## Weekly Economic Bulletin

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## News Feature

### **Economists give thumbs up to 8.6% GDP growth in Q1**

The economy may have expanded at close to 9% in the three months to June, its fastest pace in more than two years, driven by high industrial growth and increased private investments.

A poll of six senior economists revealed that the economy may have surpassed the 8.6% growth rate, recorded in the three months to March. The official growth figures for first fiscal quarter ended June will be released.

“We expect GDP growth to be 8.8% for the first quarter of the fiscal 2010,” said Mridul Saggarr, chief economist at Kotak Institutional Securities. “Mining and manufacturing would stand out with growth rates of around 12%. Agriculture will grow at 2.6% and most services will do well with the exception of the social and personal services,” he said.

The government has already factored in high growth in the first quarter. The chief economic adviser to the finance ministry, Kaushik Basu, had forecast that the economy would grow at close to 9% in the first quarter, although it would ease to 8.4% in the full fiscal year. The government expects the economy to grow by 8.5% in the current fiscal, after growing at 7.4% in 2009-10.

Other economists surveyed were equally optimistic. “We have a slightly more optimistic view and expect GDP to grow by 8.9% in the first quarter,” said Saugata Bhattacharya, senior vice-president and economist at private sector lender Axis Bank.

The Reserve Bank of India has pegged the real GDP growth in the first quarter of 2010-11 at 8.7%, up from its earlier forecast of 8.1%.

The RBI is exiting its loose monetary stance and has pushed up the policy rates by 100 bps this year to rein in inflation. With headline inflation at 9.97% in July, as well as the slowdown in industrial growth in June, the central bank is expected to adopt a wait and watch policy.

A strong performance by manufacturing will bring first quarter GDP growth close to 9%, according to DK Joshi, chief economist at rating agency Crisil.

The manufacturing sector has done well in the first fiscal quarter as measured by HSBC’s Purchasing Managers Index for India.

The PMI for the manufacturing sector had reached a 26-Month high in May coming down slightly in June to 57.3 due to some pricing pressures and running up again to 57.6 in July on account of increase in output. Manufacturing is expected to grow at above 10% levels.

<http://economictimes.indiatimes.com/news/economy/indicators/Economists-give-thumbs-up-to-86-GDP-growth-in-Q1/articleshow/6458828.cms>

## **Core sector, export growth cloud July IIP outlook**

The six infrastructure industries grew 3.9% in July, marginally higher than in June, but the contraction in steel and cement production has raised doubts about the overall industrial output growth, which slowed to a 13-month low in June.

“It is difficult to predict the IIP figures for July because of the mixed data so far,” said Sonal Verma, an economist with Nomura Holdings, giving a range of 7%-9% industrial growth for July.

Industrial output growth had dropped to 7.1% in June and the mixed performance of core sector and sharply lower exports growth in July seem to suggest that it is unlikely to bounce back to double-digit levels soon.

The headline core sector growth in July is better than the 11-month low of 3.6% for June, but strong double-digit growth in crude and petroleum refining has masked an otherwise poor set of numbers, data released showed. Cement and steel production has contracted by 0.2% and 0.9%, respectively from a year ago while production of electricity was up 3.8%, almost same as June.

The six core industries — crude oil, petroleum refining, coal, electricity, cement and finished steel — have a combined 26.7% weight in the index of industrial production, or IIP, and are considered an advance indicator of industrial activity. The industrial growth numbers for July will be released on September 10.

The exports growth has also moderated sharply to 13.2% in July from over 30% in the months before, further clouding the outlook for the industrial sector.

Within the six core sector industries, cement and steel are considered better immediate indicators of industrial activity as their production is demand driven, whereas in the case of others, the supply is always short of demand that have to be met with imports.

But Crisil chief economist Sunil Sinha does not read too much into the performance of cement and steel sectors. “Monsoons are expected to affect the production of cement and more so for steel but the broader concern is the overall infrastructure growth.”

The cement and steel data is also at variance with the marginal improvement in the purchasing managers’ index, or PMI, for July.

<http://economictimes.indiatimes.com/news/economy/indicators/Core-sector-export-growth-cloud-July-IIP-outlook/articleshow/6448786.cms>

## Overseas Investment

### DIPP to release revised FDI policy paper on Sept 30

Aimed at providing a handbook for foreign investor looking to pump in investments into the country, the Commerce and Industry Ministry is all set to release the revised consolidated FDI policy paper on September 30.

“The next edition of Consolidated FDI Policy Circular i.e., Circular 2 of 2010 will be issued on September 30, 2010, which will incorporate all the changes effected in FDI policy post issue of Circular 1 of 2010,” the Department of Industrial Policy and Promotion, the nodal body for foreign direct investments policy decision said.

DIPP had released Circular 1 – consolidated FDI Policy in March this year. It made all information on FDI policy available at one place including those of FEMA and RBI for the benefit of foreign investors. It had also decided that the consolidated circular would be issued every six months to update the FDI policy.

DIPP, the nodal agency on FDI policy in the Industry Ministry, has invited public comments on the first consolidated document till August 31.

FDI inflows in the country during the first quarter of the fiscal reduced to \$5.80 billion from \$7.01 billion in the corresponding period of 2009-10.

The Industry Ministry has floated discussion papers for increasing the FDI ceiling in defence manufacturing from the current 26 per cent and opening the multi-brand retail sector for foreign investments.

Currently up to 51 per cent FDI is allowed in single brand retail and 100 per cent in wholesale business.

<http://www.blonnet.com/2010/08/28/stories/2010082852890400.htm>

## Trade News

### India is the favoured offshoring location for British firms

India is the overwhelming favourite destination for offshoring by British companies, according to a joint study published over the week-end by the Chartered Institute of Personnel and Development and KPMG.

In their annual Labour Market Outlook, the firms found that one in 10 British firms were looking to offshore work outside the UK, and that 65 per cent of those were planning to offshore to India in the 12 months to June 2011. That compares to just 36 per cent to China, and 29 per cent to Eastern Europe.

As expected, the largest chunk of jobs being moved to India and elsewhere is in the IT sector. Four in 10 IT companies plan to relocate jobs to other countries, but other sectors are playing a growing and significant role.

Nineteen per cent of financial, insurance and real estate companies are planning to relocate jobs, representing a significant trend shift, the survey of 598 human resource professionals in the UK found.

“The surprising element in all of this is the wide range of sectors in which jobs – and highly skilled jobs are being moved abroad,” said Mr Gerwyn Davies, public policy adviser to the CIPD. The figures lend weight to recent fears of a skills shortage in the UK, despite high levels of unemployment, suggesting that firms have no alternative to going abroad to find needed skills.

### *‘Growing reality’*

“The simple truth is that there simply aren't enough qualified people in the UK. This is now a reality and a growing reality,” said Mr Davies.

Back in June, the Office of Budget Responsibility, an independent body set up by the new coalition government, warned that changing demographics in the UK – as a result of falling immigration – could dampen economic growth as a result of a skills shortage.

The CIPD study also points to the potential problems that the government's plans to introduce an immigration cap could have. According to Mr Davies, that a small but significant minority of respondents to the survey said they were considering moving jobs abroad under the proposed system.

“One company that hired linguists from the Far East said that if they were unable to bring them to the UK, they would be unable to carry on with existing operations and would be forced to move jobs to one of the other global centres,” said Mr Davies.

The British coalition government has stuck to the Conservative Party's election pledge of introducing an annual immigration cap that would take net immigration back to 1990s levels of “tens of thousands” rather than “hundreds of thousands” beginning next year. The government has tried to assuage fears, including during Prime Minister David Cameron's visit to India, through pledges to work closely with firms to ensure they were able to bring the skilled workers they needed into the country.

Still, the fear is that with EU regulations preventing any restriction on workers from the EU, including Eastern Europe, the clampdown will fall overwhelmingly on workers from outside, including India and China.

<http://www.blonnet.com/2010/08/24/stories/2010082452380400.htm>

### **Free trade pact with Malaysia likely by year-end, says Khullar**

The Government said it is hopeful of closing a free trade agreement with Malaysia by the end of this year.

“We are hopeful of closing a free trade agreement with Malaysia by the end of this year as Malaysia is eager on it,” Dr Rahul Khullar, Commerce Secretary, told reporters.

### *EU trade pact*

On the India-EU trade pact, under negotiations for the last three years, he said talks were in the final leg but some issues remain.

“We are trying to wrap it up quickly. We are dealing with 27 countries and there are vast conflicting interests, then elections in EU also took time to settle,” he said, adding that the negotiations have taken more time than the two sides had expected.

### *Need for debate*

He said “very clear” understanding has been reached on large number of issues but “there will be some issues that need to be debated”.

“By the end of this month there will be another round of talks... we might see closure of many issues,” Dr Khullar added.

### *US Visa restrictions*

Speaking on the visa restriction issue with the US, the Commerce Secretary said India is confident of resolving the issue with the US outside the WTO framework.

India had objected to US legislation passed this month to strengthen security along the border with Mexico, funds for which will be raised through a hike in visa fees that may affect Indian companies like Infosys Technologies and Wipro.

<http://www.blonnet.com/2010/08/27/stories/2010082752900400.htm>

### **India to promote trade with ASEAN countries**

Minister of Commerce and Industry Anand Sharma is leading an official delegation to Vietnam to review the India-ASEAN services and investment negotiations along with his ASEAN countries' counterparts from August 26-27.

Sharma is scheduled to hold discussions with the Trade and Commerce Ministers of ASEAN comprising Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam in the ASEAN Economic Ministers' - India Consultations.

These consultations are also Ministerial-level preparations for the ensuing ASEAN-India Summit at Hanoi in October 2010.

India has already signed the India-ASEAN Trade in goods agreement that covers tariff liberalisation between the parties, which has come into force from January 1 2010.

India - ASEAN trade stood at 43.5 billion dollars in 2009-10 and is targeted to reach US\$ 70 billion by 2012.

India and ASEAN countries are currently negotiating a Services and Investment Agreement.

India is keen to conclude a liberal agreement that would have substantial sectoral coverage and would provide commercially meaningful market access. The current meeting is part of the negotiation process.

Sharma is also slated to meet Trade/Commerce Ministers of the countries representing the East Asia Summit (EAS) during this visit.

Sharma will also hold bilateral meetings with Japanese Minister of Economy and Trade and Industry, Masayuki Naoshima, EU Trade Commissioner, Karel De Gucht and Malaysian Minister for International Trade and Investment, Mustapa Mohamed.

He will look forward to reiterating high commitment of India for an early and balanced outcome of these FTA negotiations.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/India-to-promote-trade-with-ASEAN-countries/articleshow/6432628.cms>

## **Sectoral News**

### **India is top exporter of petro products in Asia**

India is now the largest petroleum products exporter in Asia, surpassing South Korea.

According to the data compiled by oil and metal information provider Platts, India's gross exports currently average 1 million barrels a day, inching past South Korea which exports 0.9 million barrels a day.

With the commissioning of a new refinery by Reliance Industries at Jamnagar and Essar Oil increasing refinery output at Vadinar, India overtook South Korea by mid-2009 and has since then consistently maintained the lead position.

India's average petroleum products export grew from 0.77 million barrels a day in January 2009 to one million barrels a day in August 2009. In the current year, the average oil products export from India stands at 1.07 million while South Korea exports average 0.88 million.

In fact, India's refining capacity at 3.69 million barrels a day is the third largest in Asia after China and Japan, which have a refining capacity of 9.6 million bpd and 4.64 bpd respectively. Platts' compilation is based on the data from individual countries.

"Both Reliance Industries' Jamnagar and Essar's Vadinar refineries contribute more than 90 per cent of the petroleum products exports while the rest is by public sector oil companies," said Ms Vandana Hari, Asia Editorial Director, Platts.

“Public sector companies, which are obliged to serve the domestic market adding refinery capacity, will help private players to free up more capacity for exports,” she said.

According to her, petroleum products exports from India holds great potential as both RIL and Essar have high complexity refineries which make products that meet Euro IV and Euro V standards. Europe, the US and Africa are identified major markets for Indian refiners.

#### *Growing demand*

The growing overseas demand for petroleum products from India is reflected in export volume growth of Reliance and Essar. RIL exported 32.8 million tonnes of refined products last fiscal against about 22.6 million tonnes for the previous period, fetching revenue of \$20.9 billion (Rs 1,10,176 crore).

RIL's export volume grew by 45 per cent last fiscal while it grew 82 per cent last quarter to 9.5 million tonnes.

The new Reliance Petroleum refinery in the Special Economic Zone (SEZ) at Jamnagar, which is designed to be export-oriented, is estimated to be exporting more than 80 per cent of its total output.

Essar's Vadinar refinery has a total current throughput capacity of 14 million tonnes a year. Of the total production, about 30 per cent is exported while more than sixty per cent of refined products are sold to public sector oil marketing companies.

<http://www.thehindubusinessline.com/2010/08/27/stories/2010082752890400.htm>

#### **Apr-July iron ore exports at 32.86 mn tonnes**

India's iron ore exports in the first four months of the current financial year that began in April was at 32.86 million tonnes against 31.39 million tonnes a year ago, data released by a trade body showed.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Apr-July-iron-ore-exports-at-3286-mn-tonnes/articleshow/6444642.cms>

#### **Coir export volume rises by 65% in July**

The country's coir exports grew by 65% to 24,809 tonne in July compared to 20,874 tonne in the same month last year, the Coir Board said.

In value terms, coir exports were Rs 60.43 crore in July compared to Rs 66 crore in July 2009, according to the board.

Coir, the outer coating of skin that encircles the conch of coconut, is used to make rope, mattresses, rugs and carpets among others.

Exports of coirs in the first four months of the current fiscal stood at 120,712 tonne, valued at Rs 264 crore, as against 72,913 tonne amounting Rs 226.33 crore in the corresponding period of the last fiscal.

India, the largest coir exporter in the world, has exported around \$70 million coir products in 2009.

Coir product making is an important cottage industry contributing significantly to the economy of the major coconut growing states such as Kerala, Tamil Nadu and Andhra Pradesh.

India and Sri Lanka are two major coir producers in the world as both countries account for more than 90% of the 3,50,000 tonne global production of coir.

<http://www.financialexpress.com/news/coir-export-volume-rises-by-65-in-july/672698/>

### **Spices export jump to over Rs 2k cr in Apr- Jul, 2010**

Export of spices in April-July period this fiscal increased by 17 per cent to over Rs 2,084 crore over the same period last year but in volume terms the growth was just over 12 per cent, mainly on spurt in garlic and ginger shipments.

Total shipments of spices in April-July 2010 was 193,875 tonnes as against 172,510 tonnes compared to the year ago period, according to the Spices Board data.

In value terms, the spices export from the country jumped 17.4 per cent to Rs 2,084.96 crore during the period as compare to Rs 1,775.38 crore in the same period last year.

The surge in spices exports were mainly driven by a whopping 12 fold increase in garlic shipment to 10,975 tonnes during the four months of the current fiscal as against 855 tonnes in the same period last year.

During the period, ginger shipments registered over two-fold growth to 3,025 tonnes as compared to 1,325 tonnes during April-July 2009.

India had exported spices worth Rs 5,560.5 crore in the 2009-10, up five per cent over the previous fiscal. In volume terms exports were 5.02 lakh tonnes in the last fiscal.

Spices Board Chairman V J Kurien had said earlier that India was targeting exports of 5.25 lakh tonnes of spices, valued at Rs 6,000 crore in the current fiscal.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Spices-export-jump-to-over-Rs-2k-cr-in-Apr--Jul-2010/articleshow/6439293.cms>

## **Auto component sector to see 4-fold growth by 2020**

The Indian auto component industry expects to grow by over four-fold to \$113 billion by 2020 as there have been projections of a similar jump in car manufacturing in the country in the next decade, said Automotive Component Manufacturers' Association.

The total passenger car production in the country will jump four times to reach 9 million cars in the next ten years, the industry body said in its forecast report. Although a major chunk of this will come from the fast growing domestic market, exports are likely to form around 35% of the total market by 2020.

"India would be among the top-five vehicle producing countries in the world by 2020," said ACMA executive director Vinnie Mehta.

Indian component industry is expected to clock a total revenue of \$25 billion in the current fiscal. Given high growth projections, the local component industry is looking to invest \$35 billion over the next decade.

Production of two-wheelers and three-wheelers are expected to double to 2.2 crore units by 2015 and reach three crore units by 2020 driven by current low penetration levels, expanding rural sales and growth in exports. Commercial vehicles production is forecast to cross the 22 lakh-units mark in the same period.

ACMA also said the local component industry would create an additional employment for over 10 lakh people in the next decade. To meet the increased requirement of skilled hands the government has decided to set up a dedicated skill development body for the auto industry to train 25 million people in the next decade. The Automobile Skill Development Council — under the umbrella of the National Skill Development Council (NSDC) — is expected to be established soon, a government official said on Friday.

<http://economictimes.indiatimes.com/news/news-by-industry/auto/auto-components/Auto-component-sector-to-see-4-fold-growth-by-2020/articleshow/6448652.cms>

## **India maritime industry a huge lure: E&Y**

With 13 major ports, around 200 non-major ports and a coastline of 7,500 kilometres, India offers huge opportunities for the maritime industry, global consultancy firm Ernst & Young (E&Y) and industry chamber Ficci, said in a joint report on ports and shipping.

"Indian ports are now witnessing unprecedented interest both from strategic buyers, including international liners, terminal operators and captive players, as well as financial suitors, including banks and infrastructure funds," the report said.

According to the report, to leverage this opportunity and to ensure optimum utilisation of the coastline, the Government of India (GoI) is encouraging more private-sector participation in ports' development, the report said.

"By establishing a direct link between performance and profitability, privatisation motivates private entrepreneurs to improve their return on investment and provides them with an incentive to continuously improve their efficiency," E&Y's Partner-Infrastructure Practice Sushi Shyamal said.

Moreover, the increasing trend of western countries moving their manufacturing functions to low-cost countries, and the likely prospect of India emerging as a manufacturing outsourcing hub, is expected to contribute to the growth of the country's marine industry, the report said.

<http://www.financialexpress.com/news/india-maritime-industry-a-huge-lure-e&y/673200/>

## **News Round-Up**

### **Govt extends sops, confident of \$200 bn exports in FY-11**

The government extended sops worth Rs 1,052 crore to exporters, particularly for the labour-intensive textile, handicrafts and leather sectors, to help them see through the fragile economic recovery globally.

"We are not yet out of the woods," Commerce and Industry Minister Anand Sharma said while extending the schemes like DEPB, under which taxes are reimbursed to exporters, subsidised interest and sops for import of capital goods.

Releasing the annual supplement to the Foreign Trade Policy 2009-14, he said the revenue implication of these measures would be Rs 1,052 crore.

The government made it clear that the popular Duty Entitlement Pass Book (DEPB) scheme, which has been in vogue for over a decade, is being extended for the last time.

"Recognising the fragile recovery and the prevailing uncertainties (in the global markets), I have been able to obtain extension of DEPB one last time for a further period of six months till June 30, 2011", Sharma said.

Experts said drawing the curtains on the DEPB scheme was inevitable as it was considered incompatible with the global trade rules under WTO.

However, Commerce Secretary Rahul Khullar indicated to reporters that the Ministry might formulate an alternative scheme.

A number of additional products from sectors like engineering, leather, textiles and jute have also been added to the existing two per cent interest subvention scheme. Handloom, handicrafts, carpet and the SMEs have been getting this facility, which will now be available till March 31, 2011.

As regards the prospect of the current fiscal, the minister said: "We are on course to achieving export target (USD 200 billion) for 2010-11". Exports in the previous fiscal

totalled USD 178.6 billion in the midst of the global economic crisis, which affected demand in the developed world.

The government also extended the zero-duty Export Promotion Capital Goods (EPCG) scheme by one year to March 31, 2012. The scheme, which was announced in August last year, was to expire on March 31, 2011.

Steps to reduce transaction cost of exports too were announced in the policy. At present, transaction costs are estimated at 7-8 per cent of the exports value.

India Inc and exporters body expressed satisfaction over the steps taken by the government in wake of the global demand slowdown and domestic resource constraints.

"It is a forward looking policy," Federation of Indian Export Organisations (FIEO) President A Sakthivel said.

Most chambers, including Ficci and CII, welcomed the policy supplement, amid promises that the transaction cost for exporters would be brought down by 40 per cent.

<http://economictimes.indiatimes.com/news/economy/finance/Govt-extends-sops-confident-of-200-bn-exports-in-FY-11/articleshow/6420566.cms>