Daily Economic News Summary: 29 January 2016

1. India launches its urban makeover plan with Smart Cities

Source: **Live Mint** (Link)

The government on Thursday picked 20 cities, including five state capitals, to launch its larger urban makeover plan. It proposes to invest Rs.50,802 crore on these cities, selected through a challenge, and is the first phase of the government's plan to set up 100 smart cities. *"For the first time in the country and perhaps in the world, investments in urban development are being made based on competition-based selection of cities,"* urban development minister M. Venkaiah Naidu told reporters on Thursday. *"The results of the competition revealed the unrecognized strength of the federal structure in our country,"* he added. The cities in the first list have made it to the top of the competition based on implementation framework, including feasibility and cost-effectiveness which has a weightage of 30%, followed by result orientation (20%), citizen participation (16%), smartness of proposals (10%), strategic plans (10%), vision and goals (5%), evidence-based city profiling and key performance indicators (5%) and processes followed (4%).

The cities in order of ranking are: Bhubaneswar, Pune, Jaipur, Surat, Kochi, Ahmedabad, Jabalpur (Madhya Pradesh), Visakhapatnam, Solapur (Maharashtra), Davanagere (Karnataka), Indore, New Delhi Municipal Council (Delhi), Coimbatore, Kakinada (Andhra Pradesh), Belagavi (Karnataka), Udaipur, Guwahati, Chennai, Ludhiana and Bhopal. Naidu said that the real victory of the smart cities competition was the strengthening of the bottom-up approach. *"The bottom-up approach, which is the key planning principle under Smart City Mission, enabled leveraging of strengths and opportunities of each city for comprehensive improvement of the built environment, local economy and quality of life of citizens,"* he said.

2. India and US settle 100 tax disputes

Source: **Business Standard** (Link)

In a significant boost to investor sentiment — especially for multinational companies — India and the US have solved over 100 transfer pricing disputes for sectors such as information technology (software development) services (ITS) and information technology-enabled services (ITeS) over a one-year period. This is expected to pave the way for greater transfer pricing cooperation between the two countries, a development that is likely to enhance foreign investment flow.

More cases are expected to be solved by the end of the financial year, the Central Board of Direct Taxes said in a statement on Thursday. The move is directed towards the broader objective of the government to improve the ease of doing business. India signed the framework agreement with the US revenue authorities in January, 2015, seeking to resolve about 200 transfer pricing cases. The framework was finalised under the mutual agreement procedure (MAP) provision contained in the India-USA Double Taxation Avoidance Convention (DTAC). Encouraged by the success of the framework, the US has opened the bilateral advance pricing agreement (APA) programme to India. *"Prior to resolution of disputes under the framework agreement, the US bilateral APA programme was closed to India. The US is expected to begin accepting bilateral APA applications shortly,"* the CBDT said.

3. Cabinet approves hybrid annuity model for national highways

Source: **Live Mint** (Link)

The cabinet committee on economic affairs (CCEA) on Wednesday approved a hybrid annuity model for national highways, clearing the ground for stranded road projects worth Rs.25,000 crore. The model will be the fourth to be introduced in India for the execution of road projects and is intended to kickstart stalled projects and accelerate highway construction. Under this model, the government will share 40% of the project cost and would allocate funds to the developer to start work depending on the case. The remaining investment would come from the developer over the duration of the project's execution. Revenue collection would be the responsibility of the National Highways Authority of India (NHAI); developers will be paid in annual instalments over a specified period of time.

Road projects in India are awarded in three formats. One is build-operate-transfer (BOT) annuity, in which a developer builds a highway, operates it for a specified duration and transfers it back to the government, which pays the developer annuity over the period of concession. A second model is BOT-toll, under which a concessionaire generates revenue from the toll levied on vehicles using a road. The third model is engineering, procurement and construction (EPC), under which a developer will execute engineering design, procure equipment, materials and labour and build a project; the government provides the money. The hybrid annuity model is a mix of (BOT) toll and EPC models. An important feature of the hybrid annuity model is allocation of risks between the partners—the government and the developer/investor. While the private partner continues to bear the construction and maintenance risks as in BOT (toll) projects, it is required only to partly bear the financing risk. The developer is insulated from revenue/traffic risk and inflation risk, which are not within its control. The cabinet, in a media statement, said the hybrid annuity model would be adopted for highway projects not found viable on a BOT mode. The main objective is to allot new highway projects that are stuck because of a funding crunch faced by developers. The hybrid model will provide stakeholders in publicprivate-partnership (PPP) arrangements—the NHAI, creditors, and the developer—increased comfort in reviving stalled road projects, the statement said.

4. "Make in India" show attracts 84 firms in China's Chengdu

Source: **The Hindu** (Link)

Known for its giant Pandas and spicy cuisine, Chengdu, the capital of Sichuan province played host to a road show on Thursday that sought Chinese investments to bolster Prime Minister Narendra Modi's "Make in India" campaign. Around 120 businessmen from Sichuan representing 84 companies were present at the event, which was geared to seek greater Chinese representation at the next month's "Make-in India" week in Mumbai.

India's Consul General Sailas Thangal, based in Guangzhou, explained that under the "Make-in-India" initiative, 24 sectors had been opened up for foreign investment including infrastructure development, food processing, healthcare, Information Technology, media and entertainment, mining, oil and gas, ports, railways, telecommunications as well as tourism and hospitality. Prime Minister Modi will inaugurate the "Make-in-India" week on February 13. Representatives from Kerala and Punjab were also present at the function, where Li Geng, President of China Council for the Promotion of International Trade (CCPITs) of Sichuan exhorted Chinese investors to seek business opportunities in India. A downturn in the global economy and huge overcapacity in manufacturing is persuading Chinese businessmen to look at India as a destination for exports and investments.

5. Centre to invest Rs 14, 225 crore on port projects this fiscal

Source: **Live Mint** (Link)

The ministry of shipping on Wednesday said it will award 30 projects entailing an investment of Rs.14,225 crore this fiscal, to increase port capacity by 162 million tonnes per annum (mtpa). The ministry had approved 26 projects, involving an investment of Rs.10,543 crore and a capacity increase of 155 mtpa in 2014-15. *"As part of the modernization process, the ministry of shipping hired a consultant for benchmarking the efficiency and productivity of major ports in India vis-a-vis international standards and suggesting road map for improvement. A total of 101 recommendations were made by the consultant regarding improving operations and efficiency of the major ports,"* the ministry said. The recommendations were in various stages of implementation, it said. In order to bring state-run major ports on a par with contemporaries across the world, the ministry has been emphasizing on creation of additional capacities through development and construction of new berths and terminals, revamp of existing berths and terminals and other modernization projects. *"The ministry's focus is on improving the existing port infrastructure, modernization of the existing facilities and increasing port capacity. Currently, the level of mechanization is not on a par with ports across the world,"* the ministry said.

For instance, the level of mechanization at Kolkata port is only 30% whereas it is close to 90% at the Kamarajar Port in Ennore. Operations in other ports are also mechanized to varying degrees, the ministry said. About 90% by volume and 70% by value of India's international trade takes place through ocean transportation. The country's major ports play a key role in facilitating external trade, which accounts for 40% of the gross domestic product (GDP). The ministry has taken note of the B.K. Chaturvedi Committee recommendations, submitted in 2011, which stress on the need to increase draught, or the depth of water needed to float a ship, of major ports to at least 14 metres, and in ports where it is technically feasible and economically viable, to 17 metres so that they can be developed into hub ports.

6. *"India is doing a number of things well"*--- Nouriel Roubini

Source: **Times of India** (Link)

At time when uncertainty is all pervasive, trusted counsel becomes all the more important. **Nouriel Roubini**, one of Wall Street's most closely followed economists, discussed the weft and weave of current global undercurrents with Vinay Pandey of ET. The star forecaster, who speaks on Friday at The Economic Times Global Business Summit, says India seems to be moving in the right direction.

Excerpts:

How do you see the Indian economy? What is the assessment of the new government?

Nouriel Roubini: *India is doing a number of things well. I would like them to do more macro adjustment, to do faster structural reform but at least it is going in the right direction. Overall, the government's performance is a positive one because there have been some macroeconomic adjustments. The fiscal situation is better, the external situation is better. So macroeconomic improvements are there even if some of them are driven by external factors that are making the country lucky. There are a number of political constraints both at the federal level, with the ruling coalition not having control of one of the houses of Parliament, and also at the local level.*

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