Daily Economic News Summary: 3 August 2017

1. China, BRICS trade minister vow to fight protectionism
Source: The Economic Times (Link)

China and the other BRICS nations pledged on Wednesday to fight protectionism and safeguard intellectual property rights, even as U.S. President Donald Trump considers action against what he sees as unfair trade practices by China. Trade ministers from Brazil, Russia, India, China and South Africa concluded two days of meetings in Shanghai agreeing to deepen trade and investment links, and "safeguard and develop" the multilateral trading system, according to a statement by Chinese Commerce Minister Zhong Shan. "Ministers were committed to continue to firmly oppose trade and investment protectionism, recommitted to their existing pledge for both standstill and rollback of protectionist measures, and called upon countries to join in that commitment," the statement said. The ministers also approved guidelines for cooperation between the five countries on intellectual property rights (IPR)… On Tuesday, a senior Trump administration official said Trump could decide as early as this week on how to respond to what he considers China's unfair trade practices…The United States has a long list of grievances about China on trade, including accusations of steel dumping and theft of U.S. intellectual property. Trump promised tough measures during his campaign last year but so far has not followed through.

2. India, ASEAN-5 more fetching to FDI than other emerging markets
Source: The Economic Times (Link)

India along with Indonesia, Malaysia, Thailand, the Philippines and Vietnam is more attractive to FDIs as compared to other emerging markets and flows to these nations are expected to surge to around USD 240 billion by 2025, says a Nomura report. The Japanese financial services major has dubbed India and ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) as "Asia's tiger cubs", and said FDI inflows to these nations will increase from around USD 100 billion per year now to around USD 240 billion by 2025. Moreover, sources of FDI to these nations are also witnessing a significant shift with more inflows expected from countries as China and Japan…Rising labour costs in China and an ageing population in Northeast Asia have disincentivised foreign direct investment (FDI) and they are in search of new destinations and "India and the ASEAN-5 are well placed to emerge as that destination," the report said. Factors that are expected to encourage FDI into

India and ASEAN-5 include - large and growing domestic markets; reforms focussed on improving infrastructure and the ease of doing business; a more open and liberal FDI regime; sound economic management and political stability; and availability of low-cost labour.

3. India on track to meet 3.2% fiscal deficit target: UBS
Source: The Economic Times (Link)

The Indian government is on track to achieving the fiscal deficit target of 3.2 per cent of GDP in the current fiscal year, says an UBS report. The global financial services major said however that balance sheets of states remain "stretched". The central government's fiscal deficit has already reached 81 per cent of the full-year target in the first quarter (April to June) of 2017-18. "Accordingly, the cumulative fiscal deficit reached 2.6 per cent of GDP FYTD. That said, we believe the central government will be able to achieve the fiscal target of 3.2 per cent of GDP in FY18," UBS said in a research note. The Centre's fiscal deficit narrowed from a peak of 6.5 per cent of GDP in 2009-10 (after the global financial meltdown) to 3.5 per cent of GDP in 2016-17 and is estimated to fall further to 3.2 per cent of GDP in 2017-18…The report noted that while the pursuit of structural reforms, including a goods and services tax, bodes well for India's sovereign rating (currently at the lowest investment grade), the risk of a worsening consolidated (centre and state combined) fiscal position may act as a deterrent.

4. Cisco Chairman John Chambers says India to be among top 3 economic powers in 10 years
Source: Financial Express (Link)

India will figure among the top three economic powers in the world over the next 10-15 years, riding on the strength of its democracy and partnerships, according to Cisco Chairman John Chambers. Chambers, who is also the Chairman of the newly-formed US-India Strategic Partnership Forum, predicted that India would turn out to be a role model for the world economies. “You will not be a slow follower but a fast innovator. You will be the model for the rest of the world…India will be the example for the rest of the world not as an emerging country but as a developed country that reinvents itself again and again,” he said at discussion on India-US Commercial and Strategic relationship. Chambers said if he were to bet on one nation for the future outside the US, his home country, “it would be India”. Asked where he saw India in the coming 10-15 years, especially given ongoing flagship reforms like Digital India, smart cities and Make in India, Chambers said “India would not only be one of the three top economic powers of the world" but grow with the strength of its democracy and partnerships. He, however, cautioned that it was important to realise that one could get left behind very quickly in the dynamic hi-tech industry. Stating that Prime Minister Narendra Modi's vision for digital India was a model for the world, he said there are similar digital trends in countries like France and Israel.

5. 50 SEZs set up in last 3 years
Source: The Hindu: Business Line (Link)

As many as 50 new special economic zones (SEZs) have been set up in the country during the last three years, Parliament was informed today. Commerce and Industry Minister Nirmala Sitharaman in a written reply to Rajya Sabha also said that in 2016-17, exports from overall SEZs increased by 12 per cent year-on-year to ₹5.23 lakh crore. In a separate reply, she said 36 alerts were received for export of fresh fruits and vegetables to European Union and 41 shipments to the US were issued import refusal during 2014-16. She said it was not feasible for the government to ascertain the exact volume of export opportunities lost due to non-trade barriers.

6. Economists expect more rate cut
Source: The Hindu: Business Line (Link)

The 25 bps cut in repo rate announced by the RBI today was on expected lines for most economists. Many of them, however, expect another cut in the second half of the calendar year. Madan Sabnavis, Chief Economist, CARE Ratings, expects an additional 25 bps cut in the policy rates in the second half of the calendar year when a clearer picture on the monsoons, agricultural output and GST implementation would have emerged, and, provided the downward trajectory of inflation is sustained. Radhika Rao, India Economist, DBS Bank, said today's policy statement is not a game-changer for the markets, with a neutral central bank to keep interest rate differentials in favour of the economy and, thereby, fueling foreign investor interest. She said, "One needs to differentiate between liquidity management and the rate direction, which might over the course of the coming months move in opposite directions. Whilst rates might be lowered in response to benign inflation, liquidity might continue to be drained to ensure the operating rate target is close to the policy rate."

7. Rupee at 2-year high of 63.60: Why did it surge and what's next?
Source: Business Standard (Link)

The Rupee finally broke through the key psychological level of 64 after spending a good four months in the 64-65 range. The rupee made a low of 63.60 on Wednesday, a level not seen since July 2015. Despite a muted reaction in the equity and bond markets the rupee strengthened as the market was eyeing 64 as the key support level and huge stops were triggered as that level broke. Rupee has strengthened 6.21% against the greenback, year till date as FPIs have been pouring in money into Indian equity and debt markets in search of yields. Low inflation in the US and inability of Trump administration to push through anticipated fiscal reforms has caused the US yields to drop and US Dollar to underperform. While stronger Rupee would keep imported inflation under check, any relative outperformance from here on, on a trade-weighted basis would hurt export competitiveness. Currencies like the Chinese Yuan, Indonesian Rupiah, Philippine Peso have strengthened much less in comparison to the Rupee.The central bank thus far has allowed the Rupee to appreciate broadly in line with other Asian and emerging market currencies by absorbing Dollar inflows.

8. Post GST, multi-modal transport key to seamless cargo movement
Source: Business Standard (Link)

After the implementation of the Goods and Services Tax (GST), seamless movement of trade could get another boost from multi-modal transportation.The first multi-modal facility would be up and running before December 2018, Road Transport, Highways, and Shipping Minister Nitin Gadkari said on Wednesday. The Rs 170-crore multi-modal terminal at Varanasi is likely to emerge as a major logistics gateway connecting North India to the eastern and north- eastern states, extending up to Bangladesh. The ongoing construction of the Varanasi terminal, which will have waterway, rail and road connectivity, is part of the government's Rs 5,369 crore Jal Marg Vikas Project (JMVP). Multi-modal transportation is the way cargo is shipped from a factory to the final handing over to a customer. For example, the first mile in multi-modal transport begins when the cargo leaves the warehouse in a truck. After moving on a designated route, the truck reaches railway sidings, where the goods are unloaded and shifted into a railroad car. The goods can alternatively be delivered through cargo planes and line haul trucks. After reaching the destination, the last-mile delivery of goods is done through smaller commercial vehicles. For export-import cargo, the goods are moved through the sea. With inland waterway and coastal shipping underway, goods meant for domestic consumption are also moved through smaller ships in rivers and coastal waters,lead to some amount of delay in transit…According to a World Bank report, India has one of the highest logistics cost among developing nations. Sharma feels that lack of complementary network development has been one of the major reasons for the lack of multi-modal transportation in India. This is compounded by poor infrastructure, lack of skill/professionalism and under-utilization of technology in the sector.

9. Multiple regulators hurting growth of India's organic food sector: ICRIER
Source: Business Standard (Link)

The absence of a single nodal agency for regulating, approving and setting the standards is one of the biggest bottlenecks in India which is emerging as a major destination for organic products both for domestic markets and also for exports, a working paper by Indian Council For Applied Economic Research (ICRIER) said…It said that unlike most countries worldwide where Agriculture Ministry is the nodal agency for all matters related to organic production, in India multiple government bodies are trying to come up with regulations and standards for organic food products, which are difficult to adhere to if a company is catering to both the domestic market and exports. "There are concerns about which standard will be applicable pan-India. At the time of the survey, the FSSAI was holding consultations on drawing up guidelines for organic products. The survey participants were worried that FSSAI regulations may not be applicable to farmers and exporters since neither come under FSSAI's jurisdiction. Organic farming is based on supply chain traceability and farmers are an integral part of the supply chain," the report said.

10. BigBasket gets nod for FDI in food retail
Source: Financial Express (Link)

After Grofers and Amazon India, online grocery firm BigBasket on Wednesday received the government's nod for foreign direct investment to undertake retailing of food products, which are manufactured or produced in India, Hari Menon, co-founder and CEO, told FE. The start-up, which applied for FDI in September last year, will have to spin off a new entity to start this business since 100% FDI is only applicable for food products manufactured or produced in India, whereas currently BigBasket sells other household products such as soap, shampoos etc through its e-commerce channel. At the time of applying, the company had committed an investment of around Rs 100 crore. Menon, however, said that the start-up is yet to begin the work on finer details of the business plan, which includes creating a new firm to start the business.