Daily Economic News Summary: 3 July 2018

1. India Reduces Duties On 3,142 Imports From China, Asia-Pacific Nations
Source: Business Standard (Link)

In a move set to boost India-China trade, the government on July 2 announced the slashing of import duties on as many as 3,142 items from China and 5 other nations from the Asia Pacific, days after Beijing had done the same for more than 8500 items. The reduction in tariff by both nations are part of their commitments to liberalise trade further through the Asia Pacific Trade Agreemment (APTA) and will be in effect from July 1. This is expected to reduce the trade exposure of both nations to the United States and has come at a time when the Donald Trump administration continues to threat both nations with high tariffs and reduced market access in the form of 'reciprocal tariffs'. India signed the APTA, the oldest preferential trade agreement among countries in the Asia-Pacific region, back n 1975. There has not been much movement in expanding the agreement since then. Apart from China, India's trade with South Korea, Sri Lanka, Bangladesh and Laos is set to improve as result of the latest tariff reduction which was decided upon by the APTA ministerial council back on 4 January 2017.

2. Govt Likely To Go Slow On Key Anti-Evasion Measure Under GST
Source: Livemint (Link)

The government is unlikely to insist on implementing the reverse charge mechanism, a key anti-evasion measure proposed under the goods and services tax (GST), on concerns that the rule will adversely impact small businesses while not yielding revenue gains. The implementation of the reverse charge mechanism is likely to be disruptive for small traders, a key electoral constituency of the ruling Bharatiya Janata Party, said two people familiar with the development. Instead, they said, alternative ways to curb tax evasion are being explored. Under the reverse charge mechanism, entities (registered under GST) that purchase goods from small unregistered dealers have to pay a tax on behalf of the latter. This is expected to add to the compliance burden of all involved and discourage purchases from unregistered dealers. The Narendra Modi government, in the final year of its tenure before elections are held by May, is trying to avoid further upsetting small traders, who have already been affected by the initial chaos following the implementation of GST last year.

3. Modicare: Government To Let Market Decide NHPS Rate
Source: Financial Express (Link)

Whatever the cost of the ambitious National Health Protection Scheme (NHPS), the government is committed to bear it, NITI Aayog member Vinod K Paul said on June 2. To be rolled out from August 15, the scheme would provide 10 crore families a free healthcare policy of Rs 5 lakh/annum. Even though the NITI Aayog had estimated an annual cost of Rs10,000-12,000 crore for the scheme (Rs1,000-1,200 per family) to be shared between the Centre and state governments at 6:4 ratio, many analysts had predicted the premium burden on the government to be roughly twice that. Paul said the scheme's actual cost could be known only after insurers are awarded contracts to run the scheme through competitive bidding. Speaking at the Express Group's Idea Exchange programme, Paul said of the 25 states that have so far come on board for the scheme, about half have opted for the 'insurance model' while others have chosen a 'trust model'. The Centre's model tender document for empanelment of insurance companies under the NHPS have invited criticisms for not putting in a mechanism to equitably share both the profits as well as the burdens. According to a clawback policy, insurers would have to refund premiums to the government if claims ratio is less than 100%. However, if the claims ratio exceeds 120%, the excess amount will be equally shared by the insurance company and the state government.

4. Finance Minister Piyush Goyal Expects Fiscal Deficit To Be Below Budgeted Level Of 3.3% In FY19
Source: Financial Express (Link)

Finance Minister Piyush Goyal has said India will be able to restrict the fiscal deficit below the budgeted level of 3.3 per cent of GDP in 2018-19, which has hit 55 per cent of the annual target in the first two months of the financial year. He said the revenues from Goods and Services Tax (GST) in the current fiscal is expected to exceed Rs 13 lakh crore as the full benefits of electronic way of e-way bill starts flowing in. "There is a perception that fiscal deficit will not be met, but I feel, that we will actually do better than our budgeted fiscal deficit," Goyal told reporters in New Delhi. The government has budgeted to contain fiscal deficit at 3.3 per cent of GDP in current financial year which began in April, lower than 3.53 per cent in 2017-18 fiscal. Fiscal deficit, which is the difference between revenue and expenditure, stood at Rs 3.45 lakh crore during the April-May period, or 55.3 per cent of the budgeted target for the fiscal year 2018-19.

5. Traders Likely To Move Supreme Court Over $16-Billion Walmart-Flipkart Deal
Source: Business Standard (Link)

A number of trade bodies, farmer organisations, online vendors and political outfits were protesting in public on July 2, with ‘Walmart Go Back’ placards, protesting against the US-based retail giant’s move to buy Indian online marketplace Flipkart. Protests were organised across the country by the Confederation of All India Traders (CAIT), Swadeshi Jagran Manch (SJM), farmer organisations and smaller trader bodies, as well as the All India Online Vendors Association. They all came together to protest against the $16-billion Flipkart stake sale to Walmart Inc. In the next phase of the protest, these organisations plan to go to the Supreme Court against the deal. “Walmart is the world’s largest retailer. It will create unfair competition and an uneven playing field with predatory pricing, deep discounts and loss funding. Flipkart has exclusive tie-ups and preferred sellers. Even online vendors face discriminatory conditions and Walmart being the owner by virtue of a 77 per cent share is bound to give preference to its inventory.

6. This Is Asia’s Answer To Trump’s Tariff Blackmail; China, India United In This Mission
Source: Financial Express (Link)

Amid rising global trade war concerns, a group of selected Asian countries is working out a plan to constitute a trading block that promotes free trade. The trade ministers of different Asian nations took another step toward creating the world’s largest trading bloc on July 1 amid hopes to seal the deal by year end, Bloomberg reported. It was in Tokyo on July 1 that ministers of the 16-nation Regional Comprehensive Economic Partnership, which includes China, Japan and India, met to discuss the same plan. “The path towards a year-end agreement is now clearer,” Bloomberg reported citing Hiroshige Seko, Japan’s trade minister. “As protectionism concerns increase globally, it’s important that the Asian region flies the flag of free trade.” Bloomberg report also said that the new trade bloc will also include 10 members of the Association of Southeast Asian Nations as well as South Korea, Australia and New Zealand. It is expected to cover one third of the world's economy and nearly half its population. China, India and the EU have recently come under pressure from Trump on trade. The US is due to impose tariffs on $34 billion of Chinese imports from July 6, and Trump has threatened to impose levies on another $200 billion of Chinese goods. If that threat is realised, it could cut as much as half a percentage point off China's economic growth, and also hit the American economy, economists have said.

7. Govt Shuns Bad Bank, Opts For AMC Route; 5-Pronged Strategy To Resolve Npas
Source: Business Standard (Link)

In its much-awaited recommendations, a panel of public sector bankers has suggested against setting up a bad bank and instead came up with a five-pronged strategy to resolve non-performing assets (NPAs), depending on the amount of stressed assets. The strategy to deal with NPAs included banks setting up a dedicated vertical to deal with smaller stressed assets of less than Rs 500 million, inter-creditor agreements to deal with loans between Rs 500 million and Rs 5 billion, and setting up asset management companies (AMCs) for loans above Rs 5 billion, with money raised through alternative investment funds (AIFs). It also suggested resolving bad debts under the Insolvency and Bankruptcy Code (IBC) and setting up a trading platform for assets. Experts found the strategy incremental, but said efforts were being made to create a market for assets first, which is commendable. The recommendations have been accepted by the government, Union Finance Minister Piyush Goyal told reporters. The panel, which has State Bank of India Chairman Rajnish Kumar as a member, met for 11 hours on July 2 before submitting its recommendations to the minister. Goyal, while presenting the panel's recommendations on July 2 evening, said the steps suggested would be compliant with the insolvency and bankruptcy process as well as Reserve Bank of India (RBI) regulations, and would be free from government intervention.

8. India Has 'Plan D' For Iran Oil After US Adds Sanction Pressure
Source: Livemint (Link)

India, one of Iran's biggest oil buyers, has said it has enough alternative sources of crude to replace any supplies cut off by US sanctions on the Persian Gulf state—even if shipments stop completely. Indian Oil Corp. Ltd chairman Sanjiv Singh says Saudi Arabia alone can cover most of the world's supply shortfall in case Iran's oil exports dry up. Also, a narrowing spread between Brent crude and Dubai oil gives Indian Oil even more options, Singh said in an interview. “We have a very wide crude basket. There’s nothing we can’t procure, there’s nothing we can’t process,” Singh said. “So, even if Iran supplies get disrupted, the supplies to the Indian market will still continue. That’s assured.” Some customers in Asia are already considering acquiescing to President Donald Trump’s demand to end trade with Iran by early November, when sanctions aimed at curbing the Islamic republic’s nuclear program come into effect. Several refiners in the largest oil market are looking at alternative supplies from Saudi Arabia to Iraq after the White House said it won’t offer extensions or waivers to US allies.

9. Tata Steel Comes Out On Top In Thyssenkrupp JV Agreement
Source: Livemint (Link)

Despite its apparent concessions, has Tata Steel actually come out on top in the joint venture agreement with German competitor Thyssenkrupp? Analysts believe that ultimately, Tata Steel’s concessions have been “modest” and far below what the more vocal of Thyssenkrupp’s investors have been gunning for. Foreign brokerage firm Jefferies said in an analysis of the deal that the 5% lower economic interest that Tata Steel has agreed to at the time of a future IPO “implies $200-350 million of value shift in favour of Thyssenkrupp” against the original 50:50 agreement on sharing IPO proceeds. This offsets only part of the total value shift in favour of Tata Steel that Jefferies had earlier estimated of $500-600 million. In fact, US-based activist investor Elliott Advisors has accused Thyssenkrupp’s management of offloading assets into the joint venture too cheaply. Elliott had submitted an estimate of the two companies’ fair valuations, demanding an 80% stake in the joint venture for Thyssenkrupp for its more profitable operations. *Financial Times* reported on 1 July that two members of the Thyssenkrupp board voted against the deal while one member abstained. The newspaper also reported that Swedish activist investor Cevian Capital had voiced concerns regarding the deal’s valuations.

10. Seafood Exports Top $7-Bn Mark, Frozen Shrimp Accounts For 69% Of Dollar Earnings
Source: The Hindu, Business Line (Link)

India's seafood exports have crossed the $7-billion mark for the first time in FY18, with frozen shrimp and fish continuing to be the flagship export items. The total seafood shipment during the period was 13,77,244 tonnes as compared to 11,34,948 tonnes in the previous fiscal. In rupee terms, exports were pegged at Rs 45,106.89 crore as against Rs 37,870.90 crore in FY 17, notching a healthy growth of 21.35 per cent. The US and South-East Asia retained their positions as the major import markets, followed by the EU, Japan, West Asia and China. “In the face of continued uncertainties in the global seafood trade, India has been able to retain its position as a leading supplier of frozen shrimp and frozen fish in international markets. With a string of initiatives and policy support, we intend to achieve an export target of $10 billion by 2022,” said MPEDA Chairman A. Jayathilak. Despite the daunting challenges of oversupply as reflected in double-digit shrimp exports by Ecuador and Argentina in 2017, increased supply from Vietnam and Thailand, a drop in global shrimp prices, and issues related to antibiotic residues, India’s seafood industry has been maintaining its growth streak, he added.

11. Iran Oil: Sushma Swaraj To Take A Call On India’s Stance
Source: The Hindu, Business Line (Link)

The Minister for External Affairs Sushma Swaraj and her team are set to take a final call on how India will deal with the US President Donald Trump’s threat to impose sanctions on countries importing oil from Iran after the November 4 deadline. Meanwhile, domestic oil refiners have adopted a ‘wait and watch’ approach before placing fresh orders as expectations are that the government may take a decision soon. The Commerce Ministry, together with the Finance Ministry, Ministry for External Affairs, Petroleum Ministry and the RBI, is looking at ways to continue trade with Iran, including import of oil. This is not the first time Indian oil refiners, both in the public and private sector, will be facing a challenge of this kind in dealing with one of the key suppliers Iran following Western sanctions on doing trade with the Islamic state. “A clear approach needs to be adopted and there should be no contradictions between the various government ministries or stakeholders. Crude supply availability will not be a challenge as the refiners have been reworking their crude sourcing basket cautiously over the years,” said a senior official with one of the public sector refiners.

12. ITC Plans To Top FMCGs With New Launches
Source: The Economic Times (Link)

Kolkata-based conglomerate ITCNSE -0.02 % plans will explore every possible consumer category and launch 30-40 new products each year in its effort to become the country's biggest fast-moving consumer goods (FMCG) company, a company executive said. “To achieve our revenue target of Rs 1 lakh crore by 2030 from the new FMCG businesses, we are strengthening our existing categories and venturing into newer ones,” B Sumant, president of the FMCG business, told ET in an interview at ITC’s Virginia House headquarters in Kolkata. “A lot of resources are being invested in product development with a strong R&D team.” ITC’s FMCG business includes cigarettes, packaged food, personal care, stationery, safety matches and agarbattis. The company will launch more products in the packaged food space since it’s the largest FMCG business for ITC. Last fiscal, it launched 30 products, next only to the rapidly expanding Patanjali Ayurved. The maker of Sunfeast biscuit, Aashirvaad atta and Engage deodorant is also actively scouting for acquisitions to plug portfolio gaps. However, ITC will only acquire brands that can be scaled up using its own distribution network as it would be easier to break even.