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Centre mulls renegotiating bilateral investment pacts

Vrishti Beniwal, Business Standard

New Delhi, July 23, 2012: With Vodafone, Sistema and Loop Telecom, among others, serving notices on the Government of India for international arbitration on tax or licence disputes, the latter is considering renegotiating its Bilateral Investment Promotion & Protection Agreement (Bipa) with diverse countries, to introduce provisions barring investors from taking such recourse. The government also wants it stated clearly that a Bipa does not cover taxation.

The proposed move is aimed at putting an end to the confusion on whether an international court can override the decisions taken by an Indian court, especially the Supreme Court. A favourable ruling for the investor in an international court can put the government in a fix.

"A number of Bipa clauses need to be revised. If you are taking legal recourse under domestic law, then you can't seek protection under international law. It has to be either of the two," an official told Business Standard.

A Bipa was supposed to promote and protect, on a reciprocal basis, the interests of investors of either country. The official said taxation issues were already outside the ambit of a Bipa, but there was a need to say it more explicitly.

Inter-ministerial groups, comprising representatives from the finance, telecommunications, commerce and law ministries, are looking into all the notices served under a Bipa.

Article 4 of a Bipa agreement requires each government to treat investments from the treaty country on par with the treatment given to its own investors or investors of any other third country. It, however, says departures from this would be permissible on matters concerning taxation, among others.

The government has so far signed such pacts with 82 countries; more are being negotiated. All the new agreements are likely to have these clauses. Talks for a Bipa are currently on with Canada, Brazil, Iraq, Nepal, Norway, South Africa and the UAE.

Another official said while there was a need to review the pacts in the light of changed circumstances, the government would tread cautiously, keeping in mind the repercussions it could have on investors. The purpose of a Bipa is to increase the comfort level of investors, by assuring a minimum standard of treatment in all matters and provide for a way to settle disputes with the host country.

In April, British telecom company Vodafone's Dutch subsidiary served a notice of dispute on the government under the India-Netherlands Bipa. It asked the government to abandon the retrospective amendments in the Income Tax Act that could make it liable to pay a tax of over Rs 12,000 crore. The government had told Vodafone the notice was premature, as it had yet to serve a notice.

When the Supreme Court cancelled spectrum licences of 11 telecom companies in February, Sistema (Russia), Loop (Mauritius) and ByCell (Cyprus) served notices alleging a Bipa breach. Telenor also sent a notice under the Comprehensive Economic Cooperation Agreement with Singapore.

Besides, notices have also been served by Devas Employees (Mauritius) and The Children's Investment Fund Management (UK and Cyprus). One case of White Industries under the Bipa between India and Australia went against the government in September 2011.

One case of White Industries under the Bipa between India and Australia went against the government in September 2011.

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Govt opens doors to FDI from Pakistan, finally

Arun S., Hindu Business Line

New Delhi, August 1, 2012: The Government has finally allowed foreign direct investment (FDI) from Pakistan in all sectors, barring defence, space and atomic energy. This is yet another move towards complete normalisation of ties with Pakistan.

The formal decision comes over three months after Commerce and Industry Minister Anand Sharma had said on April 13 that India had, in principle, agreed to allow FDI from Pakistan. The Press Note, notified on Wednesday, states that the Government has reviewed the FDI policy and decided to permit Pakistani citizens and entities incorporated in that country to make investments in India, under the Government route, in sectors other than defence, space and atomic energy.

This would mean that such investments will have to get the Foreign Investment Promotion Board's (FIPB) approval. FIPB clearance is also meant to take care of security concerns.

Earlier, the Government had allowed FDI from Bangladesh under the approval route.

Official sources had earlier said that delay in the notification was affecting the progress of talks among South Asian countries on agreements on services trade and investment.

Islamabad had questioned India on how it could push for liberalisation of services and investment in South Asia when New Delhi was yet to accord non-discriminatory treatment to Pakistan on FDI.
The Department of Industrial Policy and Promotion and the Finance Ministry were in talks to decide whether the notification on changes in the FDI policy should precede changes in Foreign Exchange Management Act (FEMA), or vice-versa.

Now that the FDI policy amendments have been notified, the Government will have to amend FEMA, which bans such investments from Pakistan.

Earlier, Pakistan had decided to give India the most-favoured nation status by this year-end. Islamabad had also shifted trade with India from a restrictive 'positive list' system to an easier 'negative list', paving the way for more goods to be traded.

Talks are also on between the banking regulators of both the countries for allowing opening of bank branches.

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Talks to open up services, investment in South Asia may end by Sept

Arun S., Hindu Business Line

New Delhi, August. 9, 2012: Talks to liberalise trade in services and investment in South Asia are likely to be concluded by September-end.

With India recently notifying its decision to permit foreign direct investment (FDI) from Pakistan, the talks have gained a new lease of life, official sources told *Business Line*.

Earlier, though India was keen on early conclusion of the negotiations, Islamabad had questioned New Delhi on how it could pitch for liberalisation of services and investment in the region when it was yet to accord non-discriminatory treatment to Pakistan on FDI.

The South Asian Association for Regional Cooperation (SAARC) members - India, Pakistan, Sri Lanka, Nepal, Bangladesh, Bhutan, Maldives and Afghanistan - already have a Free Trade Agreement (the Agreement on South Asian Free Trade Area or SAFTA) on trade in goods.

The talks now are on SAARC Agreement on Trade in Services (SATIS), as the members have realised that they can reap more benefits only if SAFTA is expanded by including trade in services as well as investment, the sources said.

The scheduling commitments (the extent of opening up various service sectors for investment; and keeping out some sensitive sectors, like space and atomic energy) will be finalised next month, the sources said.

The minimum that one can expect is the basic commitments given by SAARC member countries at the World Trade Organisation-level, they said, adding that in some sectors, SATIS can also go beyond what has been committed at the WTO.

Significantly, around 55 per cent of the value added to South Asia's GDP was on account of services. However, India's strength in the sector, including a high number of skilled professionals, is seen as a threat by other South Asian countries.

The other SAARC countries fear that opening up their services market would result in a huge influx of Indian service professionals in IT/ITeS, banking, accountancy, engineering, consulting and telecom.

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India mulls new reform to lure supermarkets

AFP

New Delhi, September 11, 2012: India's government will propose legislation to further open the retail sector to foreign markets, including Wal-Mart and French giant Carrefour. The government views foreign supermarkets as a way to combat food shortages; opposition parties believe it would destroy the livelihoods of shopkeepers.

India's government is to propose watered down legislation later this month to open up the retail sector to foreign supermarkets, news reports said on Tuesday.

The Mail Today tabloid and Hindustan Times reported that the government would propose allowing groups such as US giant Wal-Mart or French multinational Carrefour to own up to 49 percent of local subsidiaries.

The legislation would also include provisions for state governments to set local conditions for the groups, a move designed to head off opposition to the highly controversial legislation.

Last December, the left-leaning national government, which has struggled to pass reforms, was forced to withdraw a proposal to allow foreign supermarkets to own up to 51 percent of their local subsidiaries.

Shopkeepers, opposition parties and even an ally in the national coalition came together to oppose the change in the law, saying it would destroy the livelihoods of small business owners.

The government sees foreign supermarkets as a way to improve the food supply chain and bring down prices, but the proposed legislation as reported on Tuesday might not be enough to attract them.

Allowing state governments to set conditions locally would increase the complexity of the regulatory environment and the 49-percent ownership cap would mean the groups would not have control over their Indian operations.

Any proposed legislation would also need to pass the parliament, which was disrupted almost every day of the last session which ended last Friday.

Foreign retail groups are already allowed in India, but they must run single-brand shops.

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FDI in multi-brand retail won't take away right of States: Centre

The Hindu

September 19, 2012, New Delhi: The Central Government, on Tuesday, strongly rejected the opposition BJP claim that international investment protection treaties and undertakings under WTO would override the right of the State government to reject entry of multi-national food chains under the newly-approved 51 per cent foreign direct investment (FDI) in multi-brand retail policy. An official spokesman of the Commerce and Industry Ministry said here that it would be the prerogative of the States to allow a multi-brand store.

The policy itself was a national policy, and could potentially be applicable to all the States that were desirous of implementing it. The local and State-level regulations which governed shops and establishments were the prerogative of the respective State governments, the spokesperson added. "The policy explicitly acknowledges this position. The opening up of FDI in multi-brand retail trading is a liberalisation measure and remains so with all the conditionalities, given the fact that at present FDI in multi-brand retail trading is not allowed in India. The decision does not violate any commitments/obligations arising out of India's international agreements," the spokesperson said.

MARKET ACCESS

Giving further details, the spokesperson said market access, in the context of FDI policy, implied the ability of a foreign investor to enter the investment space in India and the limitations thereon. A foreign multi-brand retail investor could invest in India only after the government decision was notified. An official release said that the Bilateral Investment Promotion & Protection Agreement (BIPA) was a post-establishment investment agreement. This implied that once an investor entered the country, that investor must be treated the same as a domestic investor unless the limitations to national treatment were clearly spelt out at the pre-establishment stage. The FDI policy was a pre-establishment instrument and, therefore, not covered by BIPA, it added.

PRE AND POST

Similarly, for the Comprehensive Economic Partnership Agreement (CEPA), it said under these agreements, India had taken both pre and post establishment commitments. In the pre-establishment commitments, the FDI policy has been bound, which means that any rollback would require consultations with the partner country and could entail quid pro quo in terms of concessions in other areas. Within the FDI policy, commitments may be taken only in some specified sectors (positive listing). Since FDI in multi-brand retail trading was not allowed when these agreements were negotiated, none of these agreements is affected by the recently approved policy. Moreover, state and local regulations are not a part of such commitments.

The spokesperson said India has not undertaken any commitments in this area under the General Agreement on Trade in Services (GATS). As such, there is no impact of the policy on our commitments under the WTO. Investment is not a part of WTO disciplines except through Mode 3 under GATS.

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US working on investment treaties with India, China

Press Trust of India

Washington, September 20, 2012: Months after it unveiled a model bilateral investment treaty (BIT), a top Obama Administration official has said the US is working on BIT with a number of countries, including India, China and Mauritius.

This is a part of the Obama Administration's effort to promote investment policies and enhance trade, the US Trade Representatives Ron Kirk said at Coalition of Service Industries 2012 Global Services Summit.

"Earlier this year, the Administration concluded a thorough review of the US' model bilateral investment treaty (BIT). We enhanced transparency and public participation, sharpened the disciplines that address preferential treatment to state-owned enterprises and strengthened protections relating to labour and the environment," he said.

"With these new policy tools, US negotiators are now advancing efforts to secure high-standard BITs with trading partners such as China and India, as well as Mauritius. We have also resumed exploratory BIT discussions with a number of countries including Ghana, Cambodia, Russia, and the East African Community (EAC)," he added.

Kirk said the US is focused on enhancing services trade through existing agreements.
For example, the US-Korea agreement, which is in force, provides new opportunities for US service suppliers in the $580 billion Korean services market.

"Similarly, US investors and service suppliers are starting to take advantage of new opportunities under our recently implemented trade agreement with Colombia," he said.

Kirk also said direct dialogue is essential for enhancing services trade and investment. For example, China is the fastest growing auto market in the world. Through bilateral engagement, the US persuaded China to open its market for certain mandatory auto insurance.

"Of course, when negotiations and dialogue are not able to remove discriminatory barriers to trade sufficiently, it may be necessary to utilise appropriate trade enforcement tools.

"In July, a WTO Panel agreed with US claims that China's pervasive and discriminatory measures in the electronic payment services (EPS) sector deny a level playing field to financial services suppliers from the US and other countries," Kirk said.

China has now accepted the Panel's ruling and the US is working with China to ensure that these practices end, he added.

Kirk said the US is eager to seize the full potential of its trade and investment relationship with Russia at the bilateral as well as multilateral levels.

"Last month, the US welcomed Russia as the 156th Member of the WTO. Now, WTO rules could -and should - offer important transparency and predictability for US service suppliers doing business in Russia," he said.

"But because the WTO Agreement does not apply between the US and Russia at this time, Russia does not have to apply the WTO rules, or its market-opening commitments, to US service suppliers. "That's why the Obama Administration is strongly encouraging Congress to pass legislation as soon as possible that will terminate Jackson-Vanik (amendment) and authorise permanent normal trade relations with Russia," Kirk said.

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India, US discuss ways to lower barriers to trade, investment

Press Trust of India

New Delhi, October 9, 2012: Committed to strengthening bilateral economic ties, India and the US today discussed ways to lower trade and investment barriers further.

In a joint statement after the India-US Economic and Financial Partnership meeting, Finance Minister P Chidambaram and US Treasury Secretary Timothy Geithner said the two sides will also strengthen co-operation to combat money laundering and terror financing.

They said India and the US are committed to exploring new areas to deepen and broaden economic and financial ties.

"Both countries recognise the great potential benefit from working together to meet the challenges of a shared future to generate jobs, sustain growth and help ensure macroeconomic stability... We discussed ways we can further lower barriers to trade and investment to facilitate stronger growth and job creation," the statement said. "Our work continues on infrastructure financing."

At the meeting, the two sides discussed economic and financial developments in their economies and in the world.

"We agreed to deepen our cooperation bilaterally and in multilateral fora, including the G-20 to contribute towards steering the global economy out of uncertainties and achieving strong, sustainable and balanced growth going forward," the statement said.

The two sides agreed to expand cooperation to deepen capital markets and strengthen financial regulations.

The third partnership meeting was attended by RBI Governor D Subbarao and US Federal Reserve Chairman Ben Bernanke, among others.

"The Partnership (launched in 2010) meetings have served as the forum for the highest level of engagement between India and the United States," the statement added.

The growing bilateral trade and investment across products, services and technology "is a sign of our commitment to build our relationship on a solid foundation that utilises our mutual strengths", it said.

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India reforms cheered, but impact still uncertain

Penny MacRae, Agence France Presse

10 October 2012: India's reforms blitz has cheered markets and changed perceptions of the government but the outcome is far from assured, with the nation a long way from returning to a high-growth path, analysts say.

Since mid-September, Prime Minister Manmohan Singh's Congress-led government has opened the retail, broadcasting and aviation sectors and proposed inviting foreign investment into the insurance and pension industries.

But some of this deregulation, which the media has dubbed the country's second reform "big bang" since Singh as finance minister began opening India's economy to the world two decades ago, may not have much immediate effect.

"The announcement is symbolically significant, partly because the reforms have been under discussion for years and partly because the decision shows evidence of sustained (government) momentum," said Eurasia Group analyst AnjalikaBarali. But they may be "short on impact," she added.

Just nine of India's 29 states say they will implement the retail reform and allow in foreign supermarkets, with the others fearful of the effect on the hundreds of thousands of small store owners.

And while US giant Wal-Mart plans to open its first outlet in the next 18-24 months, other large retailers like Britain's Tesco and France's Carrefour, which initially expressed interest, are now struggling financially, analysts say.

In the aviation sector, the government has permitted foreign carriers to take a stake in Indian airlines, but the sector is drowning in debt and struggling with high prices of fuel and airport landing rights.

Kingfisher Airlines, owned by flamboyant liquor tycoon Vijay Mallya, is desperate for a foreign buyer, but is finding it tough to attract interest.

The Centre for Asia Pacific Aviation, a consultancy, says it does not expect "any foreign airline to invest in Kingfisher in its current state with its massive ($2.5-billion) debt burden, crippled fleet and poor employee morale".

Finally, the government's plans to raise foreign ownership caps in the massively underpenetrated insurance and pension sectors must still clear India's fractious parliament.

The reforms have already cost the government its parliamentary majority with the exit of a key ally who has threatened to bring a no-confidence motion against its former partner when the house reopens next month.

It could be "back to the old brick wall," warned CLSA economist Rajeev Malik, referring to the gridlock in previous parliamentary sessions.

As it slashed its growth forecast for the Indian economy this year to 4.9 percent, the International Monetary Fund (IMF) said on Tuesday that the "outlook for India is unusually uncertain".

The IMF's 2012 forecast for Indian economic expansion was its lowest in a decade, the institution said in its World Economic Outlook report.

The moves to open up sectors of the economy to foreign investment also fall short of addressing the so-called "structural problems" holding back the development of India's economy, Asia's third biggest, economists say.

Rigid labour laws discourage companies from hiring, antiquated land acquisition rules make setting up industrial projects difficult, while infrastructure from roads to power is old and insufficient.

Red tape and corruption are also huge problems for businesses and the government still runs large areas of the economy, including banks, mining companies and energy groups.

Subsidies on everything from fuel to fertilizers have also blown apart the government's budgeting, with a long-delayed move to hike the price of subsidised diesel as part of the reform package seen as a small move in the right direction.

But with general elections in 2014 and two state polls looming, the Congress-led government "knows its limits," said Ajay Bodke, strategy head at India's PrabhudasLilladher investment house.

"The government has swung round perceptions of itself to being action-oriented rather than asleep," he said. "But they haven't addressed the really hard stuff like substantially reducing subsidies that is the most politically treacherous."

Investors have so far liked what they have seen from Prime Minister Singh and his reformist finance minister -- shares are up nearly 10 percent since the end of August -- but justifying the optimism is the government's next challenge.

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No easy ride for foreign retailers

Binaifer Jehani, Hindu

22 October, 2012: The Central Government’s decision to allow 51 per cent foreign direct investment (FDI) in multi-brand retail is likely to stimulate investments in the organised retail industry. If all the big States implement the decision (at present, only nine States and two Union Territories have agreed to open up multi-brand retail to FDI), we estimate $2.5-3 billion will flow in the form of FDI of the total expected investments of $10 billion in the retail industry over the next five years,

Bulk of the FDI in retail is likely to flow into the food and grocery (F&G) vertical as organised retail penetration (ORP) in this vertical is the lowest. The F&G segment, which stands at $300 billion, accounts for two-thirds of the Indian retail market but has organised retail sales of only around 2 per cent. This highly price-sensitive segment will gain the most from the scale, technology and investments in the back-end that would accompany FDI in retail.

According to the FDI policy norms, the minimum investment by a foreign retailer should be $100 million, and 50 per cent of this amount has to be channelled into the development of back-end infrastructure in the first three years. This minimum investment can typically fund the establishment of around one million sq. ft. of front-end store space, equivalent to 10-15 hypermarkets or department stores. We do not see this clause as a hurdle as we expect foreign retailers, who intend to achieve scale and efficiency of operations, to invest significantly larger amounts.

Back-end infrastructure would include investment made processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse, and agriculture produce infrastructure. This clause will ensure adequate capital expenditure in the back-end supply chain, and help significantly reduce wastages in fruits and vegetables. An efficient supply chain will enable direct sourcing of fruits and vegetables, which will boost farmer realisations by 10-15 per cent; and still bring down retail prices by 15-20 per cent.

In 2011-12, organised retail penetration was just 7 per cent of the $430 billion domestic retail industry, the remainder being held by small, unorganised retailers (mom and pop stores). Without FDI in multi-brand retail, we believe ORP will increase to 9 per cent in 2016-17; on the other hand, even if all States permit FDI, ORP will be only a modest 100 basis points higher at 10 per cent in 2016-17. The same has been arrived at taking into account the likely supply of quality retail space and the current ORP in large cities.

Further, the lead time for organised retailers to identify appropriate store locations and address issues in rolling out back-end infrastructure will limit the pace of growth in ORP. China opened up its retail sector to FDI nearly 15 years ago. Today, organised retail in China accounts for 20-25 per cent of total retail sales. The share of foreign retailers in organised retail is 25-30 per cent.
Our estimate of FDI inflows indicates that foreign retailers are unlikely to gain a dominant market share in multi-brand organised retail in the next five years. Depending on whether foreign retailers buy into existing retail chains or set up new joint ventures, their share in multi-brand organised retail would vary between 10 per cent and 15 per cent by 2016-17. We believe that domestic players will have to modify their operational structures before entering into joint ventures with foreign retailers as at present all States have not agreed to the policy.

The restructuring exercise will be of either creating a State-wise special purpose vehicle (SPV) or segregating the front-end and back-end operations. Domestic organised retailers can also capitalise on the decision to allow FDI to build fruitful joint ventures with foreign retailers.

To improve profitability in F&G, retailers need to control their supply chain costs and build scale. Every percentage point reduction in supply chain cost and resultant gain in earnings before interest, tax, depreciation and amortisation margin can improve equity IRR (internal rate of return) of an F&G store by 250-300 basis points.

On their part, foreign retailers, with their access to capital and technology, are well placed to leverage this opportunity.

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India digs in heels on free trade pact with Asean

Neeraj Thakur, Daily News & Analysis

3 November 2012: New Delhi mulls suspending negotiations on services and investment after row with Philippines, Indonesia.

Ahead of the Indo-Asean summit on free trade agreement on November 19, India is considering the proposal of suspending negotiations on both services and investment. The move is being considered against the backdrop of disappointing response from countries such as Philippines and Indonesia in the services sector.

A note prepared by the ministry of commerce on the issue has floated three options that include suspending negotiations on both services and investments and resume these at a later date.The second options in consideration is concluding the services agreement on the basis of existing offers and conclude separate agreements with AMS (Asean member states) and separate ones with the Philippines and Indonesia.The third option being considered by India says 'restrict the investment agreement to only an Investment Promotion Agreement given the wide divergence in positions on investments.'

The note clearly expresses India's disappointment with Indonesia and Philippines saying, "While India would have expected a better services offer from all Asean members it is clear that Philippines and Indonesia are not inclined."

Under the services sector, India wants greater opening in the Mode IV category to ensure that professionals like doctors, nurses, accountants, chefs, get more job opportunities in the Asean member states that include Brunei, Cambodia, Laos, Indonesia, Malaysia, Myanmar, Singapore, Philippines,Vietnam and Thailand.

Prime Minister Manmohan Singh would be travelling to Cambodia on November 19 to attend the Asean summit this year.

India had signed the 'Trade in Goods' agreement with a focus on tariff liberalisation with Asean in 2009. The agreement on goods targeted elimination of tariffs on 80% of the tariff lines accounting for 75% of the trade in a gradual manner starting from 1st January, 2010.

India's trade with Asean countries has grown at a rate of 42% in the past two years.

Exports to Asean countries have touched $36 billion in 2011-12 while imports have touched $25.7 billion in the same period. The government expects that the full tariff reduction on 64% of the lines will be completed only by December 2013 and it would be too early to gauge full impact of the FTA.

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FDI will put economy back on high growth trajectory: President

Madhur Tankha, Hindu

15 November 2012, New Delhi: President Pranab Mukherjee on Wednesday said the Union Government had gone in for Foreign Direct Investment in multi-brand retail and civil aviation sector to put the economy back on a high growth trajectory.

Speaking at the inauguration of the fortnight-long India International Trade Fair at Delhi's PragatiMaidan, the President said: "It was only yesterday (Tuesday) that our country celebrated the festival of lights, Diwali. The festival signifies not only the victory of good over evil but also the banishment of the forces of darkness and ignorance and welcoming of the light of enlightenment. I am happy to say that IITF, over the past three decades, has significantly contributed towards enlightening the world about the narration of India's growth."

The President asserted that IITF has acted as a vehicle for showcasing the country's economic and social development over the past three decades while itself gaining in popularity and moving from strength to strength.

Noting that economic changes have social ramifications, Mr. Mukherjee said in order to keep pace with the rapid global changes, we need to constantly fine-tune the skills of our work force. "There is an urgent need to bring skill development and vocational training to the centre-stage of our developmental processes. In order to reach the target of skilling 500 million persons by 2022, it is necessary that apart from government agencies, industry led fora address the issue of integrating skilled manpower into the mainstream of economic growth."

Pointing out that India has been a model of self-reliance and a source of inspiration to many developing countries, the President said: "Our relentless struggle to overcome poverty, illiteracy and ill-health has been watched with keen interest by the international community. The fact that a country with a primarily agro-based economy and a burgeoning population could make its presence felt in diverse fields such as Information Technology, heavy industries, communications, nuclear energy, space research and electronics has been acknowledged and admired the world over."

For the first in the history of IITF, a Prime Minister is heading a delegation of over 60 companies.
The Republic of Belarus PM Mikhail V. Myasnikovich announced that his country plans to organise joint production of tractors and vehicles in India.Covering a gamut of sectors like automobiles, beverages and food products at the ongoing IITF, Belarus has been accorded the status of partner country this year.

Acknowledging the need to upgrade facilities at the sprawling exhibition ground, Union Commerce Minister Anand Sharma said: "PragatiMaidan is short of facilities. We will soon have an integrated complex here. All issues are settled. On a global scale we will have a global convention centre at Dwarka."

South Africa Deputy Trade and Industry Minister Elizabeth Thabethe, whose country is the focus country, said over three dozen craft persons were displaying the historical traditional crafts. "Crafts are generating jobs and leading to women's empowerment."

Winding up her speech, the Minister said: "India gave us a lawyer and we gave back Mahatma."
Uttarakhand Chief Minister Vijay Bahuguna said when the partner State was first introduced at IITF then the hill State was granted this status. "This year, Uttarakhand has again been accorded the status of

partner State. We want industrialists to invest in a big way in our State as we have ready availability of power and water.”

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India ready to sign FTA in Services, Investment with ASEAN: PM

SandeepDikshit, Hindu

19 November 2012, Phnom Penh: Prime Minister Manmohan Singh responded to the urging of Association of South East Asian Nations (ASEAN) by promising to finalise the Free Trade Agreement (FTA) in services and investment before leaders from this 10-nation bloc arrive in Delhi next month for a summit with India.
On Sunday, Prime Minister of Singapore Lee HsienLoong and President of Philippines Benigno Aquino during meetings with Dr. Singh were the most recent to press for an early conclusion of a comprehensive FTA. India had signed the FTA in goods in 2009 and has since been negotiating its extension into the services and investment sectors.

Although Commerce and Industry Minister Anand Sharma rolled out figures to assert that trade with ASEAN was growing in leaps and bounds, the fact remains that the dollars 75 billions in bilateral trade clocked last year was only 2.9 per cent of this block's total trade. Even the FTA in goods covers only 80 per cent of tariff lines compared with 90 per cent in ASEAN's FTAs with other countries.

"India is prepared to conclude the agreement on trade in services and investment promotion before the commemorative summit in Delhi in December. This will be a strong signal of our deepening economic engagement, and will allow for rapid expansion in trade and investment flows in both directions," Dr. Singh said in his opening remarks at the one-hour India-ASEAN summit here on Monday. During his response statement later, he felt a comprehensive FTA would be the "springboard" for rapid expansion in economic relations with ASEAN.

With the US backing the initiative, Dr. Singh said the India-Myanmar-Thailand highway would be operational by 2016 thus opening North East India to South East Asia. He also spoke about another alternative route through central or north Myanmar to connect Guwahati to Hanoi. US and Japan at their recently held second trilateral meeting with India had supported this initiative and the issue would be discussed at their next meeting in depth to be held in Washington. "The route will be through virgin territory. With the big boys [Japan and the US] backing it, we would like to give the proposal a try," said Government sources.

"These are welcome steps in implementing the vision of India-ASEAN connectivity. We await route alignments on the extension of the Trilateral Highway and the proposed new highway to Vietnam so that these can be examined in an integrated manner. I look forward to early completion of the feasibility studies," Dr. Singh said in this respect.

The Prime Minister pointed out that the importance of surface and sea connectivity with the east was being highlighted by the India-ASEAN car rally that will cover eight ASEAN countries over a route length of 8,000 kms and the sailing expedition by the naval ship Sudarshini which set off from Kochi. Dr. Singh also mentioned other India-ASEAN initiatives that tend to get eclipsed by more attractive initiatives. These include the upcoming business fair in Delhi, a past meeting between the heads of space agencies in Bengaluru and a meeting of ASEAN economic ministers in Guwahati next month. He appreciated Cambodia's constructive and supportive role for the last three years as the coordinator for ASEAN and welcomed Brunei which has taken over this function.
The Prime Minister's assurance of across-the-board FTA with ASEAN by mid-December was welcomed by the Confederation of Indian Industries (CII) which pointed out that the two were among the biggest beneficiaries of the shift in global economic equations and should jointly leverage their large markets and development endeavors.

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A drag on the developing world

T S Vishwanath, Business Standard

6 December 2012: The ongoing dispute between the GMR group and the Maldives government over the investment for an airport in Male brings focus on a recent discussion at the World Trade Organisation(WTO) public forum, and which was followed by an article by Martin Khor, executive director of Geneva-based South Centre.

The WTO public forum session, which was reported by the Third World Network (TWN), was on "Investment Provisions and Agreements: What is the right 21st century approach?", and was organised by Our World Is Not for Sale Network, the International Trade Union Confederation and Public Citizen. This report and Khor's article emphasised a viewpoint that investment treaties could prove to be a drag on the developing world and might adversely impact policy space for governments.

The TWN report quoted the comments made in the WTO forum by South Africa's senior trade official, Xavier Carim, on the recent changes made by Pretoria in its investment policy. This followed a review that found that the country's bilateral investment treaties (BITs) were inconsistent with South Africa's constitution, the TWN report said.

After the review, Carim said, the South African Cabinet concluded that Pretoria "should refrain from entering into BITs in future, except in cases of compelling economic and political circumstances". "The review also identified difficulties with respect to international arbitration. It observed fragmentation in the system; the lack of common standards of protection; inconsistent interpretations by arbitration panels even on similar matters; as well the growing complexity of the international system through an evolving jurisprudence. All this exacerbates uncertainty and risk." Carim then said, "In particular, we were concerned with investor-state dispute provisions in our BITs. This, in our view, opens the door to narrow commercial interests on subject matters of vital national interest and to unpredictable international arbitration outcomes, and is a direct challenge to constitutional and democratic policy-making."

The view against investor-state provisions in agreements was also supported by Khor in his article where he noted "the epidemic of cases and the high losses that governments have suffered or will potentially suffer is giving rise to grave concerns and calls by several governments as well as public interest groups and legal experts to review and amend the agreements that have led to the legal suits".

The agreements are of two types —BITs signed between pairs of governments (of which there are now around 3,000) and the investment chapter contained in bilateral or regional free trade agreements (especially those involving the US). Many agreements have "investor-state" dispute systems under which a private company or investor can directly sue governments in an international tribunal by claiming that its property or profits have been "expropriated" or "adversely affected by a violation of contracts or by recent policy measures".

Interestingly, the Indian government is reportedly looking to review its bilateral agreements after foreign telecom companies decided to use BITs, following the Supreme Court's decision to cancel their 2G licences in April 2012. Sistema invoked the treaty between India and Russia, while Telenor invoked the agreement with Singapore. As is evident from the TWN report and Khor's article, there is a view in the developing world that countries need policy space when it comes to accepting obligations in investor-state disputes in trade agreements.

This holds true if the investor-state tiff over an investment does not have a political hue, but is purely based on commercial issues. What emerges from the Indian company's problem with Male points to a need for a possible fresh view of the position taken by the panel at the WTO public forum.
While taking a genuinely important case of protecting developing countries from unwanted legal processes, it is also important to understand that investment decisions need to be backed by strong safeguard provisions.

Political decisions can sometimes be shrouded in policy moves, which can be detrimental to both the investor and the state itself, which is receiving that investment. The decision taken by Male could, for instance, impact Maldives in attracting genuine private investors into the country. State enterprises in some countries, which may back the current leadership in Maldives, may be willing to invest, but authentic private sector investors may lose faith in the regime.

It would be interesting to have a perspective on this issue from Khor and the other speakers at the WTO public forum.

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India, Asean talks on services, investment pact set to conclude

AsitRanjan Mishra, Livemint

New Delhi, 19 December 2012**:** India and members of the Association of Southeast Asian Nations (Asean) are all set to announce closure of negotiations on a long-pending agreement on services and investment in New Delhi on Wednesday, seeking to boost trade and investment links.

"We will definitely conclude it and then we are duty bound to report to the heads of states and heads of the governments who shall formally make the declaration on 20 December," Commerce And Industry Minister Anand Sharma said at a joint press conference with trade ministers of key Asean countries.

To mark the 20th anniversary of a dialogue-level partnership and the 10th anniversary of its summit-level partnership with Asean, India is hosting the India-Asean Commemorative Summit on the theme "India and Asean: Partners in Progress and Prosperity" on 20-21 December, which will be attended by head of states of the Asean region. The summit is expected to result in the adoption of the "Asean-India Vision Statement 2020", which will chart the future direction of relations.

Asean groups Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Two-way trade between the two sides stood at $80 billion in 2011. They are targeting $100 billion by 2015.

India became a sectoral dialogue partner of Asean in 1992, and the relationship was upgraded to a full dialogue partnership in 1996. Since 2002, India has been having annual summits with Asean.

While both sides have signed a free trade agreement (FTA) on goods that came into effect in August 2010, India has been pressing hard for the services and investment agreement as it sees more gains in these two sectors.

Sharma said that after conclusion of the talks for the services and investment agreement, it may take an year to fully implement the pact. Sharma hopes early operationalization of the agreement would provide greater impetus to trade and investment flows.

A trade expert who spoke on condition of anonymity said his impression was that the pact will be very low in ambition and India is unlikely to gain anything significant from the agreement.

The Philippines has been opposing a services pact with India as it competes with it for outsourcing business. FelicitasAgoncillo-Reyes, Assistant Secretary, Department of Trade and Industry, who represented the Philippines in the negotiations, was absent from the joint press conference attended by all other trade ministers of the Asean region.

"This is just to make a political statement," the analyst said. India views its partnership with Asean as a crucial block in sustaining growth momentum. "We would like to benefit from Asean experience in key sectors of economy such as infrastructure, agro-processing, retail and value-added manufacturing. Equally, Indian companies can be invaluable partners for Asean economies in augmenting their productivity," he said.

The Asean region, along with six major economies in the region—India, China, South Korea, New Zealand, Japan and Australia—have also agreed to launch negotiations for a regional comprehensive economic partnership with an aim to be the largest trading block in the world when negotiations conclude in 2015.

Sharma said the proposed treaty, when it is reached, will be a momentous step and will truly have a defining influence on the global economic architecture.

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Asean services pact talks concluded

Business Standard Reporter

New Delhi, 21 December 2012:India and the Asssociation of Southeast Asian Nations (Asean), the 10-member regional grouping, moved closer on Thursday to completing a bilateral trade pact, by finalising a free trade agreement (FTA) on services and investments. They are expected to sign the pact in August 2013.

An FTA on goods was signed between Indian and Asean in 2011. India's services sector contributes around 55 per cent to the country's GDP, making this new pact significant. The agreement on services and investment had been pending.

The 10 members in Asean are Cambodia, Laos, Malaysia, Singapore, Thailand, Vietnam, Brunei, Indonesia, Myanmar and Philippines.

The pact will enable free movement of professionals from here such as doctors, engineers, architects and management consultants across the Asean markets. It is being seen as lifting the India-Asean relation to a new strategic partnership. Business process outsourcing (BPO) is among the areas likely to benefit once the pact is signed. In his opening remarks at the two-day 'Asean India Commemorative Summit' here, Prime Minister Manmohan Singh said negotiations for the new FTA had been concluded. "This represents a valuable milestone in our relationship. I am confident it will boost our economic ties in much the same way the FTA in goods has done," he said.

India-Asean trade has grown over 10 times in the 10 years since the annual summits between the two sides began, the PM noted. While the summit is celebrating 10 years, India has been a dialogue partner with this regional grouping for 20 years.

Two-way trade grew 41 per cent in 2011-12, to touch $79 billion. While the target has been set at $100 billion by 2015, the PM said on Thursday it had the potential to reach $200 billion by 2022.

As Asean investments into India have multiplied, their countries, too, have emerged as major destinations for Indian companies, the PM said. "From energy resources to farm products, from materials to machinery, and from electronics to information technology, Indian and Asean companies are forging new partnerships of trade and investment."

Implications

Services will include sectors such as healthcare, pharmaceutical, biotechnology, tourism, transport, communication and construction. The FTA aims to cover a market of 1.8 billion people and a collective GDP of $3.8 trillion.

ShubhadaRao, chief economist at YES Bank, told Business Standard it was extremely important for India to diversify its export destinations. "With the developed world likely to take a while before getting back to a normal trajectory, this agreement will allow India to look at growth in the Southeast Asian regions for greater competitiveness," she said. According to her, India has already demonstrated its skill sets to the West. "We can now replicate our expertise before the Asean region in a cost-effective manner," she added.

Agreed another economist, Sridhar Venkateswaran, who noted the services pact would be critical from India's standpoint. "Visa on arrival and free movement of professionals in the services sector are among the advantages for India. Indian information technology and BPO companies will get significantly benefited, as they will be able to set up back-office centres across the Asean region," he said. Also, the Asean market would like to access India's tourism sector, he said.

Last month, the Indian PM was in Phnom Penh, Cambodia, to attend the Asean Summit and the parallel East Asia Summit, where talks were held on extending the scope of the FTA to services and investment. Ahead of the two-day Asean-India Commemorative Summit being attended by the heads of states, trade ministers had met to reduce the differences on many issues that some had in connection with the services and investment pact. Philippines and Indonesia, strong in outsourcing, are among the member-countries with some reservations on opening their services sector.

Speaking to reporters, Singapore Prime Minister Lee HsienLoong said the Asean-India FTA was now a comprehensive agreement, in line with the other AseanPlus One FTAs. Lee is learnt to have met some industrialists in Gurgaon, the satellite city next to Delhi. Bharti Group chairman Sunil Mittal was one of them. Singapore's Sing Tel is an investor in Bharti. The two discussed the scope of investments in Singapore.

A vision statement issued at the summit said, "We declare that the Asean-India Partnership stands elevated to a strategic partnership." India and Asean share the vision of a peaceful, prosperous and resurgent Asia, which contributes to and promotes global peace and security, it added.

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Free trade pact with Asean likely to be signed in August

Business Line (The Hindu)

Chennai, 6 March 2013: The Free Trade Agreement between India and the Asean (Association of South East Asian Nations) is all set to become a more comprehensive one. A pact on trade in services, as well as investment, is going to be signed in the next few months.

Avinash P. Joshi, Director, Union Ministry of Commerce and Industry, said negotiations between the Indian Government and Asean (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) are over and an agreement to this effect would be signed in August. "We hope this would open up a huge opportunity in the services and investment relations with these countries," he said.

Besides, pointing out that the trade with these countries in the first nine months of the current financial year has clocked over $55 billion, he said this is expected to go past $80 billion by the end of the year. In an "outreach session" on Free Trade Agreement, organised here today by the Confederation of Indian Industry along with the Union Ministry of Commerce and Industry, Joshi said total trade between India and the member countries of Asean has been growing at a compounded annual growth rate of 20.64 per cent, from 2005-06.

Talking about foreign direct investments into India, he said bilateral investments between Singapore and India have crossed $50 billion, with Indian investment in Singapore (at $27 billion) being marginally above Singapore investment in India ($24 billion).

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Insurance Bill now holds the key to FTA with EU

AsitRanjan Mishra / Remya Nair, Livemint

New Delhi, 10 March 2013: The much-delayed free trade agreement (FTA) between India and the European Union (EU) may finally get through if the government is able to amend the law to allow greater foreign investment in Indian insurance firms.

Chief negotiators of the two sides are scheduled to meet next week in Brussels to thrash out the remaining issues in the deal. This will be followed by a meeting between trade ministers from both sides in April to close the deal.

Talks on the bilateral trade and investment agreement started in 2007. The two sides have missed at least four deadlines to complete negotiations.

“There is a very good chance of reaching a deal this time”, a commerce ministry official said speaking on condition of anonymity. “Everyone knows they (EU) are interested in opening up the insurance sector. Let’s see what happens in Parliament.”

Of the 23 private life insurance companies operating in India, 11 are joint ventures with European insurers. Of the 21 private general insurance companies in the country, seven are partnerships with firms headquartered in Europe.

The insurance amendment Bill proposes to raise the foreign direct investment (FDI) cap for the sector to 49% from 26%, but the standing committee on finance, headed by main opposition BharatiyaJanata Party leader YashwantSinha, is against this.

The government is trying to forge a consensus with opposition parties to ensure passage of the Bill and may table the Bill in Parliament in the second half of the budget session, said a finance ministry official, also declining to be identified.

The finance ministry is also exploring an option to allow foreign institutional investors to hold up to a 23% stake in Indian insurance firms, maintaining the FDI limit at 26%, if a consensus can’t be reached. “We have heard from some of the foreign promoters. Let’s see what can be done. Political consensus is needed to push through the bill,” the finance ministry official said.

Asked if the meeting in Brussels will be the last round of talks for a EU-FTA deal, the commerce ministry official said: “In a way yes, but discussions would still continue to fine tune the deal. I would call it a critical round.”

EU ambassador to India Joao Cravinho last month warned of “a closing window” of opportunity given that India’s general election is scheduled for next year.

Cravinho said differences over services—the mobility of professionals without restrictions that India has been pitching for—were more serious than those over reducing tariffs in the auto and wine and spirits sectors.

India also wants the EU to declare the country data-safe, which will help information technology and outsourcing companies. The EU, however, maintains the issue is not part of the FTA negotiations and should be dealt with independently.

“We will certainly be very supportive of India getting data adequacy status... It’s in India’s interest because there are billions of dollars of business involved, but it’s also in our interest because European companies will gain by using Indian companies to do their data processing. It will reduce our costs,” Cravinho said.

T.S. Vishwanath, principal adviser at APJ-SLG Law Offices, said the trade negotiations between the two sides are heading towards a conclusion as a majority of the issues have been sorted out. “On issues like reducing tariffs on automobile imports, India needs to convince the EU that it has a road map even if it does not eliminate duties at one go. Similarly, EU also needs to tell India how India can become a data secure country. A deal does not quite look difficult now,” he said.

Apart from insurance, the EU may insist on making FDI in multi-brand retail more flexible as it considers the current policy complex, said Arpita Mukherjee, professor at the Indian Council for Research on International Economic Relations.

“EU may insist on further liberalizing the sourcing clause, making backend investment requirements flexible and allowing FDI in e-commerce,” she said. Opening up the retail sector for foreign investment was one of the key demands of the EU. India last year allowed 51% FDI in multi-brand retail and 100% FDI in single-brand retail.

Though the commerce ministry says it had no plans to allow FDI in e-commerce, Planning Commission deputy chairman Montek Singh Ahluwalia on Friday signalled a change in government’s thinking. “I have expressed my view that if we have FDI in conventional retail, the same principle should apply in online retail. Many people have brought this to my attention. I propose to raise this with (commerce minister) Anand Sharma,” he told reporters.

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Government releases latest edition of consolidated FDI policy

PTI

New Delhi, 6 April 2013: Seeking to further simplify the foreign investment regime, government today came out with the revised consolidated guidelines on FDI.

The guidelines incorporated changes with regard to inflows in multi brand retail and allowing Pakistan nationals and companies to invest in the country.

Besides, it has included policy changes in sectors like single brand retail, asset reconstruction companies (ARCs), power exchanges, civil aviation, broadcasting and non-banking financial companies (NBFCs). The government made these changes in the sixth edition of the Consolidated FDI Policy Circular, a ready reckoner on foreign investment-related regulations that is effective from April 5.

Last year, amid opposition from some of its key allies and state governments, the Centre permitted 51 per cent FDI in multi-brand retail sector. The government also allowed foreign airlines to pick 49 per cent stake in the cash-strapped domestic carriers.

Similarly, it has raised FDI cap to 74 per cent in various services of the broadcasting sector. The foreign investment ceiling in ARCs has also been increased to 74 per cent from 49 per cent, a move aimed at bringing more foreign expertise in the segment.

It has said that the total shareholding of an individual FII in an ARC shall not exceed 10 per cent of the total paid-up capital.

Further, it has incorporated the changes made with regard to FDI from Pakistan. Now, a Pakistani citizen or an entity can invest in the country under the government approval route.

With regard to issue price of shares, a new paragraph has been added.

Under this, where a non-residents including NRIs are making investments in an Indian firm in compliance with the provisions of the Companies Act, 1956, by way of subscription to its Memorandum of Association, "such investments may be made at face value subject to their eligibility to invest under the FDI scheme".

The government has permitted foreign investment of up to 49 per cent in the power trading exchanges in the country.

The policy has also listed as many as eight mandatory conditions and one optional clause with regard to conversion of a company with FDI into a Limited Liability Partnerships (LLPs) firm.

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FDI flows likely to remain subdued but India may see rise

Remya Nair, Mint

New Delhi, 26 June 2013: Foreign direct investment (FDI) flows globally are likely to remain subdued in the current year due to sluggish economic activity though India could see an uptick, according to a report by the United Nations Conference on Trade and Development (UNCTAD) released on Tuesday.

India may see 15% growth in FDI this year as changing government policies draw investors to the service and manufacturing sectors, said Nagesh Kumar, chief economist at the United Nations Economic and Social Commission for Asia and the Pacific, while releasing the World Investment Report for 2013. FDI in India declined 29% to $25.5 billion in 2012.it contracted 18% globally to $1.35 trillion due to policy uncertainties and fragile economic conditions. The report ranked India as the third most attractive destination for foreign investment behind China and the US, based on a survey of 500 global companies. India has taken a number of steps recently to encourage foreign investment. These include opening up of multi-brand retail and removing bottlenecks hampering investment in various sectors such as aviation and infrastructure. Another significant initiative in this respect may emerge from recommendations on FDI made by a panel headed by economic affairs secretary Arvind Mayaram. Finance minister P. Chidambaram said higher FDI limits based on the recommendations which cover key sectors such as defence, telecom, insurance and retail are likely to be in place by the third week of July, once ministers have approved them. The government's attempts to improve investor sentiment amid global economic gloom may be effective. "There is a lot of money waiting to come to India. Most of the big investors have made allocations for India but were waiting for announcement of some reform measures before putting in the money, said Mahendra Swarup, president of Indian Private Equity and Venture Capital Association. °With some of the policy reform measures announced by the government, there is some momentum." He doesn't see polls as having much of an impact on FDI. The upcoming general elections (scheduled to be held in 2014) are unlikely to make much of a difference given that change in governments does not see a drastic change in policies. Also, most of the foreign investors have a long-term outlook for India, he added. The report also highlighted a shift in the investment patterns of long-term investors, with developing economies led by Asia attracting the bulk of these and exceeding flows to developed economies for the first time by $142 billion in 2012. Developing economies cornered 52% of the global FDI flows in 2012 as against 44.5% in 2011. The report also raised concerns about the increasing use of offshore financial centres and special purpose entities as a tax evasion measure. It advocated coordinated international efforts and clear definitions of what can be considered benign use of such arrangements. Last year also saw the most additions to investor-state dispute settlement cases. Fifty-eight new cases were added in 2012 taking the total known disputes to 514, prompting many countries to debate the advantages and disadvantages of the system.

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Sharma to take up exporters' suggestions with PM

PTI

New Delhi, 2 July 2013: Commerce and Industry Minister Anand Sharma will take up with the Prime Minister the suggestions of exporters such as providing differential rate of credit for them to boost outward shipments.

The indication for the same was given by Sharma during his meeting with members of Export Promotion Councils and industry chambers yesterday. "Sharma assured a concerted effort to help exporters and inform them about his meeting with the Finance Minister and forthcoming meeting with the Prime Minister in which he will take up the suggestions received during this consultation," an official statement today said. He said the differential rate of credit should be provided to exporters as interest subsidy still falls well short of global lending rates. "...it is crucial as Indian exporters in any eventuality have to deal with high transaction costs on account of infrastructure bottlenecks. He indicated that he will take it up when the meeting with Prime Ministers happens," it said. India's exports entered the negative zone after a gap of four months, recording a contraction of 1.1 per cent in May and leading to a trade deficit of USD 20.1 billion, highest in the last seven months. Further, acknowledging the importance of high-tech products, Sharma said the ministry would encourage export of the items. "The list is under preparation. Emphasis on value-added products will be given," said the statement quoting Sharma. The minister has asked the export bodies to focus on SMEs which account for sizeable chunk of exports. He also sought suggestions from the industry and councils to clear bottlenecks for exporters. Sharma said the rising trade deficit has a cascading impact on current account deficit (CAD). He also said that efforts will be made to bring down transaction cost through Electronic Data Exchange. "24x7 custom clearance at ports will be pursued in a mission mode and senior Ministry officials will visit the major ports to expedite it at the earliest," Sharma added. In 2012-13, exports stood at US 300.2 billion, while imports touched USD 491.9 billion, leaving a deficit of USD 191 billion. "Sharma cited weakening global demands along with developments like mining restrictions in Goa and Karnataka, and unprecedented rise in gold import as the major contributors," the statement added. During the meeting, exporters demanded expansion of incentive schemes.

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Asean services and investment agreement gets govt push

Huma Siddiqui, The Financial Express

New Delhi, 4 July 2013: Even as the government pushes for a ratification of the Asean-India Trade in Services and Investment Agreement, a high-level meeting of legal scrubbing is scheduled to take place in the Capital later this month. A senior government official told FE, "Asean member states are finalising the dates for meetings during this month." External affairs minister Salman Khurshid, addressing the 11th Asean-India foreign ministers meeting in Bandar Seri Begawan, Brunei, said, ..FTA on trade in goods signed in 2009 helped us meet our trade target of $70 billion ahead of time, when the trade turnover in 2012 reached $80 billion. But the more recent trend of a relative decline in Asean-India trade during 2012-13, though minor, should serve as a wake-up call... Khurshid pushed for ratification of the agreement, negotiations for which ended last December. Khurshid hoped for an early signature on the agreements before heads of both the countries meet again in three months. ..This is also essential for achieving our trade target of $100 billion by 2015." The signing is expected to take place in August during a consultation between Asean economic ministers and commerce and industry minister Anand Sharma.s visit to Brunei in August 23-24. Asean members have offered very little in terms of increased market access in services to India, especially when compared to what they have given to other partners like Australia and New Zealand. The 10 countries have been very conservative in their offers on allowing more access under Mode 4 to professionals, keeping the IT sector out of the agreement. Asean has offered longer visa permits and other qualification relaxations to professionals from Australia and New Zealand, which go beyond the commitments, made at the World Trade Organisation, but have refused to give similar concessions to India. Indian negotiators will now try to seal whatever little gains that they have been able to make in select services by putting in place timelines in the final schedules. °We will try to fix a date for finalisation of mutual recognition agreements in various categories so that our professional qualifications get easy recognition in the Asean countries," the official said, adding that "they would try to make similar manoeuvre in other areas. ..With the implementation of these two agreements, the manufacturers, traders, service providers and investors of India and the Asean member will be able to realize the full potential of comprehensive economic partnership between India and Asean and take the economic cooperation between the two sides to a higher level," sources added. After operationalising FTA in goods in 2011, both sides were engaged in widening the base of the pact by including services and investments.

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Fading trade timelines

T S Vishwanath, Business Standard

4 July 2013: The timelines for a possible India-Europe bilateral trade and investment agreement are getting tight with both sides supposedly failing to close the deal on some critical issues. While this could risk hurting several years of negotiations that have been undertaken by both sides, it is also important to note that the final deal should be based on a clear win-win for both partners. First, it is important to note that an agreement can be beneficial for both sides if it is balanced and addresses the sensitivities that have been highlighted by the two partners. But time is of essence and the 28-nation European Union (EU) and India should now look at arriving at a consensus on issues by the end of July, if an agreement has to be signed. Once the negotiators finish their negotiations the two sides may require some time to complete the legal document and then clearances would be needed which could take time. The EU would take longer to get clearances, as its processes take more time. A delay in completing the negotiations soon could possibly mean that an agreement, if at all, would be put off by about a year or two. The year-long hiatus would be prompted by the fact that elections in India are expected to be held in the middle of next year and by the time a new government takes charge it would be time for the current European Commission to pack up. Therefore, negotiations can begin again, if at all, only in early 2015. The EU is India's largest trade partner and a trade deal can be beneficial for both sides. Negotiators surely know this. But what seems to be holding back the deal is the level of ambition that some sectors are hoping to achieve. An important area of divergence seems to be in the auto sector. Various reports seem to suggest that the EU is keen on getting a zero-duty offer from India in this sector. Certainly, that does not seem achievable. But then it is important to recognise that the stand taken by the Indian auto sector also provides no flexibility to our negotiators. The EU will need to realise that even a slight opening, if achieved, can be a good starting point for future discussions.

Given the current state of play, some sectors in India need to take a more proactive role if they wish to see a conclusion to a bilateral free trade agreement (FTA). Some of the obvious gainers in India from such a deal include the information technology sector and the textiles and clothing sector. Interestingly, one does not see much of a public stand by either of these sectors in advocating an early conclusion towards a deal. The current deadlock, therefore, provide us with some pointers to help make such trade agreements far more effective and worthwhile for the government and the industry. First, the industry needs to play a far more proactive role during such negotiations. This is especially for sectors that stand to gain from FTAs. Their role should not be limited to back-room lobbying but a more public positioning of their support for a deal. This will help build public opinion in favour of FTAs. As of now, public positioning by the industry for an agreement is more focussed on the negative impact rather than about the opportunities that such deals would provide. This vitiates the environment for any FTA. Second, the industry needs to start track two with counterparts in the other countries, as soon as official negotiations begin to ensure that the feedback to negotiators is based on a better understanding of the industry position on the other side. Third, the industry should desist from adopting a "one-size-fits-all" approach with all trade partners. This seems to be a case in some sectors that have taken a defensive view for nearly all the FTA negotiations. Fourth, foreign investors in India need to play a more active role in providing inputs to the government when such negotiations take place. Such FTAs can help develop global value chains and multinational companies in India that have not advocated such a view, as yet. Taking this thought forward, Indian companies, too, should look at these agreements as stepping stones to build value chains across countries.

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Major constraints to trade and investment between India and Africa

The Hindu

New Delhi, 9 July 2013: Lack of proper financing mechanism and poor infrastructure facilities are the major constraints to trade and investment between India and Africa, according to a report jointly released by the Confederation of Indian Industry (CII) and the World Trade Organization (WTO) here on Tuesday. The trade between India and Africa has grown to around $50 billion in 2011-12 from $1 billion in 2001. Both together account for a huge market of 2.2 billion people with a combined GDP of more than $3 trillion. There has also been a surge in Indian private investment in Africa with big ticket investments in the telecommunications, IT, energy and automobiles sectors, the joint report states.

“Lack of financing and poor infrastructure facilities are the two key constraints in India-Africa trade and investment. African traders’ concerns include poor access to Indian buyers and trade finance. On the other hand, transport and logistics costs and poor business environments are cited as major difficulties by Indian traders,’’ the report states.

Suggesting a number of steps to be taken to boost trade and investment between India and Africa, the report says that to sustain trade growth, there is an urgent need to broaden the trade basket and increase cooperation between small and medium enterprises. “The commercial wings of Indian embassies in Africa can play a facilitating role by providing in-country research on market expansion opportunities available to Indian exporters,’’ the report adds.

The report is of the view that India’s investment-led trade approach could help sustain the dynamic trade growth between India and Africa, and help extend trade in terms of the number of partners involved and also the range of goods and services traded. Investments for joint ventures between India and African countries would best open up the route for enhancing goods trade. In addition, it says, greater cooperation in agriculture and agro-processing would have a great bearing on the food security situation in India and African continent.

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Chidambaram, Sharma woo investors in US

Chidanand Rajghatta, The Times of India

Washington DC, 13 July 2013: Two senior Indian cabinet ministers double-teamed in New York and Washington to talk up India to American business, allaying their apprehensions about rulings they feel discriminate against them, while assuring them that New Delhi remains open for business and profit-taking.

In moves aimed at arresting the slide in foreign investment in India and reversing the perception that India is resorting to protectionist measures, finance minister P Chidambaram and commerce and industries minister Anand Sharma met American investors and other interested parties in Washington and New York respectively on Wednesday to put out a conciliatory message that New Delhi will offer a level playing field.

"The finance Minister mentioned that while some concerns have been expressed about the current business environment in India, the policies adopted by the Government of India are pro-growth and WTO compliant," the Indian Embassy said in a statement about his meetings with Senator Max Baucus, chairman of the Senate Finance Committee, among others on first day of his four-day visit. Chidambaram, it said, stressed that the Government of India is committed to ensure a "transparent, fair and non-discriminatory investment environment for foreign investors seeking to do business in India."

Officials said Chidambaram also met CEOs and top management officials of a number of American companies with substantial investments in India, including Microsoft, Lockheed Martin, Boeing and International Lease Finance Corporation (ILFC). While there were broad discussions on the current business and investment environment in India, the finance minister took up US gripes about transfer pricing and taxation issues, explaining recent government rollbacks that suggested a more reasonable approach than what was seen by Americans as a confrontational line that had riled foreign investors.

Indian officials said the US companies were "appreciative of the measures taken to address concerns relating to Transfer Pricing," even as the US-India Business Council welcomed the slew of concessions from New Delhi ahead of the twin ministerial visits. Chidambaram also apprised the companies of the recommendations of the Arvind Mayaram committee on enhancing FDI caps in many sectors, and the steps being taken to implement the recommendations, although there is plenty of internal political debate within India about the wisdom of fully opening up the markets to predatory western companies, particularly in sensitive sectors.

In New York meantime, Sharma spoke about the slew of measures the government was rolling out to address the complaints of foreign investors: National Investment and Manufacturing Zones (NIMZ) being set up across India; the single window approval mechanism for investments; the fast-tracking of critical infrastructure projects; use of technology to minimize paperwork for investment proposals; the efforts to tackle the emotive issue of land; and the establishment of a Cabinet Committee on Investments chaired by the Prime Minister, were cited as some of the steps the government has taken to spur business and investments in the country. But on one issue both ministers pushed back: The adverse impact in India of the Comprehensive Immigration Bill recently passed by the US Senate which will essentially hinder free movement of India’s biggest asset — skilled professionals.

Times View

Cabinet ministers going on road shows abroad to try and attract investments to India should realise that hard sell alone cannot do the job. No amount of impassioned appeals is likely to yield any results if potential investors do not see the prospects of attractive returns. On the other hand, if India becomes an investment destination that promises ease of doing business and reasonable returns, investors will make a beeline for the country without anybody having to exhort them to do so. What our ministers really should be focusing on, therefore, is getting the government's act together. The rest will follow more or less automatically.

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India ready for investment treaty talks with US: Anand Sharma

Reuters

Washington, 13 July 2013: Government is ready to begin talks with the United States on a bilateral investment treaty as part of its effort to reinvigorate ties with a valued trade partner, the commerce and industry minister of India said on Friday.

"We have said that 'yes, we are ready for it. We are in favor,'" Anand Sharma told reporters after meetings with US Trade Representative Michael Froman and other US officials.

Sharma said there was no date for the first round of talks on the pact, which would set terms and condition for US and Indian investment in each other's country.

"No, it was discussed today, and we have signaled our acceptance," Sharma said.

The United States and China agreed this week to restart talks on a bilateral investment treaty, a move welcomed by the US business community as a sign of new Chinese President Xi Jinping's commitment to economic reform.

US business groups have been anxious for a similar commitment from India and were disappointed when a date for talks was not announced after Secretary of State John Kerry visited the country in late June.

Although the United States runs a far larger trade deficit with China than with India, India has in some ways replaced China this year as the No 1 target of complaints from the US business community and members of Congress.

In recent months, there has been a stream of letters from business groups and lawmakers complaining about Indian policies they say discriminate against American firms or undermine US intellectual property rights, especially for pharmaceuticals.

Sharma told reporters that India was far more welcoming of American business than the current perception, but admitted it must do more to get that message across.

He also said there was no reason the United States and India could not meet the US-India Business Council's goal of boosting bilateral trade in goods and services to $500 billion annually by 2020 "if we make a real effort."

Current two-way trade of about $106 billion annually is much below the potential, Sharma said.

On other issues, Sharma said the United States and India had agreed to work together to ensure that the December meeting of the World Trade Organization in Bali was a success.

"We have agreed to put together a work program. Our chief negotiators, senior officials and our ambassadors in Geneva will meet to discuss so there is a broad consensus around the key issues of trade facilitation and food security," he said.

"We will work very closely with all our partners ... with the United States of America, other principle stakeholders, the key countries, to ensure the outcome is a positive one."

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India eases foreign investment rules in new reform push

Agence France Presse

16 July 2013: A group of Indian cabinet ministers late on Tuesday cleared plans to remove the foreign investment cap in telecoms and relax overseas ownership rules in a host of sectors in a new economic reforms push.

The moves are aimed wooing investors and kickstarting the struggling economy before the scandal-tainted Congress government faces voters in general elections due by May 2014.

"We expect more foreign direct investment to flow in with these decisions," commerce minister Anand Sharma told an evening news conference.

The government is seeking to rebuild confidence in the economy which grew at its slowest pace in a decade at five percent and boost the ailing rupee which has hit a string of lifetime lows in recent weeks.

Among the steps, the ministers at a meeting chaired by Congress Premier Manmohan Singh approved raising the ceiling on foreign direct investment (FDI) in telecommunications to 100 percent from 74 percent.

They also decided to abolish the need for government approval for certain levels of foreign investment in single-brand retail and petroleum refining. In insurance, it approved raising the FDI cap from 26 percent to 49 percent.

But in the contentious area of defence, the FDI cap will remain at 26 percent with proposals beyond that considered on a case-by-case basis.

The ministers' decisions will still require the approval of the full cabinet -- likely to come at a meeting next week -- and the move to hike the insurance cap requires parliamentary clearance, Sharma said.

The announcement came after Finance Minister P. Chidambaram visited the United States for a second time in three months last week to reassure foreign companies that India remained a hospitable place to invest.

"We welcome the move and it indicates that reforms are underway," said Federation of Chambers of Commerce and Industry president Naina Lal Kidwai.

FDI in India -- seen as vital to improving its shabby infrastructure and boost manufacturing to employ its burgeoning youth population plunged to $22.4 billion last year from $36.5 billion the previous year, government figures show.

Underscoring foreign investor unhappiness with India, South Korean steel giant Posco scrapped a $5.3 billion deal to build a steel plant in the southern state of Karnataka due to land acquisition delays and local opposition.

Economists say India needs foreign investment to spur growth and also to close its wide current account deficit -- the broadest measure of international trade -- that has alarmed global credit ratings agencies.

To improve India's investment attractiveness, economists say the government must reduce the country's burdensome red tape, speed up slow project approvals and lessen widespread corruption.

The government has been dogged by a string of graft scandals during its second term in office, which has derailed many of its efforts to push through promised pro-market reforms.

Last year, the government opened up the supermarket, civil aviation and broadcasting sectors to wider foreign investment in a burst of reforms after being accused of policy paralysis.

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Doors open, but FDI inflow may be a slow train coming

Hindustan Times

New Delhi, 18 July 2013: The intended effects of stemming the rupee's slide and spurring income growth through the government's latest reforms initiative to raise foreign direct investment (FDI) caps in a range of sectors and simpler entry norms in others may take some time to kick in.

The fresh policy pronouncements, however, are likely to soothe frayed nerves of investors who fear that the government is more likely to be focussed on political risk management rather than economic revival. "The initiatives taken yesterday were very important policy initiatives in a broad direction," Planning Commission deputy chairman Montek Singh Ahluwalia told ET Now.

"But it would be wrong to regard them as a design to create a greater inflow in the short-term. This is really a continuation of the policy that India is open to FDI."

The measures are likely to boost investor sentiments in the immediate term.

"Even though in some of the sectors, allowing FDI under the automatic route will not have any impact on the inflow of FDI, but it will definitely have a positive impact on the sentiments of foreign investors," said Dev Raj Singh, ED, tax and regulatory services, EY, a global professional services organisation. Business leaders welcomed the FDI policy overhaul, but cautioned that more needs to be done.

"Recent amendments to policies are somewhat responsible for the slump in FDI inflows. A stable policy regime is essential to attract continuous investment flows," CII said.

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