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FOREIGN TRADE · EXPORTS · IMPORTS

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Groundnut

Time to not hold ground

Though these exports don't earn peanuts, they could do much better

India's Private Ports

The real flagbearers

Shouldering on the responsibility despite heavy odds

Agricultural Spray Pumps

S'praying' for profits?

Farmer issues back on the front page means incredible profits



WHILE SOME OPPOSE IT DUE TO COLONIAL HANGOVERS, SOME DUE TO LOVE FOR SOCIALISM, OTHERS FIND SIMPLE PARANOIA A REASON ENOUGH

FDI IS IT A *Panacea?*

EXCLUSIVE INSIDE

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(Indian National Congress)

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LETTER FROM THE EDITOR-IN-CHIEF

KILLING XENOPHOBIA!

Deng Xiaoping – the name may simply sound “very Chinese” to most. Let’s make this simple – he literally invented Foreign Direct Investment (FDI) in a China immersed in ideologies freely distributed by the old Mao Zedong school of socio-politics and therein intoxicated with anti-Capitalist scriptures floated around during the great proletarian cultural revolution. In short, he reduced Chinese obsession with everything being Chinese from “root-to-fruit”, strictly in the industry sense. Xiaoping is today regarded as the economist-first-politician-second, who masterminded the ‘Made in China’ market weapon that the world is in awe of still, two long decades after he became ‘present’! India needs a Xiaoping – less by heart, more by mind.

Left brainers won’t be required to engage themselves in rapt concentration to recall that the second half of May also marks one year of our new Prime Minister having assumed office, with an agitated political war cry of *Achhe Din* preceding his rather calm victory. Call it a coincidence, but as if in celebration of the calendar, on May 16, Modi appeared brave when he stood tall to declare thus amidst a healthy gathering of Chinese leaders in Shanghai: “We want to make things in India. For the purpose, we have launched a campaign called ‘Make in India..’ [Brave, because you cannot not help but raise a few eyebrows when you add any other proper noun other than ‘China’ after the two words ‘Make in’. And especially when you have any non-Chinese Head of State addressing a public gathering in China’s financial capital!] And nobody better than PM Modi himself will realise that his objective to make fibre from farms and machines from ores will only be met if his masterplan includes one hobby horse of pro-globalisation pundits – FDI. His task however will prove as difficult a wrestle that Xiaoping had with the then-existent agents and state of affairs in his country (during the late 1970s and early 1980s).

An area where pro-FDI voices often go wrong is that they subordinate their passions to the larger universe. As we’ve discussed in the cover story this issue, FDI is not the be-all and end-all of a nation’s industrialisation and development story. It never was and never will be. At the same time however, a healthy inflow of FDI is a necessary condition, if not sufficient, to make a nation a respected manufacturer-exporter. Let us focus squarely on one India-China comparison for some quick understanding. The first official annual record of FDI inflow into China was in 1980 that amounted to \$57 million. Thanks to an increased encouragement from the Chinese government to encourage this positive force in all respects, today, the total FDI stock in China is almost \$1 trillion (UNCTAD data). On the other hand, FDI inflow into India had already reached the \$57 million in FDI inflow mark six years ahead of China (in 1974). But thanks to consciously undetermined policies and with foreign investors largely being on the horns of a dilemma for most of the past 40 years, our total stock of FDI is less than a-fifth of China’s today! And you don’t want me to tell you how the India-China comparison goes in all macroeconomic respects today.

The official verdict today is better grounded in data and research. There are some strange contradictions in India’s FDI Policy (the latest version was released by the Department of Industrial Policy and Promotion – DIPP – on May 12 this year; another co-incidence?). Impossible to enumerate all of them in limited space, let me just handpick five issues, industry-wise.

Why is it that while in Telecom Services, the equity cap allowed is 100%, while that in a seemingly-related area, Broadcasting Services (including DTH, Teleports, Cable networks) the limit is 74% despite a common condition on entry route limits for both? And if you contest that they aren’t remotely close, why is there this body called Telecom Regulatory Authority of India – TRAI – that voices opinions and issues norms for all these business from time to time?

Why is there a 49% cap on FDI in Scheduled Air Transport Service (the one that is made available to everyday Indians, *aam aadmi* as you would like to call), 74% in Non-Scheduled Air Transport Service, and 100% in Helicopter Service? Because bureaucrats and government officials need more efficient and safe modes of flying? (...continued on page 4)



Nobody better than PM Modi himself will realise that his objective to make fibre from farms and machines from ores will only be met if his masterplan includes one hobby horse of pro-globalisation pundits – FDI!

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FDI can make the task of achieving manufacturing greatness easier. Only issue is, for that, a heavy inflow of FDI is needed in the first place!

Talking of airport projects – what’s the logic behind allowing 100% FDI through the automatic route in greenfield projects and only 74% in existing (brownfield) projects? Going by the poor state of facilities and security at many Indian airports – which is often cited as a cause of concern for tourism and other business-related sectors, should the policy not be open to 100% investments in both areas? And if national security is really the other, why allow more than 74% FDI in even new projects?

If 74% FDI is allowed to private bankers, why is there a lower 49% cap in Insurance? Should Indians entrust their money and life covers of greater value in the same hands differently?

And if anything needed to be said to prove how our FDI Policy itself is marred with contradictions, one need not look beyond the oft-debated multi-brand retail industry. As per our FDI Policy, the cap on FDI in multibrand retail has been maintained at 51%. But leaders of the ruling party claim that this limit is just an on-paper policy and that the government’s stand on being opposed to FDI in multi-brand retail stays. As such no proposal of FDI in multi-brand retail will be approved! Ironic for a change in rule that was brought about four long years back. How secure will that make foreign investors feel?

TDB Intelligence Unit findings based on World Bank data prove how India’s FDI policy – related to caps and numeric limitations imposed – appears out-of-sync with tunes of globalisation. Forget global standards and those followed by developed economies, as compared to even a group of mostly low-developed South-East Asian economies (including Afghanistan, Bangladesh, Bhutan, Iran, Maldives, Nepal, Pakistan and Sri Lanka), sector-after-sector, the FDI limits allowed are lower. Here are seven broadly defined average FDI caps for comparison: Agriculture & forestry (India: 50.0%, South Asia: 90%, Global average: 95.9%), Light manufacturing (81.5%, 96.3%, 96.6%), Telecom (74.0%, 94.8%, 88.0%), Banking (87.0%, 97.2%, 91.0%), Insurance (26.0%, 75.4%, 91.2%), Transport (59.6%, 79.8%, 78.5%), Media (63.0%, 68.0%, 68.0%), Construction, tourism & retail (83.7%, 96.7%, 98.1%).

The unfriendly caps are just the tip of the iceberg that prevents many-an-investor ship willing to set up manufacturing plans and plants in our high-quality manufacturing-starved economy and initiate transfer of knowledge and technology into the Indian manufacturing landscape. Straightforwardly stated – MNC-friendly policies are to be put in place. You cannot have non-uniform and non-transparent tax regime in place and expect foreign investors to be delighted. Taxation policies in India remain inherently complex – billions of dollars of litigations regarding tax payment by foreign companies is one proof. Corporate tax rates in most nations are in the range of 15 to 25% (as per a TDB Intelligence Unit analysis of KPMG’s Cor-

porate Tax Rate database). In India, the rate is 40% (and we are not talking yet of the complicated indirect tax regime in India)! Compare that to China’s 25%, and you get the drift. Reduction in bureaucracy, regulations and corruption, relaxation in labour laws, a focus on export-oriented manufacturing, creation of high-quality SEZs, direct involvement and accountability of state governments in aiding FDI, etc., are some other areas that need urgent attention.

The focus on Exports Focussed FDI (EFDI) is also critical. As compared to Local Market FDI (LMFDI), the “quality of FDI is better and much larger” as claimed by a research paper titled, ‘Attracting Export-Oriented FDI: Can India Win the Race?’ by scholars Abraham and Pradhan of Gujarat Institute of Development Research, Ahmedabad. The paper concludes that “One critical component of ‘quality of FDI’ lies in its extent and intensity of local linkage generation. EFDI can be expected to generate strong links with local economy compared to LMFDI in the host country...” As such, while on one hand the possibility of ‘knowledge spillovers’ from EFDI is much

larger than LMFDI, EFDI will ensure that the ‘crowding-out’ effect is done away with, because the market shares of domestic companies will then not be eroded. There is no doubt that India is in an ideal position to boost its exports by making the most of FDI, as an OECD report titled, Foreign Direct Investment for Development: Overview’ states: “The clearest examples of FDI boosting exports are found where inward investment helps host countries that

had been financially constrained make use either of their resource endowment or their geographical location.” There is no denying that India is blessed in terms of both resources and geography (take a look at the world map – how high-growth economies are splattered right around India!). If Mexico can be taken as an example, India will have a lot to gain from FDI boosting its global trade linkages. Post the mid-1980s and the birth of The North American Free Trade Agreement (NAFTA), FDI inflow into Mexico grew tremendously. It was the largest FDI recipient in Latin America by 2001. With low entry barriers to FDI actively pursued by the Mexican government, the knowledge spillovers and infrastructural development that occurred in Mexico, have made it the second-largest trading developing country in the world with nearly 67% its exports coming from MNCs!

PM Modi isn’t one who limits himself to being identified as a single character. In one year, he has already proved an economic explorer. Undeniably, what lies within the nation is his prime concern. But the next question he will need to answer is – what lies within the nation for those without (foreign investors)? And be it the no.2 question, its answer will play a significant role in deciding the fate of the bold claim he recently made in Shanghai.

It’s time for his cabinet to eradicate from India the fear called xenophobia!

S.P. Warner

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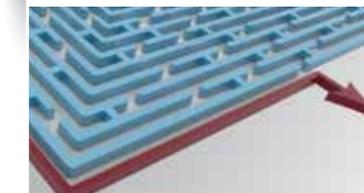
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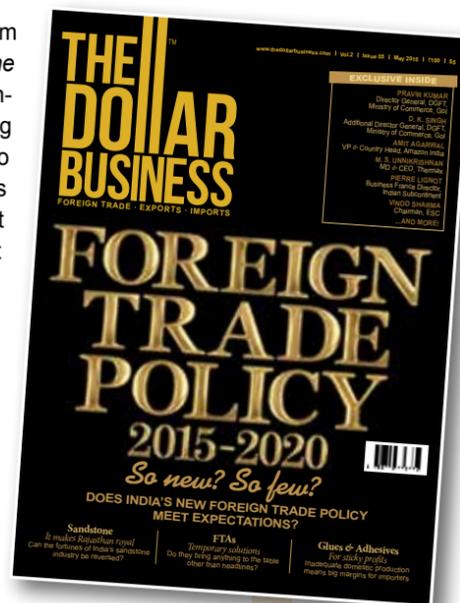
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WE VALUE YOUR FEEDBACK, WHETHER CRITICISM OR APPRECIATION. AND HERE ARE A FEW THAT HIT OUR MAILBOXES IN MAY

First of all I should thank you from the bottom of my heart. The Dollar Business is the future of international business. I loved going through your website. I have also downloaded the TDB app, which is totally mind-blowing. I am sure that you would continue to be a great resource for the EXIM community. Wish you all the best in your future endeavours.

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Your website is really informative. It has plenty of data for both budding and experienced exporters and importers.

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I downloaded India's new Foreign Trade Policy 2015-2020 through your website and was satisfied with the service. Your website has great content!

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The Dollar Business is an excellent guide for start-ups like us. The magazine carries insightful articles on products and policy matters. It helps us in keeping ourselves updated with latest changes in international business and plan our business policies accordingly.

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Your website has some great reading material for importers and exporters. It's much better and far more worthwhile than other websites on the subject!

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I read the May issue of The Dollar Business magazine. I think the interviews and articles published in the issue were very well-researched.

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The articles featured in your magazine are excellent. They have plenty of insightful and useful data. Your website also has a very good collection of information.

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The magazine has some good insights into the world of exports and imports. There's much to learn from The Dollar Business.

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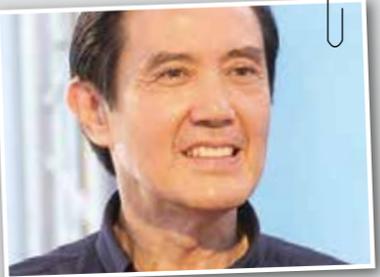


We welcome any deal that stops Iran from having a nuclear capability and this is what we have been assured by the US and by the other P5+1 countries, that all pathways to a bomb will be closed to Iran.

ADEL AL-JUBEIR
SAUDI ARABIA'S FOREIGN MINISTER

While extending support to Barack Obama to reach a nuclear deal with Iran

Source: The Guardian



Mainland China is our largest trading partner, so it is impossible to reduce our trade with mainland China significantly.

MA YING-JEOU
TAIWANESE PRESIDENT

While arguing for close trade ties with China

Source: The Wall Street Journal

India is now the next frontier of economic revolution. We have the demography for it. About 800 million people in India are below the age of 35 years. Their aspirations, energy, enterprise and skills will be the force for India's economic transformation. We now have the political mandate and the will to make it happen.

NARENDRA MODI
INDIAN PRIME MINISTER

While addressing a gathering at the Tsinghua University during his visit to China

Source: Media sources



The EU and Mexico will want to consolidate all this new openness in North America. The closer our modernised deal is to those high standards, the easier that will be.

CECILIA MALMSTRÖM
EU TRADE COMMISSIONER

On efforts to update the EU-Mexico free trade agreement (FTA) in line with the USA-Canada FTA

Source: Yahoo News UK



I hope there can also be greater cooperation on trade flows between Brazil and China. The issue of free trade between Brazil and China is very important and must be on the agenda.

DILMA ROUSSEFF
BRAZILIAN PRESIDENT

Speaking on trade ties with China

Source: AsiaOne

FDI in multi-brand retail cannot go in direct route. Every decision has to come to the cabinet. We will not allow it.

NIRMALA SITHARAMAN,
MINISTER OF STATE (INDEPENDENT CHARGE)
FOR COMMERCE AND INDUSTRY,
Defending the government's stance to not reduce the FDI limit in multi-brand retail

Source: Media sources



A never before, a never again sneak peak...

Unveiling **The Dollar Business** July 2015 issue

NEXT MONTH'S
Topics



COVER FEATURE
Indian Pharma

Does the M&A buzz mean the sector has put the ghosts of USFDA bans behind, and is ready for the next chapter?



THE SECRET INGREDIENT
Coffee Extracts

What's that secret blend that has ensured millions of dollars worth of soluble coffee exports from India



IMPORT'ONOMICS
Almonds

A commodity that's not just delicious and nutritious, but also extremely profitable to import

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CHINA-RUSSIA
BILATERAL AGREEMENTS

To challenge the existing world order

In a move signaling its eastward drift, Russia has signed a plethora of deals, ranging from energy to transportation and infrastructure, with China. The bilateral agreements, including deals on Russian gas supplies to China, opening a currency swap line to boost bilateral trade, and Chinese investment to build a high-speed railway link in Russia, came on the sidelines of celebrations commemorating the end of World War II, an event which was shunned by most Western leaders. The most significant of these deals was Russian gas giant Gazprom signing a MoU with China National Petroleum Corp (CNPC) to build a gas pipeline to China. The two sides also signed deals to boost Chinese lending to Russian companies and investment funds, targeting agricultural projects, and a credit line for Russian banks from China Development Bank. China's biggest hydropower developer also signed an agreement with its Russian counterpart to jointly build a hydropower plant in Russia.

Russia-China trade

Bilateral trade is all set to hit the \$100 billion mark this year



MALAWI
RESTRICTIONS IMPOSED ON FOREIGN RETAILERS
An unwelcoming Malawi?

Come July, foreigners won't be allowed to do business in Malawi. While difficult to digest in today's globalised world, the Malawi government has actually come up with a novel law to keep 'illicit' foreign traders at bay and attract only meaningful investors. The law bars foreign retailers from working in rural areas with effect from July 1, 2015 and allows them to carry out retail business only in designated urban areas like Blantyre, Zomba and Lilongwe. The Malawi government has introduced the law in the wake of complaints by Malawian business owners, who have been affected by the invasion of foreign traders in rural growth centers, and Malawi's citizen who view foreigners as encroachers. Expected to hit Chinese retailers operating in the rural region badly, the new law makes it mandatory for a foreign trader to have a licence, from the Chief Business Licensing Officer by paying a fee of \$2,50,000, before starting a new business. Local traders are of the view that the fee will attract only meaningful investment into the country and help its development.



NORWAY-NORTH KOREA
SALMON EXPORTS
Having the fish and eating it too



Norway's exports of Atlantic salmon to North Korea have got a major boost as even the country's foreign ministry has affirmed that they don't represent a violation of the sanctions imposed against the dictatorship. This, because instead of exporting salmon fishes, Norwegian exporters export salmon fish eggs to North Korea, which are then raised to full-size in fish farms. It's worth noting that Norway is the fourth biggest frozen fish (whole) exporter in the world, with exports worth over \$1.7 billion in CY2014 and the third biggest variety in these exports are Atlantic and Danube salmon, a big chunk of which is exported to North Korea.

COSTA RICA
AVOCADOS
Nothing fruitful here

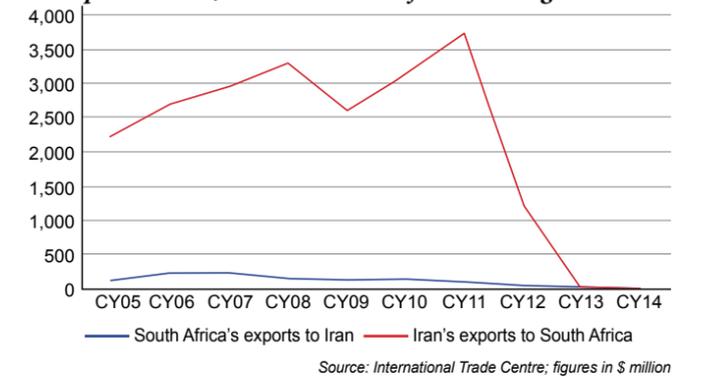
There's bad news for Avocado lovers in Costa Rica as their prices are set to soar, thanks to a decision of the government to ban imports from about nine countries. Citing 'sunblotch' virus attack affecting the crop across the globe, Costa Rica has halted avocado imports from Mexico – the world's largest producer and single biggest exporter of avocados to the country – and Spain, South Africa, Australia, USA, Ghana, Israel, Venezuela and Guatemala. The move is likely to push up prices of the fruit by 25%, since only 20% of the local demand is catered to by domestic producers, making imports mandatory. It's worth noting that in CY2014, Costa Rica had imported avocados worth \$21.1 million, mostly from Mexico.



SOUTH AFRICA-IRAN
OIL IMPORTS
In damage control mode

A recent visit by the South African International Relations and Cooperation Minister Maite Nkoana Mashabane to Iran has brightened the chances of resumption of trade ties between the two nations. Referring to Iran as a friend and a strong international ally, Mashabane said, "Iran was at the forefront of the fight against apartheid, and pledged solidarity to the South African people." Terming the economic sanctions against Iran 'irrational and illegal', she said, "We want to see natural resources being utilised for peaceful means." Many see the statement as a signal for resumption of trade between the two nations.

South Africa-Iran trade
Collapsed in 2012, thanks to South Africa buckling to the West



**ISRAEL-GERMANY
NAVY SHIPS**

To keep the coastline safe

Giving a push to its navy's defensive capabilities, Israel has signed a deal with German shipmaker to purchase four advanced surface vessels for €430 million to protect its gas drilling rigs. According to the deal – ThyssenKrupp Marine Systems (TKMS) will build the patrol ships and deliver them to Israel within five years – Germany will finance about a third of the deal, with a special grant of €115 million. The announcement of the purchase deal was made on the sidelines of celebrations marking 50 years of diplomatic ties between the two countries. Once delivered, the patrol ships are expected to secure Israel's Exclusive Economic Zone in the Mediterranean and search efforts off the coastline. It's worth noting that the Jewish state has vast untapped gas fields that face possible sea-borne threats.

Israel-Germany trade

All set to get a boost, thanks to military cooperation



**RUSSIA-UKRAINE
ANTI-DUMPING**

Opening new battlefronts



Russia has approached the World Trade Organisation (WTO) against anti-dumping measures adopted by Ukraine on a few products, including ammonium nitrate, originating in the Russian Federation. "The Russian Federation notified the WTO Secretariat of a request for consultations regarding anti-dumping measures adopted by Ukraine on imports of ammonium nitrate," WTO said in a statement. It's worth noting that in 2008, Ukraine had first imposed anti-dumping duties on Russia's ammonium nitrate shipments and extended the protectionist measure in July, 2014. Russia alleges that Ukraine has failed to establish and properly evaluate the relevant facts while deciding the duty increase and extension on ammonium nitrate. Going by WTO rules, Ukraine has 60 days for addressing Russia's concerns and settling the dispute through talks. If the talks fail to find a resolution, Russia can ask the WTO to adjudicate.

France and UAE. The decision has not gone down well with animal rights groups, which are terming the plan 'cruel'. However, the Zimbabwe government has shrugged off international pressure and vowed to go ahead with the exports and raise money for the country's wildlife management that has been hit following a slump in the tourism industry. The move is being cited as a fallout of USA's ban on the imports of elephant ivory. According to the Convention on International Trade in Endangered Species (CITES), the African nation can export the animal as long as the trade is properly regulated.

**ZIMBABWE
ELEPHANT EXPORTS**

Desperate measures

This news is certainly going to upset jumbo lovers. In a move that has angered the animal welfare community, Zimbabwe has decided to export over 60 baby elephants to raise badly-needed funds for conservation and restrain elephant population in the country. If reports are to be believed, the cash-strapped Zimbabwean government will be exporting elephants to China,



EXPORT INCENTIVES

Simpler is not always better

Federation of Indian Export Organisations (FIEO) has expressed concerns over the export incentives announced in the new Foreign Trade Policy (FTP) 2015-2020 and has urged the government to review the benefits. FIEO President S. C. Ralhan has said the incentives being given to the exports sector are less than 1% of India's total exports, which is a 'miniscule amount'. The FIEO chief, although appreciative of taking exporters away from subsidies, however, was of the view that the timing for the same was not correct. "There is an urgent need to review the benefits announced, in order to sustain exports growth, at a time when global economies are reeling under intense pressure," he said. He urged the government to increase the percentages of benefits being given to exporters and if that was not possible, at least restore the benefits that were there in the earlier FTP. It's worth noting that although the new FTP has simplified things for Indian exporters by merging several of the earlier incentive schemes under just one new scheme, MEIS, several sectors that were earlier entitled to incentives, have now been denied the same.



Phil Hogan
EU Agriculture
Commissioner

**VEGETABLES
EXPORT BAN**

To leave the bitter taste behind

India has urged the European Union (EU) to lift its ban on the import of four vegetables, including bitter gourd, from India. The appeal was made by Union Agriculture Minister Radha Mohan Singh during his meeting with Phil Hogan, EU Agriculture Commissioner, on the sidelines of a G-20 Agriculture Ministers meet at Istanbul. The appeal comes months after EU lifted the ban on the import of Alphonso mangoes in January this year. It's worth noting that in May last year, the European Commission had imposed a ban on the import of Alphonso mangoes, and followed it by banning bitter gourd and several other vegetables, citing the presence of pesticides. The move had affected exports worth millions. However, after conducting field surveys, EU had, in January this year, lifted the ban on Alphonso mangoes.

**RUSSIA
STATE VISIT**

To become friends with benefits

This news will surely bring a smile to the faces of traders exploring opportunities in the Russian market. For, President Pranab Mukherjee, during a four-day visit to Russia, has underlined huge potential to enhance commercial and investment exchanges between the two nations. While being optimistic about the future of India-Russia economic ties, Mukherjee didn't hide his disappointment with the current state of affairs and said the total trade between India and Russia doesn't account for even 1% of the former's total trade. Highlighting even the lack of capital flow into India from Russia, Mukherjee said, "Since April 2000, FDI inflow into India is \$46 billion, out of which only \$1 billion has come from Russia." He also emphasised on fully utilising new opportunities arising in the two economies and urged the Indian community in Russia to contribute in propelling economic ties between the two countries to a higher trajectory. It's worth noting that despite very strong diplomatic relationship between India and Russia, trade ties between the two nations haven't been a focus area since the fall of USSR.

India-Russia trade

The bilateral trade is still just a fraction of its real potential



Source: Ministry of Commerce, Gov; figures in \$ million

**MoUs
HANNOVER MESSE**

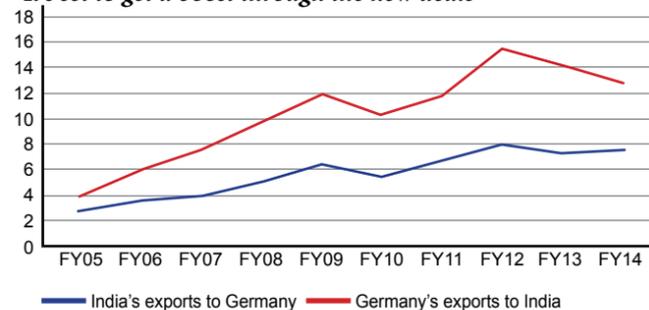
Effort showing results

It seems Prime Minister Narendra Modi's recent visit to Germany has started to yield a rich harvest for Indian firms. For, following Modi's visit, Indian companies, including Essel Group and HMT, have signed 11 memorandum of understandings (MoUs) with German firms at the world-renowned German trade fair Hannover Messe 2015. The MoUs, which are being projected to have strengthened the strategic ties between the two countries, are expected to increase FDI flows into India and help the growth of India's manufacturing sector by bringing in new technology. Hailing the MoUs, Minister of State (Independent Charge) for Commerce and Industry Nirmala Sitharaman told Rajya Sabha that these pacts will create employment opportunities in India, thereby boosting the economy.

It's worth noting that of the 11 MoUs, two of the most prominent ones are between HMT and FT Machine Tools for flow forming machines and between Essel Group and FeCon GmbH to develop 12,500 MW of solar and 4,000 MW of wind energy projects in India. The agreements are also expected to boost the government's 'Make in India' initiative.

India-Germany trade

It's set to get a boost through the new deals



Source: Ministry of Commerce, Gov; figures in \$ billion

**MAJOR PORTS
NEW BERTHS**

For smoother sailing

In a move that could boost India's cargo handling capacity, the government has decided to develop multi-purpose berths at various major ports in the country. The government's decision is primarily aimed at reducing the turnaround time for commercial vessels, thereby making the ports more efficient.

Informing this to the Lok Sabha, Minister of State for Road Transport and Shipping Pon Radhakrishnan said the project will also help reducing the pre-berth detention time at Indian ports. With an estimated cost of Rs.1,622.75 crore, the project will cover six major ports – Paradip, Visakhapatnam, Kamarajar (Ennore), Mangalore, Mormugao and Kandla. Of these, the development of WQ-6 berth for handling multi cargo in the inner harbour of Visakhapatnam Port on DBFOT basis is already complete.

**AEZS
DATABASE**

All but forgotten

While maintaining database has never been India's strength, the government not having any record of exports from and employment generation at any of the 60 agri-export zones (AEZs) for the last three years would surprise even the cynics. This was informed to the Lok Sabha in written reply by Minister of State (Independent Charge) for Commerce and Industry Nirmala Sitharaman. Significantly, in the absence of any progress report about these zones, no funds have been allocated to them in the past three years. It's worth noting that AEZs were developed by the government, starting 2001. However, as on March 2012, all the 60 AEZs had completed their notified span of five years, following which state nodal agencies stopped collating information about exports from them.

**NEW INSTITUTIONS
GRIEVANCE REDRESSAL**

To make \$900 billion a reality

Indian exporters/ importers have a reason to cheer as the government has proposed two institutional mechanisms for addressing their issues. These include constituting a 'Board of Trade' and a 'Council for Trade Development and Promotions' to facilitate easy and faster redressal of grievances of trade and industry. While Board of Trade will offer a platform for consultation, the latter will have representatives of the central and various state governments. A toll-free number and a dedicated email identity for resolving IEC number related issues, and a web-based complaint monitoring system for resolving EDI related grievances, are also parts of the proposal. Besides, Grievance Committees have been constituted at the DGFT headquarter and its ROs to consider individual grievances.

**SUGAR IMPORTS
DUTY HIKE**

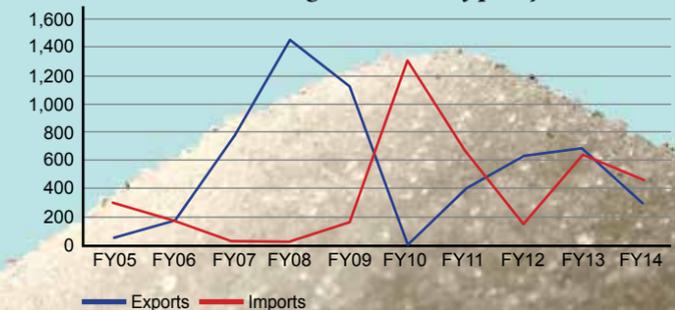
To protect some of the sweetness

In what may come as a much needed relief for the cash-strapped sugar sector, the government has hiked the import duty on sugar to 45% from 25% and has disallowed the import of raw sugar under DFIA, which is expected to prevent the leakage of sugar made from such duty free imports into the domestic market. Experts believe the two moves will prop up falling sugar prices in the country and help cash-starved sugar mills clear their dues to farmers. Besides, the government has also decided to scrap excise duty on ethanol made from molasses. This decision is also aimed at improving domestic prices and discourage cheap imports, which might, in turn, leave more money in the hands of money-losing millers. It's worth noting that four

straight years of continued surplus sugar production has resulted in a fall in prices in the Indian market, which has badly affected the financials of millers, who, according to estimates, owe over Rs.20,000 crore to cane farmers.

India's sugar and sugar confectionery trade

The trade has been dancing to the tunes of policymakers



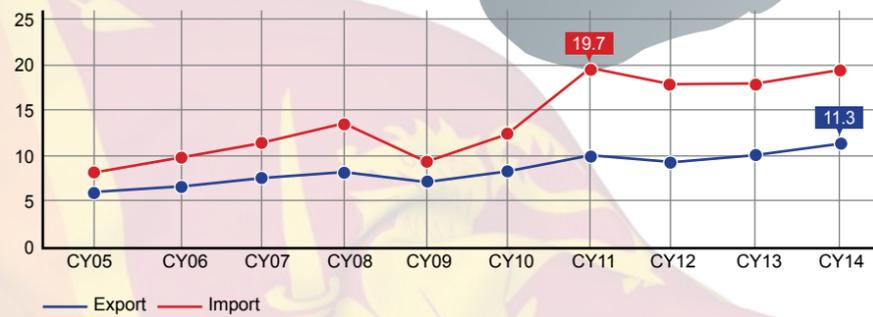
Source: Ministry of Commerce, Gov; figures in \$ million

PEARL OF THE INDIAN OCEAN

One can do nothing but stand and applaud a nation, which fights a bloody civil war for two and a half decades, and still holds its own in terms of economics. While even during its war with the LTTE, the Sri Lankan economy had never really stumbled, six years since the end of the war, things are looking brighter than ever before for India's teardrop

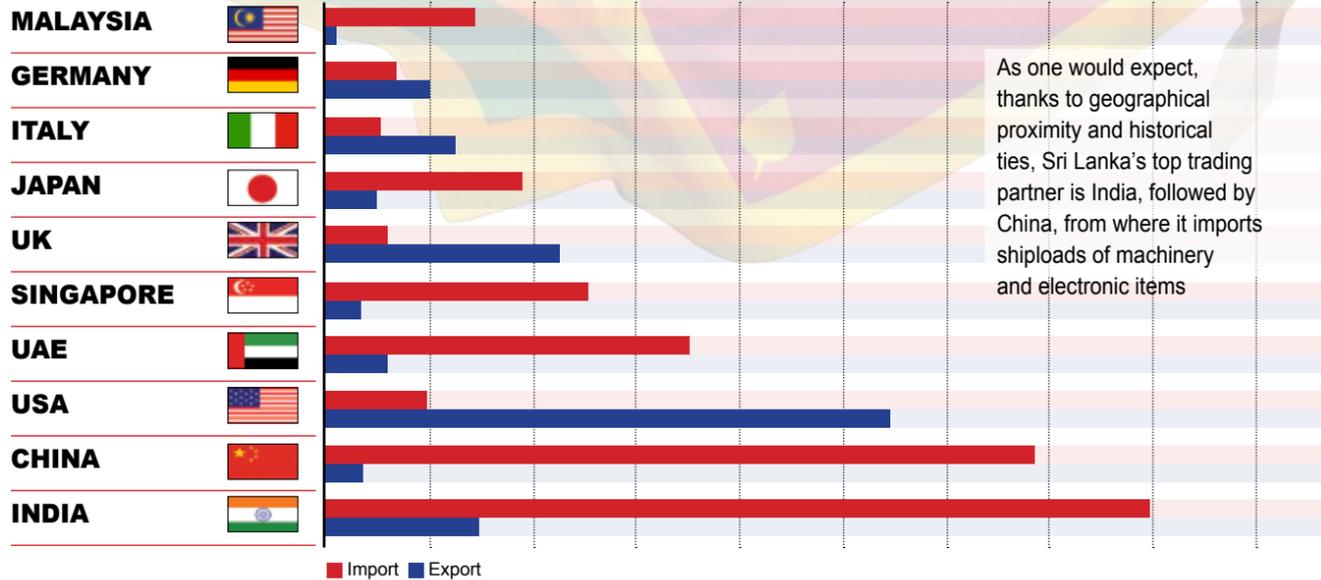
SRI LANKA'S MERCHANDISE TRADE

Without much crude oil reserves or refining capacity, Sri Lanka is almost entirely dependent on imports as far as energy is concerned and this is one of the main reasons why despite being the world's top tea exporter, the island nation almost always runs a merchandise trade deficit



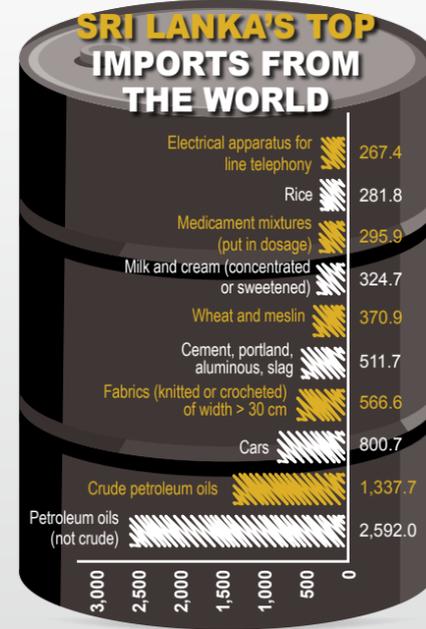
Source: International Trade Centre; figures in \$ billion

SRI LANKA'S TOP TRADING PARTNERS



As one would expect, thanks to geographical proximity and historical ties, Sri Lanka's top trading partner is India, followed by China, from where it imports shiploads of machinery and electronic items

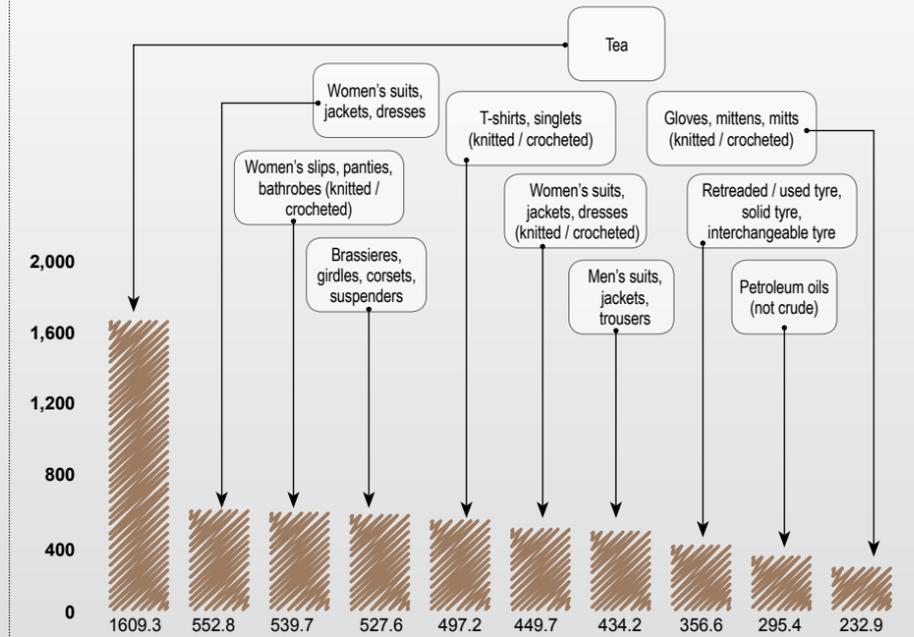
Source: International Trade Centre; figures for CY2014 (\$ million)



Lack of oil reserves and refining capacity means Sri Lanka's top imports are crude oil, petrol and diesel

Source: International Trade Centre; CY2014 (\$ million)

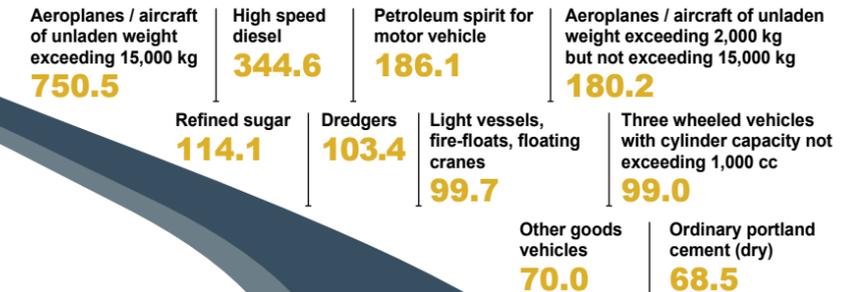
SRI LANKA'S TOP EXPORTS TO THE WORLD



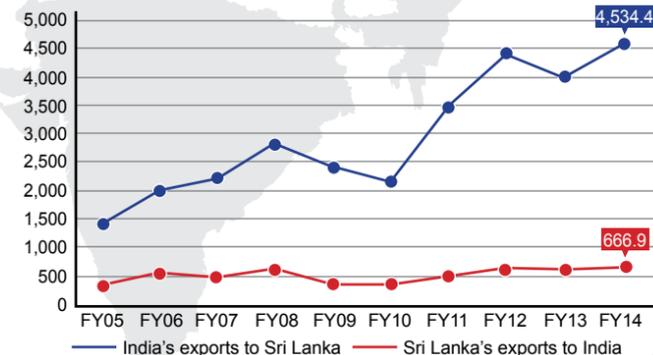
While Sri Lanka is the world's top exporter of tea and exported over \$1.6 billion worth of it last year, it also exports millions of dollars worth of women's apparels and inner wear

Source: International Trade Centre; figures for CY2014 (\$ million)

INDIA'S TOP EXPORTS TO SRI LANKA



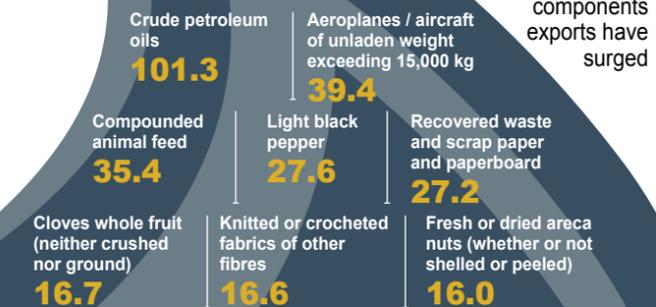
INDIA-SRI LANKA MERCHANDISE TRADE



The massive trade deficit that Sri Lanka has with India can be attributed to the Sri Lanka-India FTA, which many claim benefits the latter more

Source: Ministry of Commerce, GoI; figures in \$ million

SRI LANKA'S TOP EXPORTS TO INDIA



Due to lack of refining capacity, Sri Lanka exports the very little amount of crude oil it produces to India.

Source: Ministry of Commerce, GoI; figures for FY2014 (\$ million)

“WE HAVE A QUEST FOR CONNECTIVITY WITH INDIA”

Generally, diplomats complain about India and its various walks of life. But Shaida Mohammad Abdali, Ambassador of Afghanistan to India, thinks his three years in the country have been the most impressive and have gone by like months. In a freewheeling interaction with *The Dollar Business*, Abdali spoke about post-Taliban Afghanistan, India's role in its reconstruction, trade ties, and of course Pakistan

INTERVIEW BY VANITA PETER D'SOUZA

TDB: Give us a real sense of the post-Taliban Afghan economy. How far have things improved?

Shaida Mohammad Abdali (SMA): The situation in Afghanistan has improved in all walks of life and, today, we are focusing more on economic development. I'll tell you my personal story about what Afghanistan was and what it looks like today. When we arrived in Kabul in late 2001, Taliban had still not fallen. I remember the situation in Kabul was very miserable. People used to be completely hopeless, in terms of the life they were living. Around late 2001 and early 2002, when I would personally walk into Kabul's streets, I would get surrounded by beggars. In fact, at times, I wouldn't go out because I used to get very affected by looking at the condition of the people who surrounded me.

Today, the situation is unbelievably different from those Taliban years. Today, despite security challenges, the economic life of the people has improved a lot. But yes, we could do better. I would never be satisfied with what we have. But I'm very satisfied with Afghanistan's long

WE ARE NOT ONLY A SOUTH ASIAN BUT ALSO A CENTRAL ASIAN NATION

journey from the Taliban years to today.

TDB: Has the Afghan central government managed to consolidate all parts of the economy under its ambit or is the parallel economy still very large?

SMA: When we came to Kabul in late 2001, Afghanistan barely had anything in its national account. We, probably, had less than \$200 million. Today, it's swelled to more than \$5 billion. Barely any revenue was getting generated for the national economy during those years. So, \$5 billion national revenue signifies that revenue collection, today, is good. We have made a lot of progress in various sectors. Revenue is being collected nationally. But of course, any conflict-affected country will take time. We need time to ensure we make progress in every direction. The financial system in Afghanistan is doing very well, but certainly, we expect further improvement.

TDB: India and Afghanistan have almost always had cordial relations. Given this, how satisfied is it with India's assistance in its reconstruction?

SMA: India has stood by the people of Afghanistan at all times and under all circumstances, whether good or bad. Hence, when it comes to reconstruction activities in Afghanistan, Indo-Afghan relationship is very unique. For the last few years, India has been at the forefront

of our reconstruction. It has invested about \$2 billion in Afghanistan. It is one of the largest contributors to Afghanistan's reconstruction. It is also the fifth largest donor to Afghanistan. The people of Afghanistan are extremely grateful to India for this. Indo-Afghan relationship should strengthen further, not just at a bilateral level, but also at the multilateral level.

TDB: Reports claim that Afghanistan is sitting on mineral deposits worth trillions of dollars. There also seems to be a race between Indian and Chinese companies to develop these mines. Will this fight be won by economics or geo-politics?

SMA: We will not call it a fight. We will call it competition, a constructive competition between two constructive partnerships. No one will win this, if it's about fighting. If the competition is in an unconstructive manner, someone will stumble one day.

The trillions of dollars of mineral resources in Afghanistan are a fact and we expect India and the rest of the region to become our partners in extracting these resources and then sharing the wealth amongst ourselves. So, we welcome all countries in the region, be it India, China, or others, for this collective prosperity. Indo-China economic relationships are also growing and we would like to see this relationship working towards



Photographs: Varun Choudhary

Afghanistan's growth.

TDB: India-Afghanistan bilateral trade is not worth even \$1 billion. What do you think are the real roadblocks and the real potential of it?

SMA: This is a very unpleasant news. With the potential that we have, the possibility of this bilateral relationship is humongous. But we are not sitting ideal and will make it a reality. We have been working on upgrading this relationship. There are certainly some roadblocks, particularly regarding our interconnectivity. We are hopeful of sorting this out. Hopefully, Afghanistan and others, including Pakistan, will reach a common ground for our collective gain. This journey should benefit everyone.

Pakistan, Afghanistan and India need to be economically engaged with each other. Otherwise, none will be able to gain. The governments of Afghanistan, India and Pakistan are working together on certain alternative routes. Afghanistan has a quest for connectivity to India through Wagah, Punjab, and similar is the quest of Pakistan for Central Asia.

TDB: The India-Afghanistan road link has hit a speed breaker due to Pakistan's non-cooperation. By when can we expect a resolution to this? Is Afghanistan actually going to walk the talk and stop Pakistan's access to Central Asia if it doesn't cooperate?

SMA: We don't want to reach a point, where we end up confronting one another on such matters. We advise and urge

everyone to put aside all other matters, when it comes to economic cooperation.

We don't deny the fact that there are many things that stop our countries from sharing the same platform. But that is no reason to create obstacles on what we think will bring nothing but prosperity for everyone. So, we hope the three of us could together work out Afghanistan's access to India and Pakistan's access to Central Asia.

TDB: Food security is a major concern in Afghanistan and the country is a big importer of wheat, while India is a big exporter of the cereal. Why hasn't this led to more trade between the two nations?

SMA: We are certainly in need of food items. But as I said earlier, we are creating an environment to facilitate trade through open borders. The Wagah border is currently an issue and we are looking for a permanent solution to it. This connectivity will solve many problems.

Currently, Afghanistan is highly dependent on imports. But we are, actually, trying to make Afghanistan an exporting nation that produces and exports! Unfortunately, the region has not fully realised that Afghanistan is a gift, in terms of the prosperity that will reach everyone, if its location is utilised properly. We connect the entire region. It should be used as a road. Politically speaking as well, Afghanistan should become the centre of cooperation in the region, instead of being the centre of concentration.

TDB: Other than dry fruits and spices, what other Afghan products do you think Indians can take a liking to?

SMA: For the last two years, I have been going around and visiting various Indian states and as I have said, business with Afghanistan means business not just with it, but with the entire region. Once you enter the Afghan market, you have the option to do business with any country bordering us.

Traditionally, Afghanistan is known for fruits that have always been coming to India, but their volume should rise much higher than what they are today. Afghanistan has gas, minerals, rare earth materials and precious stones, which are so much in demand in today's world. There are many other items that Afghanistan can provide to India and also revive the traditional trade, wherein various Afghan entrepreneurs used to bring both fresh and dry fruits, and various other organic foods, to India.

In the last three years, I have concentrated a lot on economic diplomacy with India. I believe a good economy can drive a country to a better future. It's economic prosperity that drives governments because that is what people want and we are, ultimately, democratic nations. Therefore, we should work on getting people to work together at the grass root level.

TDB: How do you plan to get people working at the grass root level?

SMA: In the last few years, I have done whatever I could. Like I said earlier, I have been visiting Indian states. I have covered half of India until now and will continue to visit other states to create business ties between the two countries, such as building sister city relationships that I have been proposing. Although nothing has been announced yet, principally things have been agreed upon and official sanctions are awaited. These are called sister cities because of certain similarities they share, like how Delhi has a strong history just like Kabul. This initiative is there because of the need to get people together.

As I said earlier, we should work at the people-to-people level, especially with a country like Afghanistan. Governments

come and go, but we should strengthen the roots of our relationship and that is there in people-to-people relationships.

TDB: How big is Afghanistan being landlocked an impediment to its trade ambitions?

SMA: Landlocked does not mean Afghanistan is deprived of economic significance. In fact, Afghanistan is a landlocked bridge for the entire region and has its own significance. It's a land bridge. You can't always depend on oceanic bridges. We hope Afghanistan's location helps connect South Asia with Central Asia, which was historically the case.

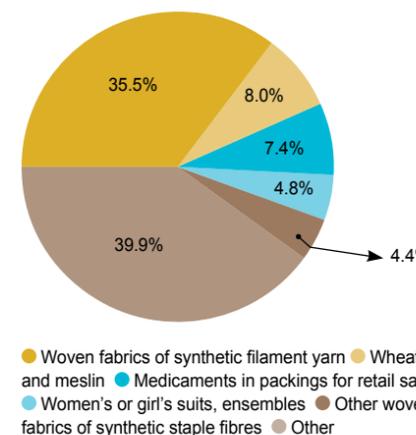
The one thing that is not much discussed in South Asia is that Afghanistan's presence or membership in SAARC has not been utilised much. Afghanistan is not only a South Asian, but also a Central Asian country. So, it has many plus points for both SAARC and Central Asia. Both need Afghanistan.

For example, India's policy to look east and connect with Central Asia cannot be materialised without Afghanistan.

TDB: Can Indian ports ever expect business from Afghanistan, given its dependence on Pakistani and Iranian ports?

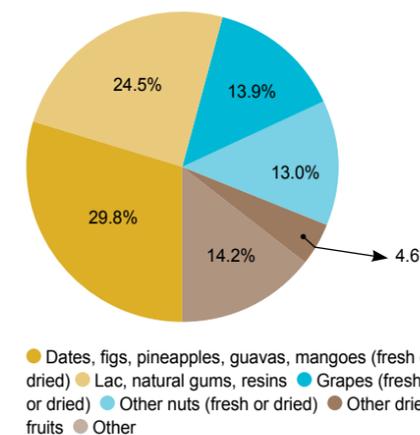
SMA: We should not be concentrating on things that will create divisions. We should be working on projects that would be win-win for all of us. Afghanistan's connectivity to India via Pakistan has always been very cost effective.

India's exports to Afghanistan
Mostly clothes & synthetic fabrics



Source: Ministry of Commerce, GoI; breakup for FY2014

Afghanistan's exports to India
Mostly fruits and dry fruits



Source: Ministry of Commerce, GoI; breakup for FY2014

At the same time, there are various alternative routes, which might take time, but would connect businesses permanently.

Afghanistan's location requires a number of routes to connect its economy with the rest of the world. It needs to find multiple routes and partners for economic development of the country. We are increasing parties in Afghan-Pakistan Trade and Transit Agreement (APTTA), which will include India soon. At the same time, we are also working on some alternative routes, which would diversify our economic routes.

TDB: Afghanistan continues to have a mystical image. Is it safe for the average Indian to visit your country? Are you doing anything to attract more

Indian tourists to Afghanistan?

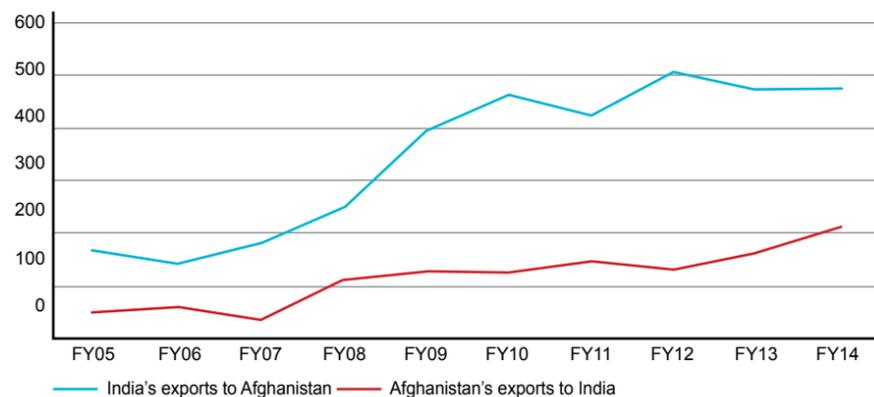
SMA: Our people-to-people relationship is extremely pleasant. Indians, in Afghanistan, are very well taken care of, because of millennium old relationships that we have. However, tourists should always know where they are going and the kind of people they are interacting with, because we are not living in a very secure world. If, god forbid, someone harms an Indian, I'm sure it won't be a representation of the kind of relationship we have with India. Earlier, other nationals would disguise themselves as Indians in Afghanistan so that people treat them warmly!

TDB: Bollywood movies have always had a large audience in Afghanistan. Would you consider Bollywood to be India's top export to your country?

SMA: Absolutely! Our industry has always tied up with Indian cinema. The visible examples of this are the Khans of Bollywood. Indian cinema is very popular in Afghanistan. I have had a great time meeting a number of Indian actors, including Amitabh Bachchan, in the last few years. I had visited him at his residence to discuss how we should revive the strong cinema-to-cinema relationship between the two countries. He is not just a champion here in India, but also in Afghanistan, because of his movie *Khuda Gawah*.

India-Afghanistan trade

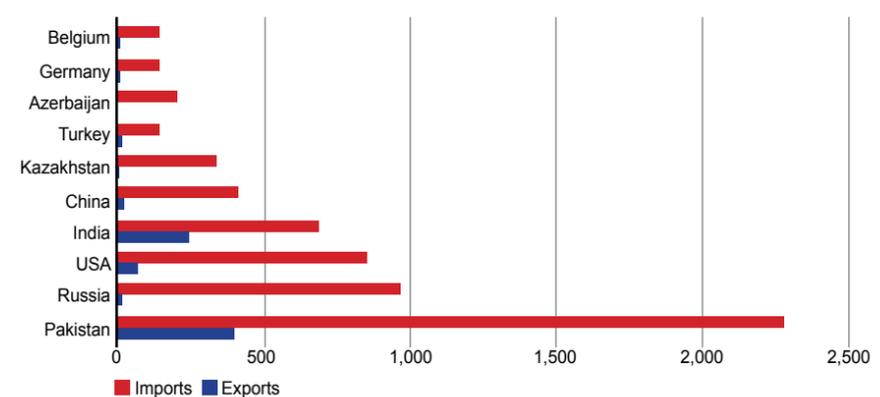
It's still a long way off from even the \$1 billion per annum mark



Source: Ministry of Commerce, GoI; figures in \$ million

Afghanistan's top trading partners

Not surprisingly, there's hardly any country Afghanistan has a trade surplus with



Source: International Trade Centre; figures based on mirror data for CY2014 (\$ million)

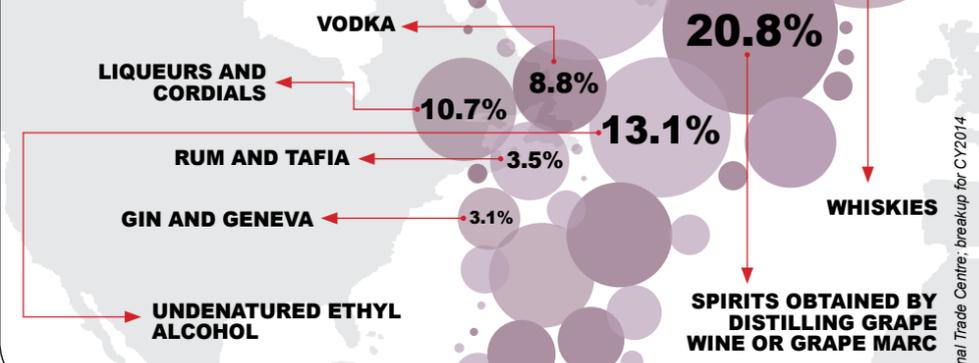
vanita@thedollarbusiness.com

TO KEEP THE SPIRITS HIGH

Like 'em or hate 'em, they are a reality. While some despise them for religious and social reasons, some think spirits & liqueurs are one of god's best gifts to mankind, thereby making them a massive trade



GLOBAL SPIRITS & LIQUEURS TRADE



Being the world's biggest whiskey consumer, in absolute terms, almost half of India's spirits & liqueurs imports are that of whiskies, followed by undenatured ethyl alcohol

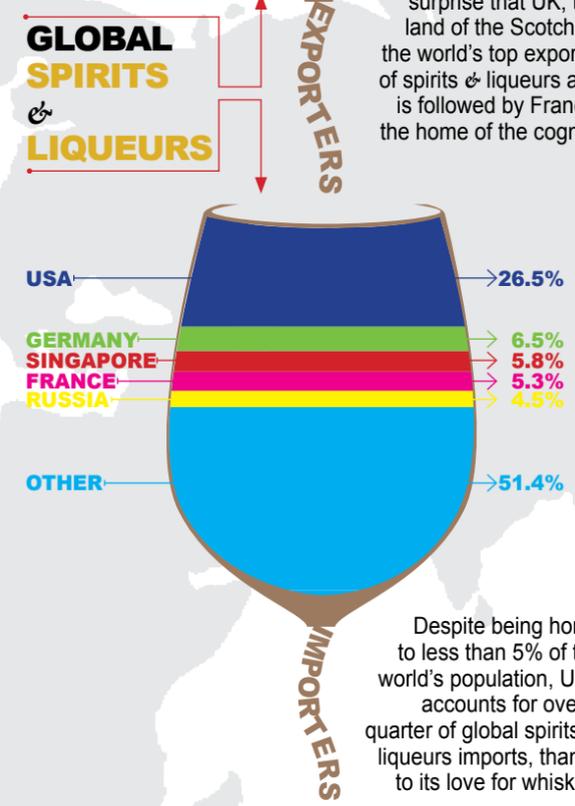
INDIA'S SPIRITS & LIQUEURS EXPORTS



Whiskies dominate exports of India's spirits & liqueurs even more than imports, thanks to the presence of several large but comparatively inexpensive distilling companies in the country

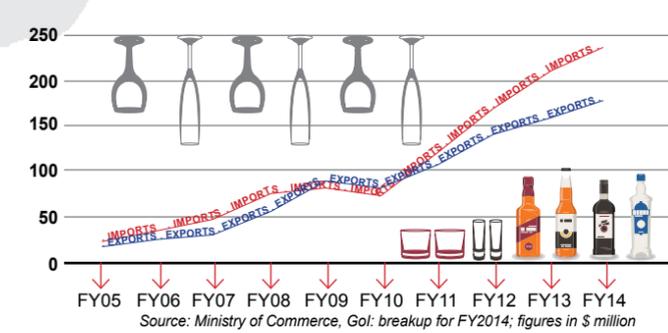


It's absolutely no surprise that UK, the land of the Scotch, is the world's top exporter of spirits & liqueurs and is followed by France, the home of the cognac



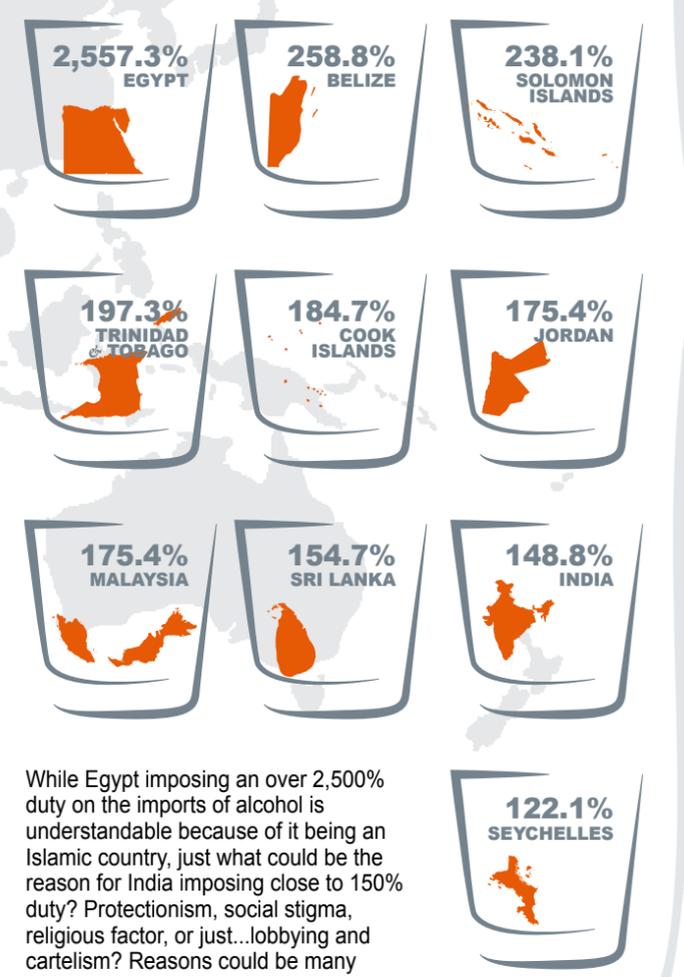
Despite being home to less than 5% of the world's population, USA accounts for over a quarter of global spirits & liqueurs imports, thanks to its love for whiskies

INDIA'S SPIRITS & LIQUEURS TRADE



The 'imported' tag is more sought after when it comes to spirits & liqueurs than almost anything else. Hence, India has almost always had a deficit in the trade

TOP AVERAGE TARIFF ON SPIRITS AND LIQUEURS IMPORTS



While Egypt imposing an over 2,500% duty on the imports of alcohol is understandable because of it being an Islamic country, just what could be the reason for India imposing close to 150% duty? Protectionism, social stigma, religious factor, or just...lobbying and cartelism? Reasons could be many

Source: International Trade Centre

Source: Ministry of Commerce, Govt. breakup for FY2014

Source: International Trade Centre; breakup for CY2014

Source: International Trade Centre; breakup for CY2014

Source: Ministry of Commerce, Govt. breakup for FY2014

“ALL PEARLS THAT ARE REQUIRED BY US GLOBALLY ARE COATED IN PUNE”

Adorning Indians with crystals isn't an easy job. But that's something Sukanya Dutta Roy, Managing Director (CGB), Swarovski India, thrives doing. In an exclusive interaction with *The Dollar Business*, Roy spoke about the country's high tariff barriers and all that is to know about this sparkling business

INTERVIEW BY NEHA DEWAN

TDB: The luxury products market – be it for German cars, French wine or Italian leather bags – is booming in India. Given this, tell us how has Swarovski's experience been in the country.

Sukanya Dutta Roy (SDR): The journey for Swarovski has been fantastic. We were one of the earliest entrants into the Indian market, coming in as early as 1994, when we had a joint venture agreement. Then in 2000, the company came in on its own, as a 100% subsidiary of the parent. So, our interactions with and investments in India have been quite long – almost 15 years now. When we came in, we realised it's a medium-term market. We realised there were lots of growth opportunities, but it needs patience. It had its own special trademark challenges. The market was evolving. The country itself was evolving in terms of infrastructure and consumerism. We were prepared to work with it and we have done that. It has been a fantastic journey.

The initial challenge was the brand itself. Fixing the price points were a challenge, since very few luxury brands were available. At that time, there was no organised market for luxury items. We came in as one of the first entrants into the organised trade for luxury markets and fixed the prices for our products in the same range as they were available globally. I think the customers took some

time to really understand and accept the availability of our products in their own market.

The journey from then to now has been quite a leap. Now, we have over 40 points of sale just as exclusive boutiques and over 20 points as shop in shops. So, in terms of distribution, we are quite well placed on a pan-India basis. We have covered most of the main cities in the country and have got acceptance in department stores. So, I think it has been a great journey, moving from the luxury hotel format that we started off with, to mainstream premium malls.

Our target profile has also evolved over the years. 20 years back, we used to predominantly focus on home décor and collectibles, which were priced at Rs.10,000 onwards. About 15 years back, the company got into fashion jewellery. That has opened up the doors for a much wider audience, which is young females, aged 25 and above. The width that we can attract now is higher, since the price points are Rs.3,000-4,000 onwards. Today, we have something for everyone who likes crystals.

TDB: How different is the Indian luxury product buyer from those in other countries? Do you think Indians still have a fetish for the 'imported' tag?

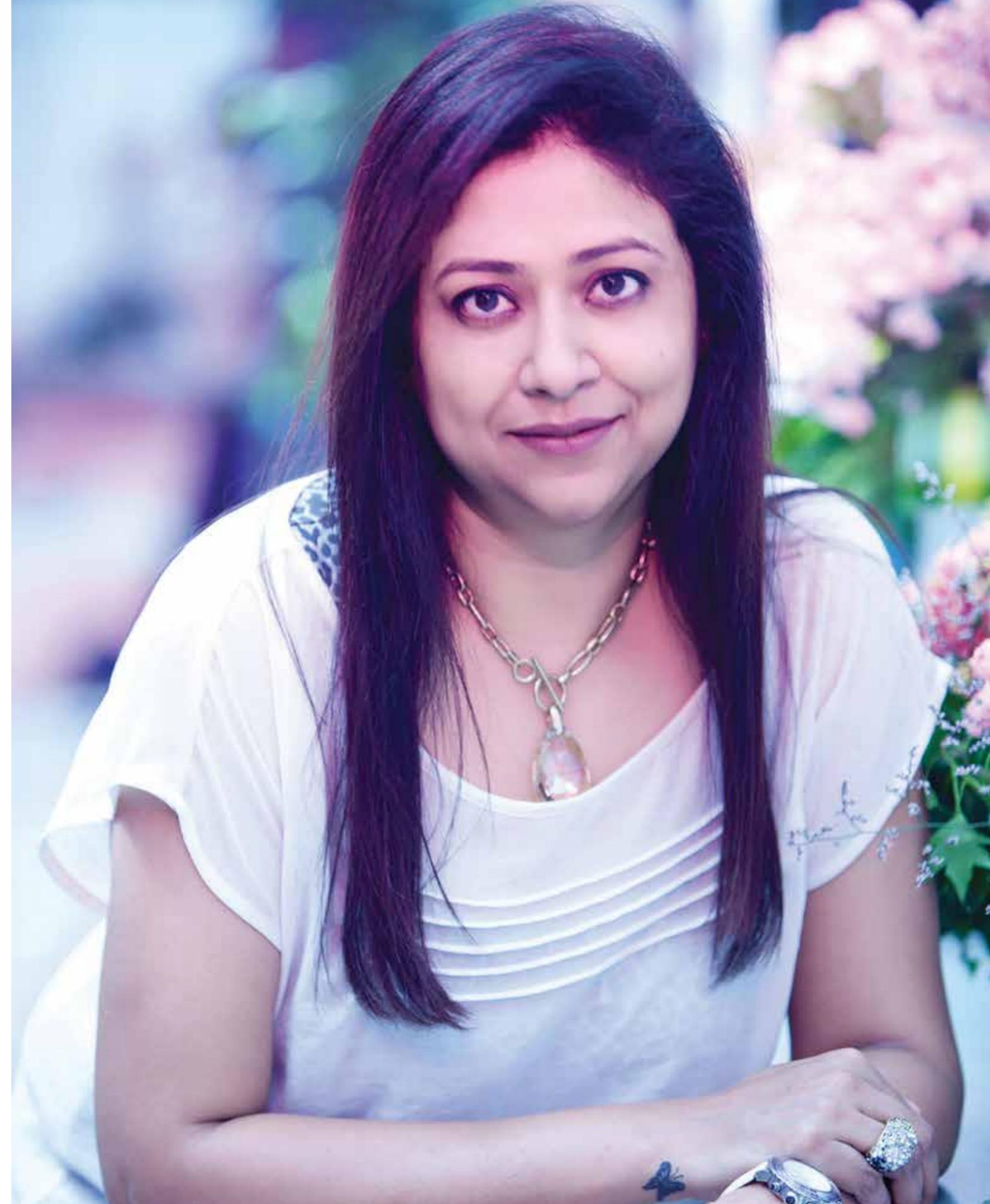
SDR: We get a mixed bag. We have the

ON PAPER, WE HAVE NO EXPORTS. WE JUST VALUE ADD. WE ARE NOT EXPORTING

old money – they don't need a brand showing upfront to give them their stature. We have the aspiring rich, who want the brand upfront. So, they want the blue box. They want the logo. They carry the bag.

In India, it is a mixed bag. Hence, it is interesting. We get people who buy just for the beauty of the product. It is the craftsmanship that attracts them. For them, it is not about the 'imported' tag. I think, we have moved a lot away from that 'imported' tag. Now, one can look and discern a brand and its history and heritage. That's why, it takes more time for international brands to come and establish themselves here. Brands that have sustained and consistently performed in the market have evolved beyond the fact that they are imported and hence, must be good. They are good because of positioning, perception and more importantly, because the core product is good.

TDB: What percentage of your sales in India is accounted for by imported



products and what percentage by those manufactured at your Pune plant?

SDR: 100% of our products sold in India are imported. The Pune plant is a special unit in the SEZ area, only for value addition as an intermitted process. So, there are no local transactions. The Pune factory is very specialised and does coating of pearls. All pearls that are required by Swarovski globally, in their various designs, as an end product, are coated in Pune.

The pearls come from Austria. We do value addition at Pune and send them back. The factory is exclusively set up for this. It does a particular process for all global products. Its production capacity is 100% for pearls. It is a raw material provider. It's there in Pune, but is managed and controlled only for global production.

Currently, there are no plans for a local production setup. We believe India is a very important market that will grow. We are looking at it for design development, and innovation. We will see how production goes depending on how facilities in the country develop. It is something that we will consider, if we feel that the environment in the country is conducive to investment for production.

TDB: In India, the import duty on glass and crystal products seems to be a bit unjustified. While that for glass beads is 14.712%, the same for glass statues and figurines is 28.852%. Is this a big disabling factor for Swarovski?

SDR: It hurts! But the fact is that it was not hidden. So, one works it into one's business plan. If it improves, it'll be fantastic, if it doesn't, then it is the law of the land and we will continue to follow it. Like most brands, we absorb a part of it, so that we achieve some parity in pricing. We make sure that we don't pass on the entire burden to the consumer.

For collectibles, even VAT is very high.

HIGH DUTIES HURT, BUT WE HAVE WORKED THEM INTO OUR BUSINESS PLAN



The interiors of Sheikh Zayed Grand Mosque in Abu Dhabi has several unique elements, one of the prime ones being a 12 MT chandelier, which is covered with gold and Swarovski crystals

It's 12% on crystal figuratives. So, it is a double whammy. When we do our pricing, we keep these factors in mind. If the duties are eased, we will pass on the benefits to the consumer. But at the moment, we manage it within a structure – absorb a bit and pass on the rest. Despite this, we are more or less in line with our international pricing.

TDB: Swarovski imports a lot of products from Austria, only to re-export them from India after value addition. Can you tell us a bit more about the value addition that you do in India?

SDR: Swarovski is a brand out of Austria. The core product of Swarovski – crystals – are made in Austria. This will not change, because this is the basic philosophy of the brand. What we do as a business is that we put together these crystals into finished products, be it a watch or a jewellery item, at our manufacturing facilities located in several countries. So, the factories that we have around the world are only for creating products by value addition.

In Pune, our pearls get coated. Since pearls are in different crystal colours, the Pune factory just colours them and sends them back to Austria. So, our core business, as a brand, sits in Austria.

We are a very niche and premium product. We are not going to rush into making our products in 20 locations. If demand increases, we will see how a particular production facility can be built into the overall change, in order to meet the demand. Our hub will always remain in Europe.

Our core focus is not to export and make money on trading. Our core focus is to make money as a retail brand. We might have requirements to increase production, but the location will be decided based on which country gives us the best return on investment.

Pune is a SEZ. Hence, when we bring in all these products, we don't pay import duty. When we get the pearls in, we don't pay import duty. We do value addition and send the same thing back. So, on paper, we have no exports. We just value add. We are not exporting. We don't have an export turnover in the country. All we have in India is retail turnover.

TDB: What percentages of your sales are accounted for by your own online store, e-retailers and franchise stores? Which of these three platforms are you more bullish on going forward?

SDR: We are not available online at the moment in India, since we are a little skeptical of e-commerce here, particularly the communication part of it. We are only available in exclusive brick and mortar dealer boutiques and shop in shops. Maybe, in the future, we will go more aggressively with swarovski.com, which is our own company-owned e-commerce venture. It is not operational in India yet. We are looking at it and hopefully, we will be able to structure it soon. We will not go online with e-retailers at the moment. We will only have our own online web shop and our franchise stores.

At present, the e-commerce part is very small for us. It is available only in 12 countries, not because the channel does not have potential, but because we are preparing our back-end to get into it. Very soon, we should be able to leverage this opportunity. There is a lot of interest in online, especially in smaller cities. But we have not addressed it yet. Hopefully, by next year, we should be there. We know we are little late off the block on this, but the fact that our brand is so well known means we have to be very careful in deciding where we go. The biggest challenge has been to show consistency on a global platform and that can be possible only via our own internal website swarovski.com.

TDB: During his tour last year, your Executive Board Member Markus-Langes Swarovski had termed India as one the three most important markets. Are you looking at India as a global production hub as well?

SDR: We are investing to develop our design capabilities. Markus heads the B2B division that deals with Swarovski crystals that go into other products. So, they have a lot of collaborations with designers in different industries, such as interiors, weddings and garments etc. These are initiatives by Swarovski to develop the market for them as co-partners. We also have an exclusive India range. These are small initiatives that we are all plugging into. We want more engagement with the

LOCATED IN AN SEZ, IMPORTS TO OUR PUNE FACTORY ARE DUTY FREE

Indian consumer. In terms of innovation, we are looking at getting Swarovski crystals into various products. So, a lot of research is being done to figure out multiple uses for our crystals, because that's what builds the market.

We do such product customisations only for main markets where we feel we have the potential to develop something unique and also make it a commercial success. The India collection is an example of this.

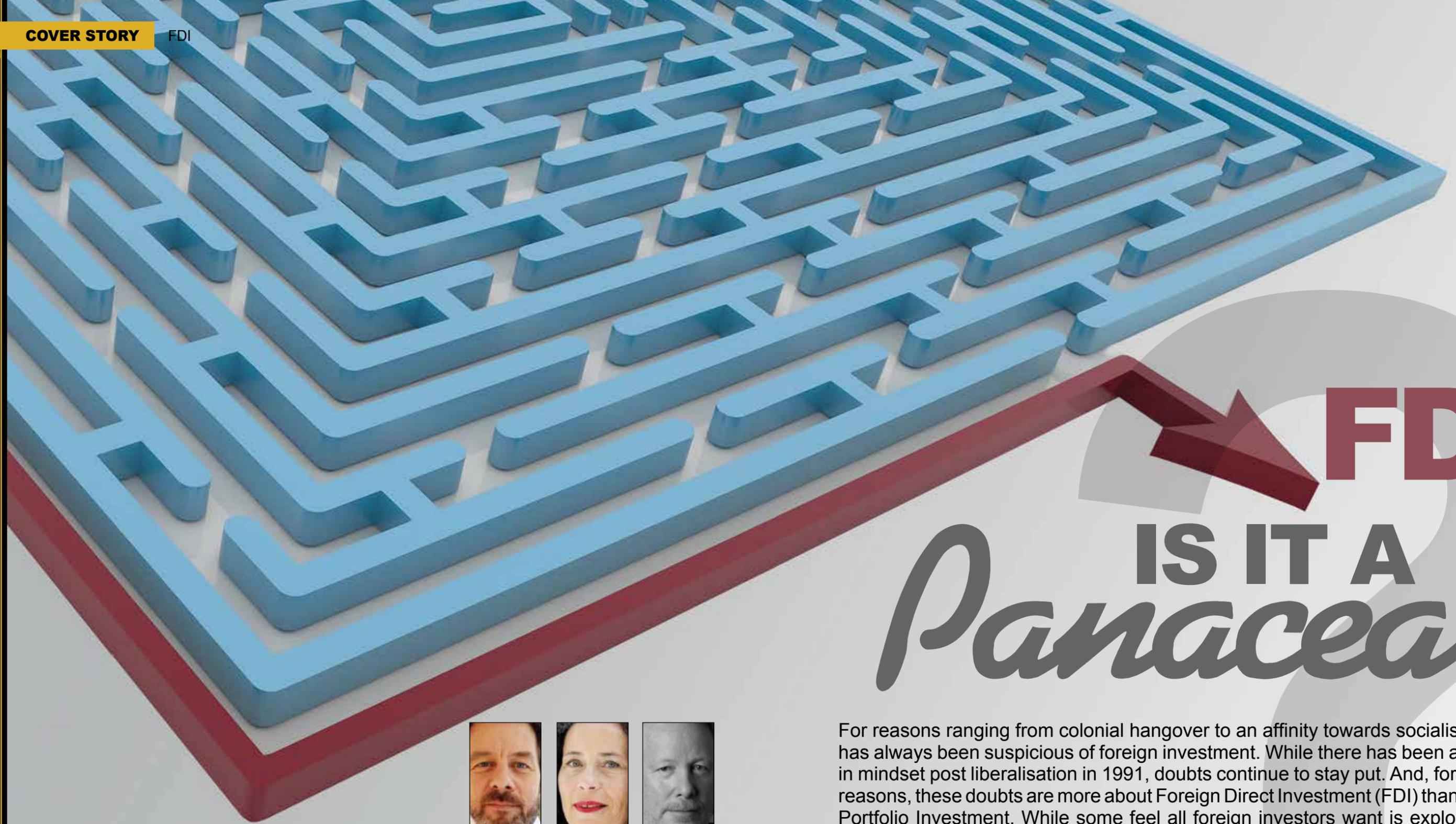
TDB: The government has been aggressively focusing on the 'Make in India' initiative. What policy changes would Swarovski like to see to shift more of its production to India?

SDR: The 'Make in India' initiative is very new. I don't think anyone has really worked out the details of it yet as to what does it really mean. I think, its focus is really on employment generation and large labour intensive industries and infrastructure that can create jobs. Or is it 'Make in India' with a branding of India? Now, neither apply to Swarovski. Even if we make in India, it is the Swarovski brand that stays. Secondly, ours is a very niche industry. So, unless we have a clear idea as to how really does this policy benefit us, or what benefits are being offered, it would be too niche for us to explore.

TDB: Being a luxury product, advertising is a key aspect of your business. Tell us a bit about your advertising strategy.

SDR: We went big on advertising in FY2010. We stick to our niche. We have recently started focussing on billboards and airport advertising. We use more of traditional formats, supported by digital layouts and consumer engagement events.

● neha@thedollarbusiness.com



FDI

IS IT A *Panacea?*



For reasons ranging from colonial hangover to an affinity towards socialism, India has always been suspicious of foreign investment. While there has been a change in mindset post liberalisation in 1991, doubts continue to stay put. And, for obvious reasons, these doubts are more about Foreign Direct Investment (FDI) than Foreign Portfolio Investment. While some feel all foreign investors want is exploit India's resources, others claim foreign investment kills the entrepreneurial spirit among Indians. Successive governments have only strengthened such public opinion by dishing out step-motherly treatment to FDI. But aren't such views myopic? Could India have attained what it has with zero FDI? On the other end of the spectrum, is FDI an answer to all of India's economic woes? Presenting to you a detailed *The Dollar Business* analysis

BY SISIR PRADHAN

Till the late 1990s, Kedar-nath Mantry, a betel leaf trader of Jagatsinghpur district in the eastern Indian state of Odisha (erstwhile Orissa), used to make a handsome living. His business involved buying betel leaves from local farmers, cutting them into different sizes, packing them in bamboo baskets, and sending them off to his clients in Mumbai by train. Speaking to *The Dollar Business*, Mantry recalls, "Betel leaves are perishable goods. On their way to Mumbai, they used to go through many hands, but the entire delivery mechanism was so meticulous and coordinated that I never had to travel to Mumbai myself, neither to ensure timely delivery nor receive payment."

But with the turn of the millennium, Mantry's fortunes started nose-diving. Not that Mumbaiers had suddenly stopped chewing paan, but because Beijing had won the bid to host the Summer Olympics in 2008 and the US had just bombed Afghanistan into the Stone Age. What's the connection? Well, both Olympics-related construction activities in Beijing and re-construction activities

Due to difficulties in land acquisition, foreign investors have pulled out of two mega steel plant projects in India



"THE COMPLEXITY OF THE INDIAN TAX SYSTEM HAS DISCOURAGED BOTH DOMESTIC & FOREIGN INVESTMENT"

TDB: Which OECD members have you found to be the most FDI friendly? Which of the members discriminate between domestic and foreign investment?

Michael Gestrin (MG): Investment regimes across the OECD have largely harmonised and converged over the decades as differences in views among governments over what constitutes 'good investment policy' have narrowed. This process has arguably advanced even further between OECD and non-OECD countries as many non-OECD countries have become important sources (home countries) for FDI. Apart from issues related to national security and a handful of sectoral exceptions (e.g. agriculture), most governments do not discriminate on the basis of nationality.

TDB: How would you respond to critics who say FDI leads to monopolies and inhibits entrepreneurship?

MG: It is true that in some circumstances, such as the privatisation of utilities, the arrival of foreign companies in developing countries has given rise to problems with safeguarding competition. When enterprises enjoy monopolistic market power, at least within segments of the local economy, prices rise, quality does not improve, access is not increased and entrepreneurship is stifled. The solution, however, is not to curtail FDI. On the contrary, first-best strategy (particularly, in the context of state divestiture) is arguably to link privatisation, with an opening of markets to greater competition. In any case, there is a need for strong, independent domestic regulatory oversight.

TDB: What do you think are the main reasons for a high growth economy like India not attracting as much FDI as one would have expected?

Isabelle Joumard (IJ): FDI regulations in India have long been relatively stringent, particularly in services sectors. Also reducing India's attractiveness for FDI are a number of structural bottlenecks, which have weighed on the manufacturing sector, including poor infrastructure, stringent labour regulations, uncertainties surrounding land acquisition and complex tax regulations. In fact, the OECD Economic Survey of India 2014 has a full chapter named "Challenges and Opportunities of the Manufacturing Sector."

TDB: How big a concern is the protection of intellectual property as far as FDI in India is concerned?

MG: Despite improvements, India affords less protection to IPR than other emerging economies. This limits inward FDI and



Michael Gestrin
Senior Economist, OECD

of development. For one country, government investment in infrastructure might be the most important factor in encouraging more FDI, whereas for another country, ensuring broader access to primary education might be the key to unlocking future FDI inflows. A successful FDI promotion strategy combines the basics (e.g. sound legal and regulatory frameworks) with policies that are targeted at areas where weaknesses don't allow for fully leveraging a country's comparative advantages for attracting foreign investment.

TDB: Why do you think there has not been a big surge in FDI in the last five-six years, despite almost the entire developed world being flushed with liquidity because of ultra-loose monetary policies?

MG: FDI flows in the past five-six years have been very uneven. At the global level, we remain around 40% below the peaks reached in 2007. However, two things need to be kept in mind. First, 2007 was not a normal year. This FDI peak was fuelled by a financial bubble, which then collapsed. Second, in the aftermath of the 2008 financial crisis, Europe was the main region unable to recover from the collapse in global FDI flows. When one looks at the rest of the world outside of Europe, FDI recovered quite quickly and for some countries, especially a number of emerging economies, the post crisis period saw very significant increase in FDI inflows.

TDB: Foreigners have preferred portfolio investment over FDI as far as investing in India is concerned. What do you think are the reasons for this?

IJ: Net FDI to India were particularly low between 2008 and 2013. More recently, however, they have increased as a share of GDP and are almost at par with portfolio investment. This partly reflects recent FDI deregulation measures and improvement in the ease of doing business in the country.

TDB: Why has the manufacturing sector attracted more FDI than the services sector in India, despite the latter doing much better than the former?

IJ: The OECD FDI Regulatory Restrictiveness Index reveals that in India, restrictions on services were more stringent than on the manufacturing sector in 2013. TDB

Isabelle Joumard
Senior Economist, OECD



in Afghanistan had seen the demand for metals and minerals going through the roof. And to meet this demand, lot of eyes turned towards Mantry's state, which is home to massive amounts of high quality iron ore and bauxite reserves. What followed was nothing but chaos.

LANDING IN SOUP

Eyeing Odisha's natural gifts, South Korean steel major POSCO signed a Memorandum of Understanding (MoU) with the state government and promised to bring in \$12 billion – the largest ever FDI into India – to setup a 12 MMT-PA steel plant in the state. On its part, the state government promised to hand over 6,000 acres of land to the company, which included government as well as private land. "Acquisition of private land will be taken up on priority," the MoU still reads. But this wasn't going to be easy. Till then, when it came to land acquisition, India was governed by a 19th century British law, which had more holes than a mosquito net. So, when acquiring all of the required land started looking difficult, primarily because local villagers were not willing to be uprooted

Other than land acquisition related problems, not getting clearances from environment bodies has also held up a lot of FDI in India



"TAX TERRORISM TOWARDS FOREIGN INVESTORS SHOULD STOP IN INDIA, IMMEDIATELY"

TDB: What role do tax policies of a country play in attracting or dissuading an investor from investing in that country?

Chris Devonshire-Ellis (CD): Tax policy has a major effect. Taxes affect competitiveness of nations and have a direct impact on not only the cost of the finished product, but also on the manufacturer and ultimately the consumer. If the product can be made more cost-effectively in a lower tax jurisdiction than India, then the consumer is going to buy the lower cost item. However, tax isn't the only variable in the manufacturing equation, but is among the few that a government can exert immediate control over.

TDB: How big a factor is having a stable and predictable tax regime when it comes to attracting FDI?

CD: Companies need to have certainty in their business models. That way, all aspects of production costs can be accurately factored in and profit margins and consumer targets assessed. If sustainability and costings are uncertain, companies will ultimately cease to invest and will look for a more predictable and stable tax regime.

TDB: What's your view on FDI related tax policies in three of the major economies of Asia, i.e., China, India and Singapore? What is there in their taxation systems that makes these countries attractive or unattractive FDI destinations?

CD: Singapore is completely different from China and India. So, it is not possible to make a comparison. The dynamics are totally different. However, between China and India, there are many comparisons. China became successful due, in part, to its tax regime and the ability to offer predictable and stable tax policies and incentives. For example, China scrapped inter-state taxes on the internal movement of goods decades ago, India still hasn't. China introduced a lower tax rate and gave nation-wide incentives, India hasn't. China created a national tax system that was relatively consistent throughout the country, India hasn't. So, until India does all this, it will remain behind.

TDB: Given that Mauritius and Singapore are India's top sources of FDI because of double taxation avoidance treaties, shouldn't India sign similar treaties with other countries that are open to such deals?

CD: Mauritius offers tax benefits that is only really applicable to Indian companies round tripping investments into India, in order to avoid capital gains tax. 99.99% of all Mauritian investment in India are by Indian companies that are trying to avoid Indian taxes. They have nothing to do with FDI.



Chris Devonshire-Ellis
Chairman, Dezan Shira & Associates Asia

sular and backward or progress like China. Tax terrorism towards foreign investors has to stop or India will remain static, consuming locally made products that no one really want.

TDB: How fairly is FDI generally treated around the world? When it comes to taxation, does FDI get the same treatment as domestic investment?

CD: It varies across countries. Tax can be a moving target, in order to get FDI flowing in. In fact, in China, tax rates for foreign companies used to be lower than that for domestic ones! But at the same time, foreign companies were encouraged to give IP and technical know-how to the Chinese industry. That was a good trade, because it helped Chinese companies develop their skill sets and ultimately compete with foreign investors on a technical level. When that was accomplished – which took about 15 years – China equalised tax rates. That was a great strategy to encourage foreign investment and help upgrade local skills and knowhow. It has worked, so India need not worry about Indian companies being left behind if it adopts such a policy.

TDB: In the world of free floating currencies, isn't depreciation of the currency of the country in which investments are made a big concern?

CD: I don't think you can hedge FDI. If you do, it would be a form of currency manipulation. Larger manufacturers can take care of hedging currencies anywhere. Having a treasury department is becoming normal. Companies are used to having currency deviations, and as long as these deviations are within normal trading bands it's not really an issue.

TDB: The new Indian government has started 'Make in India' campaign to boost domestic manufacturing by attracting FDI. What do you think it should do to attract more foreign capital into the country?

CD: Stop retrospective actions on taxes. Lower the tax rate to 30%. Offer additional incentives to foreign companies that are willing to engage in technology transfer with their Indian partners. And once these policies are in place, just leave them alone for a decade or so, and don't interfere.

TDB: How big a concern is the protection of intellectual property rights (IPRs) when it comes to FDI? Are India's poor IP track record and slow judicial process also strong impediments in attracting FDI into the country?

CD: Companies can live with these impediments. Most investors don't want to get tangled up in courts. They run legal businesses and operate properly. And most are well aware of IP risks in Asia. The investors India wants are all those foreign companies that have setups in China. They know how to deal with emerging countries and are used to it and familiar with the risks. India just needs to emulate what China did, which is great news as there is a blueprint that has been seen to work. Just follow that and India won't go far wrong.

TDB

from their forefathers' lands in exchange of money, the state government resorted to force, and what ensued was an all-out uprising against it. "In Mumbai, yellow betel leaves used to fetch more money than the green ones," Mantry rues, while explaining the destruction to life, property and farms, including betel leaf farms, which followed POSCO's arrival in the state.

What happened with POSCO in Odisha is not an isolated case. Many mega industrial projects in India are, today, facing inordinate delays or have been shelved altogether due to such delays. An example of one such project was a proposed \$12 billion investment by ArcelorMittal to build an integrated steel plant and captive power plant in Odisha, which the steel major pulled out of two years back citing delays. So, is it that there's an aversion to foreign investment in India? Why then was Tata Motors forced to pull out of Singur?

PERMANENCY

Many claim the world changed forever after World War II. But as they say, the more things change, the more they stay the same. For, while World War II saw

With massive reserves of iron ore, states like Odisha can attract a lot of FDI, if land acquisition issues are resolved



“EXCEPT INDIA, MOST EMERGING ECONOMIES HAVE UNIFORM TAX RATES FOR DOMESTIC & FOREIGN COMPANIES”

TDB: With every change in government, tax laws in India change. Do you think that this has had a negative impact on the country's ambitions of attracting FDI?

Niti Bhasin (NB): Taxation has become an important consideration in FDI decisions in recent times. Frequent changes in tax laws are indeed a disabling factor in the fiscal environment of a country and can adversely affect FDI. There are a number of issues that need to be addressed here. First, there is a lot of ambivalence in many tax laws. The Vodafone tax row is a case in point. The decision of the then Finance Minister to impose a retrospective amendment to tax Vodafone-Hutch like deals sent wrong signals to foreign investors and created an environment of fiscal uncertainty. The provision was later subjected to a review. Another issue that needs to be addressed is the rate of statutory corporate tax. India's corporate tax rates are one of the highest amongst emerging market economies. Then there is a huge differential of 10% between the statutory corporate tax rate for domestic companies and foreign companies. If we look at most other emerging markets or developing Asian economies, the rate of corporate tax is uniform for domestic and foreign companies. Thus, prima facie, it appears that the cost of doing business in India is high and that might be negatively impacting FDI. The implementation of Direct Tax Code (DTC) and Goods and Services Tax (GST), which are significant reforms required in the area of direct and indirect taxes, has also lingered on.

TDB: Would you say a lot of potential foreign investors might have refrained from investing in the country due to the lack of clarity and uniformity in tax laws and the way various governments play around with these laws?

NB: Yes, I would say that. Some investments might have been driven away due to the introduction of retrospective amendments and laxity in implementation of some important tax reforms like DTC and GST. Any investor would look for some sort of fiscal certainty before investing in a country. If tax related inconsistency continues, it is going to drive away investors to a certain extent.

TDB: Can you give some examples of countries that have really benefitted from FDI and a comparison of their laws vis-à-vis Indian laws?

NB: Malaysia, Thailand, Hong Kong and Singapore are some countries, which have benefitted immensely from FDI. FDI has



Dr. Niti Bhasin
Assistant Professor (Department of Commerce),
Delhi School of Economics

environment and encourages FDI into the country. In addition, because of the long-term nature of FDI, it is generally expected that there would be some amount of reinvestment as well. The argument against repatriation might not be very valid as FDI cannot be evaluated on the basis of capital alone. Once FDI comes into a country, there are spill over effects in terms of technology transfer, improvement in export competitiveness of domestic products, employment generation, and benefits to consumers. And these spill over effects are more profound in case of green field investments than mergers & acquisitions.

TDB: Most of India's FDI is routed via Mauritius and Singapore, since India has double taxation avoidance agreements with these countries. However, in most cases, investments that come from Mauritius are by Indian companies trying to avoid taxes in India. Is this model sustainable in the long run or is it high time India reforms its market and does something to avoid double taxation?

NB: While India has signed double taxation avoidance treaties with a number of countries, its treaties with countries like Mauritius and Singapore are of special importance in view of the concessional provisions. In particular, the India-Mauritius treaty specifies that capital gains made on the sale of shares of Indian companies by investors resident in Mauritius would be taxed only in Mauritius and not in India. This has led to the establishment of conduit companies in Mauritius through which investors of third countries route their investments to India. By doing so, they avoid paying capital gains tax altogether and also enjoy low rates of dividend and income taxes in Mauritius. A part of FDI coming from Mauritius is also round-tripped investment by Indian investors taking capital out of the country, and reinvesting through Mauritius to take advantage of tax concessions of the treaty.

The question that has been challenging the basis of India's treaty with Mauritius is whether India is giving away much more in tax exemptions than it is getting in FDI. This question has been debated threadbare at numerous platforms in the last many years. India simply can't scrap such tax treaties altogether, as it will have a very drastic impact on investments coming into the country. Hence, India needs to take steps in a phased manner to prevent such tax avoidance as well as to eliminate round-tripping of investments.

In case of China also, although FDI is very large in gross terms, a significant part of them are round-tripped investments. In this direction, India has introduced provisions such as limitation of benefits clause (LOB) in a number of treaties, such as the ones with Singapore and UAE. As per the LOB clause, concessional benefits of tax treaty will be extended only to bona fide investors having a business purpose. The LOB clause limits treaty benefits to those who meet certain conditions, including those related to business, residency and investment commitments of the entity seeking benefit of the treaty. In addition, there are other reforms underway like general anti-avoidance rules (GAAR), which would be in place once the DTC is implemented.

made significant contributions to these economies in terms of employment, exports and capital formation. Hong Kong and Singapore are the top two countries of the world in terms of Index of Economic Freedom. This is attributable to an efficient and transparent regulatory framework, low rates of taxation, a simple tax system and sophisticated capital markets. Starting a business and associated procedures are simple and straight forward. Their FDI presence, when compared with their GDP levels, is much higher than that of India. India still scores quite low in terms of ease of doing business. Our legal and regulatory framework is weak and uncompetitive when compared with other economies that attract large amounts of FDI. While a vibrant private sector is emerging, its importance is being undermined by bureaucratic controls and procedures, outmoded labour laws and state obstacles.

India can also be compared with China in view of the similarities between the two countries in terms of high growth rates, large sizes and huge populations. While neither of the countries fare well in terms of regulatory framework, China attracts much more FDI than India. Apart from China's advantage in terms of its sheer market size and low-cost manufacturing, statutory tax in China is comparatively lower than that in India. Moreover, the number and variety of fiscal incentives that China offers to investors are also more than what India offers.

TDB: In India, profit made from FDI is fully repatriable and critics claim that this helps MNCs drain the country's resources. Do you agree with this criticism?

NB: Allowing full repatriation of profits signals a less restrictive

the political map of the world getting redrawn, the West continued to be the centre of power. The war couldn't bring to an end the powers that the West had been wielding for centuries. It couldn't change the fact that the real generals were not the ones in uniforms, but the General Motors and General Electrics of the world. Realising this and the fact that attaining independence was one thing, but making something out of it were entirely different ball games, many newly independent nations started wooing MNCs from the same countries that they had fought for centuries. For, these countries were not only dry of resources,

IF INDIA WANTS TO ATTRACT FDI, IT NEEDS TO UNDERTAKE MASSIVE REFORMS

but also technical knowhow.

India, on the other hand, was charting an entirely different course for itself. With USSR as an ally, and Nehruvian Socialism as the core economic principle, for most of the first half-century of its independent existence, India kept shooing away foreign investment and in fact, took great pride in doing it. The way the Moraji Desai government drove Coca-Cola and IBM out of the country, in the late 1970s, continue to be part of the nation's economic and political folklore. So, for decades, while most Asian nations were leaving no stone unturned to attract foreign investment and were reaping its benefits with both hands, India was suspiciously looking at everything 'foreign' and trying all tricks in the book, and many beyond it, to block the flow of any kind of foreign investment into the country. And then the Berlin Wall fell!

WELCOMING DRAGON

In the 1970s, when India was putting in all its might to shoo away FDI and the 1980s, when it was taking the first tentative steps towards inviting FDI into the country and the first Maruti cars were rolling out of Gurgaon, a traditionally



Japan's Suzuki Motors signing a joint venture with India's Maruti Udyog Ltd. in 1982 was one of the first instances of serious FDI coming into India

closed economy like China was already taking giant steps towards becoming the top FDI destination in the world. With Deng Xiaoping at the helm of affairs, China was in the midst of massive economic reforms that laid the foundation of the economic behemoth that it is today. Particularly, in its southern regions of Xiamen, Shantou, Shenzhen, Zhuhai and Hainan, the People's Republic was creating special tax concession and tax-free zones for investors who were ready

to share revenue and technical knowl- edge. These incentives, clubbed with an opportunity to tap a huge market, were generating lots of interest among foreign investors, who poured in money as if there was no tomorrow. The result? Consistent double-digit GDP growth for the following couple of decades.

ECONOMIC CASTEISM

Today, all nation states can be clubbed under either of three groups. The first

"INVESTORS DON'T TRUST MR. MODI AS MUCH AS MR. MODI TRUSTS HIMSELF"

TDB: You have been very critical of the way the Modi government has been dealing with foreign direct investment (FDI). What do you think is the real perception of India, right now, among foreign investors?

Mani Shankar Aiyar (MSA): Well, the figures speak for themselves. Since the Modi government came to power, there has been lot of rhetoric and a lot of Rs.10 lakh suits, but where is the FDI? It seems as if India is not regarded as a favoured destination. The chairman of one of our nationalised banks has said the normal ratio between GDP growth rate and bank credit growth rate is 2.5. So, if the GDP growth is 7.5%, bank credit should be expanding at nearly 18%. The actual fact, however, is that bank credit is growing at just 12%. Hence, I don't think the statistics of the government are being trusted by the investor community and I don't think any of the moves that have been made by the government is going to boost business in India. There's a lot of talk, but very little action.

TDB: You mean to say all these foreign trips that the Prime Minister is making hasn't brought in any major investment into the country...

MSA: That's right. Show me where the investment is and I will be happy to change my views. In any case, we need to understand that for a continental economy like that of ours, FDI will not have as much importance as in case of other countries. But since the government is committed to have a huge amount of foreign investment and one doesn't see that investment, in fact we don't even see domestic investment, what are we talking about?

TDB: The government has made some moves like bringing in the land acquisition ordinance, hasn't it?

MSA: I think that's a load of rubbish. Land acquisition has not been holding up investment. Investment has been held up because



Mani Shankar Aiyar
Member, Rajya Sabha
(Indian National Congress)

of number of other factors, of which land acquisition is a small part. And in any case, just in order to facilitate investment, whether it's domestic or foreign, if you are going to dislodge Indians from their own homes, then it is not just wrong, but is criminal.

TDB: What about the complications in taxation? There's still not 100% clarity on MAT, isn't it?

MSA: That is why I say there is nothing that is clear. There is no substance to their (government's) words. That's why the investors community, whether in India or abroad, simply doesn't trust Mr. Modi as much as Mr. Modi trusts himself.

TDB: Recently, some large institutional investors have said they are really disappointed with the Modi government's first year in office. When you travel abroad, do you get the same view from even foreign direct investors?

MSA: Well, I don't travel abroad to meet businessmen, so I can't claim to speak on their behalf. But I am going by the evidence on the ground, which is that irrespective of whatever is being said by Mr. Modi, the fact is that investment is not taking place – neither within the country, nor from outside. **TDB**

group comprises nations that have reaped immense benefits of globalisation and hence, have become champions of FDI. Most of the West and countries like Singapore fall in this category. The second group comprises countries that have missed the bus due to archaic ideology, but despite this, consider globalisation to be, at best, a necessary evil. Countries like India, which belong to this category, want FDI, but are not willing to give it the same treatment as domestic invest-

ment. And then in the third category are countries like North Korea.

With absolutely no controversies surrounding FDI in the countries that belong to the first category, and no question of any serious FDI into the countries that belong to the third category, most debates about the pros and cons of it are, essentially, restricted to countries that belong to the second category. But even here, while most developing countries are starting to treat foreign and domes-

tic investment equally, India continues to act cagey. Speaking about such differential treatment to FDI in India, Dr. Niti Bhasin, Assistant Professor, Delhi School of Economics, says, "In India, there is a huge differential of 10% between the statutory corporate tax rate for domestic companies and foreign companies. If we look at most other emerging market economies or developing Asian economies, the rate of corporate tax is uniform for domestic and foreign companies."

India not allowing 100% FDI in multi-brand retail has been one of the most controversial issues in the last few years



Isabelle Joumard, Senior Economist and Head of India Desk, OECD's Economics Department also believes that the Indian tax system is the biggest impediment in the country attracting more FDI. "The complexity of the Indian tax system and frequent changes in tax laws have discouraged both domestic and foreign investment in the country. Costs and time needed to comply with the tax system

are relatively high in India. Predictability and efficiency in the resolution of tax disputes are key features of a tax environment conducive to attracting and keeping FDI," she tells *The Dollar Business*.

India's step-motherly treatment to FDI doesn't end with just taxation. The country's laws impose restrictions on the stake a foreign investor can have in a company, depending on which sector it operates

in. So, while as a foreign investor, you are allowed to hold 100% stake if you are a bank, you are allowed to hold only 49% stake if you are an insurance company, thereby giving up management control! And if you are into operating retail malls, well, you are not welcome!

FRIENDS FOREVER

Foreign investment can come into a country in two forms – Foreign Portfolio Investment (FPI) and Foreign Direct Investment. While in the first case, a foreign investor invests in an Indian company, in the second case, a foreign investor directly sets up its business in India. For example, if British Petroleum buys a stake in Reliance Industries, it is considered FPI, while if British Petroleum sets up its own refinery in India, it is considered FDI. While both FPI and FDI bring in capital into a country, and are ultimately seeking returns, the former brings in only capital and can exit at the drop of a hat, while the latter brings in capital as well as technical knowhow and is more permanent in nature. For example, if British Petroleum buys \$1 billion worth of Reliance Industries' shares, all India gets is those \$1 billion. Neither the company, nor the country, get British Petroleum's technology. And British Petroleum can sell its shares in Reliance Industries to a willing buyer and exit the country any moment. On the other



Pratyush Kumar
President, Boeing India

Increase in FDI limit from 26% to 49% in the defence sector is a step in the right direction. This step broadens the envelope for India's vibrant private industry to tie-up with international original equipment manufacturers (OEMs) for opportunities where controlling stake is not central to the business case, especially in light of 'Buy & Make (Indian)' focus on defence procurement. However, just changing the cap from 26% to 49% does not change the control in the venture; therefore, cases where the controlling stake is essential for the business case, such as where cost of developing technology is not sufficiently liquidated or where control of IPRs is crucial, this change may not be sufficient to unleash a new wave of FDI. As defence manufacturing industry is complex and requires significant investment in R&D, quality systems, and manufacturing technologies, many manufacturers may not risk the loss of control in a venture by holding less than 51% equity.

"MODI GOVERNMENT SEEMS TO BE DISENTANGLING REGULATORY HURDLES TO FDI"

TDB: Which countries have benefitted the most from FDI? Are there also instances of FDI ruining a domestic economy by creating monopolies or other such situations?

Sean Laughlin (SL): Most countries that have received FDI would regard it as beneficial. It is widely recommended by multi-lateral agencies as a means of boosting the economy of emerging markets. FDI does not create monopolies. Rather, the reverse is true as FDI provides competition to incumbent national champions and/or create new industries that were not present earlier. While the word 'ruin' is a little strong, there are cases of countries that have been so successful in attracting FDI that the local economy has become over-dependent on it. Wales is an example of this.

TDB: While investing in a foreign country, what are the main concerns of an investor? Please share with us instances, if any, of investors not being allowed to repatriate their investments.

SL: Concerns vary from country to country and from investor to investor. In some countries, patent or intellectual property protection may be the principal concern. In others, the health or safety of staff might be a concern. In some, risk of earthquakes, flooding or other forms of force majeure are concerns. Political instability, regulatory changes and lack of transparency are further sources of potential anxiety. There are numerous examples of socialist regimes that have expropriated the assets of foreign investors. One example is Argentina's seizure of YPF from its Spanish owner Repsol.

TDB: How fairly is FDI generally treated around the world? Does it get the same treatment as domestic investment or are discriminations rampant?

SL: In some countries, foreign investors receive more favourable treatment than domestic ones. In others, the reverse is the case.

TDB: How big a factor is having a stable and predictable tax regime when it comes to attracting FDI? What's your take on the repeated taxation related flip-flops that successive governments have done in India?

SL: All forms of regulatory stability are key to a successful FDI attraction programme. Tax is very important to all profit-making enterprises, so a competitive, stable and transparent tax regime is obviously a powerful element in a location's basket of benefits on offer to foreign investors.

TDB: In the world of free floating currencies, isn't depreci-



Sean Laughlin,
Executive Director, Global FDIA

ation of the currency of the country in which investments are made a big concern? Do you think FDI should also be hedged as is the case with portfolio investments?

SL: FDI is a long-term commitment to and partnership with a location. It is not comparable with speculative portfolio investment and currency fluctuations should be of minimal concern unless the corporate headquarters is dependent upon annual dividends from the subsidiary.

TDB: The new Indian government has started 'Make in India' campaign to boost domestic manufacturing by attracting FDI. What do you think the government should do to attract more foreign capital into the country?

SL: Foreign capital flows to markets with demand for products and/or services. The government of Narendra Modi seems to be moving swiftly to disentangle regulatory hurdles to FDI. However, whether there is demand for foreign goods and services is not necessarily something that the government can affect via legislation.

TDB: Have zero/ near-zero interest rate policies adopted by central banks in the developed world seen any surge in FDI in the developing world?

SL: We are not convinced that it is wise to assume too great a connection between the two.

TDB: How big a concern is the protection of IPRs when it comes to FDI? Are India's poor IP track record and a slow judicial process also strong impediments in attracting FDI into the country?

SL: Intellectual Property protection is a considerable concern for certain sectors. Many companies operate a policy of retaining all R&D activity in the home market, regardless of the compelling case that might be made by a well-regulated lower cost location, with a good supply of appropriately qualified staff. But if a judicial process exists, no matter how slow, that is still better than no judicial process at all.

It's almost inexplicable and surprising for a power hungry country like India to set a cap of 49% on FDI in power exchanges



hand, if it sets up a refinery in India by investing the same \$1 billion, not only does India get those \$1 billion, but also a lot of downstream companies, which would supply goods and services to the British Petroleum refinery, get a chance, to a certain extent, to understand and use British Petroleum's technology. At the same time, having set up a refinery in India, it won't be easy for British Petroleum to wind up its operations and completely exit the country, if and when it wants.

Moreover, since FPI involves just capital, it generally comes from mutual funds, hedge funds, trust funds, insur-

ance companies, and even banks, which essentially are financial investors and have absolutely nothing to do with the technological upgradation of an economy. On the other hand, since FDI comes from only existing businesses, from some of the world's best companies, they bring in a lot of technological knowhow to an economy. Hence, most countries, generally, prefer FDI over FPI.

Although even India prefers FDI over FPI, for several reasons, it has been more successful in attracting the latter. The reasons for this are many. Firstly, given where India ranks in the Ease of Doing Business Index, most foreign investors

prefer to invest in an Indian company, instead of dirtying their hands in the difficult business environment in India.

Secondly, given the regular flip-flops that successive governments in India have done in tax laws, foreign investors, probably, want to come in via the financial markets, and have the option to easily exit, than being saddled with billions of dollars of retrospective taxes.

Thirdly, since India is not really known for being a protector of intellectual property rights, many potential investors are wary of transferring their technology to an Indian subsidiary.

NAIL IN THE COFFIN

In May 2007, Hutchison, which is a Hong Kong-based group and had setup a holding company in India through a listed company in Hong Kong (which in turn held shares in downstream companies in the Cayman Islands, which held shares in downstream companies based in Mauritius), sold its stake to UK's Vodafone. Since India has a double tax avoidance treaty (DTAA) with Mauritius, this deal shouldn't have attracted capital gains tax in the country. But in 2012, the then Finance Minister Pranab Mukherjee proposed amendments to the Income Tax Act, with retrospective effect, in order to assert the Indian government's right to levy tax on mergers

Inward FDI into India remains very low (at around 2% of GDP) as compared to other peer countries. While India has gradually opened up and removed restrictions on FDI, a number of sectors still remain subject to approvals and limits on ownership. Recently, Indian authorities have taken several steps to further liberalise the FDI regime, in particular in railways, infrastructure, construction, defence and insurance sectors. Despite these positive moves, for India to become a major recipient of FDI and reap the benefits of it, significant improvements in business environment, infrastructure and connectivity, as well as further structural reforms are needed.



Paul Cashin
IMF Mission Chief to India

"26% FDI LIMIT IN INSURANCE WAS JUST TOO LOW"

TDB: What do you think are the main concerns of the government that are stopping it from fully opening up the insurance sector to foreign investment?

Ajit Banerjee (AB): Since insurance is linked to the common masses, the government, naturally, has to be very careful and sensitive while dealing with it. However, successive governments, over time, have been taking steps towards opening up the sector and one such move was the creation of Insurance Regulatory and Development Authority of India (IRDA), which is an autonomous apex statutory body, created to regulate and develop the insurance industry in the country. It was a major step, since before opening up the sector, the insurance industry needs to be in line with the requirements of the international market. I am sure, once India reaches that level, the market will gradually open up. Once the government and the market reaches a comfort level and realise that foreign insurance companies are not fly by night operators, but serious players looking at a long-term market, the cap on FDI will gradually increase.

TDB: What could be the motivation for a major multinational insurance company to enter the Indian market unless it has management control? Isn't it just returns that they are chasing as minority shareholders?

AB: Today, India is one of the most promising markets for insurance. With most developed markets quite saturated, India provides an opportunity to multinational insurance companies to expand. As India grows as an economy, the awareness about insurance will also grow. We need to keep one fact in mind that insurance is an obligatory instrument. Hence, foreign companies are quite sure that in the next few years, insurance penetration in India will only grow.

TDB: You said since insurance is a sector in which the common man is involved, the government is very cautious about opening it up for foreign investors. But if you look at the banking sector, foreign portfolio investment is allowed well above 50% in several Indian banks. Isn't this an anomaly?

AB: Although both banks and insurance are part of the financial sector, their nature of business is completely different. Insurance companies operate with an underlying risk assumption. If a bank grows in terms of its topline, there's a fair chance that it would be growing even in terms of its bottom line. But this doesn't apply to an insurance company. Topline growth in insurance needn't translate into bottom line growth. Since the dynamics of the two businesses are not the same, you cannot apply the same methodology to them.

TDB: Would you say the financial crisis and what happened with AIG made the Indian government even more cautious



Ajit Banerjee
Chief Investment Officer,
Bharti AXA General Insurance

about foreign investment in insurance?

AB: I don't think the AIG crisis has any way affected FDI related policies in India. If that would have been the case, we wouldn't have seen the government increasing the FDI limit in insurance to 49%.

TDB: After FDI limit in insurance was increased to 49%, what kind of interest have you seen among potential investors? Do you think Indian companies have been able to fully utilise this?

AB: In general, since the potential for growth in India is pretty good, the Indian market interests a lot of investors. The earlier 26% limit was just too low. However, increasing FDI in a company is entirely upon individual boards and shareholders.

TDB: Do you think the decision to increase the FDI limit in insurance was based on proper analysis and/or repatriation data?

AB: I am not sure to what extent the government maintains data on FDI repatriation, but certainly by analysing market information, which is available publicly and is much more dynamic in nature based on debt-equity, one can find who are the investors coming in and who are the investors taking money out of India.

TDB: What's your general take on the environment for FDI in the country?

AB: While FDI is more about investment, portfolio investment is more about trading and short-term gains. Hence, the government has been consistently saying that it welcomes FDI, since it is supposed to be more permanent in nature, as compared to portfolio investment.

TDB

and acquisition (M&A) deals involving overseas companies with business assets in India. Although Pranab Mukherjee, now President of India, went out of his ways to convince foreign investors that the move was not Hutchison-Vodafone deal specific (the tax claims of the government were later struck down by the Supreme Court of India), the decision to bring in retrospective amendments to tax laws dealt a death blow to whatever little credibility India had to attract serious FDI into the country.

While damages to India's chances of attracting FDI has already been done, Chris Devonshire Ellis, Chairman, Dezan Shira & Associates Asia, has some simple advice for Indian policymakers if they really want to gain lost credibility and attract serious amounts of FDI. "Stop retrospective actions on taxes. Lower the tax rate to 30%. Offer additional incentives to foreign companies that are willing to engage in technology transfer with their Indian partners. And once these policies are in place, just leave them alone for a decade or so, and don't interfere," he tells *The Dollar Business*,



Shashank Tripathi
Strategy Consulting Leader, PwC

trying to pass on his message to the Indian government.

Similarly, Paul Cashin, IMF Mission Chief to India, although not as blunt as Devonshire, thinks India needs to do a lot if it really wants to benefit from FDI. "For India to become a major recipient of FDI and reap the benefits of it, significant improvements in business environment, infrastructure and connectivity

While India has a somewhat formidable household savings rate of 30%, most of this domestic capital has historically failed to enter into the financial system. Hence, financial sector reforms encouraging more active use of bank accounts by consumers and more efficient allocation of financial capital will be an essential part of this growth story. However, the scale of investments that will be required to enhance India's human capital, physical infrastructure and digital infrastructure, necessitates the need for injection of capital from foreign investors besides investments from private domestic and government sources.

as well as further structural reforms are needed," he tells *The Dollar Business*.

WHY THE FUSS?

Having made a case for the argument that if India wants to attract serious amounts of FDI, it needs to undertake massive reforms, let's go back to the basics. How important is FDI for India? Is it absolutely mandatory if India wants



Proponents of FDI argue that it's not only capital that foreign investors bring into a country, but also technological knowhow, which is essential for sustainable growth

"DEMOCRATIC STRUCTURES AND PROCESSES HAVE NO SPACE ONCE FDI BASED PROJECTS ARE PUSHED"

TDB: Are you against FDI per se, or against the way it is implemented in India?

Medha Patkar (MP): We, the National Alliance of People's Movements, are against most of the FDI in India. With FDI, no doubt the country is getting investment from abroad, from different sectors, in different manners, by corporates, as well as bilateral agencies, but our question is regarding what all is involved in the process. For example, in the Delhi-Mumbai Industrial Corridor (DMIC) project, Japanese Bank for International Cooperation (JBIC) is involved, but all it is trying to do is bring in investments from specific corporations. It's not like they are here for our development, but for their gains. They use labour and natural resources here, but there is very little, almost nil, control of the operations with the state. That's how these things are, invariably, planned.

Let's take the case of the proposed Vizhinjam International Seaport in Kerala. It is financially unviable, and hence, none, other than the Adani Group, is bidding for it. So, even financially non-viable projects are being pushed ahead and approved and accepted in the name of increasing investment. If this is the case with powerful Indian companies, things can only be worse when it comes to foreign companies.

TDB: Irrespective of which political party is in power, it is argued that FDI is required for growth and employment generation. Do you think enough analysis has been done on what the country is gaining from FDI or what its socio-economic impact is?

MP: Now-a-days, anything and everything is development. When an economic activity takes place, none looks at the economic or the environ-economic aspect of it. This is very unfortunate. In fact, the politicisation of development has broken all connections with the proper concept of development. Instead, what we have today is just a superfluous understanding of development.

Growth and development can never be sustainable and equitable when FDI is involved, because under it, the pressures are different and the agreements are influenced by these pressures. Then there are indirect benefits for the decisionmakers and politicians. With public-private partnerships, even the government is now joining hands with corporates and foreign investors, and there's absolutely no care or respect for laws of the land. Even when World Bank provides money for a project, and even if the investment amount is very little, it exerts a lot of influence, and laws are compromised to push the projects. The Narmada Dam project is a great example of this. Although the World Bank had put in a very



Medha Patkar
Social Activist and National Convener,
National Alliance of People's Movements

small percentage of the total investment for the project, it pushed it through without environmental clearances. Democratic structures and processes have absolutely no space once FDI projects are pushed.

TDB: What's your take on the new land acquisition ordinance to amend the Land Acquisition Act, 2013?

MP: We are fighting the ordinance because it is against the interests of the people. Overlooking all dialogues and debate, the government has brought in the ordinance, without following consultative processes either with us or with other parliamentarians. We object this. We are going to oppose even the second ordinance through a mass rally in New Delhi. It is very clear that the amendment that has been proposed by the government after the first ordinance is just an eye wash. The government is saying everyone who loses his/ her land will be given a job. But this clause was also there in the 2013 Act, but it's never been implemented.

The government is pushing this bill, since huge tracts of land need to be acquired for projects like the DMIC. The government is pushing us back to the British era, but even the British never said that land can be forcefully acquired even for private projects! **TDB**



With one of the highest household savings rates in the world, it's technological knowhow that India should seek via FDI, and not necessarily just capital

to achieve higher levels of economic growth? And there's nothing better than analysing empirical evidence in order to arrive at an answer to these two questions. Let's do that. The highest amount of FDI that India has ever received in one single year is \$23.5 billion in FY2012. Did it lead to high growth? Of course not, as the year saw the country's GDP growth slump from 8.9% in the previous year to just 6.7% – the same as the GFC year of FY2009. And for those who argue that FDI, or any investment for that matter, has a lag effect, the following couple of years' GDP growth rates of sub-5% don't really make the case for FDI any better. But ceteris paribus, shouldn't more

FDI lead to higher growth? Of course it should, but for a \$2 trillion economy like India, a few single-digit billion dollars of FDI are just a drop in the ocean and can do almost nothing to change the country's growth trajectory, particularly when India's Gross Capital Formation, with or without FDI, is one of the highest among all major world economies, only below that of China and Indonesia, and India's household savings rate is one of the highest in the world.

Similarly, the go go years between FY2005 and FY2008, when India achieved some of its highest rates of growth, the flow of FDI into the country was in single-digit billion dollars – just a

fraction of what the country was receiving in the sub-5% growth years!

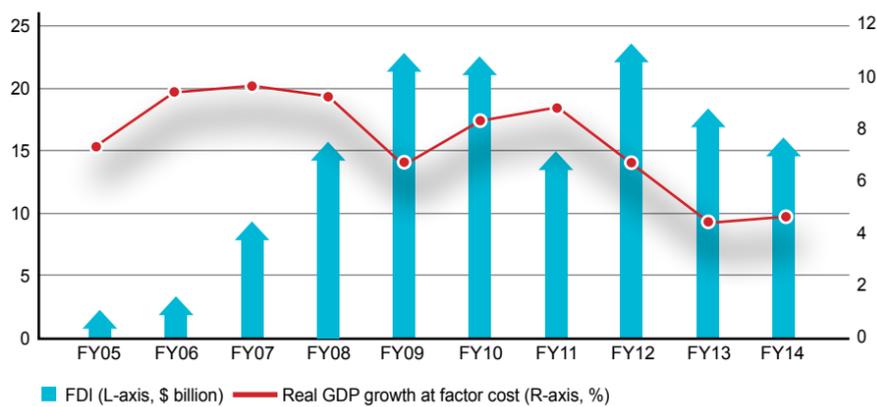
So, is FDI irrelevant to India? Well, senior Congress leader Mani Shankar Aiyar thinks so. "We need to understand that for a continental economy like that of ours, FDI will not have as much importance as in case of other countries," he tells *The Dollar Business*. On similar lines, Social Activist Medha Patkar believes growth and development can never be sustainable and equitable when FDI is involved. "Under FDI, the pressures are different and the agreements are influenced by these pressures. Foreign investors exert a lot of influence, and laws are compromised to push the projects," Patkar tells *The Dollar Business*, explaining why she and the National Alliance of People's Movements are against most of the foreign direct investments in India.

ONLY MONEY, NO HONEY

For the proponents of FDI, however, the arguments of Aiyar and Patkar hold no ground. They believe FDI is not just about capital, but about technology as well. And having missed out the industrial revolution of the 19th and the 20th century, India has no option but invite FDI if it doesn't want to remain an also ran in the world. Proponents of FDI also cite that there's barely any country that has not benefitted from FDI and most of

FDI flow into India versus GDP growth

There seems to be hardly any correlation between FDI inflows and GDP growth



Source: Reserve Bank of India; FDI figures for FY2012, FY2013 and FY2014 are provisional



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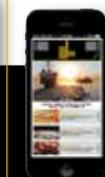
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India's concerns regarding it are nothing but paranoia. "Most countries that have received FDI would regard it as beneficial. It is widely recommended by multilateral agencies as a means of boosting the economy of emerging markets. FDI provides competition to incumbent national champions and/or create new industries that were not present earlier, Sean Laughlin, Executive Director, Global FDIA, tells *The Dollar Business*, explaining the benefits of FDI. Making a similar point, Dr. Bhasin says, "Once FDI comes into a country, there are spill-over effects in terms of technology transfer, improvement in export competitiveness of domestic products, employment generation, and benefits to consumers."

Let's take the example of some benefits that India has reaped, thanks to such technology transfers. Brahmos, India's supersonic 'fire and forget' cruise missile, wouldn't have become a reality if India's Defence Research and Development Or-

A LARGE CHUNK OF FDI INTO INDIA COME VIA MAURITIUS & SINGAPORE

ganisation (DRDO) and Russia's NPO Mashinostroyenia had not entered into a (50.5:49.5) partnership in 1998. Similarly, had India not opened up to FDI in the 1980s, although in a limited way, millions of middle class Indians wouldn't have been able to drive a car in their lifetimes. More importantly, had India not invited FDI from Nauru – a small Pacific island nation and a major supplier of phosphate to India in the 1970s – and setup a joint venture to manufacture phosphate fertilisers in the country, Green Revolution would have never taken place, and the country would have neither been able to eradicate hunger, nor attain self-sufficiency in food, within just three decades of attaining independence.

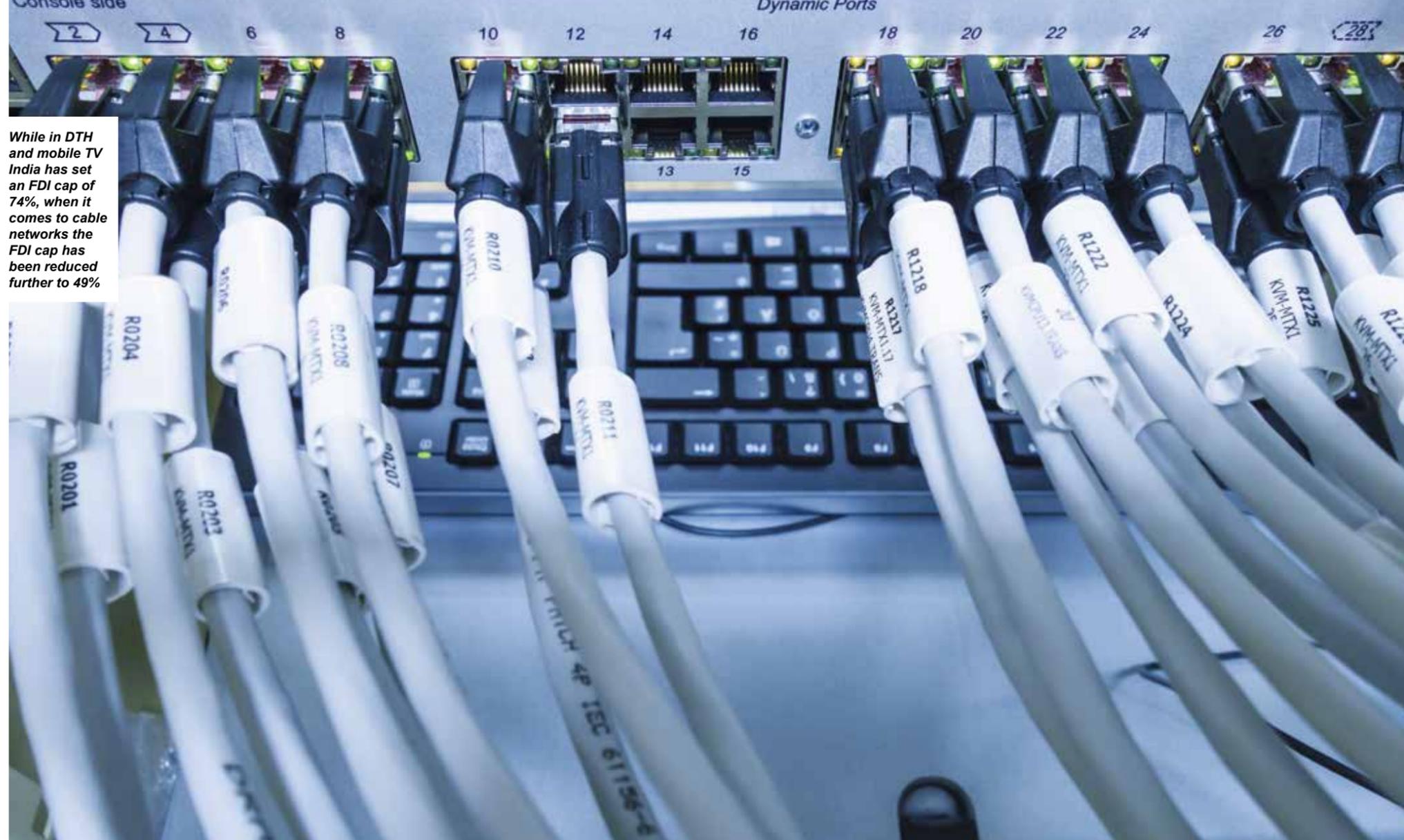
CLIPPING WINGS

Now that we have proved that despite a lot of lacunae and not being the answer to all of India's economic woes, the ben-

efits of FDI definitely outweigh its negative effects, let's take a look at the current state of affairs.

Today, one of Government of India's stated intents and objectives is "to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth." To enable this, all non-Indian entities, except those from Pakistan and Bangladesh, are allowed to invest and own 100% stake in Indian entities, except in lottery business, including government/private lottery and online lotteries; gambling and betting, including casinos; chit funds; *nidhi* companies; trading in Transferable Development Rights (TDRs); real estate and construction; manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes; and activities/sectors like atomic energy and railway operations that are not open to private sector investment. On the other hand, certain sectors have a cap on FDI investment. These sectors include defence (49%); teleports, DTH and mobile TV (74%); cable networks (49%); news & current affairs TV channels (26%); newspapers and periodicals (26%); domestic airlines (49%); private security agencies (49%); multi-brand retail (51%); banking (74%); commodity exchanges (49%); credit information companies (74%); securities market infrastructure (49%); insurance (49%); and power exchanges (49%). At the same time, while investing in some of these companies with caps need prior government approval, in some others, a foreign investor can invest without any prior government approval as is the case with all sectors in which 100% FDI is permitted.

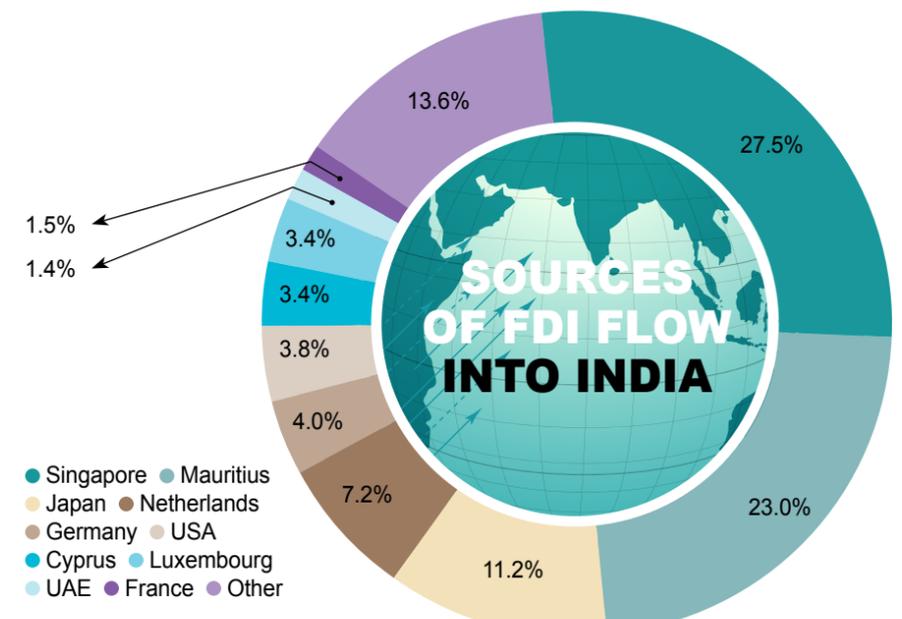
The question that then arises is just what is the logic for having investment caps in sectors like insurance, airlines and multi-brand retail? If the government can trust multinational banks handling Indians' savings, why can't it trust multinational insurers underwriting an Indian's insurance? Do Indians really care who owns the plane they are flying in as long as they can fly cheap & safe? [Actually, safe & cheap.] And of course, if an MNC can own 10 different single brand stores in one shopping mall, just



While in DTH and mobile TV India has set an FDI cap of 74%, when it comes to cable networks the FDI cap has been reduced further to 49%



A cap of 49% on FDI has been a major impediment in the growth of India's cash-strapped, loss-making civil aviation sector



Source: Reserve Bank of India; breakup for FY2014 (Provisional)

A 49% cap on FDI in defence has kept foreign players away from India, since it's a sector where investors don't want to lose management control



what is the logic to prohibit it from selling the same 10 brands under one roof? While the government perhaps has answers for each of these questions, the reality is that such caps are nothing but a function of lobbying by domestic monopolies and myopic vision.

A victim of such caps, Amit Agarwal, VP & Country Manager, Amazon India, thinks India should urgently fully open up the multi-brand retail sector to FDI. "We believe opening up this sec-

tor to FDI will be good for consumers and Indian businesses as it will allow us to partner with local manufacturers to source products not carried by other sellers on the marketplace, giving Indian consumers unique and wider choices at lower prices," he tells *The Dollar Business*. Agarwal feels the spillover effect of opening up the multi-brand retail sector to FDI will be immense. "Allowing FDI will also positively impact infrastructure development in the country," he adds. On

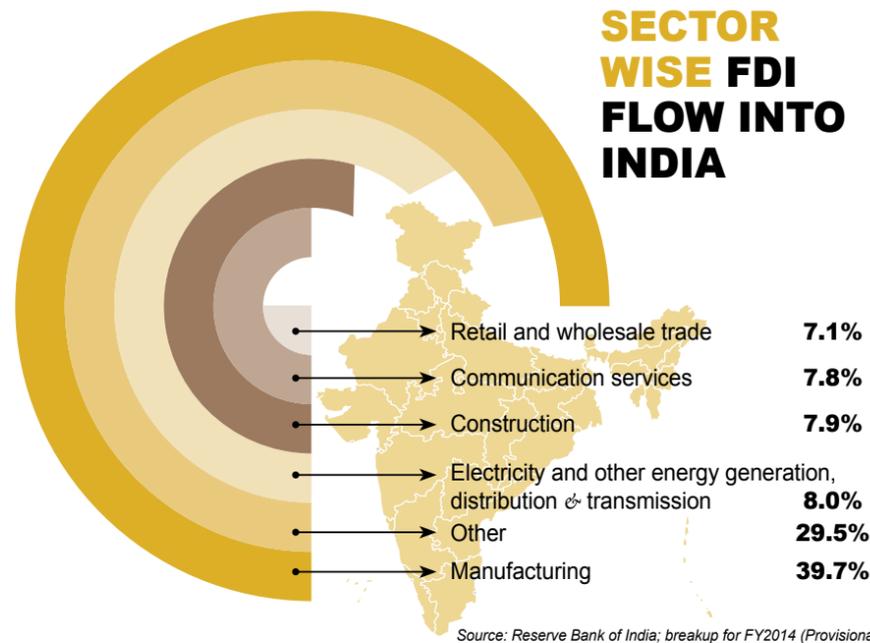
the other hand, Pratyush Kumar, President, Boeing India, feels it's irrational for the government to expect serious foreign investment in the defence sector with an investment cap of 49%. "As defence manufacturing industry is complex and requires significant investment in R&D, quality systems, and manufacturing technologies, many manufacturers may not risk loss of control in a venture by holding less than 51%," Kumar tells *The Dollar Business*.

The government's policy to impose caps on the FDI in certain sectors, however, has a few supporters. For example, Ajit Banerjee, Chief Investment Officer, Bharti AXA General Insurance, a JV between the Paris-based AXA Group and India's Bharti Enterprises, in which the former has recently got the Foreign Investment Promotion Board's (FIPB) approval to hike stake to 49%, feels gradually opening up the insurance sector to foreign investors is not a bad idea. "Before opening up the sector, the insurance industry needs to be in line with the requirements of the international market. I am sure, once India reaches that level, the market will gradually open up," says an optimistic Banerjee.

BLACK HOLE

While tax related flip-flops, shareholding caps and painful land acquisition

SECTOR WISE FDI FLOW INTO INDIA



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laws, etc., are some of the most important issues affecting FDI in India, the root for it being suspiciously looked at in the country, lies in the tiny Indian Ocean island of Mauritius. For, although India has double taxation avoidance agreements (DTAAs) with 88 countries, a lion's chunk of the FDI into India is routed through Mauritius as the island nation doesn't apply tax on capital gains. Hence, if a foreign investor based out of Mauritius invests in India, it need not pay any

FREQUENT CHANGES IN TAX LAWS HAVE SOURED FOREIGN INVESTOR SENTIMENT IN INDIA

tax on its capital gains – neither in India because of the DTAA, nor in Mauritius, because the country doesn't levy tax on capital gains! And many claim that bulk of the FDI that India receives from Mauritius is nothing but Indians rerouting money into the country, in order to avoid paying capital gains tax, thanks to this loophole. "99.99% of all Mauritian investment in India are by Indian companies that are trying to avoid Indian taxes. They have nothing to do with FDI," Devonshire says, not mincing words. Agreeing with Devonshire, Dr. Bhasin says, "A part of the FDI coming from Mauritius is round-tripped investment by Indian investors taking capital out of the country, and reinvesting through Mauritius to take advantage of tax concessions of the treaty." Given this, one cannot really blame if large sections of the Indian society look suspiciously at all FDI.

NO CHANGE

With the Narendra Modi led BJP sweeping General Election 2014 and forming the first single party majority government at the Centre in over two decades, thereby putting an end to arm-twisting by smaller regional parties, the mood in all sections of the Indian economy was nothing short of euphoric. Thanks to Modi's foreign investor friendly image, a lot of investment waiting on the sidelines to enter India also turned ecstatic. Al-

though the initial burst of foreign capital, as expected, came in via portfolio investments and pushed the Sensex through the roof, even potential FDI investors started making their moves. But while initially, the new government made the right noises by hiking the FDI cap to 49% in both defence and insurance, things started turning sour very quickly.

Firstly, it continued to maintain ambiguity on Minimum Alternative Tax (MAT). While many foreign investors, particularly portfolio investors, expected it to just completely abolish MAT, the government continued to dilly-dally, making them anxious. Commenting on this, Congress' Aiyar says, "There is no substance to their (government's) words. That's why the investors community, whether in India or abroad, simply doesn't trust Mr. Modi as much as Mr. Modi trusts himself."

If this was not enough, the government committed a cardinal sin by pushing the amended land acquisition law, not via consultation and debate in the parliament, but via an ordinance. And the protests and opposition that have followed it have only dented the government's image further. Claiming that the government's diagnosis of what's affecting FDI into the country itself is wrong and heavily criticising it for opting for an ordinance for an extremely important issue like land acquisition, Aiyar adds, "Land acquisition has not been holding up investment. Investment has been held up because of number of other factors, of which land acquisition is a small part. And in any case, just in order to facilitate investment, whether it's domestic or foreign, if you are going to dislodge Indians from their own homes, then it is not just wrong, but is criminal."

Similarly, claiming that the government's new land acquisition ordinance is against the interests of the people and is being pushed since huge tracts of land need to be acquired for projects like the Delhi-Mumbai Industrial Corridor (DMIC), Patkar said, "Even the British never said that land can be forcefully acquired even for private projects."

DOESN'T HURT

Like most things in economics, there are

many factors at play even when it comes to FDI. While some questions regarding it may have some basis, a lot of the suspicion surrounding it, particularly in India, are either colonial hangover, a pretext to protect domestic monopolies, or just paranoia. Since it is impossible to produce everything that a country consumes, an alternative to FDI is increased imports. However, increased dependence on imports not only drains a country of precious forex, but also adds very little to growth. For, although there's nothing bad about consumption driven growth, it doesn't have the same multiplier effect as investment driven growth.

On the other hand, the thinking that



Thanks to India's double tax avoidance agreement with Mauritius and the fact that the latter doesn't levy any tax on capital gains, a significant chunk of FDI coming into India originate from the tiny Indian ocean island

FDI is the only answer to all of India's economic woes is nothing but wishful thinking and living in denial. With one of the highest saving rates in the world, capital is not an issue in India. The real issue is channelising this saving into investments. And in any case, FDI flow into India has never even exceeded 2-3% of GDP. So, unless there's suddenly a multifold rise in the flow of it into the country, a few billion dollars more or less, won't really affect India's growth prospects. But this is no excuse to treat foreign investment any differently from domestic investment, particularly by a country that preaches *Atithi Devo Bhava*.

If FDI can't solve all of India's eco-

nomical woes, neither will it derail the country's growth trajectory.

If FDI can't help the Indian economy to grow at double digits, it will never push us into a recession. There's enough evidence that if anything, the multiplier effect of FDI can only be higher than that of domestic investment. For, technological knowhow that FDI will inevitably bring with it, will spur downstream domestic industries. FDI also leads to better integration with the rest of the world and spurs trade volumes. Agreeing with such arguments in favour of FDI, Dr. Bhasin says, "FDI is expected to have relatively strong effects on economic growth, as it provides for more than just

capital. FDI offers access to internationally available technologies and management know-how, and may render it easier to penetrate world markets. These indirect effects of FDI are more relevant for developing countries like India. In addition, FDI can also stimulate new investment through forward and backward linkages. Thus, it is advisable to focus on attracting FDI to not only supplement investment and capital formation, but also to promote economic development."

The bottom line – FDI is not a panacea, not by any stretch of imagination. But it can only help. It rarely hurts. **TDB**

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THE NAME SAYS IT ALL

Having just celebrated its 25th anniversary, Pune-based Persistent Systems isn't just another IT outsourcer, but a high-technology IT products company. Having got into technologies like cloud computing and big data analytics before they were even heard of in India, the company has been growing at an astounding rate and is now, all set to make the next 25 years its own

BY SHAKTI SHANKAR PATRA



Since its IPO in FY2010, Persistent Systems' revenue has grown at a CAGR of 25.8%, which is the same as that for market leader TCS



The Indian IT sector is a crowded place. Even if you ignore the Big Four – TCS, Infosys, Wipro and HCL Tech – there are several other listed players, with over \$1 billion in market capitalisation. The trouble is that there is hardly anything to differentiate them, other than their sizes. Not only do most of them provide similar kind of services, but also provide them to similar kind of clients, most of them in the US. And this is where Persistent Systems stands out. For, not only is it a IT product company, instead of being a run-of-the-mill IT services company that most Indian IT outsourcers have become, but it also was one of the first ones to get into stuff like cloud computing and big data analytics. Validating this, retail brokerage, ICICIdirect, in a research report earlier this year, wrote, "Persistent Systems had a first mover advantage in newer technologies as it defined cloud, analytics, collaboration and mobility as a category, much ahead of Gartner, who later defined it as Social, Mobility, Analytics and Cloud (SMAC) in 2010." What makes Persistent Systems even more unique is that it has continuously invested in high technology startups and in fact, a couple of months back, setup a \$10 million venture capital fund solely for this purpose.

THE COMPANY HAS MIGRATED FROM TECHNOLOGY TO BUSINESS ORIENTED SALES TEAM HIRING

For, in four out of the last five years, Persistent Systems' topline has grown at an incredibly consistent rate of 29% (+/- 50 bps) y-o-y. That during this period, the Indian rupee has moved all over the place, and the US – its main market – hasn't really been an example of consistent growth, only makes this even more remarkable.

The only year this consistent run has faltered – FY2015 – the company has more than made up by reporting its highest profit margin since the tax holiday for IT companies came to an end in FY2011. This, despite a 460 bps y-o-y jump in employee benefits expense. So, how did an IT company manage a jump in the profit margin, despite a surge in employee benefits expense, which is its single biggest expense? Simple. It ensured its tax rate was at its lowest since FY2011 and also ensured a close to 3x jump in its other income.

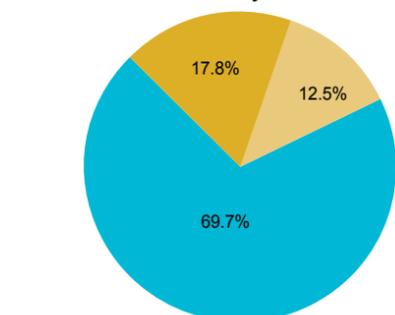
Another great example of Persistent Systems' consistency is its EBITDA margin, which has stayed in a band of just 220 bps, between 24.8% and 27%, for a decade, except for the GFC year of FY2009. This, despite its employee benefits expense moving all over the place

CONSISTENT SYSTEMS

If one takes a look at Persistent Systems' revenue growth over the last five years, one would recommend its board to change its name to Consistent Systems.

Persistent Systems' revenue mix (segment wise)

More than two-third from I&S vertical

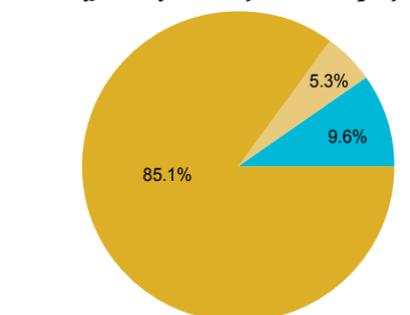


● Telecom and Wireless ● Life Sciences and Healthcare ● Infrastructure and Systems

Source: Company Annual Report; breakup for FY2014 (Consolidated)

Persistent Systems' revenue mix (geography wise)

No different from any other IT player



● North America ● Europe ● Asia Pacific

Source: Company Annual Report; breakup for FY2014 (Consolidated)

– from a high of 66% of revenue to a low of 53.5% – during the period. At the same time, it's worth noting that despite such high volatility in employee benefits expense, the company has managed to consistently bring down its attrition rate (which, at 21.2% in FY2008, had forced the management to cite it as a risk in the red herring prospectus during the IPO) to just 13.4% in FY2014.

MISSED CALL

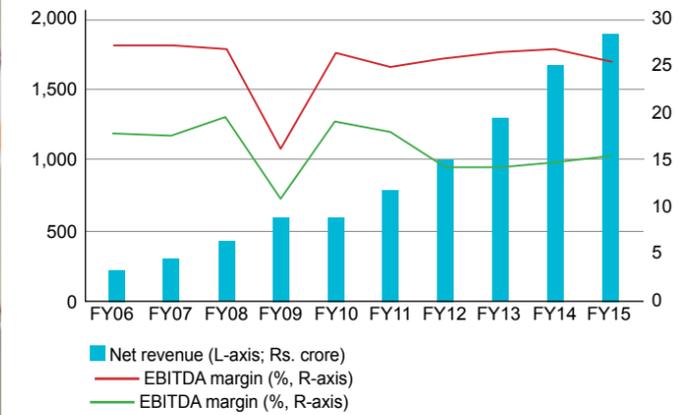
Persistent Systems, essentially, works under three segments – Telecom and Wireless; Life Sciences and Healthcare; and Infrastructure and Systems. And within these three segments, not only is Infrastructure and Systems' contribution to overall revenue the highest, at 69.7% in FY2014, but also it's growing at an unbelievable rate – 41.8% in FY2014. On the other hand, the problem area for the company is the Telecom & Wireless vertical, which saw a drop of 12.2% in FY2014, and negated some of the fabulous growth shown by the Infrastructure and Systems vertical. And Dr. Anand Deshpande, Founder, Chairman and Managing Director, Persistent Systems, blames this poor performance by the Telecom and Wireless vertical on market conditions. "The market situation is such that we cannot expect a larger development or a surge in them," he tells *The Dollar Business*.



At times, Persistent Systems' shares trade at higher price-earnings multiple than that of even Infosys, Wipro and HCL Tech!

Persistent Systems' revenue and margins

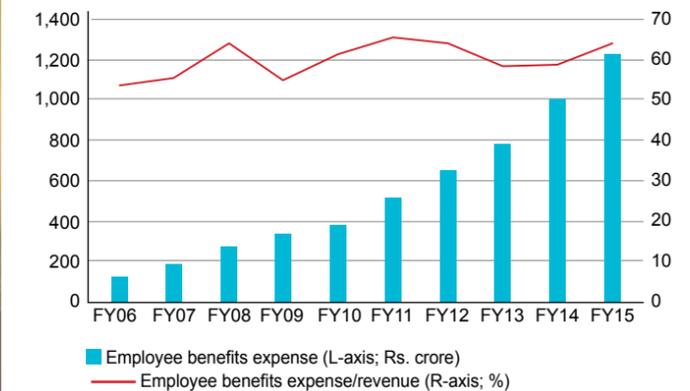
The company's margins are as stable as it can get



Source: Company Annual Report, TDB Intelligence Unit

Persistent Systems' employee benefits expense

It has never exceeded 65% of revenue in the last decade



Source: Company Annual Report

GLASS HALF EMPTY

A major issue with Persistent Systems is its overdependence on a few clients. For, even while citing risks in its red herring prospectus before its IPO, the company had mentioned that its top client accounted for 8.25% of its revenue in FY2008. Since then, this dependence has only increased, with it earning 21.2% of its revenue from its top client in FY2014. Similarly, while its top ten clients had accounted for 38.47% of its revenue in FY2008, in FY2014 the revenue from the same had jumped to 47%.

Although some would cite this as a positive, since it means it's getting repeat orders from the same clients, it also means it's struggling to diversify its client base. So, just a couple of major clients moving away from it would mean nothing short of a disaster.

To counter this problem of overdependence on just a few clients, one of the biggest focus areas for Persistent Systems, today, is sales and marketing. Hence, in FY2014, not only did the company rejig its marketing team and get a new Head of Sales – Ranga Puranik – for itself, but also changed its sales strategy. Explaining this in a research report a couple of months back, brokerage house Prabhudas Liladhar, which has a 'Buy' rating on the Persistent Systems stock, wrote, "Persistent Systems has migrated from technology to business oriented sales team hiring. Moreover, marketing exercise for the success of Enterprise Digital Transformation (EDT) is likely to continue."

Speaking about some of the challenges that the company has faced in recent years, Deshpande says, "The challenges that we have been facing can be categorised into two types. One is that we started working with partners and small number of customers, were we would go with the partners and sell our products to the customers. This did not work out the way we wanted as there were various issues, including the leaving of customers as they decided they wanted change. The second is that the deployment of the technologies were not up to the levels expected."

VALUED IN SILVER
Persistent Systems just celebrated its 25th anniversary. In these 25 years, it has been a pioneer in many new technologies and

VALUED IN SILVER

has always been ahead of the curve. It spoke about cloud computing, when most in India hadn't even heard about it. Just in the last two years, it has acquired many small but high technology oriented companies and products like Hoopz, HPCA, NQ, TNPM, rCloud and LBS.

Speaking about these acquisitions, Deshpande says, "We have been building some interesting IT portfolios, with good components, which would help us stand out in the IT space today." Because of such ahead of times thinking, even Dalal Street rates Persistent Systems very highly and gives it higher multiples than most of its peers. In fact, at times, Persistent Systems' shares trade at higher price-earnings multiple than that of even Infosys, Wipro and HCL Tech!

On its part, the company hasn't disappointed either. Since listing in FY2010, its topline has grown at a CAGR of 25.8% – the same as market leader TCS. While many would say a company, with a lower base, should have grown at a faster rate, an inherent characteristic of the IT sector is that because it is people-oriented and has nothing to do with capacity, in it, the big keep getting bigger, and the small, only smaller. Hence, any small company, which manages to keep pace with the market leader, deserves more than a bit of applaud.

The bottom line: absolutely everything is in place for Persistent Systems. And the market and its clients are very aware of this. The new government focusing on Digital India also has the potential to open up new revenue streams for the company.

"Persistent Systems has products that can be used by the government, an upbeat Deshpande tells *The Dollar Business*. All it needs to do now is milk the investments it has made over the years on high-end technology, and of course, get the sales team going."

shakti@thedollarbusiness.com

47% OF PERSISTENT SYSTEMS' REVENUE CAME FROM ITS TOP 10 CLIENTS IN FY2014

potential to open up new revenue streams for the company. "Persistent Systems has products that can be used by the government, an upbeat Deshpande tells *The Dollar Business*. All it needs to do now is milk the investments it has made over the years on high-end technology, and of course, get the sales team going."

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“IT’S GOOD THAT GOI IS LARGELY TALKING ABOUT INVESTING IN TECHNOLOGY”

In the company’s 25 years’ journey, from a start-up to the publicly-traded global company of today (having a mcap of about \$1 billion), he has been the man behind the wheel, all the time. In a free-wheeling interaction with *The Dollar Business*, Dr. Anand Deshpande, Founder, Chairman and MD, Persistent Systems, looks back at the last 25 years, and outlines his vision for the future

INTERVIEW BY AADHIRA ANANDH M.

TDB: Since listing in FY2010, Persistent Systems’ revenue has grown at a CAGR of 25.8%, which has exactly been the growth rate for even industry leader Tata Consultancy Services (TCS). How content are you with this?

Anand Deshpande (AD): Markets, today, have become very dynamic and volatile. So, in order to adjust ourselves and be ahead of these changes, we have been moving from one drawing board to another. In other words, today, we face challenges of a different kind. Hence, we have to constantly be on our toes to ensure better results. This shift in approach is the reason for the higher growth rate achieved by us over the last few years.

TDB: Persistent Systems has always been known as an IT product company, which is not something many other Indian IT outsourcers can boast of. Tell us a bit more about how you stand out

WE MAKE SURE WE PROVIDE OUR CUSTOMERS WITH THE LATEST TECHNOLOGIES

in the crowded Indian IT space?

AD: We largely focus on product development. The current scenario is such that we have newer technologies for everything. We see new upgradation in the market on a large scale. Our customers also know that they will be able to get access to new technologies periodically. So, we also make sure we provide them with the latest technologies at the time of them deciding to buy the product.

TDB: You were ahead of the curve investing in cloud computing, analytics etc. Are you satisfied with the results?

AD: We are very satisfied with the way our results have turned out and we have also continued to stay current in the market. We have been building some interesting IT portfolios, with good components, which help us stand out in the IT space today. The challenges that we have faced in the past can be categorised into two types. One is that we started operations with partnerships and a small number of customers, where we would go out with the partners to sell our products to the customers. This did not work out the way we wanted as there were several issues, including some customers, leaving just because they wanted change. The second challenge was that the de-

ployment of technologies were not up to the levels expected.

TDB: Why Indian IT companies, including Persistent Systems, haven’t been able to reduce their dependence on the US market? Tell us of your strategy, if any, to change this.

AD: Today, there is hardly any IT company that does not have an office or is based in the US. From bigshots like Google to us, all are based out of the US. We are also largely US centric because the use of technology there is on a much larger front. So, when we base our products there, its reach is also much larger.

TDB: While the infrastructure and systems segment continue to account for a lion’s share of your revenue, what are your expectations from the telecom, wireless, life sciences and healthcare segments?

AD: The infrastructure and system segment has largely been our balancing area. When we take other areas, they are also at par with the infrastructure and system segment. However, the market situation is such that we cannot expect a larger development or a surge in them. They are quite balanced and our expectations from them are also the same. Above all, I

will be happier if all the sectors did well.

TDB: There’s a concern that there is, currently, a bubble in technology – be it social media stocks in the US, the entire NASDAQ, or e-commerce companies in India. What’s your view on this?

AD: We cannot say there is a bubble in technology. It’s largely subjective to companies. In the present scenario, technology is growing on a larger level. The markets and the products always work on a platform of upgrading to the latest version, with the view to present the best available version to the customer.

TDB: The Modi government is focusing a lot on Digital India and it is expected that government IT spend will be close to \$7 billion this year. Are you positioned to benefit from this?

AD: It’s a very good thing that our government has been talking largely on investing in technology, because if we compare with others the usage of technology in our country is very minimal. So, if the government can invest more and bring a change in the way technology can be accessed in our country, then it would be a big development. Persistent Systems has products that can be used by the government, but I am not very sure how we stand benefitting from the same.

TDB: You have always been interested in acquiring and investing in startups. You have also set up a \$10 million VC fund to invest in 40 startups. Can you tell us why you are interested in startups rather than established companies?

AD: The venture capital fund we have set up for startups is not from a different fund. We have funds within the firm, which we show in the company’s financials as investment in startups. As we were largely interested in investing in startups, we thought of setting up a fund, whereby we could concentrate more on them. And as far the choice for startups is concerned, startups are almost always into innovation, and all of us know that anything new in technology always stands out. **TDB**

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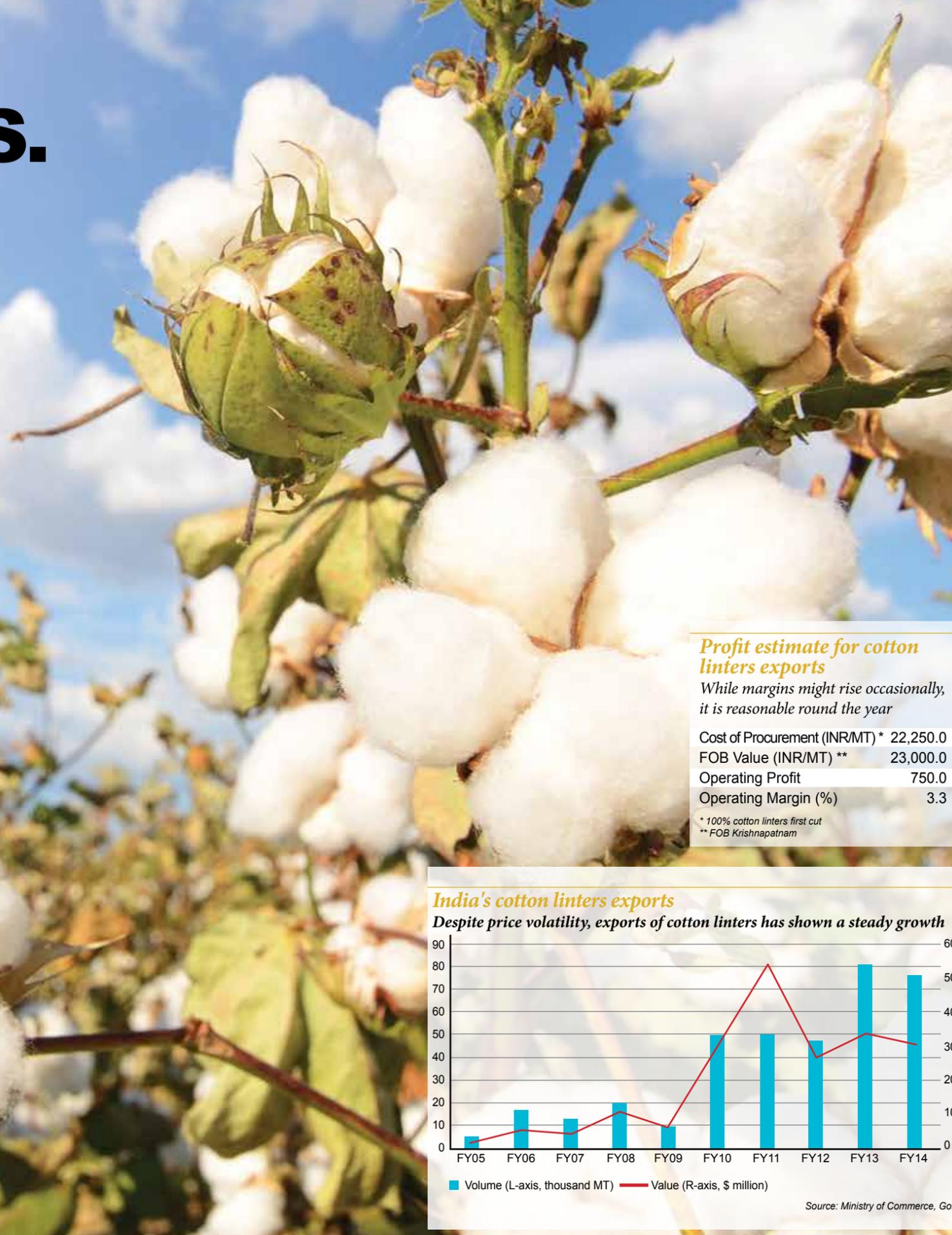


Dr. Anand Deshpande
Founder, Chairman & MD,
Persistent Systems

PATIENCE PAYS. BYPRODUCTS TOO DO!

The immense potential of cotton to clothe is well known across the globe. However, a not so popular use of it is in the form of linters – a byproduct of the cotton oil extraction process – that has great demand in the international market, particularly in China. And all an exporter of cotton linters needs is some patience before he can laugh all the way to the bank

BY HIMANSHU VATSA



Profit estimate for cotton linters exports

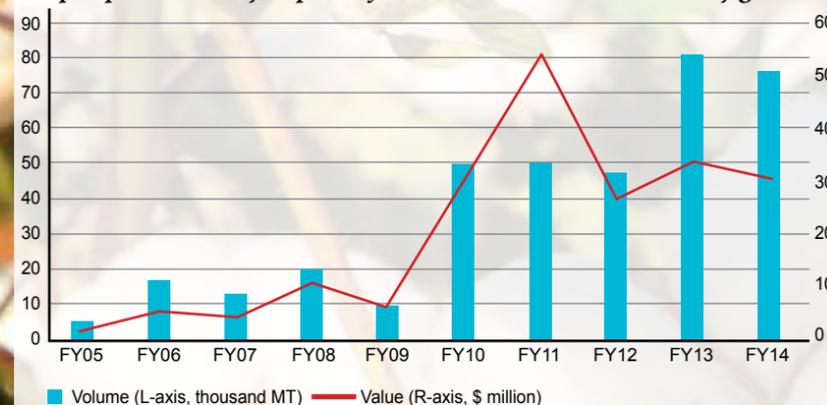
While margins might rise occasionally, it is reasonable round the year

Cost of Procurement (INR/MT) *	22,250.0
FOB Value (INR/MT) **	23,000.0
Operating Profit	750.0
Operating Margin (%)	3.3

* 100% cotton linters first cut
** FOB Krishnapatnam

India's cotton linters exports

Despite price volatility, exports of cotton linters has shown a steady growth



Source: Ministry of Commerce, Govt

From the blue denim in your wardrobe to the soft towel in your bathroom, from crisp currency notes in your wallet to pharmaceutical drugs in your first aid boxes (yes, cotton is used in the production of currency notes and several drugs), cotton's omnipresence in our daily lives cannot be ignored. While India's domination of the world cotton market – the country is the world's second largest producer and exporter of cotton – is pretty well known, not many know that India is also the world's second biggest exporter of cotton linters – a byproduct of the cotton oil extraction process.

DEVIL & DEEP SEA

Cotton linters are silky fibres extracted from the outer coating of cotton seeds through ginning. A 5-6% byproduct of the cotton oil extraction process, cotton linters are extensively used in the manufacturing of stamp papers, currency papers, and as cellulose in the chemical industry. Cotton linters are also used in the wood, food, chemical, pharmaceutical and ammunition industries. But the issue with them is that neither do they represent a big market – total cotton linters trade has never even hit the half a billion per annum mark – nor are there many countries that import them – China has consistently been importing over 50% of the global cotton linters exports.

Hence, India's cotton linters exports suffer from the typical issues that one associates with any product that has just one major market. For, not only do India's cotton linters export volumes dance to the tunes of Chinese policy changes, but their price realisation is also very volatile, giving its exporters nightmares. For, while FY2010 suddenly saw an over 4.3x jump in export volumes, it was followed by two years of flat to negative growth. Similarly, although the export price realisation for cotton linters saw an over 88% y-o-y jump in FY2011 to \$1.1 million/thousand MT, the same collapsed in the subsequent years and was just \$0.4 million/thousand MT in FY2014.

Why doesn't Indian cotton linters exporters diversify into other markets then? Well, the answer is simple. Since

many countries, including the European Union, have banned the imports of genetically modified cotton products, there're not many markets where Indian cotton lintners can go. India's cotton lintners exports are also affected by the Indian government's stringent trade restrictions

The soft fibre

- Cotton lintners are fibres extracted from the outer coating of cotton seeds through ginning process
- Just a 5-6% byproduct of the cotton oil extraction process, lintners have great demand in the international market
- While the longer fibres are used in non-woven products, the shorter ones are put to use in making high-grade stamp papers, currency papers and as cellulose in the chemical industry
- Cotton lintners are also used in the wood, chemical and ammunition industries
- Cotton lintners are also used to prepare ethyl cellulose, which is used in the pharmaceutical and food manufacturing industries
- In the pharmaceutical industry, ethyl cellulose is used as a coating agent, flavouring fixative, tablet binder and filler
- In the food industry, cotton lintners can be used as an emulsifier

and its lack of support to producers. "The government should support us in exporting these products by extending trade restrictions," P. Koti Rao, Director, Tirumala Cotton and Agro Products Pvt. Ltd., tells *The Dollar Business*.

Explaining the potential of cotton lintners exports, and citing the steps that are needed to realise their potential Rao adds, "The value addition in cotton lintners can be up to 400%. But a lot needs to be done by the government. It should help in setting up factories, providing statutory clearances, installing effluent

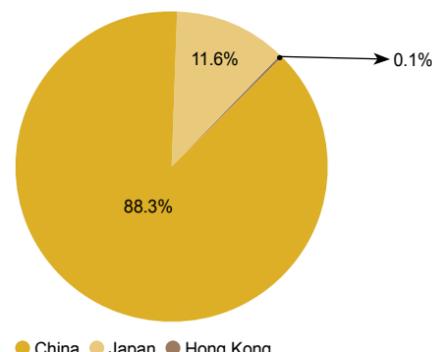
treatment plants, besides assisting the industry financially."

HOME RUN

At a time, when Chinese demand has been all over the place, cotton lintners producers in India have found some solace in the domestic market, particularly in ordnance factories. Similarly, industry insiders feel if instead of printing a majority of currency notes abroad, if the Indian government can print some of them at home, cotton lintners producers would get a big and ready market. Not only will this reduce the country's overall import

Destination of India's cotton lintners exports

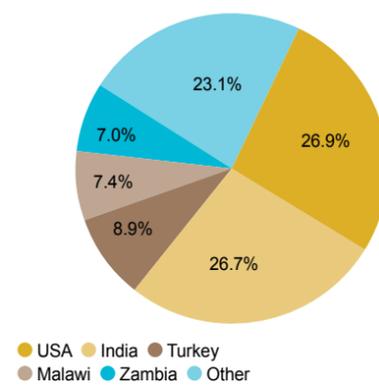
Almost everything goes to China



Source: Ministry of Commerce, Govt, breakup for FY2014

Global cotton lintners exporters

A very close race between India & USA



Source: International Trade Centre, breakup for CY2013

bill, but also give cotton lintners producers much needed breathing space.

JUST A PUPPET

Another reason why India's cotton lintners exports are faltering is because they are just a byproduct. Hence, unless there is a huge demand for them on a stand-alone basis, their production is just a function of the production of cotton oil. If the production of cotton oil is high, the production of cotton lintners will automatically be high and they would be sold off at any price buyers are willing to buy at. On the other hand, if there is a dip in the production of cotton oil, the production of cotton lintners will also dip. Hence, for exports of cotton lintners to pick up, it is necessary that they have a market of their own. Though some markets exist, the product suffers from frequent policy changes in China and a ban on genetically modified Indian cotton in several countries. In fact, just how inferiorly the world treats Indian cotton lintners can be gauged by the fact that while the average unit value of USA's cotton lintners exports, in CY2013, was \$577/MT, the same for India was just \$393/MT!

WAIT AND WATCH

In volume terms, in the last 10 years, In-



Cotton lintners are extensively used in the manufacturing of currency notes

dia's cotton lintners exports have seen a y-o-y dip in five years! Similarly, each of the last four years, between FY2011 and FY2014 (both years included), have also seen a y-o-y drop in per unit realisation. Given this, Rao has a word or two of caution and advice for those looking at getting into the trade. "Remember, lintners are just a by-product of the cotton seed, i.e., just about 5% of the cotton seed ends up as lintners. The remaining 95% also have various uses," he says. What this essentially means is that getting into cot-

ton lintners exports on a standalone basis is not very advisable. For, not only can demand be erratic and bumpy, but so can also be price realisation. However, cotton lintners is something that an exporter of other goods should keep an eye on. For, you never know when there can be a sudden spike in demand, as it happened in FY2010, or a sudden spurt in prices, as it happened the following year! And that needs the patience of a hermit. **TDB**

● himanshu.vatsa@thedollarbusiness.com

“VALUE ADDITION IN COTTON LINTERS CAN BE AS HIGH AS 400%”



P. Koti Rao
DIRECTOR, TIRUMALA COTTON & AGRO PRODUCTS PVT. LTD.

TDB: What do you think are the future prospects of cotton lintners exports from India?

P. Koti Rao (PKR): As of now, domestic consumption of cotton lintners is very less. Not even 10% of the production is consumed domestically. Hence, large quantities of lintners are exported, mostly to China. Unless more units come up that are willing to add value, with proactive support from the government, exports will remain the same and will depend on the yield of the cotton crop.

TDB: Instead of exporting lintners, can't Indian companies process them and, hence, get better prices by exporting

such value-added products?

PKR: Yes, value addition in cotton lintners can be as high as 400%. But for that to happen, a lot of government support is needed in setting up factories, getting statutory clearances for pollution, setting up effluent treatment plants and other financial assistances. Today, we import a lot of pulp, which can be substituted by cotton pulp if prices are reduced. We also need huge quantities of water for bleaching lintners.

TDB: What are the main hurdles that those engaged in this business face?

PKR: Cotton production is subject to a lot of economic factors – both external

and internal. Due to a low shelf life of the seed (40-50 days since the arrival of the seed from cotton), the operating period is seasonal. The industry should be provided with interest-free financial assistance to promote the use of silos, which will extend the shelf life. And this will produce a lot of by-products such as lintners, hulls, cotton and de-oiled cakes. The government should also support us by providing export incentives. So far, we have not received any support from the government.

TDB: According to you, what should the government do to encourage the industry?

PKR: The government should give the cotton industry an agro-based status and support operators by providing loans at lower interest rates. The govern-

ment should also set a target to achieve self-sufficiency in vegetable oils and stop dependency on other countries. Input subsidies should be given to farmers to cultivate vegetable oil seed crops, so that they get a workable price for cotton and other major oil seeds. Nowadays, farmers prefer to cultivate subabul and eucalyptus due to the non-workability of major crops.

Cotton picking is labour intensive. Hence, a farmer ends up spending 30% of his sale proceeds in picking cotton. New technologies should be encouraged to pick cotton mechanically. Our cotton yield is very less, i.e., 4-5 quintal per acre, as compared to a global average of 12 quintal per acre. So, the government should help with better quality seeds and impart skill training to our farmers.

The government should also provide

input subsidies to agriculture, instead of spending money on other public schemes. India is facing major challenges in increasing exports. Hence, the government must consider more export incentives for agro-based industries. The government should encourage the solvent extraction process of cotton seeds. We should not encourage undecorticated cotton seed crushing, since it leads to losses of huge quantities of oil.

TDB: What would be your suggestion(s) to someone trying to enter the cotton lintners business?

PKR: Remember, lintners are just a by-product of the cotton seed, i.e., just about 5% of the cotton seed ends up as lintners. The remaining 95% also have various uses. At present, the industry is not in good shape. **TDB**

BY SATYAPAL MENON

TIME TO NOT HOLD GROUND

Forget the clichés and chestnuts that rather grossly undervalue peanuts. Before you arrive at a preconceived notion that this must be a product, which fetches, well, peanuts, here is the clincher – global propensity for Indian peanuts has provided a very fertile pasture for exports. In a nutshell, groundnuts have come to mean an export item worth hundreds of millions of dollars. So, *The Dollar Business*, zeroed in on one of India's largest groundnut producing hubs – Anantapur in Andhra Pradesh. We found that we could do better. Actually, much better!

Although India is the world's top exporter of raw groundnuts, it exports very little of value-added processed groundnuts that offer higher margins

Profit estimate for groundnut exports

Due to high demand in global markets, India's groundnuts offer huge margins

Cost of Procurement (INR/MT) *	47,000.0
Processing Cost (INR/MT)	10,000.0
FOB Value (INR/MT) **	78,000.0
Operating Profit	21,000.0
Operating Margin (%)	26.9

* Groundnut kernel 50/60 java
** FOB Chennai

Traversing the territory of Anantapur (in Andhra Pradesh), one cannot not help being overwhelmed by a strong sense of consternation, with many villages reflecting impecunious state of livelihood. It is anything but what you expect of a nerve-centre contributing to a significant share of India's groundnuts exports. Queries about the lack of affluence revealed that while farmers sowed, brokers reaped! While navigating the terrain, one also gets the feeling of being frozen in space, time and movement, with the landscape presenting a monotonous view of dry, arid, hilly spreads bereft of even a blade of grass, except for some cultivated stretches here and there. It does make one wonder, how would anything ever grow on such tough, unyielding topography?

AGAINST ODDS

When the going gets tough, the tough get going. And Anantapur's farmers have demonstrated their resilience in weathering the ills of climatic vagaries and soil incompatibility to transform and position this district as one of the top groundnut producing regions in the country. In Anantapur, groundnut is cultivated on an area of 7.5 lakh hectare – nearly 10% of India's total area under groundnut cultivation – helping Andhra Pradesh become the third biggest groundnut producer, after Gujarat and Tamil Nadu. The pre-dominance of groundnut as an integral and crucial part of Anantapur's economy and livelihood can be gauged

from the fact that an exclusive Agriculture Research Station (ARS) has been established at Kadiri, located at a distance of about 95 km from Anantapur. The ARS has been instrumental in developing a plethora of customised drought and disease-resistant groundnut varieties, keeping in view production aspects and market demands.

The Kadiri series – the tag attributed to the location of its genesis – specifically K6, comprising juicy and big kernels, enjoys iconic status due to its immense popularity in both export and domestic markets. Its prominence is evident from a riveting bronze replica of it, positioned conspicuously at the ARS. "The Kadiri brands have become a preferred choice across the world, with several Indian states taking up its cultivation. Even China, which is one of the largest producers of groundnuts, have sourced them from India," Dr. K. S. S. Naik, Principal Scientist (Groundnut), Agriculture Research Station, Kadiri, tells *The Dollar Business*. Hence, no wonder, Kadiri varieties constitute about 50% of India's groundnut crop and 60% of the country's groundnut exports.

CROCODILE TEARS

Strangely, despite prolific production, pricing parameters and markets for groundnuts are barely structured. There are only few small time processing units in the district, which means hardly any direct exports takes place from here. Most of the milling and processing is done in Chelekere in Karnataka, from

"GROUNDNUT VARIETIES DEVELOPED BY ARS KADIRI ARE PROCURED EVEN BY CHINA"

TDB: Per acre groundnut yield in India is quite low as compared to other countries. Has there been any attempt to increase the output, particularly considering the high demand in both export and domestic markets?

Dr. K. S. S. Naik (KSSN): In India, most of the groundnut is grown in rain-fed drylands and is cultivated by small and marginal farmers. The low yield can also be attributed to groundnut being a rain-fed crop, affected by intermittent drought conditions. Pests and diseases are also a common problem, which are difficult to take care of for want of water.

Productivity can be enhanced by large scale multiplication and distribution of recently released highly drought resistant varieties like Kadiri 9, Kadiri Harithandhra, Dharani and Kadiri Anantha to farmers. Improved technologies like polythene mulching, which has helped China increase its productivity, also need to be popularised.

TDB: Concerns are being raised about aflatoxin levels in Indian groundnuts, which has seen export consignments being rejected and sent back. What is ARS Kadiri doing to prevent such infestation?

KSSN: Aflatoxin contamination can happen during pre or post-harvest stages. During pre-harvest, the produce is generally free of any such contamination. Water stress during crop growth period predisposes the plant to pre-harvest aflatoxin contamination. Breeding for drought resistance solves the pre-harvest aflatoxin contamination. In fact, Acharya N. G. Ranga Agricultural University (ANGRAU), which ARS Kadiri is a part of, has already developed

four groundnut varieties – Kadiri 9, Kadiri Harithandhra, Dharani and Kadiri Anantha – which are resistant against drought, diseases, pests and also aflatoxin. These have to be popularised among farmers. Aflatoxin contamination is happening mostly at the post-harvest stage due to improper processing and drying, and trade malpractices.

TDB: Groundnut varieties developed by ARS Kadiri are preferred both globally and across the country. What is the USP that makes them so popular?

KSSN: Since inception in 1959, ARS Kadiri has developed 12 different groundnut varieties for different end uses. Of these, Kadiri 6, Kadiri 7 Bold, Kadiri 8 Bold, Kadiri Harithandhra and Kadiri Anantha are very popular. Kadiri 7 and Kadiri 8 are bold varieties which are popular in the EU market. The varieties developed here have a protein content of 29%, as compared to 24% in other varieties. Their fibre content is 2%, as compared to 1% in others. Similarly, their soluble sugar composition is 15%, as compared to 10% in others. Apart from being bold, their size is also double of that of other varieties. Such is the popularity of these varieties that even China, a major producer of groundnuts itself, has been sourcing them from India.

TDB: Can you give us an idea of the share of various varieties developed by ARS Kadiri in India's groundnuts exports?

KSSN: The manifold increase in India's groundnuts exports over the years, mostly through southern ports to ASEAN countries, can be attributed to the uniform and attractive kernels of Kadiri 6, which now accounts for 50% of India's area under groundnuts cultivation and 60% of the country's groundnuts exports. Other varieties developed by us are also gaining popularity now.

TDB: Although Anantapur is a major hub for groundnuts, why is it that we don't find many processing units or exporters in the district?

KSSN: Obsolete mills, unwillingness of millers to modernise their mills, trade malpractices for short-sighted gains and

lack of knowledge of directed production for exports are some of the reasons for poor exports from Anantapur. Europeans and western markets need bold kernels, weighing at least 60 gm per hundred kernels as is the case with Kadiri 7 and 8 bold varieties. On the other hand, ASEAN countries require small-seeded attractive kernels, which is contained in the Kadiri 6 variety.

TDB: Can you provide an estimate of the per acre investment, per acre output and current pricing trends in the groundnuts market?

KSSN: For a good crop, a farmer needs to invest around Rs.60,000-70,000 per hectare of irrigation crop and half of that for rain-fed crop. Irrigated fields yield, on an average, 30 to 35 quintals per hectare, and fetch about Rs.4,000-4,500 per quintal. There are no functioning regulated markets for groundnuts. Prices of distressed sales of dry lands' produce range between Rs.2,500 and Rs.3,500 per quintal, including various deductions for brokerages, commissions, admixtures and other standard deductions.

There is no MSP for groundnut. Groundnut marketing is neither regulated nor institutionalised in India. They are dominated by millers, traders and political lobbies. The farmer does not know that his produce is exported. Moreover, exporters/ traders do not want to share their export earnings with the farmers. Very often, middlemen, money lenders and brokers lift the produce directly from the fields of debt-ridden farmers of drylands.

TDB: What's your view on India's groundnut exports' future?

KSSN: Groundnuts have an excellent future, both within India and abroad. They have many nutritional, anti-oxidant and therapeutic properties. They are wholesome food, loaded with all vitamins, minerals, proteins, carbohydrates, saturated fatty acids and resveratrol (anti-ageing element). But the only way of encashing this opportunity is by opting for direct production for different end uses by maintaining varietal purity.

ANGRAU is planning to start a model export processing plant, with a farmers'



Dr. K. S. S. Naik
PRINCIPAL SCIENTIST
(GROUNDNUT) & HEAD,
AGRICULTURE RESEARCH STATION,
KADIRI, ANDHRA PRADESH

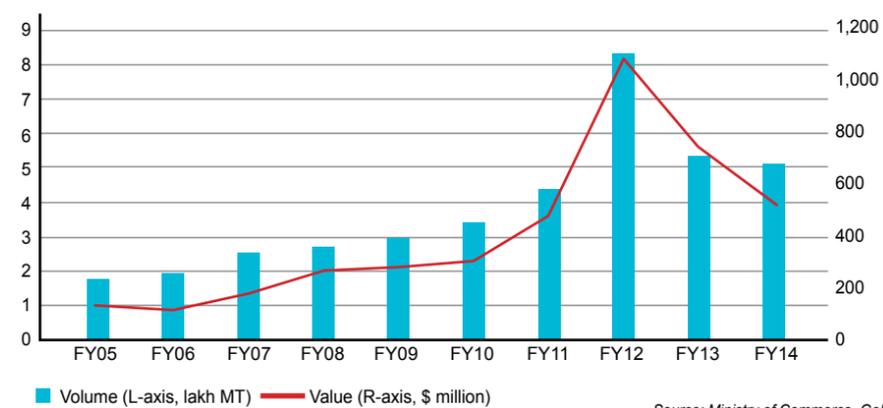
participatory export production system, at Kadiri. This plant will have necessary hygienic storage godowns and seed to seed custom hiring machinery.

TDB: Last year, APEDA relaxed Hazard Analysis Critical Control Point (HACCP) for groundnut. Will this not affect exports?

KSSN: Application of HACCP, at various stages of the food chain, from the receipt of raw material to their grading, transportation, distribution, handling at distribution centres, storage, processing and packaging, provides an assurance of safety to the consumer. Any permanent relaxation in its implementation will certainly have a negative effect on exports. However, if it is on temporary basis, for specific period, it will not have much impact.

India's groundnut exports

If FY2012 is ignored as an outlier, exports have mostly been in an uptrend



where groundnuts are channelled to export and domestic markets. "Traders here do not have the financial capacity to enter this business. So, traders, with deep pockets, from Tamil Nadu and Karnataka, procure the produce through local brokers," K. Murugesan, CEO, Dharani, FaM Cooperative Ltd., a local cooperative body, explains to *The Dollar Business*. Not surprisingly, farmers in Anantapur resort to distress sales, notwithstanding the market demand. "Traders and brokers indulge in exploitative methods and deception like under-weighting and underpricing the produce," Murugesan reveals. The pathetic plight of local farmers is symptomatic of a blight that has been plaguing the system with no remedies on offer from the establishment, except crocodile tears. But, anyway, the mindset

of the bureaucracy and the ruling clique have always proved to be a very hard nut to crack. Questions Dr. Naik resentfully, "When manufacturers are allowed to fix a price on their products, why not farmers?"

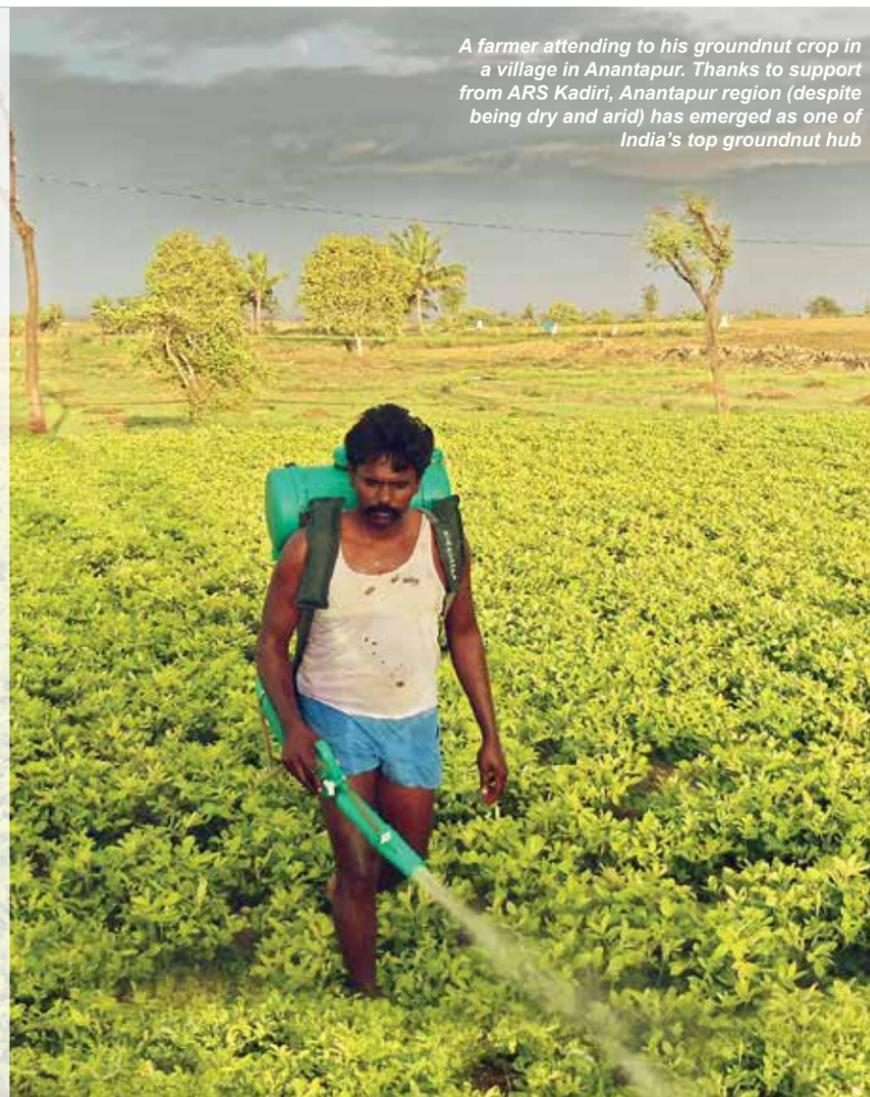
The desperation of the farmers emanates from apprehensions and insecurities about the fate of their crop. While on one hand, the scarcity and unpredictability of monsoon spells doom and reduce the farmers to tears quite often, on the other hand, exporters laugh all the way to the bank. Such gross inequity is shocking, to put it euphemistically.

BIZARRE

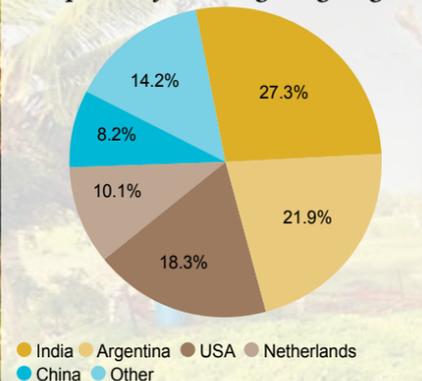
To substantiate this point, let us analyse the profit differential between farmers and exporters. The average per hectare

groundnut output in Anantapur varies between 2 MT to 2.5 MT, depending on climatic and other factors. At the farm level, groundnuts are sold in standardised 42 kg bags, with the price tag on each bag hovering between Rs.1,500 and Rs.2,000, i.e. approximately Rs.35 to 48 per kg. But after processing and grading, the groundnuts are exported at FOB prices ranging between Rs.64 to Rs.80 per kg. Given that the per hectare investment on cropping, including all inputs, tractor hire and labour, is approximately Rs.25,000-30,000, means even at the higher yield of 2.5 MT per hectare and the higher price of Rs.47 per kg, a farmer earns about Rs.87,500 per hectare. On the other hand, an exporter, assuming he/she exports 2.5 MT, earns a profit of Rs.57,500 per hectare, after accounting

A farmer attending to his groundnut crop in a village in Anantapur. Thanks to support from ARS Kadiri, Anantapur region (despite being dry and arid) has emerged as one of India's top groundnut hub

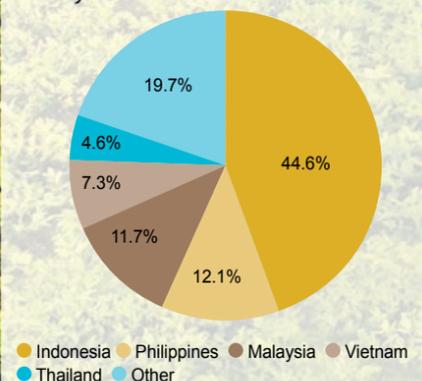


Biggest groundnut exporters of the world
Competition for India getting tougher



Source: International Trade Centre; breakup for CY2014 (based on mirror data for Argentina)

Destination of India's groundnut exports
Mostly to ASEAN member nations



Source: Ministry of Commerce, Govt; breakup for FY2014

"GOVERNMENT AGENCIES DISTRIBUTE SEEDS WITHOUT ENSURING VARIETAL INTEGRITY"

TDB: Why is it that not much exports take place from Anantapur despite it being a major producer of groundnuts?

K. Murugesan (KM): One major reason for this is the lack of sufficient processing capabilities and capacities. The output in Anantapur is around 1 million bags per annum, while the cumulative processing capacity of all units here is around 1 lakh bags, i.e., 10% of the output. Another factor for the lack of exports from Anantapur region is that traders here do not have the purchasing power to procure the produce. Due to this, traders with deep pockets, from Tamil Nadu and Karnataka, buy groundnuts from here and get them processed in their respective states. Groundnut producing regions of Gujarat have plenty of processing units, and the traders there have the financial capacity to procure the produce and stock and process them, according to their requirements.

TDB: Is it true that due to the lack of a logical pricing mechanism, Anantapur's groundnut farmers continue to be the victims of manipulative practices by traders? Is there any solution to this in sight?

KM: The government should create a window for farmers to sell at a certain fixed price. If this could be done, every other problem will be solved. Today, because farmers don't have an avenue to sell, traders dictate prices. They also pack groundnuts in 60 kg bags and tell farmers that they are the standard 42 kg bags! The traders also have a network of agents, selected from among the inhabitants of the village, who persuade and convince the farmers about the veracity of such claims.

TDB: How is your cooperative trying to help the farmers?

KM: We have 1,800 farmer members from 45 villages in Anantapur district. Collectively, our cooperative farmers have 10,000 acres of land. Going by the commitment of the farmers, we plan how and where to sell the produce. We



K. Murugesan
CEO,
DHARANI FaM COOPERATIVE LTD.

know what to expect from them. So, we fix the price and guarantee purchasing the committed produce. We not only procure their produce at prices prevailing in agri markets, but also give them a share of the profits from the marketing proceeds. In case there is less production due to a drought, we even procure at prices that are Rs.100-200 higher.

TDB: Are the Kadiri varieties a preferred choice among farmers and buyers in the region?

KM: Agriculture Research Station (ARS) has come out with several good varieties and Kadiri 6 is one of them. Unfortunately though, what goes to the market is a mixed bag, i.e., what our markets assume

to be Kadiri 6, turns out to be an amalgamation of various varieties. It is difficult to differentiate genuine Kadiri 6 from the rest of the groundnuts in a bag. We once faced a big problem when we tried to export 30 MT of peanuts. We sent a sample to the buyers and they endorsed that it was of good quality. The price was also good. Later, while testing the sample in the lab, they detected Kadiri 6, JL24 and three other varieties mixed together. So, they returned the sample.

TDB: How and why is this happening? Are you not able to identify the different varieties?

KM: The problem begins at the seed sourcing stage. Farmers don't get genuine seeds and this problem originates from government agencies, which distribute them. These agencies distribute randomly, without ensuring varietal integrity, i.e., the variety is compromised. Huge demand for seeds, especially during April/May, and inadequate availability of preferred varieties, is forcing the agencies to pack whatever varieties they have and distribute them. Hence, inevitably, the output comprise a mixed bag.

TDB: Is the preferred variety of groundnut also dependent on what purpose it's being used for?

KM: Yes. If the purpose is oil extraction, the preferred variety is K8. If the purpose is to sell as peanuts, the preferred variety is K6. For instance, TMV variety has more oil content, so its markets are oil refineries and oil expellers.

TDB: Why is there no focus on marketing value-added products, despite their being a huge market for them?

KM: The reason for this is that there is a huge unmet demand for raw groundnuts in the domestic market itself. In India, groundnuts are widely used in cuisine and confectionery. They are in demand throughout the year. Value addition can be done only when you have sufficient stock, but here, there is always a gap between demand and supply.

for an average cost of Rs.10 involved in per kg processing of groundnut, by just being a facilitator! That a farmer's expenses don't include the cost of land, while an exporter also gets duty drawback of 1%, makes the scenario even more bizarre.

SAME OLD STORY

The irony of India's groundnut trade is that the country has ended up becoming an exporter of low-margin raw materials and not high margin value-added products. This, not only because we don't have proper processing facilities, but also because the produce is not enough to cater to both the segments. In fact, it won't be an exaggeration to say that not having proper processing facilities is also a function of inadequate production. But why don't we produce enough groundnuts, despite being the World No.1 in area under cultivation? Simple. India's per acre yield is one of the lowest in the world!

Despite such impediments, there is no reason why India can't produce enough to satiate both global, as well as local demand. This, particularly since, there is increased focus on developing high yielding varieties in recent years. For

example, Gujarat – the biggest producer, with a share of 33.3% – has recently developed a new variety – GJG-31 – that can improve the yield by 20x! Apart from this, many other varieties, with increased protein and sugar soluble content and size values, like the Kadiri series, are already making inroads into the market.

SEA OF IRONY

Most of the global demand for groundnuts is from the confectionery and food processing industries. And since Indian groundnuts are high in protein content and low in oil content, they are a favourite in the international market, particularly since not many countries consume groundnut oil. Inexplicably though, in India, there does not seem to be much focus on directly exporting value-added groundnut confectionery products, which offer much higher margins than kernels. Just how much more lucrative the processed groundnuts market is can be gauged from the fact that while both processed groundnuts (HS Code 200811) and raw groundnuts (HS Code 1202) are roughly \$2.5 billion markets in terms of value, the former is less than a third of the latter in terms of volume. **This means**

INDIA HAS LOST THE MORE LUCRATIVE PROCESSED GROUNDNUTS MARKET TO CHINA

an exporter of just 1 kg of processed groundnuts earns more than an exporter of 3 kg of raw groundnuts. Reality check: In FY2014, while India exported 5.1 lakh MT of raw groundnuts, it exported just 0.8 lakh MT of processed groundnuts!

Commenting on this irony, Kishore Tanna, Chairman, Indian Oilseeds and Produce Export Promotion Council (IOPEPC), tells *The Dollar Business*, "There is a large demand for value-added groundnut based products in the global market. This market can be tapped only if Government of India promotes their exports and provides a level playing field with other competing countries such as China and Argentina, which provide large incentives to their industries." Not that issues with the Indian groundnut industry end here. Quality concerns like

presence of high levels of aflatoxins and infestations are also afflicting the Indian groundnut market dynamics. There have been several instances of Indian groundnuts being rejected in overseas markets – the most recent being the case of Vietnam suspending an Indian groundnut consignment that had Olivier bugs.

If this doesn't indicate nonchalance and indifference by government agencies, nothing does.

IF ONLY

Spending a couple of days in Anantapur, one cannot but feel it's high time the government woke up to ground realities and gave the Indian groundnut industry its due. Rational farm pricing policies to ensure security to the cultivators during times of distress and climatic vagaries could be the first step. This would facilitate and motivate them to use high quality seeds and inputs, which would then inevitably translate into high quality output. How often have you heard this? Maybe, never. But the government has. And many times over!



Kadiri 6 variety accounts for almost 50% of India's groundnuts production, and close to 60% of the country's total groundnuts exports

● satyapal@thedollarbusiness.com

"INCENTIVES WILL HELP PROMOTE THE EXPORT OF GROUNDNUTS FROM INDIA"



Kishore Tanna

CHAIRMAN, INDIAN OILSEEDS AND PRODUCE EXPORT PROMOTION COUNCIL (IOPEPC)

TDB: Last year, APEDA relaxed the Hazard Analysis Critical Control Point (HACCP) for groundnuts. Don't you think this will affect groundnut exports from India, since importers might negatively view this relaxation in quality monitoring?

Kishore Tanna (KT): APEDA had started accepting FSSAI licence, apart from HACCP certification, as proof of implementation of Food Safety System in groundnut processing units exporting to non-EU countries. The point that is worth noting here is that even for obtaining FSSAI licence, units have to implement Food Safety System. This move was made to avoid duplication and the relaxation was only for those units that export to non-EU countries. For units exporting to EU countries, which have more

stringent norms, the HACCP certification is still mandatory. Thus, the acceptance of FSSAI licence, in lieu of HACCP certification, should not be viewed as a relaxation in quality monitoring. Similarly, although, groundnut shelling units have now been exempted from registration, for groundnut processing units, where groundnuts are graded, sorted, handpicked and processed, registration, along with following Food Safety System, is compulsory. Exports are allowed from only such registered groundnut processing units.

TDB: Don't you think there should be more focus on stringent quality monitoring processes and procedures, specifically viewed from the context of infested Indian groundnuts finding their

way into Vietnam?

KT: Yes, all quality monitoring processes and procedures pertaining to phytosanitary measures and fumigation must definitely be followed, in order to avoid the kind of situation that was created in Vietnam or even Russia earlier.

TDB: The gap between India and the world's second biggest groundnut exporter – USA – widened considerably in FY2015? What do you attribute this to?

KT: During FY2015, India exported about 7 lakh MT of groundnuts, as compared to 5.1 lakh MT during the previous year. A good crop, enforcement of quality controls, and good international demand contributed to this commendable performance. Lower freight rates and a weaker rupee also helped.

TDB: The global market for groundnuts is worth about \$2.5 billion. Do you think India has the potential to

make further inroads into it, maybe by tapping newer markets, and consolidate its position?

KT: India has huge potential to make further inroads in newer markets, as well strengthen its position in existing markets. India can very well increase its market share, particularly in EU, by emphasising on the production of quality groundnuts and a consistent and favourable export policy.

TDB: Can you give us an idea of the domestic consumption to exports ratio for groundnuts?

KT: India exports about 8-12% of the total groundnuts produced in the country, while about 60% is consumed domestically. This includes seed for sowing and table nut consumption. The rest, roughly 28-32%, goes for crushing.

TDB: Ironically, despite being the second largest producer and the larg-

est exporter of groundnuts, India's groundnut oil and other extracts exports are insignificant. Do you think this is a function of just high domestic demand?

KT: Other than domestic consumption, the policy of Government of India to not allow the export of edible oils in bulk also hampers exports to a large extent. At present, edible oils are allowed to be exported in retail packages of up to 5 kg only.

TDB: What are the prospects of the groundnut industry from the perspective of the new Foreign Trade Policy? Do you have any suggestions or recommendations?

KT: The Foreign Trade Policy 2015-20 does not envisage incentives for the exports of raw (in-shell and shelled) groundnuts. Incentives will go a long way in promoting the export of groundnuts from India.

S'PRAYING' FOR PROFITS?

Going into General Election 2009, the UPA government, in order to woo rural voters, hiked the MSP for most food grains by record levels. While it led to high and sticky food inflation, the big beneficiaries of the move were farmers. Flush with cash, Indian farmers started looking for modern equipment, which meant a surge in the imports of, among other things, agricultural spray pumps

BY NAVEEN KUMAR

Five years ago, Sushil Singh, a Delhi based knapsack manual sprayer importer, was in a big quandary. He just couldn't fathom what had caused a sudden plunge in the demand for manual sprayers. A bit of market research revealed that farmers' affordability had suddenly risen, thanks to the government's food procurement policy, and not many were interested in manual sprayers anymore. Making matters worse, battery and petrol/diesel/ kerosene operated automatic spray pumps imported from China were flooding the markets. However, Singh was not sure if the new trend was sustainable. Assuming it to be an aberration, he stuck on to importing manual spray pumps. Unfortunately for him, the demand for manual sprayers never recovered and he had to shut shop two years back.

THE SURGE

FY2009 was a watershed year for India's agricultural spray pumps imports. Until then, their imports had never crossed the 2 lakh units/annum mark. But thanks to the largesse of UPA II, by FY2014, India was consistently importing over 2 million units/annum! And as you would expect, most of them were being imported from China. Ravi Gupta, Director of Indore based Neptune Sprayers, thinks there are several reasons why not only India, but the entire world, is making a beeline for 'Made in China' spray pumps. "Thanks to bulk production, China can afford to regularly offer new products and designs. The Chinese

IMPORTS OF SPRAY PUMPS SEEM TO BE CORRELATED TO GOVT.-SET MSPs

government offers 7% export incentives to local exporters, which makes them very competitive. Hence, buyers from all over the world attend various Chinese trade fairs and purchase directly from Chinese manufacturers. Because of bulk production and regular demand from all over the world, Chinese manufacturers can afford high investments, and hence, enjoy economies of scale as well," Gupta tells *The Dollar Business*.

But as is the case with most Chinese products, even when it comes to power sprayers, quality is always a concern, particularly the quality of the battery in battery-operated sprayers, and the quality of motors in fuel-powered sprayers. And many Indian assemblers have used these concerns to their advantage by importing Chinese components and fitting them with more reliable batteries and motors. In order to boost credibility, these assemblers have also started offering warranties on their products. Validating this, Gupta adds, "Today, many manufacturers import only battery pumps from China, and assemble the sprayers here in India."

MORE AND BETTER

Today, chemicals are widely used to con-

control diseases, insects and weeds in crops. While herbicides are applied to reduce weeds; protective fungicides to minimise the effects of fungal diseases; insecticides to control various kinds of insects and pests; micro-nutrients like manganese and boron are also applied to boost produce. But since these chemicals are costly and can be applied on plants and/or soil only as spray, dust or mist, there's a need for equipment that can help uniform and effective application, thereby creating a demand for dusters and sprayers. Although dusting is a much simpler method and can be done using very simple equipment, it's not as effective as spraying

due to low retention of the dust. Similarly, within sprayers, although high volume spraying equipment, like sprinklers, are very effective and reliable, they are way too costly for most Indian farmers. All these factors have created a massive market for low volume spraying equipment that are both affordable and effective.

WATER BREAKERS

What sprayers essentially do is break the chemical/nutrient in liquid form into tiny droplets of effective size and distribute them uniformly. This is very important since extremely fine droplets of less than 100 micron tend to get diverted by



Profit Estimate for Agricultural Spray Pumps Imports

Despite being a high volume product, sprayer imports offer healthy margins

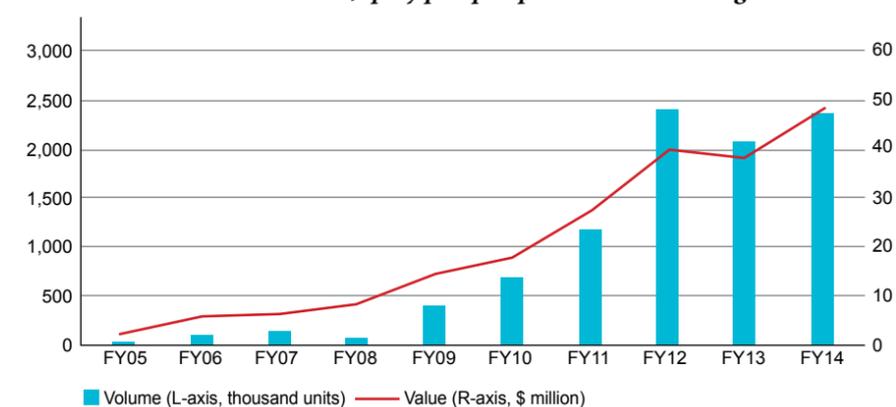
Cost of Agricultural Spray Pump (USD/Unit) *	61.0
Freight & Insurance (USD/Unit) **	2.2
CIF (USD/Unit)	61.8
CIF (INR) ***	3,893.4
Basic Duty BD (7.5%)	292.0
CIF + BD	4,185.4
Contravailing Duty (CVD) (12.5%)	523.2
BD + CVD	815.2
Cess (3%)	24.5
CIF + BD + CVD + Cess	4,733.0
ACD (4%)	189.3
Final Cost	4,922.4
Selling Price in India #	5,700.0
Profit	777.6
Profit Margin (%)	13.6

The government itself is a buyer of agricultural spray pumps, since it distributes them to small and marginal farmers, under its various programmes

* Taizhou Luqingting 20L two-stroke sprayer
 ** Freight and insurance cost from Ningbo to Mumbai
 *** Assuming USDINR at 63
 # TDB Intelligence Unit

India's agricultural spray pumps imports

Thanks to record hikes in MSPs, spray pump imports have been rising since FY2009



Source: Ministry of Commerce, GoI

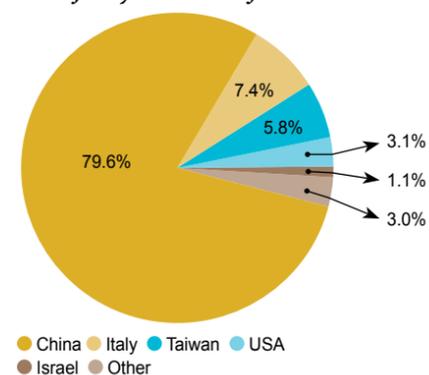
air currents, resulting in wastages. When it comes to the size of these droplets, the optimum size differs from application to application. While fine droplets are required to control insects, pests and diseases, bigger droplets are needed for the efficient application of herbicides.

Another function of sprayers is to regulate the quantity of insecticide that is applied and avoid excesses that might prove harmful or wasteful.

An interesting aspect of the agricultural spray pumps business is that demand is seasonal and fluctuates on the

Source of India's agricultural spray pumps imports

A majority is sourced from China



Source: Ministry of Commerce, Govt, breakup for FY2014

basis of the quality and quantity of the monsoon. "Generally these pumps are in great demand during the rainy season. If the monsoon is uncertain, all crops require spraying, thereby increasing the demand for spray pumps," says Gupta.

Another reason, at least according to P. David Raja Beula, Assistant Director of Horticulture, Kadayam, Tamil Nadu, and a leading advocate of sprayers, for the rising demand for agricultural spray pumps in India is a rise in fruits and vegetables farming. "Many people are now getting into agriculture as the average wholesale price of vegetables has gone up to Rs.15/kg. And vegetable farming requires sprayers to maintain the crop by spraying fertilisers and pesticides," Beula tells *The Dollar Business*.

EVERYONE'S BLESSINGS

Factors like ease of handling, less labour requirement, and easily mixable with herbicides, if required, have made liquid fertilisers like nitrogenous fertilisers, phosphate fertilisers and potash fertilisers, very popular in India in recent years. This popularity of liquid fertilisers has only further increased the demand for sprayers as the latter help in the controlled application of the former, thereby

helping the conservation of the quality of soil. Similarly, in India, just the four southern states of Tamil Nadu, Kerala, Andhra Pradesh and Karnataka, put together, produce almost 90% of the country's total plantation crop. And plantation crops, generally, require sprayers and that too of high drift, to allow greater reach, thereby creating a demand for powerful and advanced power sprayers in South India.

At the same time, as per National Centre for Organic Farming (NCOF), organic manures provide all the nutrients that are required by plants, but in limited quantities. NCOF claims they help maintain the carbon-to-nitrogen ratio in soil; increase its fertility and productivity; and improve its physical, chemical and biological properties. They help improve both the structure and texture of soil, apart from increasing its water holding capacity. Hence, the Ministry of Agriculture body advises and promotes the use of liquid organic manures, in cropping and fruit production – another reason for the high demand for agricultural spray pumps.

GOVERNMENT PLAY

While these sources of demand for ag-

ricultural spray pumps were enough themselves, Government of India has also emerged as an unexpected buyer of them. For, in order to address the constraints that are limiting the productivity of 'rice based cropping systems' in eastern Indian states of Assam, Bihar, Chhattisgarh, Jharkhand, Odisha, West Bengal, as well as eastern Uttar Pradesh, a sub scheme of Rashtriya Krishi Vikas Yojana named BGREI, was launched in FY2011. And with an allocation of Rs.400 crore each in FY2011 and FY2012, and an annual allocation of Rs.1,000 crore since then, the scheme has ensured the free distribution of 28,571 plant protection

sprayers to farmers. Similarly, under Crop Diversification Programme, Punjab, Haryana and western Uttar Pradesh have been allocated Rs.500 crore each for the last two years, to help the states' farmers diversify from water guzzling paddy to pulses, oilseeds, maize and agro forestry. This programme has also seen the distribution of 13,168 knapsack, 2,407 power operated and 1,691 battery operated sprayers in Punjab and 1,383 power and 1,316 tractor operated spray pumps in Haryana in FY2014.

JAI KISAAN

While the Modi government seems to

have stayed away from the populism card of UPA II, food grain pricing and agricultural subsidies are extremely sensitive issues in India. Reducing MSPs and cutting subsidies are unthinkable and are akin to political suicide. Add to this the fact that farmers' issues are again making front page headlines, and that there are serious question marks over the upcoming monsoon, and the only conclusion one can draw is that the demand for agricultural spray pumps can only move northwards. Are you willing to bet on the Indian farmer? **TDB**

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I had bought a China-made motor operated knapsack sprayer (two-stroke engine) three years ago for Rs.6,000. I have been using it for spraying chemicals on the wheat crop in my farm, since we only cultivate wheat crop here because the water is saline. There has been no issue with the sprayer in these last three years.

SATBIR SINGH, 65, Resident, Ranikhera village, Delhi-Haryana border

“HONESTLY, WE LACK RESOURCES TO MANUFACTURE SPRAY PUMPS ECONOMICALLY”



Ramesh Kumar
CEO, TECHNOSYS WORLD

TDB: What kind of agricultural spray pumps do you manufacture and which varieties do you import?

Ramesh Kumar (RK): We deal with Portable Sprayer (Electric), Portable Sprayer (Knapsack), Power Sprayer, Manual Pressure Sprayer, Power Sprayer (Diesel), Power Sprayer (Kerosene) and HTP-Sprayer varieties of agricultural pumps. Of these, while a few are manufactured by us, the rest are imported. On an average, we sell around 15,000 machines in India every year.

TDB: What are the differentiating factors for agricultural spray pumps?

RK: Almost all sprayers are the same. What differentiates them is the design,

look, and most importantly, the motor that is used in them. We offer sprayers at very competitive rates, with full guarantee, as we use motors from only reputed manufacturers.

As far as battery-operated agricultural sprayers are concerned, they are differentiated on the basis of the battery that is used. Hence, their prices and, in turn, efficiency vary a lot.

Another differentiating factor is the plastic body of the liquid container used in spray pumps. These are either made of thin sheets (low quality) or thick sheets (high quality). We offer our customers quality products, with full guarantee, and an option to use them under their own brand names, if they want.

TDB: Why have Indian manufacturers not been able to meet the domestic demand for agricultural spray pumps, which has resulted in millions of dollars worth of imports?

RK: It is not about domestic manufacturers not being able to meet the demand, but about cost and time. Basically, we lack resources to manufacture these spray pumps economically. Another reason for high imports is the fact that most of the spare parts used in spray pumps are, anyway, being imported, since those of a comparable quality are not available at competitive prices in the country. In India, only labour is cheap, everything else, from casting, forging, electricity, to taxes, are much higher than that in China.

TDB: The cultivation of which all agricultural products is dependent on these spray pumps? Which Indian

states have the maximum demand for them?

RK: There is a need for these spray pumps in the cultivation of paddy, wheat, mustard, cotton, and other vegetative crops. The states from which most of the demand comes from are Punjab, Uttar Pradesh, Rajasthan, Andhra Pradesh, Maharashtra and Assam.

TDB: Is rising imports of agricultural spray pumps from China only a function of price differential?

RK: Yes. China has the ability to manufacture these products at a very low cost, which is not possible in India.

TDB: What is the reason(s) for the volume of agricultural spray pumps imports remaining stagnant for the last three years?

RK: One possible reason could be the

fact that few Chinese companies have setup their own production units in Gujarat and Maharashtra. During the last financial year, the total agricultural produce in India was also a bit below average. This has also impacted the overall imports of spray pumps into India.

TDB: What are the main challenges that your industry is currently facing? What are your demands from the government?

RK: The government should work towards 'Make in India' on a lower scale, instead of supporting just the big corporates. Small scale manufacturers should be supported with subsidised raw materials, relaxed duties and taxes, and easy availability of other such resources. The government should also set parameters and ensure standardisation when it comes to spray pumps. **TDB**

CAPTURING SMILES AND WALLETS

From the one in which you were in your nappies, to the first one with your sweetheart, a photograph can bring back memories like nothing else. It's an instant of life, captured for eternity. And what really gives life to a photograph, other than the photographer of course, is the paper in which it is printed. This means the demand for photographic paper is huge and importing them is a lucrative business

BY NEHA DEWAN

Chartered Accountant Surjeet Khanna wanted to make his first wedding anniversary a memorable affair. While browsing through the pictures of the last one year, an old school idea struck him. He decided to gift his wife a collage of photos with all the special memories. Khanna was overwhelmed when he saw the first few printed images. "I knew that this was one idea, which will have

an instant connect," he tells *The Dollar Business*. Of the several brands of paper available in the market, Khanna made sure he used the best. "Several cheaper versions were available too. But for better picture quality and longevity, I ensured I do thorough research on the brand of photographic paper I wanted," he adds.

BLAST FROM THE PAST Khanna might have known the signif-

icance of the quality of paper required for a better photo print and the kind of paper that would enhance his images, but most of us are unaware about what difference a paper can make. Simply put, photographic paper is essentially a paper that is coated with light sensitive chemicals like silver halide and is used for photographic prints.

Long before digital photography came to light, photographic papers were

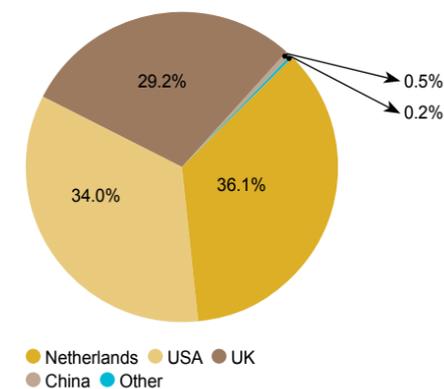
widely used to develop images. However, the advent of digital photography and an ever increasing number of smartphone users in the market, has made the functionality of such paper more need-based than mandatory. Yet, India is the world's second biggest importer of photographic paper, mainly from countries like Netherlands, US and UK. Why?

Ranjan Sharma, an architectural photographer for the past 28 years, has the answer to this question. "Photo labs have now migrated to digital printing, in order to suit the needs of the changing times. Moreover, the number of photographers has also skyrocketed with a lot of amateur photographers using photographic paper for prints. In addition, the gift industry has also put the product to good use," he tells *The Dollar Business*. Sharma highlighted that the numbers only add up, since a lot of printing orders, especially for wedding albums, from US are outsourced to India to benefit from cheaper labour costs in the country.

An increasing interest among people to preserve the memories of special occasions also keep the labs busy and the demand for photographic paper high. Validating this, Sandeep Ahluwalia, Director, Sandeep International, a solution provider for indoor and outdoor digital media, says, "Photographic paper demand is increasing by 10% y-o-y. This is largely due to the fact that people like to print and display the journey of life via images in their houses. These days, framed images are turning out to be the

Sources of India's photographic paper imports

Almost everything is coming from West



Source: Ministry of Commerce, Govt; breakup for FY2014

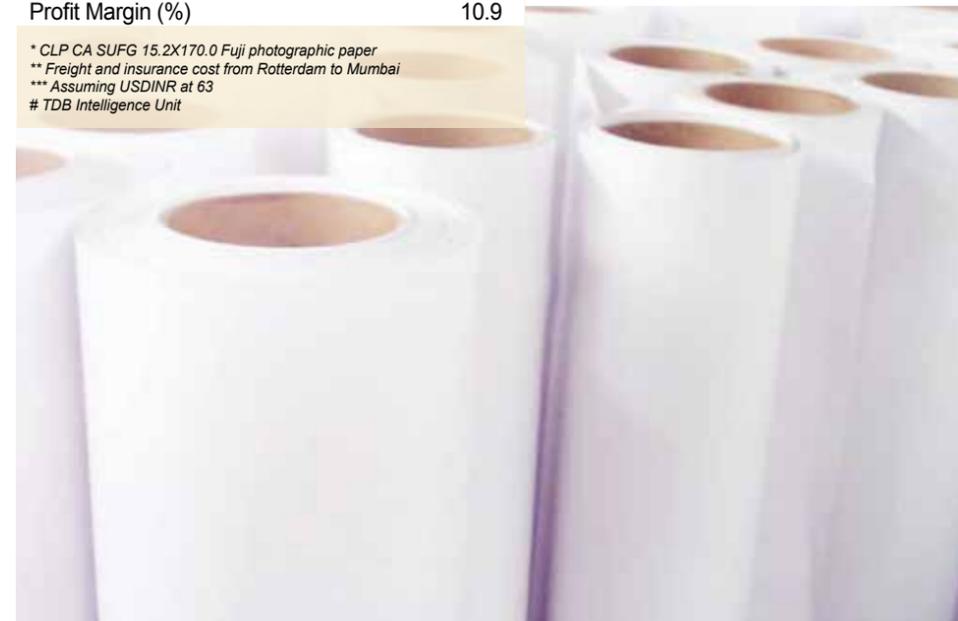


Profit estimate for photographic paper imports

Despite a CVD of 12.5%, imports offer double-digit margins

Cost of Photographic Paper (USD/MT) *	5,955.0
Freight & Insurance (USD/Unit) **	210.0
CIF (USD/Unit)	6,226.7
CIF (INR) ***	392,282.1
Basic Duty BD (10%)	39,228.2
CIF + BD	431,510.3
Countervailing Duty (CVD) (12.5%)	53,938.8
BD + CVD	93,167.0
Cess (3%)	2,795.0
CIF + BD + CVD + Cess	488,244.1
ACD (4%)	19,529.8
Final Cost	507,773.9
Selling Price in India #	570,000.0
Profit	62,226.1
Profit Margin (%)	10.9

* CLP CA SUFG 15.2X170.0 Fuji photographic paper
 ** Freight and insurance cost from Rotterdam to Mumbai
 *** Assuming USDINR at 63
 # TDB Intelligence Unit



Photographic paper is differentiated on the basis of factors like thickness, texture, surface sheen, base tint and brightening agents



Fifteen years back, Japan was the source of close to two-thirds of India's photographic paper imports. Today, thanks to major changes in the industry, it accounts for almost nothing!

best showpieces.”

FOR LASTING IMAGES

Photographic papers, typically, come with a variety of characteristics, an understanding of which can help in choosing the right kind of paper. There are at least four or five main aspects that can help assess quality levels of a photographic paper. For instance, the thickness of the paper can make a difference. Similarly, its texture, which would de-

termine the way a paper appears on the surface and its overall touch and feel, is also a differentiating factor. Then there's the surface sheen of the paper – ranging from matte to high gloss and other variations – that also needs to be studied carefully, while opting for photographic paper to capture those special moments of life.

Another characteristic that also makes a big difference to a photograph is base tint, which can make or mar a its appeal.

Optical brightening agents are also some important ingredients of photographic papers. These special dyes can be used to brighten up the white areas of a picture, though their flip side is that they can wear off far more easily than regular dyes, thereby making the picture look dull or fade out earlier than you would have liked.

Given so many differentiating factors in photographic paper, consumer knowledge is rather limited, or at least several retailers, *The Dollar Business* spoke to, claimed. “People just ask for photographic paper, if they want to print their images, especially for the purpose of gifting. Usually, we help them out in making a better choice, but the general awareness regarding this aspect of imaging and printing is quite low,” Kartik Agarwal at Tonerline Ltd., a solution provider for printers, laser ink and cartridges in the New Delhi's Nehru Place market, tells *The Dollar Business*.

Manish Bhalla, the proprietor of another retail outlet, Gift Plaza, also feels the same. “Most customers have very little technical knowledge about the paper or the printer. We deal in top brands like

Desmat and Epson and suggest them,” Bhalla tells *The Dollar Business*.

EVER CHANGING

Being very niche and highly technology dependent, the imaging industry had always been restricted to a handful of countries – mostly US and Japan. And even within these countries, only a handful of companies like Kodak, Konica and Fuji had almost always ruled the roost. But with the advent of digital photography, the industry saw a tectonic shift. While many erstwhile champions had to bite dust, some adopted, evolved and survived. Thanks to this, even the sources of India's photographic paper imports have changed dramatically.

While 15 years back, in FY1999, Japan was the source of 64.1% of India's photographic paper imports, in FY2014, it accounted for just 0.2%! The reason for this is simple – most Japanese imaging companies have either pulled down their shutters, exited the photographic paper business, or shifted base elsewhere.

If one thought the big changes in the imaging industry were a thing of the past and one can now expect some kind of

steadiness, one couldn't have been more wrong. For, it's an industry, which, unlike the photographs it helps produce, is anything but static. For instance, Gopal Krishnan, CEO, Basis Systems, a company dealing in printers, equipment, software and photographic paper, feels silver halide paper – the staple of the industry for decades, is on its way out. “The demand for silver halide paper is on its way down and it is being increasingly replaced by digital or inkjet paper. We will see a steady decline in silver halide consumption in the coming years, until it is eventually phased out,” Krishnan tells *The Dollar Business*.

DISTORTING IMAGES

A very unfortunate aspect of the Indian photographic paper industry is the fact that despite being imported only from market-driven developed economies like Netherlands, the US and the UK, it's subjected to countervailing duty. Ahluwalia thinks imposing countervailing duty on photographic paper is not at all justified, particularly since there is hardly any manufacturing of it in the country. “If CVD is done away with, photographic

SOURCES OF INDIA'S PHOTOGRAPHIC PAPER IMPORTS HAVE CHANGED DRAMATICALLY

paper import volumes will get a boost,” says Ahluwalia.

TO SAY CHEESE

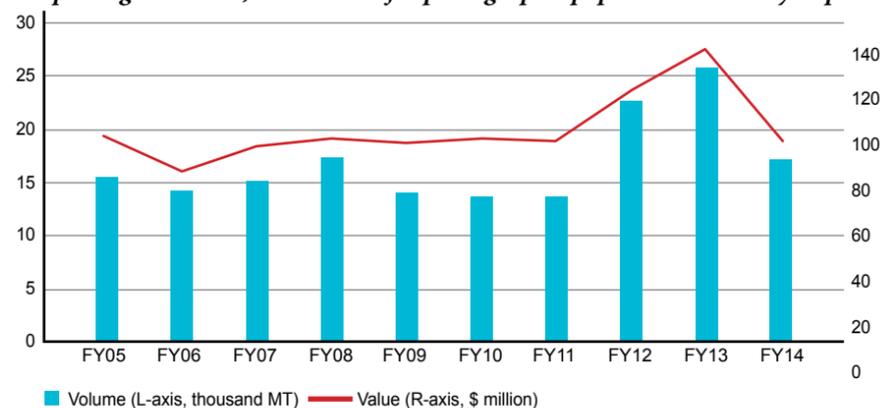
There's neither any meaningful production capacity for photographic paper, nor is anything expected anytime soon, in India. This means not only will the country keep depending on imports, but given that it's sought only to capture those special memories, import margins will continue to remain high.

As for Khanna, his first anniversary celebration ended up with some brownie points for him. His wife's teary-eyed happiness said it all. “The hard work paid off,” chuckled Khanna, giving the collage a hearty kiss. [Glad we were there!] **TDB**

● neha@thedollarbusiness.com

India's photographic paper imports

Despite digitalisation, the demand for photographic paper ensures steady imports



Source: Ministry of Commerce, Govt of India

“IF CVD IS REVOKED, PHOTOGRAPHIC PAPER IMPORTS WILL GET A BOOST”



Sandeep Ahluwalia
DIRECTOR,
SANDEEP INTERNATIONAL

TDB: With the world of images almost entirely shifting to digital, how has the demand been for photographic paper in the last few years?

Sandeep Ahluwalia (SA): Despite the advent of Picasa, Instagram and Facebook, the demand for photographic paper is increasing by about 10% every year. This is largely due to the fact that (a) people like to display images in their houses; and (b) people take print-outs and put pictures of their life journey or the best of good times they have had with their family or friends. These days, framed images are actually the best way to beautify empty walls in modern-day houses. Secondly, the trend still continues with corporate houses/large businesses/restaurants to beautify their

premises with paintings and fascinating images from across the globe.

TDB: What makes India the world's second biggest importer of photographic paper? Is it because of low domestic production?

SA: Yes, lack of good quality indigenous paper production could be one of the reasons for sure. In addition to this, the installed base of printers have increased manifold with companies like Canon, HP, Epson, etc. launching a slew of affordable new printers.

TDB: Apart from printing images, are there any other uses of photographic paper?

SA: Photographic papers are used for

image enlargements as well with large format machines which can print images with sizes up to A0 (841*1,189 mm). In some cases, images as big as 2A0 size can also be printed using photographic paper. Other uses could be fine art papers for art gallery printing, wedding photography, portraits, and posters etc.

TDB: Is photographic paper restricted to B2B or is there retail demand for it as well?

SA: Photographic paper market is largely B2B. Only people who have an installed base for large format printers use these papers.

TDB: Today, India mostly imports photographic paper from western countries like Netherlands, US and UK. Why have imports from Japan and China almost collapsed?

SA: With so many trade shows being held across the world and Indians travel-

ing to so many countries, users have realised the importance of good and consistent quality. Hence, imports from the US and the UK have increased.

China also has many paper mills but lack of consistent quality has been the main reason why the imports from China have taken a back seat.

TDB: Do you think imposing countervailing duties on a product that is mostly imported from free-market economies like the US and the UK justified?

SA: Firstly, we should understand that countervailing duty is anti-subsidy. Secondly, it should be imposed only if the importing country has a lot of domestic production. In case of photographic papers, we hardly have any major domestic manufacturing companies in India. So, we feel if countervailing duty can be done away with, photographic paper import volumes in India will certainly get a tremendous boost.

TDB: How big is the role of a brand in the photographic paper business? How differentiated the prices of some of the leading photographic paper brands are from those of lesser known ones?

SA: An established brand normally commands a premium of 50-100% over a lesser-known brand. This is across all applications like large size enlargement photos, wedding photography, fine art digital photo graphic printing, posters etc.

TDB: Give us a sense of the margin involved in the photographic paper import business. Since most of India's photographic paper imports are done via Nava Sheva, do prices escalate a lot by the time they reach the end users in distant corners of the country?

SA: Normally, in a price-sensitive and highly competitive market, the importer plays on a margin of 10%. Yes, delays and the transit time from Mumbai to other parts of India, do add to the costs. **TDB**

STOP BEING A MISER!

The new FTP that was unveiled on All Fools' Day by the Modi government, while simplifying things, pulled a very cruel joke on exporters of several goods and commodities. For, not only were export incentives reduced for many goods, the same were altogether revoked for some others. Though WTO mandate will ensure export incentives ultimately dying in the future, what was the justification for the government to continue bestowing them on some, while treating others miserly?

BY THE DOLLAR BUSINESS BUREAU

Several products, the exports of which were entitled to duty credit scrips under the earlier FTP, have been omitted in the new one

Until the 31st of March, 2015, the Indian government had five schemes – Focus Product Scheme (FPS), Focus Market Scheme (FMS), Market Linked Focus Product Scheme (MLFPS), Agri Infrastructure Incentive Scheme (AIIS) and Vishesh Krishi and Gram Udyog Yojana (VKGUY) – to incentivise exporters. These schemes, between them, covered a host of products and countries and had variable incentive rates. In case there was a clash – say, if a product included under FPS was exported to a country that came under FMS – an exporter was allowed to avail scrips under just one of the schemes. But in the new FTP, all these five schemes have been merged into one single new scheme call Merchandise Ex-

ALTHOUGH SIMPLE, MEIS DOESN'T DO ANYTHING TO HELP THE GROWTH OF INDIAN EXPORTS

ports from India Scheme (MEIS). Under MEIS, an incentive rate has been fixed for each product that comes under it, depending on the country it is exported to. But while MEIS covers most products that came under one or more of the erstwhile schemes, the incentive rate has either been reduced for some products, or the same has altogether been revoked for some others, thereby giving absolute nightmares to their exporters.

NONE SPARED

Commenting on this reduction/ omission of incentives under MEIS, particularly when it comes to sports goods, Raghunath S. Rana, Chairman, Sports Goods Export Promotion Council, says, “The items missing in the list will have negative impact on exports. Moreover, the reduction in benefit from 7% to 5% will also impact the overall performance of the industry.” Rana is not alone, neither are sports goods. T. V. Maruthi, Chairman, Indian Silk Export Promotion Council, says, “The new policy has cut down most of the sops and incentives. Considering this, it will be difficult

to arrest falling exports.” On a similar note, M. Rafeeqe Ahmed, Council for Leather Exports (CLE), says, “As far as the leather and footwear industry is concerned, the major issue (with the new FTP) is the overall reduction of duty credit scrip under the newly notified MEIS.” In fact, a detailed analysis reveals that several items, whose exports were earlier entitled to incentives scrips, particularly under VKGUY, have been left in the lurch under MEIS. For example, several agricultural and forest products like mushroom spawn (HS Code: 06029020), orchids (HS Code: 06031300), hazelnuts (HS Code: 08021200), chestnuts (HS Code: 08024100 & 08024200), olive oil and its fractions (HS Code: 1509), asparagus (HS Code: 20057000), bamboo shoots (HS Code: 20059100), orange (HS Code: 20083010), pears (HS Code: 20084000) and homeopathic medicines (HS Code: 30049014), which were earlier entitled to duty credit scrips, are completely missing from MEIS.

The question then is if this reduction/ omission is by design and part of a bigger strategy or is just bureaucratic apathy?

JUST ON PAPER

Answering this question, during an exclusive interaction with *The Dollar Business*, Pravir Kumar, Director General, DGFT, says, “Principles like encouraging value addition in the country, supporting labour-intensive industries and domestically produced products etc., were followed in deciding inclusion and exclusion of products under MEIS.” Citing an example, Kumar adds, “In the case of tea, earlier a 5% incentive was granted under VKGUY. Now, if it is exported in kilograms, i.e., in smaller quantities, a 5% incentive is given, but if it is exported in bulk, only 3% incentive is given, because the default logic is that if it is being exported in bulk, value addition is happening outside the country. So, we will still support it, but at a lesser level.” While Kumar’s explanation sounds fine in theory, in the real world, things work differently, very differently.

TOO MANY HANDICAPS

One of the biggest disabler for every single Indian exporter, trying to compete in

the international market, is the high rates of interest in India. At the time of this article going to print, while the US 10-year yield was quoting just below 2.2%, the Indian 10-year was quoting at just below 8%. This means, caeteris paribus, an Indian good is 580 bps costlier than its American peer. Secondly, given the fact that India has one of the highest tax rates on fuel, which has always been an ‘official’ reason to provide export incentives, there’s absolutely no way for Indian goods to be globally competitive in the international market, without incentives.

THE NEW FTP DOES NOTHING TO ADDRESS THE ISSUE OF HIGH RATES OF INTEREST IN INDIA

Lastly, and most importantly, given that the profit margin for even India Inc., as a whole, has mostly hovered between high single digits and early teens, the elimination of up to 5% exports incentives for certain goods might mean a death knell to their exporters.

THE ONLY OPTION

Given the fact that incentives and/or subsidies are illegal under WTO, the Indian government hides them under various cloaks. While most export incentives are given on the pretext of negating high transportation costs in the country, some others are given on the pretext of employment generation. That none of these reasons will hold ground for long is also an open secret. Given this reality, the government has two choices – either reduce domestic taxes, interest rates and bottlenecks to make Indian goods more competitive in the international market, or continue providing incentives. But since the former would need nothing short of a miracle, at least to achieve them in the short to medium term, the only option left for the government is to stick to the latter. In that case, the obvious question to ask is: why this miserliness? **TDB**

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Most export incentives in India are given under the pretext of negating high transportation costs in the country



“SNZs WILL HELP ESTABLISH INDIA AS A GLOBAL DIAMOND TRADING HUB”

If you are in charge of an EPC, which oversees the top export item of the country, you are in an enviable position. But what if, during your tenure, the export item loses its No.1 status? Vipul Shah, Chairman, Gems & Jewellery Export Promotion Council (GJEPC), is facing such a predicament. Shah, in an exclusive interaction with *The Dollar Business*, talks about his strategy to reclaim lost glory, and more

INTERVIEW BY VANITA PETER D'SOUZA



TDB: What do you make of the government's stance on gold imports? How much do you think India's gems and jewellery exports will benefit if all restrictions and uncertainties on gold imports are removed?

Vipul Shah (VS): With an objective to cut smuggling and raise legal shipments of gold into the country, Government of India scrapped the controversial 80:20 scheme in November, 2014. The scheme had resulted in nearly half of India's gold imports being routed through only six agencies, thereby raising alarm bells in the government. On the other hand, reducing import duty on gold, a long pending demand of the G&J industry and something that can be a significant step to curb black money, was completely overlooked by the government in the Union Budget for FY2016.

Smuggling of gold plagues the industry and leads to illegal funding. Hence, duty reduction would have helped us control the issue to a very large extent. The government has also identified innovative ways to reduce demand for overseas gold and control current account deficit (CAD), by introducing the gold monetisation scheme and developing an Indian gold coin, which will carry the Ashok Chakra on its face. Such a gold

coin would help reduce the demand for coins minted outside India and also help recycle the available gold in the country.

We duly understand that with an objective to control CAD and restrict the gold imports, the government had hiked the duty on gold from Rs.300/10 gm to 10% in stages. Thereafter, it introduced the 80:20 scheme, which failed miserably. We fail to understand that when the 80:20 scheme has been abolished, why the import duty on gold has still been retained at 10%.

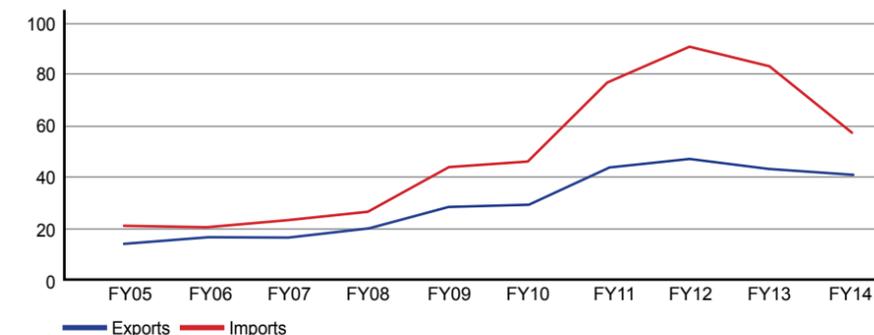
We fully support the gold monetisation scheme to check CAD and reduce gold imports. However, any measure affecting the jewellery manufacturing industry is highly intolerable, since it will also affect the government's 'Make in India' initiative. We are confident that post the abolition of all such restrictions and uncertainties on gold imports, the export of gems and jewellery items will benefit in the long run.

TDB: Diamonds lost the country's No.1 export product status to high speed diesel in FY2014. What do you think was the primary reason for this? What is GJEPC doing to reclaim lost glory for India's diamond exports?

VS: The primary reasons for diamonds losing the No.1 export product status to high speed diesel in FY 2014 are (a) a slowdown in major markets like Europe, China and Middle East, (b) the absence of a turnover taxation system for the Indian diamond industry, (c) the absence of suitable regulatory framework facilitating diamond trading in the country, (d) stringent taxation framework in the country as compared to other competing countries.

With an objective of reclaiming lost glory for India's diamond exports and after aggressive representations, Government of India has announced the creation of a Special Notified Zone for export and import consignments of diamonds, thus facilitating the direct and smooth supply of roughs from overseas diamond mining companies/countries, thereby ending a decade long issue of availability of roughs in the industry. This zone will also ensure trading of diamonds in the country, which will further

India's gems & jewellery and precious metals trade Indians' love for the yellow metal means the country almost always has a deficit



Source: Ministry of Commerce, Gov; figures in \$ billion

facilitate India becoming an international diamond trading hub. GJEPC has also initiated various aggressive promotional and marketing efforts like World Diamond Conference in New Delhi, the 3rd Diamond Week at Diamond's Dealer Club in New York, sending a delegation to Panama and Mexico and attending CIBJO meetings.

TDB: By when do you think the Special Notified Zone (SNZ) will become a reality? If it becomes a reality, what kind of boost will India's gems and jewellery industry get?

VS: The Special Notified Zone has been given a special mention in the recently released Foreign Trade Policy 2015-2020. A delegation led by senior officials to Dubai and Antwerp, to understand their ecosystem of taxation practices, has already submitted its detailed report to Government of India. The industry is expecting a customs notification on the initiation of SNZ very soon. This SNZ will give the Indian diamond industry a strong competitive advantage over other diamond trading centres of the world and will ensure a steady supply of rough diamonds in India. The lower cost of importing roughs through the SNZ is expected to benefit the Indian G&J industry hugely in the coming years.

The establishment of SNZ is extremely significant for the Indian diamond industry. In absence of diamond mines in the country, the industry has to procure all its rough requirements from overseas rough diamond mining companies and countries. This means all small and medium diamond traders have no choice

G&J EXPORTS ARE SUFFERING DUE TO THE NON-REVISION OF DUTY DRAWBACK RATES

but to travel and procure their rough requirements, thus incurring huge transaction costs. Rough diamonds mostly come indirectly through places like Antwerp and Dubai. Ensuring direct supply of roughs would reduce transaction costs and commissions being paid by Indian diamantaires. I would also like to add that currently, India's stringent taxation regime and procedural hassles discourages overseas miners to auction their roughs directly in India. For them, even opening a sales office is a big hindrance.

TDB: Despite several restrictions, India had a trade deficit of \$16.8 billion under HS Code 71 in FY2014. Do you think we can ever have a surplus under it? Between import restriction and export expansion, which is more likely to work for the gems and jewellery sector?

VS: Under HS Code 71, gold imports are also taken into consideration, which is the reason for the trade deficit. Out of the total import of gold by India, only about 10% is utilised by the exporting community. The rest 90% is procured by the domestic sector. According to customs data compiled by GJEPC, gross exports and imports of gems and jewellery items in FY2015 stood at \$39.9 billion and \$31.5 billion respectively, thus indi-

cating a trade surplus of \$8.4 billion.

TDB: How justified do you think duty drawback rates for gems and jewellery are? Do they fully compensate for the duty paid on imported components used in export products?

VS: At present, gold and silver jewellery exports attract drawback rates at Rs.219.9/gm and Rs.3,112.5/kg respectively. But, as per the last notification issued by Government of India on import tariff value for gold and foreign exchange rates, w.e.f. April 1, 2015, the total import duty paid by an exporter on gold is Rs.249.6/gm. It should be noted that both foreign exchange and import tariff value for both gold and silver are announced every fortnight by GoI, considering exchange rates and gold prices prevailing in the international market. Right now, the duty drawback rates are way below the actual import duty (10%) on gold. Exports are suffering due to the non-revision of duty drawback rates. In fact, the hike in the import duty of gold and non-revision of duty drawback rates have the potential to destroy the Indian jewellery manufacturing industry.

TDB: What's your take on the new FTP? Does it have enough for the gems and jewellery industry?

VS: The G&J industry has welcomed

the importance given to the sector in the new FTP. Suitable positive amendments have been made for the sector. The new FTP has reiterated the proposal for Special Notified Zones. It has also appointed GJEPC as the Nodal Authority for scrutinising the applications for enlistment of laboratories for export of cut and polished diamonds for certification/grading and re-import. Modifications have also been made under the policy for maximum wastage permissible and minimum value addition in gems and jewellery export items, which are in line with the suggestions of the council.

However, several of our key recommendations like re-initiation of gold scrap policy, amendments in SEZ Act to revive growth, replenishment of gold from nominated agencies against export from their own stock, amendments in courier regulations etc. were not addressed in the new FTP.

TDB: Are you happy with the level of value addition in India's gems and jewellery exports? What do you think needs to be done to increase it?

VS: Yes, thanks to value addition, the G&J industry has been a leading foreign exchange earner for the country. In FY2015, it successfully battled several crises, including the downturn in China, the unrest in the Middle East, decline of

European markets, and the plunge in the Russian rouble. The foresight and agility of GJEPC and the industry helped survive these trying times, largely due to significant actions taken towards investing in USA and UAE.

One of the thrust areas of GJEPC is to showcase India's finest in jewellery, be it design or innovation, supported by top-of-the-line craftsmanship, technology and quality to customers around the globe. India, with its ability to create intrinsic and inspired jewellery, has made bold statements across the globe.

TDB: Tell us briefly about institutions like IIGI, IDI, GII and IGI. What kind of role do they play in boosting gems and jewellery exports from India?

VS: The gems and jewellery industry is highly skill based. Skill is involved right from the identification and assortment of rough diamonds to the manufacturing of final jewellery. Skill development, training, research and gemmological services have been on GJEPC's agenda almost since its inception. Today, there are seven educational institutes in five cities; and four gemmological laboratories under the GJEPC umbrella.

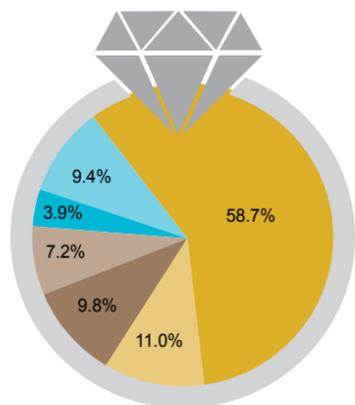
Amongst all the training institutes set up by GJEPC, Indian Diamond Institute (IDI), Surat, is one of the oldest and largest institutes for imparting technical skills. We have also set up various grading laboratories like Gem Testing Laboratory in New Delhi and Jaipur. We are helping premier international laboratories like HRD, IGI, IIDGR to either set up their laboratories, or expand their operations in India, so that Indian exporters can get their diamonds certified and graded in the country itself. This will further save transaction cost involved in sending diamonds to overseas accredited laboratories for certification.

With the avowed aim of building a pool of trained manpower for the industry, GJEPC has set up educational institutes offering courses in gems and jewellery in major centres. All of these institutes are not-for-profit organisations and have state-of-the-art equipment and up-to-date facilities.

vanita@thedollarbusiness.com

India's gems & jewellery and precious metals exports

It's dominated by polished diamonds

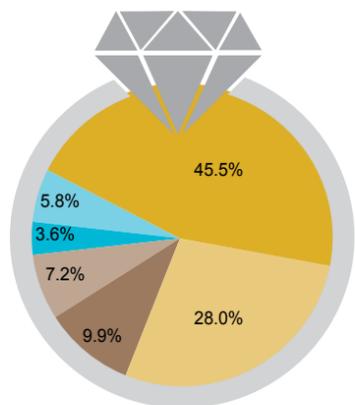


● Cut or worked diamond, neither mounted nor set
 ● Gold jewellery (unset) ● Gold jewellery (set with diamond)
 ● Other non-monetary unwrought forms of gold ● Unworked diamond (simply sawn cleaved or bruted) ● Other

Source: Ministry of Commerce, GoI; breakup for FY2014

India's gems & jewellery and precious metals imports

Yellow metal is what it imports most



● Other non-monetary unwrought forms of gold
 ● Unworked diamond (simply sawn cleaved or bruted)
 ● Cut or worked diamond, neither mounted nor set
 ● Unwrought silver ● Other non-monetary semi-manufactured forms of gold ● Other

Source: Ministry of Commerce, GoI; breakup for FY2014

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THE REAL TORCHBEARERS OF INDIA'S TRADE

Like how it has shown its prowess in most other fields, the Indian private sector is already doing a wonderful job when it comes to ports. Not only does it operate the country's top port in terms of traffic handled, but it also runs India's top container terminal, despite working with several handicaps like slow environmental clearances, absence of a non-administered tariff regime for the entire port sector and a general suspicion towards them

BY SISIR PRADHAN

When Finance Minister Arun Jaitley, while presenting the first full budget of the Modi government, announced that steps would be taken to corporatise major ports, his message was loud and clear. He just wanted to continue from where he had left in 2001 as the Minister of Law, Justice and Company Affairs in the Vajpayee cabinet. Then, in order to enable the corporatisation of major ports, Jaitley had introduced a bill in the Lok Sabha to amend the Major Port Trusts Act, 1963. One of the main features of the bill was giving powers to the Centre to transfer the undertaking of any major port to its successor company, along with the transfer of the assets and liabilities of its

Board of Trustees to such successor company, as well as defining the scope of the transfer.

While praising the efforts of private players in India's port sector, the Finance Minister, in his budget speech, said, "As the success of so-called minor ports has shown, ports can be an attractive investment possibility for the private sector. Ports in the public sector need to both attract such investment, as well as leverage the huge land resources lying unused with them. To enable us to do so, ports in public sector will be encouraged, to corporatise, and become companies under the Companies Act."

THE BEACON

India has a vast coastline of over 7,500

km, which is dotted with about 200 ports, comprising 13 major ports and over 180 non-major ports. These ports, put together, carry more than 90% of India's total EXIM trade volume.

For a long time, India's maritime trade was exclusively under the control of government-owned major ports. When a consortium led by P&O Australia (now DP World) started trial operations of a container terminal, on BOT basis, at Jawaharlal Nehru Port (JNP) in Mumbai, it heralded the dawn of a new era for the country's port sector. Today, JNP – India's busiest container handling port – has three container terminals, of which two are operated by private players. In FY2014, JNP handled 62.33 MMT cargo, of which containerised cargo was 55.23



Finance Minister Arun Jaitley has announced that all the major ports will be encouraged to corporatise and become companies under the Companies Act



MMT and liquid cargo was 6.28 MMT, the rest being dry bulk and break bulk cargo. Interestingly, JNP, which handles about 60% of the total container cargo in India, has benefitted immensely from its private terminals. For, out of the total traffic of 4.16 million TEUs that JNP handled in FY2014, the share of JNP-owned JNPCT was 1.31 million TEUs, the share of DP World-operated NSICT was 0.97 million TEUs, while the remaining 1.88 million TEUs were handled by its third and newest terminal Gateway Terminals India (GTI), a joint venture between APM Terminals and the Container Corporation of India Ltd.

The contribution of private ports to India's EXIM trade is not limited to just container cargo. Even in the bulk cargo category, their contribution is growing by the day. An example of this is Mundra Port, the flagship port of Adani Ports

and SEZ Ltd. (APSEZL), which became the first port in India to handle 100 MMT cargo in a year in FY2014. Having signed its concession agreement as late as FY2012 and located just 70 km away from Kandla, the success of Mundra is nothing short of incredible. This, primarily because despite having the entire government machinery and resources at its disposal, Kandla Port has failed to keep up with the demands and requirements of modern day trade. Notably, as compared to Kandla, Mundra handled only 87 MMT in FY2014. Even of this 87 MMT, a majority of liquid and petroleum products were handled by Kandla's private partner Essar, at its off-shore oil terminal facilities at Vadinar.

FROM UNDER THE NOSE

For a very long time, Kandla Port was, by far, the top port in the country, in terms

"PRIVATE PLAYERS WILL RUN ALL MAJOR PORTS' TERMINALS IN THE FUTURE"

TDB: The role of private ports in India's EXIM trade is increasing by the day. What do you think is the reason for their success in recent years?

Shashank Kulkarni (SK): Until the turn of the last century, almost 85-90% of India's EXIM trade passed through the government-controlled major ports. Unfortunately, these ports were synonymous for traffic congestion, sluggish clearance of cargo, antiquated equipment and handling practices, labour issues, slow decision making processes etc. Following the liberalisation reforms of the early 90s, the central government took an in-principle decision to initiate private participation in major ports to take care of some of these ills. At the same time, state governments, led by Gujarat, also took initiatives to give out the non-major ports under their control for green-field/brown-field development, through private investment. And the results are there to be seen. From 10-15% cargo handling share at the start of the millennium, private ports, together with the private terminals in major ports, are, today, handling more than 50% of the country's EXIM traffic.

TDB: What do you think are the main challenges for India's private ports? Is land acquisition one of them?

SK: While PPP in the port sector has been the most successful amongst all such partnerships in the country, port privatisation has been encountering a number of challenges. Apart from land acquisition, which is more pronounced in green-field development, there are several other issues bogging the sector. Some of these are (a) poor quality of DPR and technical information; (b)

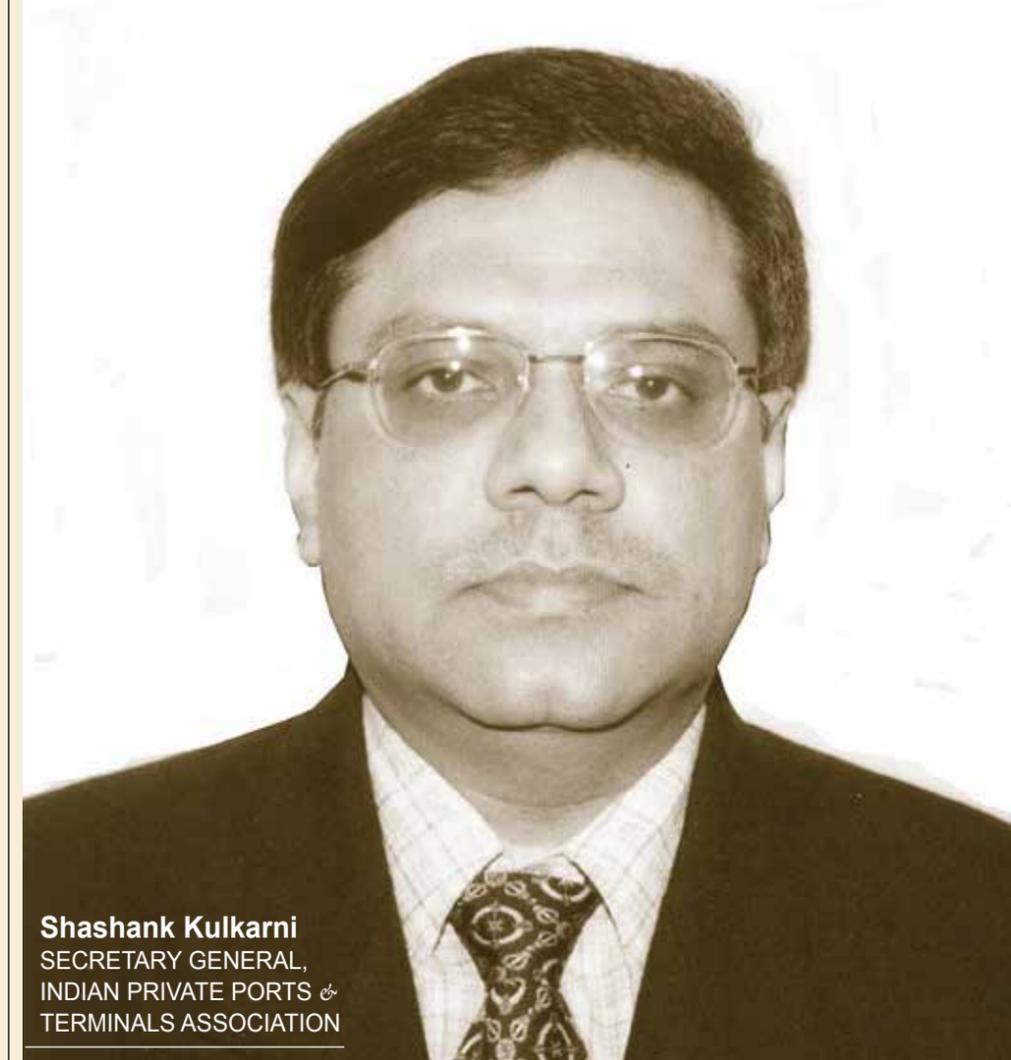
an inflexible MCA, which makes it difficult to review concession agreements; (c) slow environmental clearances; (d) absence of a non-administered tariff regime for the entire port sector; (e) lack of coordination between various ministries, which lead to immense delays; and (f) no clarity/uniformity by Customs with regard to certain procedures that are needed to be followed by private terminal operators at major ports.

TDB: Tell us a bit about the average difference in tariff between private and major ports. Should government control over tariffs at major ports be removed?

SK: After faster clearance of goods, port tariff is the most important factor in a cargo owner choosing his/her gateway point. With so much competition, both inter-port as well as intra-port, flexibility in tariff is going to be the key for the survival of any port/terminal. As far as major ports are concerned, they suffer from high vessel related charges (VRCs), which, at times, are the costliest in this part of the world. VRCs of major ports are high since they take into account the high dredging expenses, as well as the pension burden of its vast number of employees. On the other hand, non-major ports, which are free from any tariff regulation, can offer flexi tariff to attract potential customers. One more important aspect that needs to be considered is that port tariff constitutes less than 5% of the overall logistics cost of moving goods. When more than 95% of the transport chain is outside any tariff regulation, is there any need to regulate the balance mere 3-5%?

TDB: Given that the Modi government is encouraging the corporatisation of major ports, do you think private ports will face more competition in the future?

SK: Corporatisation of major ports has been talked about for many years. The only major port – Kamarajar Port at Ennore – formed under the Companies Act has also not been an exemplary instance of a truly corporatised entity. Thus, whether or not private ports will face formidable competition from corporatised major ports will be known only after



Shashank Kulkarni
SECRETARY GENERAL,
INDIAN PRIVATE PORTS &
TERMINALS ASSOCIATION

seeing how much decision making freedom the present port trusts get and how much do they benefit out of it.

TDB: The government is also encouraging PPP at major ports. Do you think there is enough interest for this among existing private players?

SK: After the initial encouragements to private investors, the past 15 years have been a sort of learning period for both the government, as well as the investors. Investors, being commercial entities, have to get a reasonable rate of return for their shareholders. Unfortunately, the tariff policy in major ports has been a huge disappointment. There have been several guidelines till date which themselves speak about the confusion prevailing in the sector. Further, due to the several challenges mentioned above, most of the private players in the port sector are, today, a disillusioned lot.

TDB: Don't you think India needs to amend its cabotage laws if it really

intends to boost coastal shipping?

SK: Coastal shipping, to be a success in India, will depend on how many sailings the shipping industry is able to offer to trade. Trade must have ample choice to load on their cargo onto vessels for domestic movement within the country. Good last mile connectivity is also very crucial for transporters to use coastal shipping. If the Indian shipping industry is able to offer such frequent sailings, cabotage relaxation might not be required. But unfortunately, that is not the case and hence, there is a clamour to allow foreign flag vessels on the Indian coast. It has become a chicken or egg first issue.

TDB: What changes can we expect in the Indian port sector in the foreseeable future?

SK: In the foreseeable future, it is expected that major ports will become landlord ports, with all their terminals being run by private parties. With more and more competition, it is going to be a win-win situation for all.



Today, India's biggest port by traffic handled (Mundra Port) and the biggest container terminal (GTI) are examples of what the private sector can do to the port sector

of traffic. And one of the primary reasons for this was that it catered to a vast hinterland of 11 states, spread across 1 million square kilometre and the fact that it has been accorded the status of 'Priority Port', when it comes to grain exports and LNG, coal, petroleum products, fertiliser and food commodities. Moreover, Asia's first Special Economic Zone (SEZ) is also located in its neighbourhood. Despite all these advantages, Kandla Port has failed to stay ahead of competition and today, is one of the most congested ports in the country.

According to a Ministry of Shipping report, in FY2014, Kandla not only missed its target of 95 MMT, but also recorded a 7.1% drop in cargo volume. This, more than anything else, is an example of how government-owned major ports are losing out big time to compe-

MUNDRA PORT IS THE FIRST INDIAN PORT TO HANDLE 100 MMT CARGO IN A YEAR

tion from private ports. Pointing out some of the reasons for major ports losing out to private ports, S. S. Kulkarni, Secretary General, Indian Private Ports & Terminals Association (IPPTA), said, "Until the turn of the last century, almost 85-90% of India's EXIM trade passed through the government controlled major ports. Unfortunately these ports were synonymous for traffic congestion, sluggish clearance of cargo, antiquated equipment and handling practices, labour issues, slow decision making process etc. Following the liberalisation reforms of the early 90s, the central government took an in-principle decision to initiate private participation in the major ports to take care of some of these ills. The result of this is that from handling just 10-15% of India's total EXIM cargo at the start of the millennium, private ports, together with the private terminals in the major ports, are, today, handling more than 50% of the traffic."

The best piece of statistics to prove how private ports are in an entirely different growth trajectory is that while in FY1999, Kandla Port handled 40.6 MMT cargo and all intermediate and minor ports in Gujarat, put together, handled

just 25.1 MMT, in FY2014, Gujarat's minor and intermediate ports handled close to 4x of what Kandla handled!

RUING THE DAY

This is not the situation at Kandla, but at most major ports battling with infrastructure bottlenecks and slow decision processes due to political and bureaucratic apathy. While the government is in now pitching for public-private partnerships (PPPs) for the development of major ports, the reality is that faulty PPP and BOT (build-operate-transfer) models are, actually, slowing down many ports-related infrastructure projects.

One fine example of this was the global tender floated by Kandla Port in the year 2000 to invite bids from private players to develop a container terminal on BOT basis. Post the bidding, Australian company P&O Ports got the letter of intent (LoI), since it quoted the highest bid of Rs.300 crore. However, KPT trustees rejected the offer giving a vague reason that the company's offer was detrimental to the interests of the port. Three years later, P&O Ports acquired 100% stake in Mundra International Container Terminal, which is now the second larg-

est container terminal in India. Isn't this hilarious?

Similarly, the best example of government apathy towards major ports is the fact the top two bulk ports of India - Kandla and Paradip - don't even have full time chairmen! While Ravi M. Parmar runs the show for Kandla from Mumbai, in case of Paradip, M. T. Krishna Babu operates from Visakhapatnam!

INEVITABLE

Today, India's total merchandise trade is way below 50% its GDP, whereas for developed countries like Germany, it is 75%. Similarly, India has a total sea-borne traffic of only 950 MMT, with a total coastline of 7,500 km, whereas China's sea-borne traffic is about 9 billion MT, with a coastline of 15,000 km. Hence, if India wants to get into the big league, a manifold rise in its trade volume is a given. And considering the current state of affairs at major ports, this additional traffic can only be taken care of by existing and new private ports.

MATTER OF TIME

Way back in 1995, when the Tata Group and Singapore Airlines joined hands to

develop the Bangalore Airport, Airport Authority of India scrapped the project on the grounds that private companies can't be allowed to build an airport. However, today, Bangalore International Airport is one of the finest airports in the country only because of private participation. Not only Bangalore, if we take instances of other world-class airports in the country like the ones in Cochin, Hyderabad, Mumbai and New Delhi, it's

very clear that they couldn't have been what they are today without private players. So, the question is: if private players can change the face of India's aviation sector and provide world-class facilities to users, isn't it just a matter of time before private seaports replicate the same? As they say, you can delay a revolution. You can't stop it.

● sisir@thedollarbusiness.com



The biggest example of government apathy towards major ports is the fact that India's top two bulk cargo ports - Kandla and Paradip - don't have full-time chairmen



Ask a Question

In the world of export-import, each shipment counts. And you cannot afford to make any “uninformed investment”. So, if you have any doubt or a question, ask us. Our team of experts at *The Dollar Business Intelligence Unit* will be happy to answer your queries. Your question(s), if approved, will also be published on www.thedollarbusiness.com, and/or in forthcoming issue of *The Dollar Business*

An IEC is a 10-digit number allotted to a person that is mandatory for undertaking any export/import activity. Application for obtaining IEC can be filed manually and submitting the form in the office of Regional Authority (RA) of DGFT. Now the facility for IEC in electronic form or e-IEC has also been operationalised. Once you have obtained the IEC and received an export order for your product from an overseas market you need to file the following mandatory documents required for export of goods from India: (1) Bill of Lading/Airway Bill; (2) Commercial Invoice cum Packing List; and (3) Shipping Bill/Bill of Export. Once you have submitted these documents you

can ship your product to the buyer. You can also begin with approaching your concerned EPC – Agricultural and Processed Food Products Export Development Authority (APEDA) – for assistance or reach out to potential buyers by posting your product information on B2B websites. There are thousands of e-commerce portals across the globe. You can choose from them taking into consideration the parts of the world you want to export to.



Response by:
Shakti Shankar Patra,
Executive Editor,
The Dollar Business

Q What is the import duty on raw cashews, pistachios and almonds? (Suhhas Bhaganagare, Proprietor, Om Exim Enterprises, suhasbh08@gmail.com)

A Dear Suhhas: You have not mentioned the countries you want to import these products from. We assume you are interested in importing from countries which are the biggest source of Indian cashews, pistachios and almonds imports.

When it comes to raw cashews, the highest volume and value (as per latest shipment data) of dried cashew nuts in shell are being imported from Tanzania and Indonesia at prices that range between Rs.85 to Rs.92 per kilogram. While the customs duty on importing them from Tanzania is 30%, importing them Vietnam would attract lower customs duty of 12.5% since India has a Trade in Goods Agreement with Vietnam under the Framework Agreement on Comprehensive Economic Co-



operation between the country and the Association of Southeast Asian Nations (ASEAN).

In case of almonds, the highest volume and value of shelled almonds is being imported from USA at prices that range between Rs.630 to Rs.722 per kilogram. Importing it from USA would attract a basic customs duty of Rs.65 per kg along with a 4% ACD on total value of imports. CVD and cess are exempted in this case. As far as pistachios are concerned, the highest volume and value of pistachios (in shell) is coming from Iran at prices that range between Rs.340 to Rs.382 and attracts a total import duty of 14.712%.

Please however note that these prices are C.I.F. values and do not include either customs duties (which have been mentioned separately for each product) or logistics-related costs that will be incurred in the process of transporting these imported products to your godown from the port of destination. Hence, viability of importing these products can be determined only after accounting for these factors.



Response by:
Steven Philip Warner,
Editor-in-Chief,
The Dollar Business

Q How can I import aluminum scrap from China? Is it legal? (Avinash, Manager, Thirupathi Metals, avinash.aa905@gmail.com)

A Dear Avinash: Yes, you can import aluminium scrap (HS Code: 76020010) from China. However, import of any form of metallic waste, scrap will be subject to the condition that it will not contain hazardous, toxic waste, radioactive contaminated waste / scrap containing radioactive material, any type of arms, ammunition, mines, shells, live or used cartridge or any other explosive material in any form either used or oth-

erwise. Further, import of metal (all scrap is allowed only through designated ports (the name of the port should be mentioned on the invoice) – Chennai, Cochin, Ennore, JNPT, Kandla, Mormugao, Mumbai, New Mangalore, Paragraphdip, Tuticorin, Vishakhapatnam, ICD Loni, (Ghaziabad), Pipava, Mundra, Kolkata, ICD Ludhiana, ICD Dadri (Greater Noida), ICD Nagpur, ICD Jodhpur, ICD Jaipur, ICD Udaipur, CFS Murlund, ICD Kanpur, ICD Ahmedabad, ICD Pitampur and ICD Malanpur - and no exceptions would be allowed even in case of EOUs and SEZs. You also need to ensure that you have an ISRI (Institute of Scrap Recycling Industries, Inc.) code and the consignment should meet the guidelines prescribed by ISRI.



Response by:
Steven Philip Warner,
Editor-in-Chief,
The Dollar Business

Q We want to import purses, mobile covers and wallets, clothing for kids, and watches from China. What custom duties and other charges are applicable on these products? (Arpita, Manager - Business Development, Pragma International, info@pragyaexpi.com)

A Dear Arpita: We assume you want to import purses, mobile covers and wallets made from leather from China. While import of leather products from China attract a total import duty of 29.441%, importing watches from China would attract an import duty of 24.463%. As far as clothing for kids is concerned, we would request greater details. For example, we would like to know which garments are you considering for imports. The Dollar Business Intelligence Unit would like to hear from you.



Response by:
Dr. A. K. Sengupta,
Chief Consulting Editor,
The Dollar Business



Q Can you help me out with HS codes for Groundnut Kernel Bold 50/60 Count, Tj Mix 50/60 count and 80/90 count, Java 80/90? What government benefits do Groundnut Kernel qualify for? (Rohit Chovatia, Partner, Saurashtra Industries, saurashtra777@gmail.com)

A Dear Rohit: Groundnut Kernel Bold 50/60 Count, Tj Mix 50/60 count and 80/90 count, Java 80/90 fall under either ITC HS Code 12024210 or ITC HS Code 12024220, depending on whether they are hand-picked and selected (HPS) or machine selected. While the HPS category falls under ITC HS Code 12024210, others fall under ITC HS Code 12024220. Further, Groundnut Kernel does not qualify for MEIS benefit or any other such benefit under the new Foreign Trade Policy FY2015-2020.



Response by:
Manish K. Pandey,
Editor,
The Dollar Business

You can log on to www.thedollarbusiness.com/tdb-forum and submit your foreign trade-related queries, or write across to our experts at editorial@thedollarbusiness.com. Every question matters – to your business, to *The Dollar Business*.



Have a product to showcase? Want to learn what your rivals are up to? Here's a list of trade fairs you shouldn't miss in June and July, 2015



A file photo from from India International Leather Fair from last year

[India]

FAMDENT

June 5-7
Mumbai
www.famdent.com

This event related to dental care showcases products from medical & pharmaceutical industry. Traditionally, Famdent is known for its very lively and vibrant trade exhibition. National and international exhibitors have used Famdent to their advantage and found the perfect platform to sell and display their products, equipment and services. Sever-

al exhibitors have used it as a launch platform for new products. With the kind of response Famdent has been generating, this show also promises to be a huge success. Leading exhibitors have already reserved their space in the exhibition area.

INDEXPO 2015

June 19-21
Jaipur
www.ind-expo.com

The event is a significant effort to feature some of the best industrial ventures with the purpose of generating interest

in potential investors. As a platform to showcase the manufacturing and technological advancement taking place in the state of Rajasthan, this event boasts of a large attendance by market leaders, experts and professionals from wide ranging fields not just from all over India but also from abroad. This event showcases products like factory cleaning and pollution control equipment, dyes and molds, finished goods, industrial products, hand, machine & garden tools.

INDIA WAREHOUSING SHOW

July 1-3
New Delhi
www.indiawarehousingshow.com

This is a popular exhibition and conference for warehousing, logistics and supply chain. In its 5th annual edition, the event is expected to be attended by over 7,000 industry professionals representing high level decision-makers and buyers from across the globe. IWS is a complete supply chain event you cannot afford to miss. Since its inception, it has been attracting exhibitors, media professionals and visitors from all over the world. A robust international presence and displays, including latest trends and innovations make this show the highlight of the business calendar for the supply chain industry. Visitors can meet top buyers and expand their business to new and existing markets at IWS.

INDIA INTERNATIONAL LEATHER FAIR

July 3-5
New Delhi
www.iilfleatherfair.com

India International Leather Fair, this year, will have on display the entire range of products relating to leather industry from raw material to finished products and auxiliary products such as finished leather; shoe components – uppers, soles, heels, counters, lasts, footwear, machinery and equipment, process technology, software, chemicals etc. The fair is expected to have 200 participants. Business visitors will have an opportunity to view exhibits displayed by more than 150 companies, including over 50 from foreign countries.

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[Global]

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INTERNATIONAL LIGHTING EXHIBITION
June 9-12
Guangzhou, China
www.chinaexhibition.com

This must-attend pivotal event for lighting industry experts will have over 21 halls and span of 225,000 sqm of exhibition space. This edition is symbolically represented by the slogan '20th Onwards – Inspire & Be Inspired' which embodies the fair's ongoing commitment to stay at the forefront of the global lighting industry.

PLASTEC EAST
June 9-11
New York
www.plasteceast.com

This event of the plastic community that brings to the fore an array of plastic materials, plastic goods and products, plastic machineries, auxiliary parts and components, plastic raw materials, plastic finished goods and lots more, is a unique forum. The event allows the visi-

tors to connect with recent product modifications and development of the industry. The products and services that are showcased at the event come at a reasonable price. Plastec East will include participation of a large number of exhibitors from all around the world.

MASTERPIECE 2015
June 25 – July 1
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www.masterpiecefair.com

It is a leading international cross-collecting fair for art, antiques and design. It offers for sale museum-quality works with superb provenance from over 150 leading galleries worldwide. Masterpiece provides a unique opportunity to buy the best pieces available across multiple disciplines in the current market.

EXPOCAFE 2015
July 1-3
Brazil
www.expocafe.com.br

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SMAU FIRENZE 2015
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Firenze, Italy
www.smau.it

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A file photo from the SMAU Firenze fair in 2014

PAYING TAXES WON'T GUARANTEE YOU A SOUND SLEEP!



Manish K. Pandey
Editor,
The Dollar Business

One of the few things that the Modi-led NDA government has been most vocal about, ever since it came to power in New Delhi, is the establishment of a pro-business environment in the country. The government has been trying hard to distinguish itself from its predecessors by chanting words and phrases that portray it as business friendly. "Make in India", "Ease of Doing Business", etc., have become the modernly-regarded sacred chants of the entire country. Well, at least practically so! But then, what one does is more important than what one says. And the policymakers at the helm of affairs seem to have forgotten this age-old adage! That's the message their actions seem to be indicating of late.

Just two months back, in March 2015, Cairn India was slapped a tax notice worth \$3.3 billion for transactions dating back to FY2006-07. Reason, as per tax officials, was simple: Cairn did not pay tax on the capital gains arising out of the transfer of shares from its erstwhile UK parent (Cairn Energy PLC) to its Indian subsidiary, Cairn India (now a part of the Vedanta Group).

It was around the same time when foreign institutional investors (FIIs) also started receiving notices from the tax authorities. FIIs were asked to cough up something called the Minimum Alternative Tax (MAT), a 20% levy which traditionally applied to domestic firms that would otherwise pay zero corporate tax because of various exemptions. In fact, till date, tax authorities have issued notices amounting to over Rs.600 crore (in taxes) to a group of about 70 FIIs.

What's even more shocking is the fact that they are being taxed for the profits made by them in FY2012-13. Result: The wildfire has forced foreign investors to stay away from India. According to the Securities and Exchange Board of India (SEBI) data, foreign investors have reduced their portfolio investments in India from Rs.24,564 crore in February 2015 to Rs.15,266 crore in April 2015. In fact, matters worsened in May. In the first two-and-a-half weeks of the month, foreign investors withdrew over Rs.16,700 crore from Indian equities and debts.

Global rating agency Fitch is of the opinion that the ongoing retrospective tax issue will force foreign investors to think twice before investing in India. [Obviously! I'm not one of those who loves the feeling of pseudo-safety, with my head buried deep in the sand!] In fact, the Vodafone case is a classic example of what

such retrospective tax bills can do to financial markets that thrive on foreign money. When, in 2012, Vodafone was asked to pay more than Rs.20,000 crore in back taxes for its purchase of Hutchison Essar Telecom in April 2007, foreign portfolio investments in India dropped from Rs.1,68,000 crore to Rs.51,000 crore the very same year.

Although the Modi wave and pro-business agendas propagated by NDA have been successful in attracting a net investment of Rs.2,80,000 crore into the Indian stock and debt markets (the highest ever annual investment India has seen so far) in FY2014-15, the euphoria won't last long if the government does not ensure a stable and logical tax regime in the country.

Has the government bowed down to the finance-ministry bureaucrats who are busy bridging the fiscal gap, or are phrases like "Make in India" and "Ease of Doing Business" nothing but balderdash? Whatever the case may be, one thing is sure – the tax authorities have brought a wrecking ball to Mr. Modi's business-friendly

In the first two-and-a-half weeks of May, foreign investors withdrew over Rs.16,700 crore from Indian equities and debts

sarkar. And the damage has been done. But time can heal. In this case too. What is needed is a complete overhaul of the Indian tax system as the real problem is that India's taxation system is adversarial and focuses more on implementation instead of compliance. High rates of corporate taxes (as against its global peers) further complicate the situation. Although the previous governments have tried to compensate it through deductions and exemptions, the moves have only lead to more ambiguity with respect to tax laws, and in turn bigger, darker loopholes.

If the government really wants to make "Make in India" a success and improve the ease of doing business in the country, all it needs to do is stop sending such wrong messages about its taxation policy. And all policymakers will have to do is go back to the drawing board and simplify the system. That's where they need to invest their time, not in holding up foreign investors for what looks like extortion!

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