India's economy major worry for Modi, needs stimulus: Trade body

GDP grew 6.6%, slowest pace in five quarters

NEW DELHI: India's slowing economic growth is of serious concern and the country needs to urgently cut tax and interest rates to revive the economy, a top industrial body said yesterday ahead of the inauguration of Prime Minister Narendra Modi's second term.

The economy grew 6.6 percent in the three months to December - the slowest pace in five quarters - and the Federation of Indian Chambers of Commerce & Industry (FICCI) said the bigger worry was that domestic consumption was not growing fast enough to offset a weakening global economic environment.

"The recent signs of slowdown in the economy stem not only from slow growth in investments and subdued exports but also from weakening growth in consumption demand," FICCI said in a statement suggesting various measures the government could adopt in the next budget expected in a month.

"This is a matter of serious concern and if not addressed urgently, the repercussions would be long term." Modi - who won a thumping majority in the general election despite the agricultural sector's economic woes, a shortage of jobs and the stuttering economy - takes oath of office on Thursday and will need a finance minister who can help navigate through the challenges facing the economy.

Some of the issues are slowing industrial output and manufacturing growth, slumping car and two-wheeler sales, and a drop in airline passenger traffic.

FICCI said the new government should cut corporate and individual taxes, expand a program of handing 6,000 rupees ($86) a year to poor farmers to boost consumption demand and consider tax concessions for export-oriented manufacturers. The Confederation of Indian Industry, another industry body, said it was crucial to reduce the income tax burden and expand the scope of investment allowance to all sectors, while higher incentives should be given to exporters.

The FICCI also called for an interest rate cut from the Reserve Bank of India (RBI), as real interest rates have remained high for a long time with commercial banks reluctant to pass on the benefits of recent cuts. When Modi took power for the first time in 2014, global oil prices slumped. But as he gets set for a second term, rising oil prices could push the current account deficit higher.

The body also said the trade war between the United States and China could further slowdown global trade and hurt India's already sluggish exports. "Amidst rising uncertainties and economic challenges on both the domestic and global front, there is an urgent need to re-energize the engines of growth and pump prime the economy," FICCI said. "The upcoming budget...is an opportunity for the government to boost consumption and investments through appropriate fiscal stimulus and policies."

Government bureaucrats have started consultations with industry bodies, such as the FICCI, before the budget. —Reuters

NEW DELHI: An Indian man looks on as he sells vegetables to a customer on a cart at a roadside in New Delhi on Sunday. —AFP

China's tech 'Long March' could be road to nowhere

SHANGHAI: China's president has called for technological self-reliance in the escalating rivalry with America, but experts believe Beijing's late start on tech and relatively backward capabilities could make that a mission impossible. China has no doubt made an amazing transformation, from a former basket case wracked by mass famine and political upheaval to a highly connected society marked by growing use of renewable energy, a space program, and bullet trains criss-crossing the country.

But a closer look reveals that while China is adept at assembling foreign technologies into commercially successful products at home, its ability to innovate remains deeply hampered, tech experts said.

Take semiconductors, the building blocks of the global digital architecture. China's government has poured money into an effort to develop its own semiconductors and chip designs but has not been able to close the gap with US, Japanese and South Korean rivals. "One way to look at (China's situation) is that someone may be able to make beautiful designs out of Legos, but they don't know how to make the Legos themselves," said Gabriel Chou, Asia chair for World Semiconductor Trade Statistics, a grouping of semiconductor-product companies.

"(China) is aggressively attacking the end-market, such as mobile phones or other consumer products. But semiconductors require many very fundamental science skills" that China struggles with, Chou added.

The risks are now clear following last week's move by Washington to ban Chinese telecom and smartphone giant Huawei's access to critical American chips and other technology.

The ban has thrown the company's future into doubt, causing a number of Huawei partners around the world to bail on the company and emphatically illustrating US tech clout.

Long March

President Xi Jinping this week telegraphed his alarm, calling for self-reliance in "key core technologies" while saying China faced a "Long March" against foreign challengers — a reference to a now-legendary 1934-35 strategic retreat by Communist revolutionaries. But a state-directed approach is a bad idea, said Paul Triolo, head of geotechnology at the Eurasia Group. Triolo said the world's top tech companies got where they are because open competition with rivals forced them to develop better products and attract the best human capital.

And being plugged into the world tech ecosystem encouraged them to constantly tailor products to evolving market needs to stay ahead of the pack — or die.

"It's incredibly hard to wean yourself off foreign suppliers in such a highly market-driven sector where you must be on the cutting edge, and that edge is constantly changing and moving outward," Triolo said.

The very idea of national self-reliance flies in the face of reality, he adds. Different countries have excelled in different areas and focused on their core competencies to survive, leading to a complex and interconnected global supply chain. "The US has a lot of dominance, but there are other big players too. China simply can't be an island and recreate a whole globalized technology ecosystem at home," Triolo said.

SHANGHAI: An employee shows a Phantom DJI drone at a store in Shanghai yesterday. —AFP

"To reduce dependence they will have to take a different paradigm from the rest of world and that's tough. It's not something money is going to solve over the short-term." On Friday, a Chinese vice minister told reporters in Beijing the government would increase support for innovation, investment in technology, and "letting the market play a decisive role." But the comments also stressed a more active state role as well.

Software glitch

Software is another glaring weak spot. As in the rest of the world, there is no viable alternative in China to Microsoft and Apple on personal computing systems — or to Google's Android or Apple's iOS on mobile phones. US companies also dominate the Chinese landscape for enterprise software. The United States suspects Huawei has ties to China's military and fears the company's installation of telecom networks worldwide could put sensitive data at risk. Huawei denies the charges.

But Chinese software shortcomings leave Huawei vulnerable even on these global networks — the company relies heavily on US software to power them, Triolo said. "A database has to be really robust and no company in China can do that database software," he said. China could nonetheless be a formidable player in next-generation technologies like artificial intelligence, driverless cars and automated manufacturing.

Xi's government has singled out such futuristic technologies for state development — a program partly responsible for triggering US pushback on tech. "We believe China is in a commanding position to become a far more influential player in disruptive technologies globally," said Kenny Liew, a tech analyst with Fitch Solutions. —AFP

Nigerian president signs $29bn 2019 budget into law

ABUJA: Nigerian President Muhammadu Buhari signed an 8.9 trillion naira ($29 billion) budget for 2019 into law yesterday. Approved by lawmakers last month, the budget is based on estimated oil production of 2.3 million barrels a day, an assumed crude price of $60 per barrel and an exchange rate of 305 naira to the dollar.

Nigeria's economy, the largest in Africa, grew by 1.93 percent last year, its fastest pace since a recession two years earlier which was caused by the impact of low oil prices. The continent's top oil producer relies on crude sales for about 90 percent of its foreign exchange.

The planned deficit of 1.9 trillion naira represents 1.37 percent of GDP. Buhari is due to be inaugurated for a second four-year term on Wednesday. He won re-election in February after pledging to revive the economy, improve security and tackle corruption. Last month the upper house of parliament increased the budget by 80 billion naira to 8.9 trillion naira, up from the 8.83 trillion naira presented by Buhari to lawmakers last year. —Reuters

China says any US trade talks must be based on 'mutual respect'

BEIJING: China yesterday said any US trade talks must be based on "mutual respect" and equality after President Donald Trump said there was a good chance of clinching a deal.

"We always believe that any differences between any two countries should of course be resolved through friendly negotiations and consultations," Chinese foreign ministry spokesman Lu Kang said at a regular press briefing. Trump said yesterday said there was a "very good" chance of clinching a trade deal with China as the world's top two economies clash over their trade relationship.

"I think sometime in the future, China and the US will have a great trade deal and we look forward to that," Trump said after talks with Japanese Prime Minister Shinzo Abe in Tokyo.

His remarks came just two weeks after trade tensions reignited when Trump more than doubled tariffs on $200 billion worth of Chinese merchandise-sparking retaliation from Beijing-and threatened further levies that could affect nearly all of China's remaining exports to the US. "We have seen different statements being made about the Sino-US economic and trade consultations by (different entities) including high-level people in the US," Lu said.

"Sometimes it is said that an agreement will be reached soon, and sometimes it is said it's difficult to reach an agreement," he said. The spokesman said that China's position has "remained consistent".

"We have also always insisted on consultations between China and the United States, including economic and trade consultations, which must be based on mutual respect, equality and mutual benefit." —AFP

Renault-Fiat merger a tempting match as challenges mount: Experts

PARIS: The prospect of a merger between French carmaker Renault and Italian-US auto giant Fiat Chrysler received a warm welcome yesterday, with analysts hailing the idea as an ideal fit for two companies who must keep up in the highly competitive industry.

The 50-50 combination offered by Fiat, which sells 4.8 million vehicles a year, would create the world's third-biggest automaker by adding Renault's sales of 3.8 million. And with the sales by Renault's Japanese partners Nissan (5.6 million) and Mitsubishi (1.2 million), the group would become a globe-spanning powerhouse selling nearly 16 million cars a year-or one out of six sold worldwide.

That would offer huge economies of scale as the companies grapple with the shift to electric and hybrid vehicles amid a crackdown on carbon emissions in their core European markets.

"Obviously the race for size is one of the essential features of this merger project," a source close to the talks told AFP. The industry is spending billions to develop new technologies, but analysts expect further efforts will be needed as more governments pledge to tackle pollution.

"Carmakers have invested 25 billion euros ($28 billion) on electrifying their fleets over the past eight years, and it's going to be 10 times that amount, 250 billion euros, over the next eight years," said Laurent Petizon, an analyst at Alix Partners.

That compares with Renault's sales of 57.4 billion euros last year, and Fiat's revenue of 110 billion euros.

Little overlap

But Fiat Chrysler has lagged far behind on e-vehicles and is facing heavy fines from the European Commission if it cannot reduce its cars' emissions in line with tougher standards being imposed on the continent. "Fiat hasn't invested anything in this sector," said Ferdinand Dudenhoeffer, director of the Centre for Automotive Research based in Germany.

In a tacit admission of the problem, Fiat announced last month a deal with US-based Tesla to buy carbon dioxide credits, allowing it to escape the EU fines.

Renault by contrast has long been a leader in electric cars, with its Zoe hatchback one of the industry's best sellers. And this year Renault introduced a hybrid version of its popular Clio sedans.

Yet Renault has long been absent from the North American market, the world's second largest after China, where Fiat has built up a strong position since the purchase of Chrysler.

Fiat now generates roughly half of its sales across the Atlantic, and has benefited from Chrysler's expertise in trucks and SUVs with the Dodge, Ram and Jeep brands.

But Renault offers Fiat the chance to expand into Russia, where it now generates around a fifth of its sales.

Global reach

Renault's long partnership with Japan's Nissan and Mitsubishi would also help cut Fiat's reliance on Europe, where its overall market share has fallen to just 4.6 percent as of last year, from six percent in 2010. Together, Renault and Fiat Chrysler would be the second-biggest player in the Europe, Middle East and Africa segment, number four in North America, and the leader in Latin America.

TURIN: The Lingotto building, headquarters of Fiat Chrysler Automobiles (FCA) company is pictured yesterday in Turin, northern Italy. French and Italian-US auto giants Renault and Fiat Chrysler are set to announce talks on an alliance, with a view to a potential merger, informed sources said yesterday. —AFP

A merger could also provide Renault with a solid partner in case of further turbulence with Nissan, whose executives have resisted the deeper integration sought by former Renault chief Carlos Ghosn.

Ghosn's shock arrest in Tokyo last November threw the alliance into turmoil despite public displays of support from both sides, raising questions about whether the two companies would maintain their cross-shareholdings. A deal with Fiat could give Renault more weight in any discussions with Nissan, which has grown into the bigger and more profitable player in their alliance, even when Ghosn remained firmly in the driver's seat. But for now the Renault-Fiat project "leaves the door open for Nissan," a source close to the talks said. —AFP