

CONSULATE GENERAL OF INDIA
SAN FRANCISCO

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Important Commercial News – May 2013

**1 US economy grew at 2.5% rate in the first quarter:
Commerce department**

US economic growth regained speed in the first quarter, but not as much as expected, which could heighten fears. The already weakening economy could struggle to handle deep government spending cuts and higher taxes. Gross domestic product expanded at 2.5 percent annual rate, the commerce department said, after growth nearly stalled at 0.4 percent in the fourth quarter. The increase, however, missed economists' expectations for a 3.0 percent growth pace.

Part of the acceleration in activity reflected farmers' filling up silos after a drought last summer decimated crop output. Removing inventories, the growth rate was a tepid 1.5 percent. Given the smaller-than-expected increase and signs the economy has weakened in recent weeks, the GDP data will probably weigh on US stocks. It could also give ammunition for the Federal Reserve to maintain its monetary stimulus.

The US central bank, is widely expected to keep purchasing bonds at a pace of \$85 billion a month. Data ranging from employment to retail sales and manufacturing weakened substantially in March after robust gains in the first two months of the year.

Broad-based gains

The GDP report showed contributions to growth from all areas of the economy, with the exception of government, trade and investment by businesses in offices and other commercial buildings. Consumer spending, which accounts for more than two-thirds of US economic activity, increased at a 3.2 percent pace - the fastest since the fourth quarter of 2010. It grew at a 1.8 percent rate in the fourth quarter of last year.

However, households cut back on saving to fund their purchases after incomes dropped at a 5.3 percent rate in the first quarter - a bad sign for future spending growth. The drop in income was the largest since the third quarter of 2009. The saving rate - the percentage of disposable income households are socking away - fell to 2.6 percent, the lowest since the fourth quarter of 2007, from 4.7 percent in the fourth quarter of 2012.

Much of the gains in first-quarter spending came from automobile purchases and outlays for utilities, which were boosted by unusually cold temperatures. Consumers managed to step up their spending despite the return of a 2 percent payroll tax and higher gasoline prices. Despite the spike in gasoline prices, inflation pressures were benign in the first three months of the year.

An inflation gauge in the government's GDP report rose at a 0.9 percent rate, the smallest increase since the second quarter of 2012. The personal consumption expenditure index had increased at a 1.6 percent pace in the fourth quarter. A core measure that strips out food and energy costs rose at a 1.2 percent rate, still well below the Fed's 2 percent target. Core PCE had increased at a 1.0 percent rate in the fourth quarter.

The lack of inflation should come as welcome relief for American households, but it could cause some nervousness at the US central bank, which may see it as a symptom of the economy's weakness. Another big contributor to growth in the

fourth quarter was inventory accumulation, which added a full percentage point to GDP growth after chopping off 1.5 points from output in the final three months of last year.

Business spending on equipment and software slowed sharply, growing at an only 3.0 percent rate after a brisk 11.8 percent pace in the fourth quarter. Economists caution that it is too early to blame the cooling in business investment and other more recent signs of economic softness on the \$85 billion in mandatory government spending cuts, known as the sequester, that began on March 1.

Homebuilding marked an eighth straight quarter of growth, though the pace moderated from the fourth quarter. Housing added to growth last year for the first time since 2005 and its recovery should help ensure the economy does not contract. While export growth rebounded, it was outpaced by imports, resulting in a trade deficit that cut off half a percentage point from output.

2 Jerry Brown Stays Stern on California's Budget Surplus

Releasing a new budget proposal on May 09, 2013, California Governor Jerry Brown didn't bask in the glow of the \$850 million budget surplus he predicts for the end of next year. Despite the bounty, Brown's new budget preaches restraint, focusing on prioritizing education spending and paying down debts.

As Joel Stein wrote in our recent cover story, Brown's "unsentimental, grown-up leadership" is chipping away at the state's most intractable problems. In November, 2012, California listened to Brown and passed a \$6 billion tax hike, largely through an income tax on the wealthy (though it also included a sales tax increase that everyone pays). In January 2013, Brown proposed a budget that had long been unthinkable: A boost in collected and projected taxes let the state run a surplus.

In California, the governor first proposes a budget in January, and then updates it in what's called the "May Revise," which is based on new revenue and economic outlooks. The legislature then has until June 15 to pass a final budget that the governor will sign. Brown's "May Revise" trims spending slightly, from \$97.7 billion in the January proposal to \$96.4 billion now. He did this in part because the federal government didn't extend the 2 percent payroll tax reduction that expired in January and he doesn't want the state to bank on income that won't be there later.

Now that the state isn't in dire straits, Brown's new budget gives an additional \$2.9 billion for K-12 schools and community colleges, and it focuses on prioritizing how the state funds education. If Brown's budget is approved, school districts would get more flexibility in how they spend their money; controversially, the formula for divvying up funding would become more progressive. Brown wants 80 percent of school funding to be split on a standard per-student basis, which would be the same across the state, but the remaining 20 percent will be focused on funding schools and districts with higher portions of students who are poor, in foster care, or are English-language learners.

The budget also tries to knock down what Brown calls the "wall of debt," built by borrowing and budget tricks state legislators used over the years to "balance" the budget. The wall of debt totaled about \$35 billion in 2011, and Brown's budget aims to reduce that to \$5 billion by the end of the 2016-17 budget year.

With the focus on education and paying down debts, other problems in the state go unaddressed. State courts, for example, have had to dramatically pare back services and delay cases; they won't get extra funding. The state prison system, which is fighting court orders to improve medical care or reduce its number of inmates, won't get more money, either.

Brown now heads into a month of budget negotiations with state legislators, who have already hinted they'd like to see more spending. Of course, as Brown has reminded lawmakers, he must approve any final budget.

3 Indians lobby hard for a slice of immigration pie

From corporate America to Indian techies to Indian-Americans with family ties to their native land - all are lobbying hard to influence changes in the proposed immigration law that has started moving through the US legislative labyrinthine.

Concerned that some "aggressively protectionist" provisions in the bipartisan legislation proposed by the so-called Senate gang of eight would adversely affect US-India trade ties, a leading association of over 300 US firms doing business with India is engaging a lobbying firm as it once did to push the landmark India-US nuclear deal. The US-India Business Council (USIBC) argues that the proposed ban and restrictions on client site placement of H1B and L1 workers respectively and a limit on their total percentage in a company's workforce in the US would disproportionately affect Indian-born, highly-skilled workers.

The proposed caps on H1B visas will instead put a cap on economic growth in both the US and India, USIBC officials argue, and place the US at a relative disadvantage in the global marketplace driving away skilled workers elsewhere, including to Canada and Europe. Noting that US-India two-way trade has crossed \$100 billion, they suggest that the bill would drive a wedge between the two countries with "irrevocably intertwined economies" undermining economic growth for both nations.

The bill proposes raising the current base cap for H-1 B visas from 65,000 to 110,000 and eventually to 180,000 based on a formula that includes whether the cap is met each year and the number of unemployed high-skilled workers. But it also imposes a hard limit of 50 percent on H-1B and L-1 workers that could make up a company's workforce in the US from October 2016 onwards and increases the visa application fee from the current \$2,000 to up to \$10,000 for employers with more than 50 percent and less than 75 percent such workers. Both USIBC and the Confederation of Indian Industry (CII), both argue that thus essentially targeting Indian firms operating in the US with restrictions or fees is contrary to the spirit of the US- India strategic partnership.

Concerned about the potential to apply new rules in a discriminatory manner against Indian companies, the National Association of Software and Services Companies (Nasscom) too is planning to engage a lobbying firm to make its case on the Capitol Hill, the seat of the US Congress.

Business world, top US tech firms are waging a sophisticated lobbying campaign to make it harder for Indian consulting companies to provide temporary workers and instead "allow them to fill thousands of vacant jobs with foreign engineers," according to a report in the New York Times.

4 Data traffic grows in India but Internet cos Google, Face-book, Amazon open data centers in Singapore

India is witnessing an explosion of data thanks to millions of smartphone and internet users spending endless hours networking on Facebook, microblogging on Twitter and watching and uploading videos on Youtube. However, the custodians of such data - Google, Facebook, or Amazon - do not yet have any data centers here. A few weeks ago in April, technology company Oracle opened a data centre in Singapore to offer its business-software as a service to customers in South Asia. Google, whose video-sharing website Youtube is witnessing unprecedented growth in India, is only months away from opening its data centre in Singapore.

Besides them, several other large global companies, including Rackspace, Amazon, Godaddy, Citrix, Cisco and Microsoft, have all set up their data centres in the city state over the past two years to meet storage needs in the Asia-Pacific region, including India.

At the end of March, 2013 Facebook had 78 million active users in India, a growth of 50% from a year ago but the social networking portal does not own a data centre in the country still. "With regard to considering Asia or India as a destination, we're always evaluating potential new sites as we expand our

infrastructure, but we don't have anything else to announce," a spokesman said. Technology market researcher Garner estimates Indian data centre footprint at 4 million square feet, and estimated to grow to 6.6 million sq ft by 2016, with service providers driving majority of the growth. In terms of market size, it is projected to grow to \$3 billion (Rs 16,320 crore) from \$2.2 billion (Rs 11,960 crore) in the same period.

5 Myntra acquires San Francisco-based firm

Online fashion and lifestyle products retailer Myntra has acquired San Francisco-based technology platform provider FITIQUETTE for an undisclosed sum. "This acquisition will strengthen and expand Myntra's technology platform and drive transformational change in online shopping space in India by providing world-class experience to its customers," the company said in a statement.

FITIQUETTE's technology innovation aims at solving size and fit issues for online shoppers. While the company did not disclose the financial details of the deal, it said: "the acquisition was part cash, part stock".

Commenting on the acquisition, Myntra CEO & co-founder Mukesh Bansal said: FITIQUETTE has developed pioneering technology for solving the Fit/Size problem online. This acquisition would not only help us improve the experience significantly, but will also enhance our technology team with the addition of top tech talent from FITIQUETTE. FITIQUETTE CEO and co-founder Andy Pandharikar said the acquisition will benefit Myntra's vision of providing world-class solutions to online shoppers across the country.

The FITIQUETTE team will be joining Myntra with Andy heading Myntra's newly formed Innovation Labs in San Francisco, the company added.

6 'India Can Dominate U.S. Mango Market'

Amid indications that the US would allow import of Indian mangoes this season, a leading American trade body said that the Indian varieties of the delicious fruit was likely to dominate the 2.50-lakh tonne US market if import was allowed.

"Since the news about the possibility of import of Indian mangoes to the US appeared, we have been getting frequent queries from speciality grocery stores as well as transporters," spokesperson of the United States Indian Business Council (USIBC) said. The spokesperson said although US consumers were relatively unfamiliar to mangoes, in recent years the fruit was getting popular, following import from mainly Mexico.

As a result, the Mexican variety of mango dominated the US market which has a size of 2.5 lakh tonne annually. "Mexican mangoes, however, do not compare in terms of sweetness and varieties offered by the Indian mangoes," the spokesperson said. USIBC has been steadily building up a case for allowing import of Indian mangoes to the US in recent years. As part of the same exercise the Council planned to organize the first-ever 'Indian Mango Tasting Festival' at its Global India Summit to be held in Washington from June 27.

Union commerce minister Kamal Nath and a number of important names of Indian business including Reliance chairman Mukesh Ambani, FICCI president Hari Khorakivala and Tarun Das of CIL, are scheduled to attend the summit. A business delegation from West Bengal led by Industry minister Nirupam Sen would also attend the summit.

When an American business delegation led by USIBC President Ron Somers had last month called on West Bengal Chief Minister Buddhadeb Bhattacharjee, he had made a special request to them to work on allowing import of Indian mangoes to the United States. Indian mangoes have never been allowed to be exported to the US because they have not undergone pests risk analysis.

A major breakthrough was achieved last year when an agreement was signed between the US Department of Agriculture and the Indian Department of Agriculture and Co-operation to resolve a 17-year old trade dispute on potential pests and disease. It agreed on a framework outlining fundamental requirements for bilateral trade of commodities treated by irradiation.

The USIBC spokesperson said that subsequently, the US Department of Commerce and the Department of Agriculture have been actively clearing the way for Indian mango import this season. The Council's member companies have been spearheading private sector lobbying to ensure that the import of Indian mangoes was allowed this season beginning in a month now.

7 US Ambassador calls for more collaborative projects between native industries and those in US

United States Ambassador to India Nancy Powell inaugurated the American Business Corner (ABC) in Patna on May 13, 2013 and called for more collaborative projects between native industries and those in her country. Powell said that American Business Corner is designed in such a way that it would help anyone who wants to trade with the U.S.

The A.B.C (American Business Corner) in partner would act as a clearing house to connect Bihar based companies with US companies interested in doing business here. The activities of this ABC will include dissemination of catalogues of US products to potential buyers and the staging of workshops like cold chain logistics programme that was jointly organized by ABC and sponsored by the ICC (Indian Chambers of Commerce) and US commercial service, Powell said. She added that the U.S. would provide all kinds of technological assistance to the businessmen in Bihar.

Similarly, US will welcome ideas from industries here in Bihar about the technologies that they need in specific sectors and how US can work best with Bihar to provide such access. Moreover, due to the synergies existing between ICC, the Bihar industries association, the Bihar chambers of commerce and the confederation of Indian industries, US Ambassador believes the potential and the effects of the American business corner in Bihar will expand significantly.

The mission of the American Business Corner is to increase trade and commerce by helping US small sized companies to find commercial partnerships that would increase trade between different Indian states and the US.

Earlier when President Obama visited India in the year 2010 he along with Prime Minister Manmohan Singh had announced their intention to develop a Framework for Cooperation on Trade and Investment. This Framework was expected to foster an environment conducive to technological innovation and collaboration, promote inclusive growth and job creation, and support opportunities for increased trade and investment - including for small and medium-sized enterprises. (ANI)

8 Trade Enquiries:

The following companies and individuals approached this office for the trade related enquiries. The appropriate replies were sent to each one of them.

- a Mr. Akshay from Mumbai
- b Mr. Tanner Kyle, California
- c ALS Exports, Coimbatore
- d Jordan Herbals, India
- e Le Bonhenur Impex International, Pondicherry
- f Landis Rhonda, Arizona
- g Swati Utensils, India
- h Vision A Ray, Mumbai
- I Sbabu Imports & Exports, Tamil Nadu
- J Jack Schumann, San Diego, CA

9 Trade Disputes:

This Consulate was approached by Mr. S.C. Bhatti of Industrial Trade and Development Company, California, regarding the advance paid to an Indian Company and did not receive the materials. The Consulate is in process of collecting more information in respect of this case.

This Consulate was also approached by M/S Jobs International of Navi Mumbai for non receipt of payment against the goods shipped under CAD basis to M/S

BDS Natural Products of Carson, CA. We have written to the Pacific Mercantile Bank for the status of the payment.

10 Trade Delegations:

The following trade delegations visited the jurisdiction of this office from India during this month:

Mr. T.S. Rao of Ministry of Science and Technology visited Seattle, WA from May 04-09, 2013.

No US delegation visited India from the jurisdiction of this Consulate during this month.

11 Tourist / Business visas

This Consulate issued 4464 Tourist and 1260 Business visas during the month of May, 2013.

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