The Exponent Group of Journals For Shares And Stock Market

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The EXPONENT GROUP OF JOURNALS

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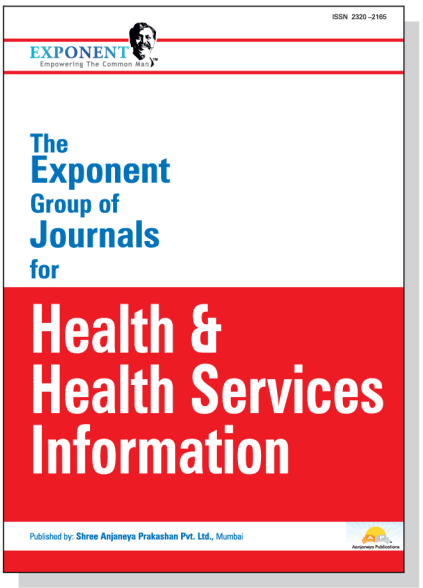
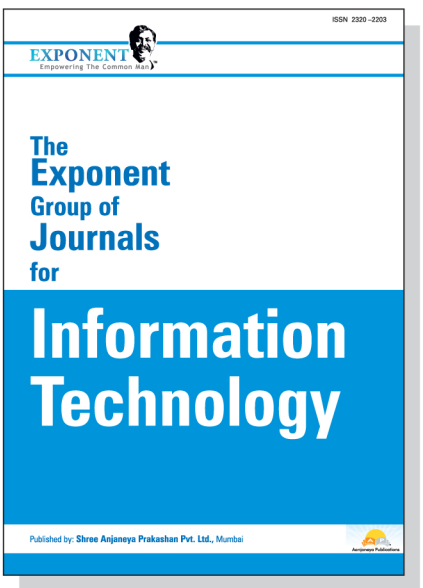
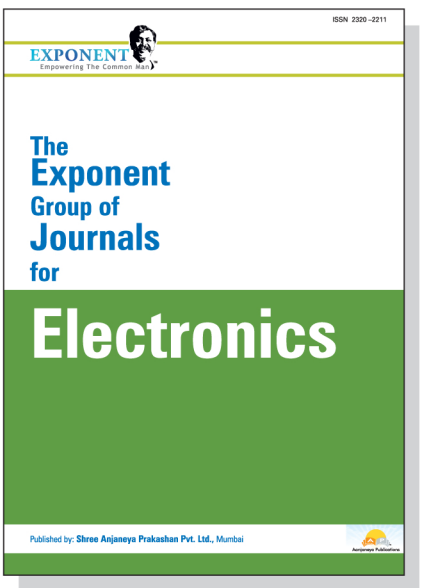
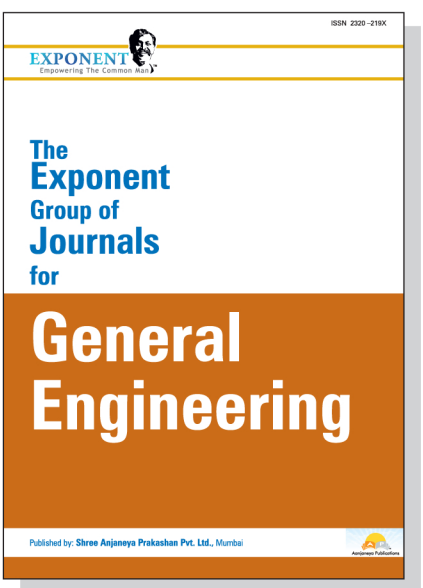
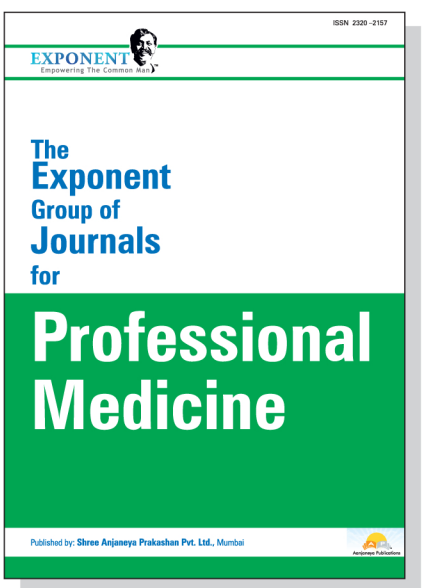
The Exponent Group of Journals

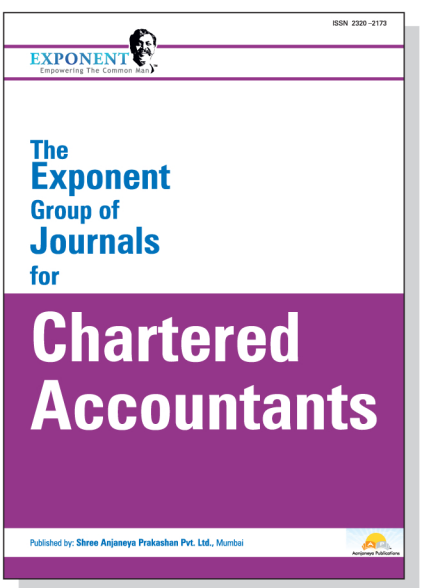












Editorial

- Prashant Talpade

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November 2016 was about major events not just in India but even USA. On the evening of 8th November, Prime Minister Narendra Modi carried out a surgical strike on black money by eliminating old Rs 500 and Rs 1000 currency notes from circulation. While in USA ,RepublicanDonald Trump defeated Democraticnominee Hillary Clinton to become the 45th President of USA.

Demonetization was a bold and historic decision taken primarily to curb black money that was being used to fund terrorism. The black market which is mainly cash drivenwas badly affected. In addition, the shortage of lower denomination notes affected trade across different sectors of the economy. In this edition we will see what is black money, its sources and its effects on economy. We have also explained the impact of Demonetization on the stock market and various sectors.

Donald Trump's America first policy and changes to the H-1B programcould adversely affect Indian IT companies and other professionals. Trump is keen on reducing the outsourcing of jobs and giving priority to Americans, hence the decisions that he takes shall have an effect on our economy. In this edition we take a look at how Trumps presidency can affect India.

We also take a look at how the Union Budget is prepared and presented. Union Budget 2017 will be unique as it ends the 92 year old practice of separate railway budget.

Lastly we take a look at advantages and disadvantages of investments in international mutual funds.

What is Black Money

- Sanjay Thakkar

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Black money is a term used in common parlance to refer to money that is not fully legitimate in the hands of the owner.

This could be for two possible reasons.

1. First is that the money may have been generated through illegitimate activities not permissible under the law, like crime, trafficking (human, drugs, arms), terrorism, and corruption, all of which are punishable under the legal framework of the state.
2. Second and perhaps more likely reason is that the wealth may have been generated and accumulated by failing to comply with the tax requirements.

Although black money in India is decades old problem, it has become real threat post liberalization. Illegal activities such as crime and corruption, non-compliance with taxation requirements, complex procedural regulations, cultural and social practices, globalization along with weak institutional, policy, legal and implementation structures have further augmented the black money economy.

Concept of Black Money

Black money is tax-evaded income. It can be earned both through legal and illegal means. Its legitimate source is that the income-earners do not reveal their whole income for tax purposes.

For example, government doctors earning money by private practice even when they get non-practising allowance; teachers earning money through tuitions, examinations and book royalty and not including it in income-tax returns; advocates charging much higher fee than shown in their account books, and so forth. Its illegitimate source is bribe, smuggling, black-marketing, selling commodities at prices higher than the controlled prices, taking pugree for house, shop, etc., selling house at a high premium price but showing it at much lower price in the account books, and so on.

It is possible to convert black money into white money and vice versa. For example, when a person manages to get the receipt from the shopkeeper by paying sales-tax for a commodity but does not purchase it actually, he generates black money as reimbursement is made to him against the receipt.

The money not actually paid is the black money in this case. In such case, the shopkeeper sells the same commodity to another person without giving him any receipt for it.

On the other hand, if a person purchases second-hand car and pays Rs. 90,000 for it out of white money but gets a receipt of only Rs. 60,000, the balance of Rs. 30,000 becomes black money for the seller. In this case, white money becomes black money.

Magnitude of Black Money

It is not easy to calculate the magnitude of black money in any society. The economists in the United States, the United Kingdom, Norway, Sweden and Italy adopted different measures but could not estimate the amount involved in black money.

Norway and Sweden used questionnaire method for eliciting answers from persons whether they had participated in illegal activities as buyers or sellers.

Italy attempted to estimate the underground economy by finding out the difference between the size of the labour-force officially reported and actually employed. This enabled the authorities to determine productivity in the under ground sector.

The United Kingdom tried to assess parallel economy by comparing the official estimates of the Gross National Product (GNP) made from the consumption side with those made from the income side.

In spite of the varied methods used, it is not possible to estimate the magnitude of black money in a society, even though it is described as a world-wide phenomenon.

It is said to be in operation not only in the developing countries but also in the developed countries like the United States, the United Kingdom, Russia, Japan, Canada, France, Germany, etc.

A study conducted by the IMF about a decade and a half back showed that in regard to the size of the underground money, India holds the first rank followed by the United States and Canada having the second and the third ranks.

Though it is quite difficult to estimate the quantum of black money with accuracy but many attempts have so far been made in India for quantifying it and in most of the cases the findings appear to be far from reality.

However, most of such studies undertaken in our country in recent years put the quantum of black money in the neighbourhood of 40 per cent of gross domestic product (GDP).

Accordingly, Indian Institute of Public Finance and Policy (IIPFP) finds that out of the total amount of black money, 48 per cent is generated from evasion of personal income tax alone, 28 per cent from under-reporting of production and 18 per cent from under- registration of immovable property so that these three main components exhaust about 94 per cent illegal income generation.

Guesstimates based on 'Global Financial Integrity' claim that the amount exceeds 'USD 1.4 trillion' in total.

Swiss Bankers Association and the Government of Switzerland thrashed the reports & said that the total amount held in all Swiss banks by citizens of India is about 'US$2 billion'.

In February 2012, the director of India's Central Bureau of Investigation said that Indians have US$500 billion of illegal funds in foreign tax havens, more than any other country.

In March 2012, the government of India clarified in its parliament that the CBI director's statement on $500 billion of illegal money was an estimate based on a statement made to India's Supreme Court in July 2011

Sources of Black Money

As discussed above the sources of black money are broadly of two categories- illegitimate activity and tax evasion even if the activity is legitimate.
In particular following are some of the mechanisms through which black money is circulated, utilized and the profits earned are further invested in other sectors to generate further money.

1. Real estate: Due to rising prices of real estate, the tax incidence applicable on real estate transactions in the form of stamp duty and capital gains tax can create incentives for tax evasion through under-reporting of transaction price.
2. Bullion and jewellery market: The purchase allows the buyer the option of converting black money into gold and bullion, while it gives the trader the option of keeping his unaccounted wealth in the form of stock, not disclosed in the books or valued at less than market price.
3. Financial markets transactions: IPO manipulations, rigging of market such as use of shell companies.
4. Public procurement: Public procurement has grown phenomenally over the years – in volume, scale, and variety as well as complexity. The Competition Commission of India had estimated total public procurement figure for India at around 10 to 11 lakh crore per year and provides ample scope of corruption due to rigged procurement process.
5. Non-profit organizations: Taxation laws allow certain privileges and incentives for promoting charitable activities which are misused and manipulated. Highlighted by FATF as well. Used to park funds of corrupt politicians and businessmen.
6. Informal Sector and Cash Economy: Cash transactions, large un-banked and under-banked areas contribute to the large cash economy in India.
7. Trade-based Money Laundering (TBML): Disguising the proceeds of crime and moving value

through the use of trade transactions in an attempt at legitimizing their illicit origins.

8. Tax Havens: Tax havens are typically small countries/ jurisdictions, with low or nil taxation for foreigners who decide to come and settle there. Strong confidentiality or secrecy regarding wealth and accounts, very liberal regulatory environment and allow opaque existence, where an entity can easily be set up without indulging in any meaningful commercial activity and yet claim to be a genuine business unit, merely by getting itself incorporated or registered in that jurisdiction. This makes them highly desirable locations for multinational entities wishing to reduce their global tax liabilities. Multinational entities consisting of a network of several corporate and non-corporate bodies set up conduit companies in tax havens and artificially transfer their income to such conduit companies in view of the low tax regime there.
9. Investment through Innovative Derivative Instruments: Such as Participatory Notes (P-notes).
10. Hawala: It is an informal and cheap method of transferring money from one place without using banks etc. It operates on codes and contacts and no paperwork and disclosure is required.

Detrimental to economic health:

There is a distortion in investment in economy. With black money the investment is made in high end and luxury goods.

Huge loss of taxes amounting to billions.
Black money leads to further corruption by creating a vicious cycle.

Generating black money means that quality is compromised in public sector projects where black money is used to manipulate tenders and offer kickbacks.

Investments that must have been made in the country giving the necessary boost to economy are invested elsewhere.

Since, RBI cannot control the black money cash flow in economy, it dilutes its policies targeting inflation.
High prices of real estate especially in big cities are due to deep pockets filled with black money.

Forward trading of goods by cash rich speculators cause fluctuation in prices due to hoarding.

National security is threatened because black money is used to finance criminal activities. Black money generated from drugs and smuggling is being used to operate terror networks.

Steps taken by government to curb black money generation and flow:

Tax Reforms: Tax deduction at source in which the tax is deducted from the payment itself by the payee.

Voluntary Income Disclosure Schemes: The government allows reporting black money generated through tax evasion in a given time frame.

Removing currency after certain time: So that unaccounted wealth is either brought into economy or becomes useless.

Encouraging Cashless transactions: Government has recently announced tax benefits for making online payments.

Legislative Framework:

Prevention of Money Laundering Act, 2002 (amended multiple times latest in 2012)

Lokpal and Lokayukta Act

Prevention of Corruption Act, 1988

The Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015

Benami Transactions Prohibition Act, 1988 amended in 2016

The Real Estate (Regulation and Development) Act, 2016

International Cooperation:

Multilateral Convention on Mutual Administrative Assistance in Tax Matters

Financial Action Task Force

United Nations Convention against Corruption

United Nations Convention against Transnational Or-

ganized Crime

International Convention for the Suppression of the Financing of Terrorism

United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances

Egmont Group for international intelligence gathering regarding money landing and terrorism financing

Cooperation through G20, Bilateral agreements.

Recent Steps

1. With the aim of unearthing black money stashed abroad, parliament has passed the Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015, in the parliament. Salient features of the Bill are as follows

- Tax on all foreign income will have to be paid at the flat rate of 30 per cent without any exemption, deduction, and set off or carry forward losses that the Income Tax Act permits.
- Enhanced punishment of jail for 3-10 years for willful evasion of tax on foreign income along with a penalty equal to three times the amount of tax evaded or 90 per cent of the undisclosed income or the value of the asset.
- One - time compliance opportunity: A one-time compliance opportunity to persons who have any undisclosed foreign assets (for all previous assessment years) will be provided for a limited period.Such persons would be permitted to file a declaration before a tax authority, and pay a penalty at the rate of 100%.
- Bill empowers the Centre to enter into agreements with other countries for the exchange of information, recovery of tax and avoidance of double taxation.

2. India is aiming to establish a real time automatic information sharing system by 2017. It seeks to enter into Multilateral Competent Authority Agreement (MCAA). To implement the MCAA, government has amended the IT Act, 2008.
3. Under pressure from India and other countries, Switzerland has made key changes in its local laws governing assistance to foreign nations in their pursuit of black money allegedly stashed in Swiss banks. These amendments, would allow India and other countries to make 'group requests' for information about suspected black money hoarders. Switzerland has disclosed certain names to Indian authorities too.

4. Special Investigation Team (SIT) appointed by government on the directions of Supreme Court on black money.

5. Demonetization: Demonetization is a currency side step. That itself will not fight black income. The most important policy should be tax administration where the tax authorities can monitor expenditure and matching it with income of the respective individuals.

Analysis of the Recent steps by Government

In 1997 the amnesty scheme for black money holders got declarations of around Rs 33,000 crore and taxes collected amounted more than Rs 10,000 crore.

At present under the Income declaration scheme, Rs 65,250 crore of undisclosed assets were declared in one time compliance window, yielding Rs 29,362 crore in taxes.

Way forward

The black money menace is still untamed and lot more needs to be done to tackle it. Some of the strengthening steps that can be taken are:

1. Appropriate legislative framework related to: Public Procurement, Prevention of Bribery of foreign officials, citizens grievance redressal, whistle blower protection, UID Adhar.
2. Setting up and strengthening institutions dealing with illicit money: Directorate of Criminal Investigation Cell for Exchange of Information, Income Tax Overseas Units- ITOUs at Mauritius and Singapore have been very useful, Strengthening the Foreign TAX, Tax Research and Investigation Division of the CBDT.
3. Developing systems for implementation: Integrated Taxpayer Data Management System (ITDMS) and 360-degree profiling, Setting up of Cyber Forensic Labs and Work Stations, implementation of Goods and Services Tax and Direct Tax Code.
4. Imparting skills to personnel for effective action: Both domestic and international training pertaining to the concerned area. For instance, the Fi-

nancial Intelligence Unit-India makes proactive efforts to regularly upgrade the skills of its employees by providing them opportunities for training on anti-money laundering, terrorist financing, and related economic issues.

5. Electoral Reforms: Elections are one of the biggest channel to utilize the black money. Appropriate reforms to reduce money power in elections.

Thus, a holistic and all round attack from within and outside the country is the need of the hour. India should quickly take up appropriate reforms at home that will aid in curbing the black money generation and circulation in the country along with the use of bilateral and multilateral mechanisms to deal with round tripping and stashing of money outside the country.

Demonetisation

- Girindra Vasudeo

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A month plus into India's demonetisation initiative, long lines of people looking to exchange notes still spew out of banks, some sectors of the economy continue struggling with the lack of readily available cash, grassroots businesses are still being revolutionized with electronic payment capabilities, and masses of people continue transitioning towards new ways of paying for basic goods and services.

On 8th November 2016, 86% of India's currency was nullified in a great demonetisation effort that aimed to clean out the black market's cash supply and counterfeit notes which completely disrupted the social, political and economic spheres of the world's second largest emerging market. All 500 and 1,000 rupee notes were instantaneously voided and a 50-day period ensued where the population could (ideally) redeem their cancelled cash for newly designed 500 and 2,000 rupee notes or deposit them into bank accounts.

India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. In 1978, 1,000, 5,000 and 10,000 rupee notes were demonetised.

This recent bout of demonetisation was planned in secret by a small, tight-knit group led by Prime Minister Modi and it overtook the country like a flash flood. This surprise was by design, as it was feared that if the black market caught wind of what the government was planning, they would find ways to rapidly unload their illicit cash and the initiative would flop on one of its initially-stated goals.

It is nearing two months since the high denomination notes were abruptly scrapped on 8th November 2016. About 85% of currency in value was converted into illegal tender and it became mandatory for you to deposit these old notes into your bank accounts by the year end. Of course the underlying assumption was that the old notes possessed by you were all "tax-paid" notes.

The plan has laudable aims. Its initial popularity was based on the idea that the greedy rich, with their ill-gotten "black money" stored in stacks of banknotes, will come to the surface. Those who cannot justify the sources of their wealth will face punitive taxes. It also aligned with Mr. Modi's manifesto pledge to normalize India's black economy, estimated by the World Bank in 2010 to be worth about one-fifth of official GDP. The idea is that India will become more efficient as more people and more money enter the banking system, counterfeit currency will become worthless, India's woefully low tax base will expand, and government coffers will enjoy a windfall of cash expropriated from the corrupt.

As so often, the burden of this reform has fallen most heavily on the poor. Over four-fifths of India's workers are in the "informal" sector, paid in cash. Untold numbers have been laid off because their employers cannot pay them. Tens of millions have queued for hours at cash machines and bank branches to get rid of the useless notes and get hold of some spending money. A new business has sprung up in laundering cash for a fee for those without the time or inclination to queue or with more notes than they can account for.

Cash is used for 98% by volume of all consumer transactions in India. With factories idle, small shops struggling and a shortage of cash to pay farmers for their produce, the economy is stuttering. There are reports that sales of farm products have fallen by half and those of consumer durables by 70%.

Apart from the noble intent of the government to counter

1. Black money
2. Fake money
3. Terrorist funding

the ramifications of this surgical strike led to the following:

- Apathy of poor/middleclass/rural people
- Slowing down of the economy
- Job losses of the daily workers/artisans etc.

The longterm effects of India's demonetisation gambit remain unclear, largely because no other major economy has attempted such an experiment except during a crisis. But with growth slowing and job losses, the short-term prognosis appears grim.

Whilst the country's economists are performing advanced mental gymnastics to defend this move, they themselves appear to be hazy in their mind about the path ahead.

India's economy with its intrinsic resilience will certainly recover in the long run but it has certainly impaired its progress in the short to medium term. The optimists, on the other hand, have said that it will eventually root out corruption, simplify the tax structure and lay the foundation for a growing robust economy. There is also a view that demonetisation will invigorate the sluggish banking sector with cheap funds. We need to pray with folded hands that the shortterm pain injected by withdrawing the old notes is really "short term" and will lead us to a dawn of uncorrupt and growing economy. A step in this direction is that the government mitigates the woes of the people by finding ways of printing new money more quickly.

The most interesting thing regarding the demonetisation is that people have devised various unique methods for transforming their black money into white one. Some of these methods are as follows:

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in long queues in front of banks and ATMs for getting money exchanged.
- Hiring people for a sum ranging from Rs.500/- to Rs.700/- for being a part of the long queues in front of banks/ATMs.
- Converting black money into gold.
- Paying a few months' salaries in advance.
- Paying back loans forcibly.
- Using their influence/links with bank employees, and so on.

We shall see a great impact of this move of the government on Indian society and economy. The first impact will be that people will have lower spending power, which would mean that they would only spend on necessities and avoid expenditure on luxury goods.

There will also be no ostentatious expenditure on weddings and other ceremonies. This will result in society growing less materialistic and more prudent. With counterfeit currency destroyed, the Indian economy will experience an upward swing. At the same time, there is a possibility that the real estate sector may suffer a downward spiral and crash.

Hopefully, all daily necessities of life will get cheaper and the Indian currency will earn respect in the international market. Terror-related funding will be curbed and therefore so will terrorist activities. Corruption will also be contained as people will stop accumulating "black money" and using it for unethical means.

As majority of the old notes have come back to the bank, it is imperative to investigate and ensure that no portion of these notes has been used to launder black money into banking channels. Those found guilty should come under the strictest punitive measures of the government.

Finally, we need to appreciate that only 25% of the currency prior to demonetisation is back in circulation. This is not allowing the economy to function properly. People are hoarding whatever new cash they have and this could result in "demand slow-

down" as people would postpone purchases. It will take some time for the currency in circulation to improve enough for the economy to get back on track.

There is very little doubt that the government will expedite the exercise of remonetisation by injecting new notes in the system to extricate the economy from going into a negative spiral. May our Indian economy come back on track at the earliest and sparkle on the global canvass like a shining star.

Effect of Demonetisation on Indian Stock Market

- Prashant Talpade

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On 8thNov, 2016, PM Narendra Modi announced the cancellation of Rs 500 and Rs 1000 notes (aka demonetization) which resulted in 86% of the circulated money being removed from the economy overnight. This was primarily done to curb the black money, make all the counterfeit currency worthless and attack terrorism at its roots.

To understand the impact on the stock market, let's first understand how significant a move this is. In the past many countries have attempted demonetization, some successfully and some unsuccessfully, but all of them were done when their economies were having major problems like hyper-inflation in Germany in the 1920s. This is the first time that a perfectly healthy economy has attempted it and that too to target black money. Because this is a first, there are varied opinions amongst economists on what the impact will be in the future.

The immediate impact of removing so much money from circulation is of course the impact it can have on several sectors that are driven by the black economy like real estate, construction etc, but more so also the sectors that are more driven by cash, because they are the first that are affected when so much money is suddenly removed from circulation.

Here is how the various sectors have been impacted after the demonetization move and what we think could happen in the future:

Real Estate

Since Real Estate is driven by the black economy, this was the sector that was probably the worst hit of all the sectors. The Nifty Realty index gapped down after the day of the demonetization move and corrected -25% (as indicated in the chart below, the NIFTYREALTY bounced of the Auto-SR very strong support of 152.5 on a weekly chart) before recovering a bit. It is still down almost -16% from 8th Nov.

Since many real estate properties have a big black money component, they are expected to go through at least a 20-30% correction, and hence for the foreseeable 2 quarters at least, chances are that this sector will probably go lower before it starts to improve.

Consumer Durables

This sector is primarily driven by cash and hence has also been hit hard. It is down by almost 11.7% since the demonetization announcement.

Banking

The Banking sector took an immediate hit the day after the announcement but recovered on Nov 10th. But, it has been subsequently correcting as it is still grappling with trying to replenish the cash in the economy. However, this is one sector which is expected to benefit in the long term because a lot of the black money will be deposited in bank accounts and the excess funds in the banking system will also help address the non-performing assets (NPA) problem that many of the banks are facing due to bad loans. Due to these NPA problems, a lot of the infrastructure funding etc has also been affected and hopefully, that should also be addressed when the current cash crunch is reduced and economy claws back to normalcy.

Infrastructure

The infrastructure sector is driven by massive investments from government as well as loans from banks. One of the healthy effects of demonetization is to increase the liquidity in the banking system as well as increase the funds that the government has for

spending on items like infrastructure, welfare etc, so the Infrastructure is an obvious beneficiary of that. The fact that the NIFTYINFRA index has not been affected much (as is confirmed by the fact that it is up marginally since Nov 8th in the chart below):

Information Technology

The IT sector has been largely unaffected by the demonetization as it is export oriented and hence relatively better positioned to handle shocks in the Indian economy. Moreover it is probably also largely a cashless sector and hence also not affected due to the cash being taken out of the economy. The NIFTYIT chart below shows that the IT sector is actually doing better than from what it was on Nov 8th.

In conclusion, we can probably summarize the effect of demonetization on the overall economy as follows:

1. In the short term, GDP will be down for at least a 1-2 quarters before recovering.
2. A lot of black money will be converted to white and be deposited into the banks which will in turn help in the NPA problem that banks are facing.
3. In the longer term, reducing of black money economy in the future should bring more people in the tax net and hence lower taxes as well as interest rates which will bode well for the overall economy.

Although this was what is called a surgical strike on black money and will have immediate impact on the existing black money, most economists agree though, that this move is not sufficient and several other reforms like tax reforms, real estate reforms etc need to be undertaken to curb the black money generation in the future.

Trump Presidency - How Can It Impact India

- Sanjay Thakkar

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As Republican presidential candidate Donald Trump has frequently targeted India through his rhetoric, recently accusing India and China of taking unfair "advantage of the United States" and has used widely televised debates and pep rallies to pillory outsourcing. Indian business leaders are concerned that a Trump presidency could negatively impact the country.

India's Chief Economic Adviser Arvind Subramanian told the Advancing Asia Conference hosted by the IMF: "My concern is that Trump in his last debate, said – 'H-1B, whatever it is, I use it but I don't like it. I want to scrap all H-1B visas.' That's very worrying for India's export-led growth going forward."

India's software services accounted for $82 billion-worth of exports in the financial year ending in March 2015, according to the Reserve Bank of India; 60% of that figure came from North America.

Indian outsourcing giants Tata Consultancy Services, Infosys and Wipro are heavy users of the H-1B visas. The IT industry has genuine concerns as Trump has shifted his position several times on the H-1B program. Early in his campaign, Trump proposed restricting the program and criticised it for giving away coveted entry-level IT jobs to workers flown in cheaper from countries like India.

Then, during the third Republican debate, he complained that a paucity of H-1B visas was making America lose talented people. "They go to Harvard. They go to Yale. They go to Princeton. They come from another country, and they're immediately sent out. I am all in favour of keeping these talented people here so they can go to work in Silicon Valley," said Trump.

The Republican front-runner then reversed his claim after the debate. In a statement released on his campaign website, Trump said he doesn't actually support the H-1B visas. Instead, he said he would "end forever" using H-1B workers for cheaper labour, and stuck to his initial proposal of a recruitment requirement for employers.

In his 2011 book Time To Get Tough, Trump also advocated a 15% tax on companies for outsourcing jobs to places like India, and a 20% tax for importing goods and services.

"Outsourcing is as old as Adam Smith. You can't turn economics on its head. Services will move where they are cheaper. US consumers have benefited from a higher quality of services from India at a cheaper price," said Rajiv Khanna, president of the powerful India-America Chamber of Commerce.

"Trump has overruled himself several times on the H-1B visa program, which is good. It shows he is flexible. If Trump imposes a 15% duty then those services coming to US companies will just be 15% more expensive. It is not as if there is capacity in the US to perform those services," said Khanna. "I wouldn't be as upset as the Indian companies are as this is elec-

tion rhetoric."

Obama and Indian IT

In 2008, then-candidate Barack Obama had promised voters that he would work to slow the outsourcing of American jobs to other countries, proposing to revamp a federal tax code that encourages companies to maintain overseas operations. A year later, Obama as president came out with a plan to revamp tax rules and end the tax deferral system. Under this plan, outsourcers with big Indian operations could have been hit with a higher 35% tax bill if deferrals were eliminated. In the end, however, Obama's plans got a cagey response from the US Congress. The broad tax changes have not happened.
Still, that's not to say everything has been smooth sailing for India's IT industry during Obama's presidency. Trump's anti-outsourcing talk comes at a time when the Indian IT industry is already feeling like a punching bag for US protectionism. In December, the US Congress passed a bill named the "9/11 Health and Compensation Act" to fund continued healthcare for first-responders. To keep the dollars flowing, the Bill doubled the fee for H-1B visas for every new applicant to $4,000 and to $4,500 for every L-1 visa, which is needed for intra-company transfers.

These changes will be in force for the next 10 years and are likely to cost the Indian IT industry $400 million a year, according to NASSCOM.

Trump's globophobia

Trump says that, if elected, he'd get Apple to build its computers in the US rather than in other countries. He has promised to slap a 35% duty on Ford cars made in Mexico and other foreign countries. Trump's protectionist wild talk is disconcerting for the rapidly growing US car manufacturing industry in India.
US car giant Ford has manufacturing plants in Chennai, Pune and a new factory — which cost $1 billion to build — in Sanand, Gujarat. Ford says it plans to use the Gujarat factory to triple the number of cars it exports out of India.

"Together we are delivering Prime Minister (Narendra) Modi's vision for India," Mark Fields, chief executive of Ford, said at the Ford factory opening on Thursday March 24 2016. "We are happy to be making in India for India and for the world."

Ford's move shows support for Modi's "Make in India" campaign to get more US companies to manufacture in and export from India.

But if Trump has his way, things will be very different. Trump, who has been selling himself as a smart businessman, proposes to slap massive tariff taxes on America's largest trade partners.

"I would tax China or its products coming in," Trump told The New York Times earlier this year. As for Mexico, he has said: "every car and every truck and every part manufactured in their plants that come across their border, we're going to charge you a 35% tax."

If Trump has his way, high US tariff barriers would extend to car and auto parts made in India, which already exports more passenger cars than China. Foreign car makers in India, such as Hyundai, Suzuki Motor, Nissan, General Motors, Ford and Volkswagen AG, have seen their passenger-car exports jump over 60% in the last five years, to 620,000 passenger vehicles in 2014. China trailed behind with 533,000 auto exports last year.

An anonymous senior executive at US beverage giant PepsiCo, said, "Trump's anti-free trade crusade appeals to union members and left-wing labor bosses.

Trump wants voters to believe Mexicans, Chinese and Indians are 'ripping us off.' But it isn't a zero sum game."

Timmons Roberts, a professor of environment and society at Brown University, says Trump has hit a sensitive American nerve on fears of what is derisively called "globophobia". Sadly, what muscle-flexing Trump doesn't tell voters is that the American people will finally end up paying these taxes, which, as with any levies, will be embedded in the price of the product.

It's unusual for foreign diplomats to express concern about candidates in the middle of a presidential campaign. But Trump's anti-free trade campaign and rants against minorities has spurred foreign diplomats, including from India, to complain to the U.S state department.
"As the [Trump] rhetoric has continued, and in some cases amped up, so, too, have concerns by certain leaders around the world," one state department official was quoted as saying, citing India, South Korea,

Japan and Mexico among countries whose diplomats had raised the matter.

Trump vs. Clinton on foreign policy

The Washington Post reported that in a meeting with its editorial board, Trump laid out his "unabashedly noninterventionist approach to world affairs," including a plan to "significantly diminish" US involvement in NATO, and he questioned "the value of massive military investments in Asia". He argued that the best way to halt China's military airfields on reclaimed islands in the South China Sea was to threaten its access to American markets.

"This is a man who knows nothing about foreign policy. Trump wants to withdraw America from the world. His foreign policy is incoherent and bereft of meaningful ideas," said South Asia expert SumitGanguly, who holds the Rabindranath Tagore Chair in Indian Cultures and Civilizations at Indiana University, Bloomington.

Ganguly added, "On the other hand, Hillary Clinton is a seasoned foreign policy professional. This is someone who is knowledgeable about the world and who can reason, in contrast to Trump, who is a demagogue. Clinton would mean, for the world, an emphasis on free trade. She would probably mean an interventionist US foreign policy, an activist American foreign policy."

As the former secretary of state, Clinton's signature initiative became known as the Obama administration's "pivot to Asia." While the US was bogged down in Iraq and Afghanistan, China had the headroom to expand its influence in the region with allies like North Korea, Pakistan, Myanmar and Sri Lanka. Rising China spurred Clinton to consolidate America's ties with regional powers like India, Japan, Australia, Indonesia and the Philippines in a policy pivot towards Asia.

There were many reasons Clinton was missed by India as John Kerry replaced her as secretary of state for Obama's second term as president, not the least because she maturely accepted that India and the .S will not see eye-to-eye on all issues, nor will their interests always concur. Yet she was a good friend to India and ensured the relationship was not cantankerous.

According to Indian diplomats, Clinton understood the glue that bound India and Iran, which other Washington elites found so hard to fathom. She tamped down concern in Washington about India's oil trade with Iran. Her efforts ensured that India was exempted from financial sanctions in 2012 along with six other countries. Instead of being an alarmist she saw India's traditional ties with Iran as part of India's smart eco-diplomacy.

"It would be interesting to see how Clinton handles Pakistan. I have been disappointed with the Obama administration's willingness to coddle Pakistan despite its continued utilisation of terrorists to accomplish its security and foreign policy goals," said Ganguly.

When Clinton was America's top diplomat, she consistently prodded Pakistan on terrorist havens and stuck to delivering a tough message.

With Clinton as the pragmatic alternative, India can only hope that Trump's presidential bid eventually flames out.

Investing in Global Mutual Funds

- Dharmesh Trivedi

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Background

Till 2006, mutual funds were only permitted to invest only in international companies who have a 10% stake in company listed on the Indian bourses. In the finance bill of 2006, the curbs on the type of securities an Mutual funds can invest was removed. Further the government increased the overseas investment from USD 1 bn to USD 2 bn

Benefits of investments in International Mutual funds

- It will give capital appreciation with lower volatility
- Diversification in the investments
- It can ensure a steady flow of dividends by investing in dividend stocks.
- It ensures spreading the risk.
- Take benefit of the boom in the growing economies.
- Professional Management and better transparency.

Disadvantage

- Foreign exchange fluctuations
- Repatriation of the capital due to exchange controls regulations.
- NAV could fluctuate due to the changes in the interest rates or change in the credit policies.

Looking at the advantages and the disadvantages, one can easily conclude that the advantages outweigh the disadvantages and in the present scenario when there is lot of uncertainty it is worth exploring.

Tax on the Investment in International Mutual fund

It is similar to Debt mutual fund

- Long term without indexation – 10%
- Long term with indexation – 20%

Best International Mutual funds

As on date the best international funds to invest are as under

Name of the Mutual Fund	AUM (In Crs)	Returns 1 month	Returns 1 Year	Returns 3 Years
MotilalOswal MOST shares Nasdaq 100 – ETF fund	64	3%	19%	15%
ICICI Pru US Bluechip Equity	166	2%	20%	9%
DSP BR world Gold fund	317	24%	65%	7%
ICICI pru Global stable Equity	97	2%	14%	9%
ICICI US Equity Fund	166	2%	20%	10%
Tata Growing Eco Infra-B	53	.7%	49%	16%
HSBC Brazil Fund	1	-3%	44%	9%
DSPBR US Flexible Equity fund	68	3%	22%	10%
Kotak US Equity fund	.83	2%	18%	11%

Conclusion:

Normally we always say "**Be Indian Buy Indian**", but in the investment philosophy we need to change the strategy to maximize the returns and diversify the risk and hence one should try to be "**Be Indian Buy Global**".

Reference:

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Union Budget 2017: How is the Budget prepared by the Finance Ministry of India?

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The most significant budget by the Narendra Modi government will be presented on February 1, 2017. The Union Budget 2017 will mark the end of the colonial practice of presenting the Railway Budget in advance and will play a significant role in defining the roadmap ahead. Budget 2017, which will be presented by Finance Minister ArunJaitley, plays a more important role in the backdrop of currency demonetisation, which caused various disruptions in the economic growth. This budget will also part ways from the traditional method of presenting the plan and non-plan expenditure classification and will instead provide a clear line between the recurrent spending and the productive spending. While the budget will be submitted for the people of the country, it is important to know how the Union Budget is made. There are various steps involved in the preparation and presentation of the Union Budget.

1. The initial process

The budget that is presented in February every year requires a lot of research. The preparation of Union Budget begins in August or September when all the stakeholders are informed, and the notification of the budget is issued. This is why the announcement of combining the Railway Budget with the Fiscal Budget was announced in September 2016.

2. Gathering Information

Once the timeline is set with a proper outline of the Budget, the Finance Ministry begins asking other ministers for their receipts and their financial requirements for the upcoming fiscal year. A broad overall goal for the different sectors of the government is decided by the different departments of the Finance Ministry. In the period where the future needs are predicted, the chief economic adviser in the Finance Ministry reviews the financial year gone by and presents an economic survey, which is released one day before the presentation of budget in Parliament. View and advise of leading stakeholders including industry, representatives of workers, farmers etc. and other economists is solicited and deliberations are held in this stage of information gathering. Union Budget 2017 on February 1: Top 3 significant tax changes expected from ArunJaitley in this Budget

3. Preparation of the Union Budget

The preparation of union budget requires a close association of the Finance Ministry with the Prime Minister's Office. Once the information received from various surveys and studies in the previous steps are analysed, the policy for the budget is made. This process is highly confidential and the Finance Ministry is made out of bounds for journalists when this process is being executed. The process usually begins in December when the area around the office of Finance Ministry is put under close surveillance and the of-

ficials are placed in quarantine a week in advance.

4. Printing of the Budget

Various stories are surrounding the printing of the Budget papers. The printing of the union budget begins fifteen days before the official presentation. A ritual 'halwa ceremony' is conducted to mark the beginning of the printing process where in 'halwa' is prepared in a big 'kadhai' (large frying pot) and served to the entire staff in the ministry. The 'halwa ceremony' was conducted on January 19, 2017, as the printing of the budget papers began. Various staff of the ministry has to stay back at the ministry after the halwa ceremony, marking complete isolation from their friends and family until the presentation of budget by the Finance Minister in Lok Sabha.

6. Presenting the Union Budget 2017

The union budget is presented by the finance minister and his team in the Lok Sabha every year. The members of the parliament are given a gist of the budget that is to be presented. This is followed by the actual presentation where the finance minister announces the various allocations. This revelation is made in the Lok Sabha, which is the house of the people, instead of the Rajya Sabha as the budget is also considered as a money bill. Money bills cannot be passed or stalled by the Rajya Sabha and the house if state representatives can merely make amendments to the bills.