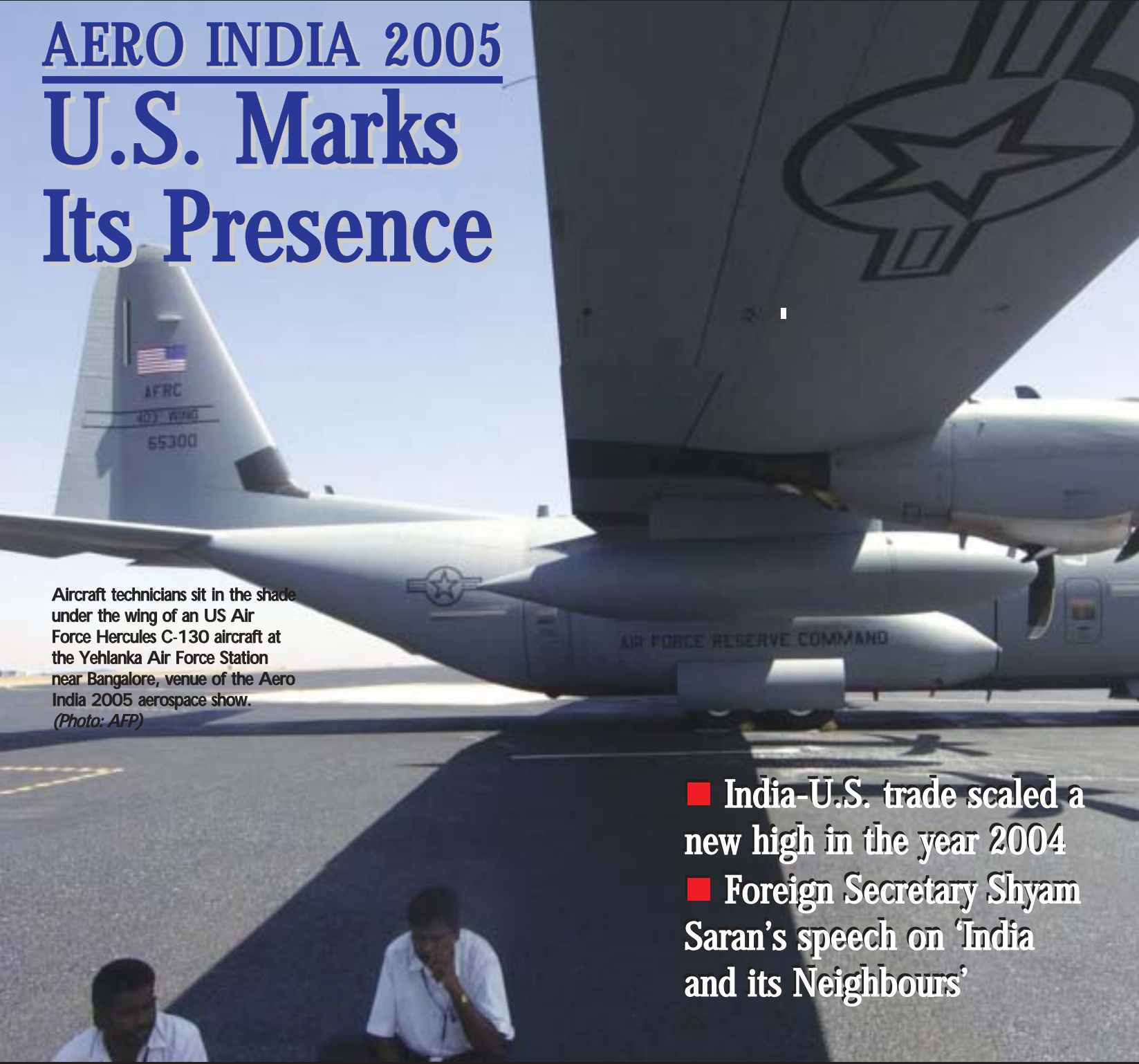


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AERO INDIA 2005 U.S. Marks Its Presence



Aircraft technicians sit in the shade under the wing of an US Air Force Hercules C-130 aircraft at the Yehlanka Air Force Station near Bangalore, venue of the Aero India 2005 aerospace show.
(Photo: AFP)

- India-U.S. trade scaled a new high in the year 2004
- Foreign Secretary Shyam Saran's speech on 'India and its Neighbours'

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Ties with U.S. ‘represent (an) opportunity and we have the confidence and capability to take full advantage’

External Affairs Minister K. Natwar Singh is a veteran diplomat. A former Secretary in the Ministry of External Affairs and Minister of State for External Affairs, he brings vast experience to his job as cabinet minister in charge of the foreign affairs portfolio in the Manmohan Singh government. In an exclusive interview with *India Review*, Natwar Singh spoke at length on Indo-U.S. relations and the prospects for growth in bilateral ties during President George W. Bush’s second term. Excerpts from the interview.

Q: U.S. President George W. Bush began his second term on January 20. How do you see Indo-U.S. relations developing during the next four years?

A: President Bush has taken a strong personal interest in the development of a strategic relationship between the two countries. This was visible, for example, when we met him in New York in September 2004. I am confident that given the broader direction of our ties and his personal commitment to carrying them forward, we will see a number of positive developments in many fields during the second term.

Q: When the Manmohan Singh Government assumed office in May last year, there were many in both countries who thought that the rapid improvement in bilateral relations that recent years had witnessed would slow down, if not get reversed. What has been the experience since then and what are the significant developments in bilateral ties in the last six months?

A: I do not agree with this perception in the first place. You must not forget that it was under successive Congress governments that Indo-U.S. relations reached a take-off stage. Indira Gandhi’s visit in 1982 and her meeting with Ronald Reagan was in many ways a turning point. Rajiv Gandhi’s visit in 1985 carried this forward. Many of our high technology and defence cooperation programmes were conceptualized and implemented at that time. The economic liberalization that laid the basis for our expanding economic ties today was also done by a Congress government. So, the record does not bear out any apprehensions for a cooling of our ties.

Furthermore, this is a government that has enormous experience. Such people build on past achievements, not reverse them. We have a first rate economic team. For us, the American relationship represents opportunity and we have both the confidence and the capability to take full advantage.

Look at the record of the last seven months. I went to Washington immediately after assuming office for President Reagan’s funeral. We had the Defence Policy Group meeting and the Indo-U.S. Space Conference in Bangalore in June 2004. In July, Armitage was here for talks. In August, we finalized the NSSP (Next Steps in Strategic Partnership) Phase I and signed it in September. Our Counter-Terrorism Working Group also met in August. In September, Prime Minister Singh met President Bush in New York. This was preceded by our Foreign Office consultations and the Asian Security Dialogue. In October, Juster came to India and set up the meeting of the High Technology Cooperation Group that took place in November in Washington. In December, Defence Secretary Rumsfeld held talks with us. We have worked closely on the tsunami response through the Core Group. In January, we have had a number of Congressional delegations that included Senate Majority Leader Frist. I cannot think of any previous six months that have packed the same intensity of activity.

Q: What has been the outcome of Phase 1 of NSSP? How has it benefited the two countries?

A: Phase I of NSSP has led to more liberal and predictable licensing by the United States. On its part, the U.S. stand reassured that we share similar objectives on the protection of such sensitive technology. The true value of these flows is that they multiply our efficiency at a time of modernization and reform. NSSP has also helped reopen contacts on the civil nuclear and civil space sectors that had been very constrained earlier. Further benefits may be expected as we conclude the second and third phases.

Q: In the aftermath of the tsunami disaster, the U.S. had included India as one of the four “Core Group” of countries to coordinate rescue and relief operations in South and Southeast Asia. What was the significance of that announcement for India’s international standing?

A: Our capability and willingness to assist neighbours at such difficult times has not been in doubt. My sense is that a lot of people, including in India, were surprised at the speed of our response.

Continued on page 11



K. Natwar Singh

The period when Indo-American relations have taken off coincides with the growth in the U.S. of the Indian community. This is not a coincidence. No other ethnic group has achieved as much within one generation.

From The Ambassador's Desk

Glance at a map for a perspective on India's size, diversity



Ambassador
Ronen Sen

Since my arrival in the United States, almost seven months ago, I have had ample opportunity of inter-acting with numerous distinguished academics, senior business executives, knowledgeable mediapersons and others, both individually and while addressing meetings of the World Affairs Council of Washington, San Francisco and Dallas, the Chicago Council of Foreign Relations, Universities such as Harvard, think tanks such as RAND, and various business associations. What struck me during such exchanges with people from different walks of life, including from the Indian

American community, was the apparent lack of a clear perspective of India's size and diversity, the contours of our neighbourhood, and how this influences India's geo-political perceptions and shapes its regional and global policies.

Many centuries ago, trading ships from India used the monsoon winds to travel to the Malay Peninsula and returned on the reverse wind patterns in autumn. Similarly, monsoon winds carried sea-bound trade from the Malabar coasts of India to Africa and the Red Sea, while another route followed a more northern passage through the Gulf to the East Mediterranean and Europe. The overland spice route passed through the Punjab and across the Hindu Kush to join the silk route between China and Europe. The old civilisational links between India and Central and West Asia are reflected in the languages, cultures, music and architectures of all these countries. In more recent times, a nautical survey of the Gulf was started by the Bombay Marine in 1783. Later, it was from Bombay that the British created the Gulf States.

In the contemporary world, there are equally compelling reasons for India to nurture and further strengthen its political, economic and cultural links with both its immediate and extended neighbourhood. In bridging the perceptual gaps in what constitutes this neighbourhood, we do not necessarily need to delve into our historical or civilisational legacies. To put it simply, one of the main challenges I have to overcome is to persuade people just to look at a map!

A glance at the map of India reveals a country of continental size, equal to that of Western Europe, and with equal, if not greater, diversity than Europe in terms of race, religion, language, culture, cuisine, etc. This reality is not always recognized, say in travel advisories issued by governments after perceived security concerns in one or the other regions of our country, or in the analyses by otherwise well-informed commentators or correspondents, or, though to a much lesser extent, by businessmen contemplating investments or technological collaboration. However, similar sensitivities or apprehensions are not always expressed in other situations, say in the wake of the recent Balkans conflict in the heart of Europe.

The second aspect which will be evident from a cursory look at a map is that the Indian sub-continent itself is a mosaic of countries that are in a unique situation, in which India has international boundaries with all of them, but none have a boundary with each other. A somewhat closer analysis will show that no other country in the world has such a diversity of neighbours in terms of forms of governance as India does in the sub-continent. Our preference is clearly for democracy and freedom. We

consider any setbacks to democracy as destabilising for the country concerned as for the region, even as we continue to deal with governments in office.

Any map will show that India's largest neighbour is China, which is also a nuclear weapon state and with which India has unresolved territorial differences which had resulted in an armed conflict. Yet, following a process of normalization of relations initiated by late Prime Minister Rajiv Gandhi in 1988, one of India's most tranquil borders since then has been with China. Our trade with China is also already more than double that with all the rest of our neighbours in the Indian sub-continent combined.

We have a land boundary and maritime boundaries with ASEAN countries. Yet it took the recent tsunami disaster for many observers to realize that India has a maritime boundary with Indonesia, and that our Andaman & Nicobar islands are only around 60 nautical miles from Indonesia. India is one of the four Asian countries, apart from Japan, China and South Korea, which has an institutionalized summit level dialogue with ASEAN (apart from being one of the six countries in the world with annual summit level dialogue with the European Union).

India's third-largest neighbour is Pakistan, which also has the third-largest Muslim inhabitants in the world, after Indonesia and India. It is a matter of deep gratification that the process of normalization of our relations with Pakistan is showing tangible results. Given the manifestations of genuine goodwill between the people of our two countries, it will be in our mutual interest to persevere, with patience and determination, with the composite dialogue, aimed at the resolution of all differences and the realization of the vast potential for cooperation in diverse fields.

India is separated from Central Asia by only a few miles, and we have vital interests in the stability and prosperity of Afghanistan and the Central Asian States. It takes less time to fly from Tashkent to Delhi or from Delhi to Hanoi than from one end of our country to the other. We have similar interests in West Asia and the Gulf, where millions of our citizens reside and from where we procure the bulk of our crude oil. Thus we have a stake in the stability and prosperity of Iraq, as a member of the comity of sovereign democracies.

In just the past one decade, the share of India's merchandise trade increased from 15 percent to 23 percent of our GDP, which is more than the current share of agriculture in the GDP. This trend will be accelerated in the coming years. Energy security has for some years been a policy priority. In the wake of recent developments, it has become an even greater domestic and foreign policy priority. It is also a question of time when attention would be given to the exploitation of our seabed mineral resources. Hence the protection of vital sea lanes, and of our exclusive maritime zone, in the Indian Ocean will rank high in our priorities.

India has a shared destiny with its immediate and extended neighbourhood that will define its foreign and security policy priorities. In the pursuit of its interests, India will consistently seek a cooperative rather than a competitive approach, and strive for partnership in progress, both in the regional and global perspective.

Ronen Sen

U.S. marks its presence at 'Aero India 2005'



A view of the U.S. pavilion at the 'Aero India 2005' airshow in Bangalore, 10 February 2005. Some 51 USAF aircrew and support personnel from four bases, including the Misawa and Kadena airbases in Japan, participated in the show. (Photo: AFP)

When an Indian exhibitor organised a modest air show at an airbase near Bangalore in 1993, he probably had no idea that it would grow to become one of Asia's largest aerospace expositions in a little over a decade.

From a display of a handful of Indian-made planes then, the event, now named 'Aero India', is well on the way to becoming the country's answer to the world's top air shows held at Farnborough, Paris and Moscow.

As India grows in profile for its economy, information technology and military strength, the air show in Bangalore — already known as the country's hi-tech hub — is growing in stature and importance in the aviation industry.

'Aero India 2005', held at the Yelahanka airbase of the Indian Air Force from February 9 to 13, attracted some 370 companies from 31 nations, including major aerospace firms that came with an eye on India's multibillion-dollar market for military and civilian aircraft.

Unfettered by the lifting of U.S. sanctions imposed on India following its 1998 nuclear tests, American firms like Boeing, Raytheon, Bell Helicopter and Lockheed Martin turned out in force to woo civilian and military customers.

The U.S. was one of the main participants in the exhibition with a large contingent. Various military aircraft from bases in Japan and the U.S. joined the show for flying demonstrations and static display.

Boeing signed a \$1.26 billion order to sell 20 passenger jets to private carrier SpiceJet. With more Indian private airlines on the horizon and the country's low-cost airlines like Air Deccan and Kingfisher on a major aircraft acquisition drive, the aviation majors are upbeat.

'Aero India 2005' generated Rs. 200 million (\$4.5 million) in revenue, a 50 percent jump over the last air show in 2003. An indication of the growing importance of the Aero India show, held once in two years, was that deals worth over \$1.2 billion were signed by Indian and foreign aerospace firms this year.

The agreements ranged from aircraft purchases to joint manufacture of missiles and engine parts.

India, for its part, signalled its desire to emerge as a major outsourcing destination in the aviation sector. Defence Minister Pranab Mukherjee set the tone while opening 'Aero India 2005', saying the aviation industry had grown into one of the largest aeronautical complexes in Asia.

Noting India's breakthroughs in the fields of advanced alloys, composites

Boeing signed a \$1.26 billion order to sell 20 passenger aircraft to Spicejet, while Lockheed Martin signed an agreement with HAI on upgrading Orions.

and aircraft equipment, Mukherjee said: "We can together reduce the development and marketing costs, jointly develop state of the art aviation products and do joint marketing as well."

Even by the most conservative estimates, India's market for civil and military aircraft is estimated to be worth over \$20 billion over the next few years.

New Delhi is currently looking to acquire 125 frontline fighter jets and a wide array of support aircraft, while experts believe the aviation sector in India and China will be among the world's fastest-growing in coming years, thanks to the rapid expansion of low cost airlines.

Indian Air Force chief, Air Chief Marshal S.P. Tyagi, told reporters that a request for information had been sent to four global firms — Lockheed Martin (for the F-16), MiG RAC of Russia (MiG 29 M2), Dassault Aviation of France (Mirage 2000-5) and Gripen of Sweden — for the contract for 125 jets.

With an eye on the Indian market, U.S. firms displayed top products, with Lockheed Martin showing off its F-15 fighter jets, C-130 Hercules transport aircraft and P3 Orion maritime surveillance aircraft, all of which it hopes to sell to India.

Lockheed signed an agreement with India's state-run Hindustan Aeronautics Limited (HAL) for sharing sensitive information on upgrading the Orions, with the firm's regional vice president Dennys Plessas making it clear the pact was aimed at enhancing "the attractiveness of our products to the Government of India".

Most firms showed a keenness to partner HAL, which has come of age by developing the light combat aircraft and the advanced light helicopter after decades of making jets using technology transfers from Britain and Russia.

U.S. ambassador David C. Mulford said his country wanted

to step up defence cooperation and arms sales to India, which had tripled over a period of one year to touch Rs.770 million (\$17.7 million) in 2004.

The trend was set to continue in 2005, with defence sales expected to rise to Rs. 2.7 billion (\$64 million), Mulford told the first meeting of the U.S.-India Industry Working Group on defence technology at Bangalore, which coincided with Aero India.

"Commercial military sales to India have tripled from Rs. 240 million in 2003 to Rs. 770 million in 2004 and are projected to surge to Rs. 2.7 billion in 2005," he said.

The U.S. had approved over 700 export licenses for direct commercial defence sales to India after President George W. Bush lifted sanctions against India in 2001.

The lifting of sanctions resulted in an increase in the export of controlled dual-use items to India. Licences have been approved for the export of 90 percent of dual-use items sought by India.

The working group's meeting was held under the auspices of the High Tech Cooperation Group (HTCG), which is part of the Next Steps in Strategic Partnership (NSSP), a U.S.-India initiative that seeks to promote collaboration between the two sides in high technology, civil space and nuclear activities, and dialogue on missile defence.

Mulford admitted to reporters that the U.S. had a small share of the Indian defence market, and noted the Indian government had indicated its intention to diversify its military purchases, including aircraft and helicopters.

"We are interested in becoming a major player in the subcontinent. The Department of Defense supports the sale of U.S. systems overseas that promote our national security interests," Mulford said.



The Suryakiran aerobatics team of the Indian Air Force flies over a U.S. Air Force Hercules 130CJ transport aircraft during an aerobatics performance at the 'Aero India 2005' show at the Yelahanka Air Force Station in Bangalore on February 11. More than 200 foreign aviation firms from 31 countries showcased their products at the five-day show in India's high tech capital — billed the largest air show in South Asia. (Photo: AFP)

Participants from the U.S.

- Ampex Data International
- Aviation Week
- Department of Defense
- Boeing
- Bell Helicopter
- DRS Technology
- GE
- ITT Technology
- Lockheed Martin
- Northrop
- Raytheon
- United Technology
- Gulfsystem
- Moog
- Sikorsky Aircraft
- Speck Synergy
- Teac America
- U.S.-India Business Council
- IUC Inc.



PHOTO ABOVE: Minister for Petroleum and Natural Gas Mani Shankar Aiyar addressing delegates at the NELP-V Road Show in Houston on January 31. PHOTO BELOW: Aiyar with Robert S. Price Jr., Director of European and Asian Affairs, USDOE, and Sunjoy Joshi, Joint Secretary (Exploration), Ministry of Petroleum & Natural Gas, at the NELP-V Road Show. (Photo: Consulate General of India, Houston)



Mani Shankar Aiyar in Houston to offer Oil Exploration Blocks

Minister for Petroleum and Natural Gas Mani Shankar Aiyar presided over a Road Show in Houston, Texas, on January 31, for the international offer of Oil Exploration Blocks in India as part of the Fifth Round of offers through competitive bidding under the New Exploration Licensing Policy (NELP).

Nearly 200 representatives of major oil and gas companies, including Exxon, Shell, Andarco and Samson, were present at the event. The 20 blocks which are on offer in this round cover a sedimentary area of about 109,210 square kilometers.

During his presentation, the minister stated that NELP-V is loaded with additional transparency, lower entry barriers for small- and medium-sized investors, and time-bound schedules for award and approvals.

The Fifth Round offers have several positive changes as compared to earlier rounds. Companies with a net worth of \$500 million or more would not be required to provide a bank guarantee. In previous rounds, this threshold value was \$1,000 million.

Aiyar promised investors that there would be time-bound approvals in the current round so that investors would be able to initiate work by January 1, 2006.

NELP-V has been launched in the backdrop of huge oil and gas discoveries by Reliance Industries Ltd. and Niko Resources Ltd. in the Krishna Godavari Deepwater (gas discoveries), by Cairn Energy in Rajasthan (oil discovery) and by Reliance in North East Coast offshore. There was considerable interest in this round from exploration and production companies because of these recent finds.

Along with NELP-V road shows, India's public sector company Oil and Natural Gas Corporation (ONGC) is offering farm-in opportunities in five deepwater blocks for which it is seeking partners with technical and financial capabilities.

ONGC is also offering 19 offshore fields on service contract through international competitive bidding. There was considerable international interest in this aspect of the road show too.

India seeks a role in Kazakhstan's oil and gas sector

India on February 18 sought largescale participation in energy-rich Kazakhstan, ranging from stakes in four oil fields, helping set up petrochemical plants, to a gas grid for supplies to Asian countries. Aiyar was addressing the India-Kazakhstan Commission on Economic, Scientific, Industrial and Cultural Cooperation.

Petroleum Minister Mani Shankar Aiyar told his Kazakh counterpart in Astana in Kazakhstan that India is keen to broaden focus from seeking stakes in one or two oil fields to a wider participation in the energy chain, according to a statement issued in New Delhi.

"The very close political ties between our two countries encourage us to identify and pursue the strengthening of

economic relations. The most significant area is that of oil and gas," Aiyar said.

The minister pointed out that ONGC Videsh Ltd. (OVL), the overseas arm of Indian exploration major Oil and Natural Gas Corporation (ONGC), was keen to "participate in exploration and production in association with Kazakh companies in the Tengiz and Kashagan oil fields as well as Kurmangazy and Darkhan exploration blocks".

Under an agreement, India also sought opportunity to evaluate exploration and production opportunities in nine other exploration blocks in the Caspian Sea.

Mooting a large number of joint ventures, Aiyar suggested joint seismic surveys of oil and gas assets, joint R&D, and joint projects for enhanced recovery from old fields.

India-U.S. trade scales a new high in 2004

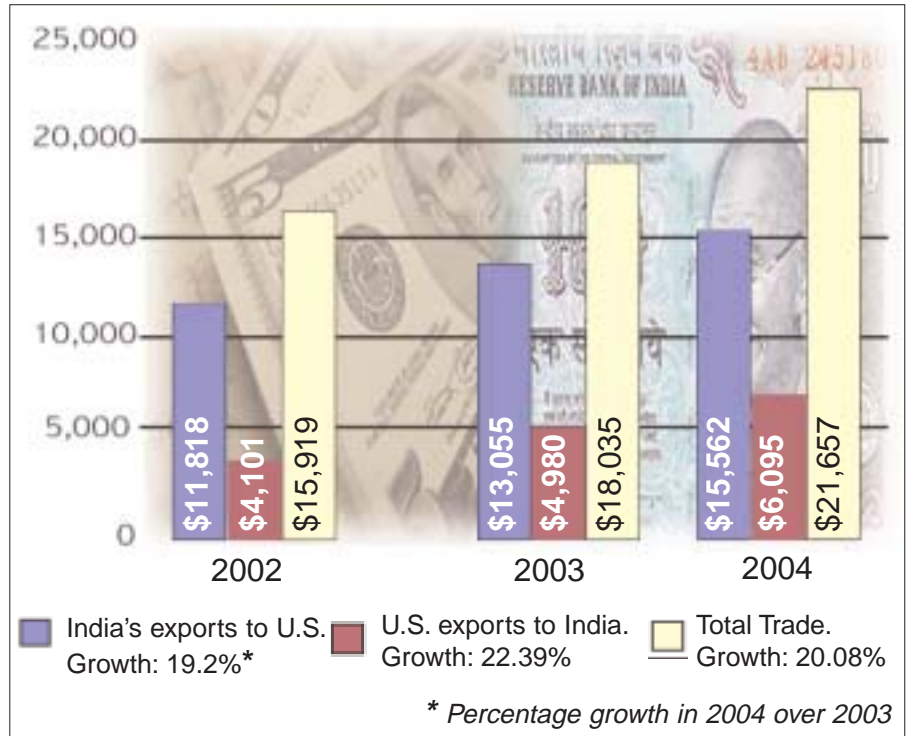
Two-way India-United States trade grew by 20 percent in 2004 (as against 13 percent in 2003) to reach a new high of \$21.65 billion in calendar 2004.

India's exports to the United States rose by 19.2 percent to reach \$15.56 billion. This is the second-highest growth rate amongst the top 20 non-oil exporting countries to the U.S.

U.S.'s exports to India exhibited an even higher rate of growth of 22.4 percent totaling \$6.1 billion.

This is the second year in succession when U.S. exports recorded a 20 percent plus growth (21.6 percent in 2003).

India continued to remain the 24th largest export destination for the United States accounting for 0.75 percent of the U.S.'s total exports.



Focus on Indian Cinema at the D.C. Filmfest

Residents of the Washington, D.C., region will be able to savour the best of Indian cinema in April.

The annual Washington, D.C., Filmfest, to be held between April 13 and 26, will have a special 'Focus on Indian Cinema' segment. While the organizers of the festival are keeping the Indian entries close to their chest it is believed that the Indian cinema part of the Festival will be kicked off by a screening of the Shabana Azmi film Morning Raga.

Tony Gittens, Director of the D.C. Filmfest visited India earlier this year and watched scores of Indian films at the International Film Festival of India held at Goa in January.

While Gittens will showcase good Indian cinema, it is possible his selection may include one or two of the many good commercial films that Bollywood churns out each year.

Insiders reveal that there is an outside chance that the legend of Indian cinema Amitabh Bachhan himself may be in a position to attend the Focus. Director Rituparno Ghosh is also likely to be invited.

In any case, film lovers in the U.S. capital city are in for a treat of the best in Indian cinema.

Forex reserves soar to \$129.98 billion

India's foreign exchange reserves soared to a staggering \$129.98 billion in the week ended February 11 on large-scale overseas fund inflows into the domestic market, the Reserve Bank of India (RBI) said revealed.

This represents an increase of \$1.07 billion in the country's foreign exchange pile over the previous week, according to weekly figures issued by the central bank in Mumbai.

The foreign exchange pile had witnessed a decrease of \$806 million in the previous week ended February 4 as overseas fund inflows into the domestic market slowed down.



WORLD SHOE FAIR: The Indian Pavilion at the World Shoe Association (WSA) fair held in Las Vegas from February 5 to 8. As many as 18 companies from India displayed their footwear products at the fair. (Photo: Kiran Jagga)

Foreign Secretary Shyam Saran on 'India and its Neighbours'

Excerpts from Foreign Secretary Shyam Saran's address on 'India and its Neighbours', delivered at the India International Centre on Feb. 14:

It is said that the logic of geography is unrelenting and proximity is the most difficult and testing among diplomatic challenges a country faces. Frontiers with neighbours are where domestic concerns intersect with external relationships. This is where domestic and foreign policies become inextricable and demand sensitive handling. It should come as no surprise, therefore, that in defining one's vital national and security interests, a country's neighbourhood enjoys a place of unquestioned primacy.

.... On what basis does India define its neighbourhood policy? Most recently, did our reaction to events in our neighbourhood, or our decision to seek postponement of the SAARC Summit, conform to an intelligent and well-considered neighbourhood policy?

Let me begin by stating the obvious. South Asia is a compact unit, of sub-continental proportions, but occupying an easily identifiable geographical space, enjoying a broad cultural unity and a wide range of intra-regional economic complementarities. [But] The sub-continent is now home to several independent and sovereign states and this is a compelling political reality.

As a flourishing democracy, India would certainly welcome more democracy in our neighbourhood, but that too is something that we may encourage and promote; it is not something that we can impose upon others. We must also recognize, regrettable though this may be, that the countries of South Asia, while occupying the same geographical space, do not have a shared security perception and, hence, a common security doctrine.

Keeping in mind this reality, our approach to SAARC was the only one logically sustainable — we set aside our differing political and security perceptions for the time being, and focus attention on economic cooperation. Our expectation was that the very dynamic of establishing cross-border economic linkages, drawing upon the complementarities that existed among different parts of our region would eventually help us overcome the mutual distrust and suspicion which prevents us from evolving a shared security perception. This remains our hope today, even though the record of SAARC in this respect has been hardly inspiring. The fact is that SAARC is still largely a consultative body, which has shied away from undertaking even a single collaborative project in its 20 years of existence. In fact, there is deep resistance to doing anything that could be collaborative. On the other hand, some members of SAARC actively seek association with countries

outside the region or with regional or international organizations, in a barely disguised effort to "counterbalance" India within the Association or to project SAARC as some kind of a regional dispute settlement mechanism.

It should be clear to any observer that India would not like to see a SAARC in which some of its members perceive it as a vehicle primarily to countervail India or to seek to limit its room for manoeuvre.

India already has a set of bilateral relationships with its neighbours, which vary in both political and economic intensity. What can SAARC offer as an additionality to this set of relationships? Clearly, the creation of a free market of 1.3 billion people, with rising purchasing power, can be a significant additionality for all SAARC members. Currently, intra-regional trade accounts for only 5 percent of SAARC's total foreign trade and this needs to be addressed.

India is today one of the most dynamic and fastest growing economies of the world. It constitutes not only a vast and growing market, but also a competitive source of technologies and knowledge-based services.

The challenge for our diplomacy lies in convincing our neighbours that India is an opportunity not a threat, that far from being besieged by India, they have a vast, productive hinterland that would give their economies far greater opportunities for growth than if they were to rely on their domestic markets alone.

India would like the whole of South Asia to emerge as a community of flourishing democracies. We believe that democracy would provide a more enduring and broad-based foundation for an edifice of peace and cooperation in our sub-continent. Half a century of political experience in South Asia has provided a clear lesson that while expediency may yield short term advantage, it also leads to a harmful corrosion of our core values of respect for pluralism and human rights.

India wishes to reassure its neighbours that it respects their independence and sovereignty. What it regards as unhelpful is the display of narrow nationalism based on hostility towards India that often becomes a cover for failure to deliver on promises made to their own peoples. This inhibits the development of normal relations, including economic cooperation, and prevents our region from emerging as a region of both political stability and economic dynamism.

The people of South Asia are one of the most talented and creative people anywhere in the world. They have won honours for their motherland in distant climes. If these creative energies of over 1.3 billion people were pooled together what heights could we not achieve? Let us make a new compact, therefore, among the countries of South Asia. Let us exorcise the ghosts of the past and join hands together across our borders, to unleash the immense energies of our peoples in a shared pursuit of collective prosperity. Our peoples deserve nothing less. ■

For full text of the speech, visit:
http://www.idsa-india.org/FS_Speech.htm



Media Watch

Catch a Tiger by the Tail

■ By THOMAS G. DONLAN

Nearly everyone who seeks to explain India's advantages in the global economy starts with the English language. Although introduced by foreigners, it is nearly the native tongue of India's political, intellectual and practical classes. Privileged children start learning English in kindergarten; very privileged children learn it at home. For everyone else, English has become the first hurdle for their ambition to surmount — if they want to succeed in most businesses. And as an economy, India has succeeded in ways that would have astounded Macaulay and his contemporaries.

ASK AN INDIAN

Call centers have become the most familiar sign of Indian entrance into the global economy. Call the customer-service line for Dell personal computers or any of hundreds of other products and services, especially in the evening, U.S. time, and you probably will be greeted by "Howard," or "Sylvia," who will ask "How may I help you?" in a distinctly Indian accent. They are well-programmed to use computerized knowledge bases to identify and solve basic and advanced computer problems.

COMING-OUT PARTY

Outsourcing brought India more than \$7 billion a year in revenue in 2003. That number is widely expected to double by 2007, and double again by 2012. But outsourced business is only the beginning of India's exploitation of its global advantages. In many industries, Indian companies are poised to break out from outsourcing to be independent actors on the world business stage.

Medical care in India ranges from world-class to quack-class. The country is too poor to provide anything beyond the most basic clinical care as an entitlement, so the rest of the health-care industry is as entrepreneurial as any economist could wish for. Private doctors, private hospitals, cash on the desk; and at the top of the clinical ladder, it is far more cost-effective than any Western system because costs and prices are low.

People from Europe, Japan and Canada who are rationed away from all the care they want, and people from the U.S. who are unable to afford the care they want, are actually finding it cheaper — including airfare — to fly to India to pay far less for surgeries such as hip replacements than they would using the usual free-market alternative in the U.S. Some 150,000 foreigners a year are already making the trip.

On the one hand, Indian companies acted as contract manufacturers for drugs invented elsewhere; on the other hand they became aggressive marketers of pirated drugs locally and in countries with an equally cavalier attitude toward patents.

In recent years, however, Indian drug companies have matured to do their own research and are starting to invent, not merely to copy and supply. A sign of that maturity is a new willingness by the industry and the government to protect substance patents — since Indian companies now or soon will have substances worth protecting. With an eye on foreign markets, Indian companies are looking to buy into Western drug companies.

WORLD LEADER

When the G-7 becomes the G-8 by including Russia, it will be denying the facts. India is already a larger economic powerhouse than Russia (so is China, for that matter). But the recent meeting of the G-7 was the first to which India was even invited to send an observer. That exclusion will not last, or the G-7, G-8 or whatever will be playing second fiddle to the G-2.

The CIA recently issued a report predicting that India and China would come to lead the world economy as soon as 2020. While it takes no great predictive power to say that the world's two largest countries will be the two most important when and if they reach a high state of development, the Central Intelligence Agency's analysts said that development will happen faster than most experts have dared to predict.

For most individuals, investing in India is attractive in theory, but daunting in practice. Fortunately for investors, publicly traded Indian companies produce annual and quarterly reports, in English, in formats regulated by the Indian equivalent of the SEC that are intelligible to transoceanic investors. Merrill Lynch, Goldman Sachs and Morgan Stanley have linked up with Indian investment banks and are covering a broad range of Indian stocks. (They are also pumping out initial public offerings at record rates.)

Everyone knows what happens to the person who grabs a tiger by the tail. He's in for a wild ride. He must hang on, or be eaten. Investing in India is probably going to be a wild ride, but a ride worth taking for most of the 21st century. After all, exploiting India has been profitable for the West since the 15th century. Now it's India's turn. ■

(Excerpts of an article from The Wall Street Journal dated February 14, 2005)

For the full article, please visit: <http://www.online.wsj.com>

Everyone knows what happens to the person who grabs a tiger by the tail. He's in for a wild ride. He must hang on, or be eaten. Investing in India is probably going to be a wild ride, but a ride worth taking for most of the 21st century.

FDI cap in telecom is raised to 74 percent

Meeting a long-awaited industry demand, the Indian government on February 2 raised the composite foreign holding in the telecom sector from 49 percent to 74 percent. "The cabinet has cleared the proposal to hike foreign direct investment (FDI) in the telecom sector to meet the funding needs of the growing industry," Finance Minister P. Chidambaram said at a press conference after the cabinet decision.

The higher composite foreign holding of 74 percent would be permissible for telecom services like basic telephony, cellular, unified access services, national/international long distance, V-Sat, public mobile radio trunked services, global mobile personal communications services and other value-added services.

India is the world's fastest-growing telephone market, but the

domestic industry has been worried about the lack of resources to achieve an ambitious target of up to 250 million phone connections by 2007.

In raising the cap, the government has, however, taken care to include safeguards in the country's interests.

The finance minister said the total composite foreign holding would include "investment made directly or indirectly in the operating company or through a holding company. Hence the remaining 26 percent will be owned by resident Indian citizens or an Indian company."

This would ensure that the FDI does not exceed 49 percent and the management is with Indian owners.

Chidambaram clarified that proportionate foreign component of an Indian company will also be counted towards the ceiling of 74 percent. "The licensee will be required to disclose the status of the foreign holding and certify that the foreign investment is within the ceiling of 74 percent on a half-yearly basis," the finance minister said. "The telecom licences will be amended in the new FDI policy," Chidambaram added.

To ensure compliance, the government introduced several safeguards such as: Majority of the directors on the board including the chairman, the managing director and the CEI would all have to be resident Indian citizens. Similarly, the chief technical officer and the chief financial officer would also have to be resident Indian citizens.

Welcoming the government decision, Telecom Regulatory Authority of India (TRAI) chairman Pradip Baijal said: "This would help meet the large investments required to boost telecom infrastructure."

The telecom sector estimates a need of around Rs. 1-1.5 trillion (\$23-\$34 billion) to achieve the target of 250 million telephone connections by 2007. The government expects over \$800m in investment from foreign telecom companies in the coming year alone, Maran said. ■

Welcoming the government decision, Telecom Regulatory Authority of India chairman Pradip Baijal said: "This would help meet the large investments required to boost telecom infrastructure."

JC Penney to hike sourcing from India

U.S.-based retail giant JC Penney has decided to sharply increase sourcing from India in the wake of the dismantling of a four-decades-old quota system that allowed the developed world to set quotas on imported textiles. The company, which currently buys over \$140 million worth of goods from India, hopes to increase purchases by nearly 30 percent in the next couple of years following the end of the textile quota regime Dec 31, 2004.

"India is one of the few markets for us that fares well on all key parameters: Quality, pricing, and trained manpower," Adil Raza of JC Penney said.

Policy on FDI in retail and construction sectors soon

India is examining a proposal to allow foreign direct investment (FDI) in the retail trade industry and ease the norms for overseas capital in the construction sector, Commerce Minister Kamal Nath said on February 9.

"I have begun consulting industry on foreign direct investment in retail trade. We should be out with a policy in one or two months," Kamal Nath told reporters on the sidelines of an infrastructure conference in New Delhi.

"In construction sector, I am not interested in investments for acquisition or trading in land. I want incremental investment, new technologies to come in so that the cost of commercial property becomes cheaper," the minister said.

The government currently permits foreign investment in real estate as long as the minimum land acquired for such projects is 100 acres. The proposal now is for evaluating and approving projects on the basis of construction.

According to Kamal Nath, only 2 percent of India's retail trade sector is in the organised sector and out of the remaining 98 percent, close to 50 percent is accounted for by subsistence, family-run small businesses.

"Our idea is not to disturb small and tiny retailers who dominate the industry. Any change would only help up get incremental investment in large stores and chains," he said. ■

Only 2 percent of India's retail trade sector is in the organised sector and out of the remaining 98 percent, close to 50 percent is accounted for by family-run small businesses.

Manmohan Singh identifies 239 focus areas for growth

Prime Minister Manmohan Singh has identified 239 focus areas for 46 ministries and departments to act on within the next six months. The aim: To determinedly push growth and development.

"The comprehensive list, covering virtually all aspects of governance, has been prepared after intensive consultations with each ministry and department," Sanjaya Baru, media advisor to the prime minister, said on February 9.

"These thrust or focus areas not only have to be acted on within the next six months, but also have to be benchmarked and sequenced so that their progress can be monitored by the Prime Minister's Office," Baru said.

The focus areas range from a new civil aviation policy and e-governance to rural telecom, transparency in governance, disinvestment, foreign direct investment, population control, disaster management, universal education and labour reforms.

The maximum number of 21 thrust areas has been identified for the finance ministry, followed by 12 for the communications and information technology ministry and 11 for the ministry of environment and forests. Even the Prime Minister's Office and the Planning Commission have been assigned some tasks.

"The progress made by the various ministries and departments on implementing the programmes will be monitored not only the Prime Minister's Office but also by the prime minister himself," Baru said.

According to officials in Prime Minister's Office, the ministries have been asked to prepare a schedule sequencing their plans of action so that progress can be monitored against the benchmarks laid down by the prime minister.

"The progress made by the various ministries and departments on implementing the programmes will be monitored not only the Prime Minister's Office but also by the prime minister himself," Baru said.

Officials said the list was painstakingly compiled after a series of meetings with ministers and bureaucrats in the past few months and includes some of the promises made by the prime minister in his various speeches.

"This is the first time an exercise like this has been initiated at the prime minister's level. The idea is to speed up implementation," Baru added.

Among the areas identified for the finance ministry are a policy on subsidies that would identify target groups, goods and services, and an exit strategy for existing doles inconsistent with the government's stated policy. The ministry of human development resources has been asked to establishing the National Commission on Education.

These apart, the focus areas include labour reforms and a package for the textiles sector after the dismantling of the multi-fibre agreement within the WTO. ■



Prime Minister Manmohan Singh lays the foundation stone of the Rajiv Gandhi Combined Cycle Power Project, Stage II 1950 MW plant of the National Thermal Power Corporation at Kayamkulam, in Kerala's Alappuzha district, on February 16. (Photo: pmindia.nic.in)

Ties with U.S. 'represent (an) opportunity and we have to take full advantage'

Continued from page 2

The Core Group came about as a result of two conversations I had with Colin Powell. In many ways, it was a natural step given that we were already on the move. We found advantage in working together rather than separately.

Q: What has been the kind of cooperation that has taken place between the two countries on tsunami relief and rehabilitation?

A: Through the Core Group and working arrangements thereafter, we had a high degree of coordination. This avoided duplication of assistance or stepping on each other's toes. We each identified who had the lead where and what could be done to supplement these efforts by others. All of

us found it a valuable experience.

Q: What role do you envisage for the Indian-American community in the development of bilateral ties?

A: The period when Indo-American relations have taken off coincides with the growth in the U.S. of the Indian community. This is not a coincidence. No other ethnic group has achieved as much within one generation in the U.S. as Indians. The respect that they have earned has shaped our image. So, I would emphasise that by individual example, they are already playing a valuable role. The community brings our societies closer — culturally, economically, technologically and even politically. It must continue to be active as a bridge between us. ■

'India offers best returns on foreign investment'

India has among the best track records on the issue of returns on overseas capital — another reason for foreign investors to look aggressively at the country, Commerce Minister Kamal Nath said.

"A recent survey of 500 foreign companies doing business in India has shown that as many as 77 percent of the foreign investors were making profits," Kamal Nath told an India-U.S. Summit on infrastructure in New Delhi on February 9.

"Another 9 percent were breaking even and the balance 14 percent are about to make profits," the minister added while inaugurating the two-day event organised by the Indo-American Chamber of Commerce.

"A recent survey of 500 foreign companies doing business in India has shown that as many as 77 percent of the foreign investors were making profits," said Commerce and Industry Minister Kamal Nath.

Kamal Nath said even the U.S. Department of Commerce has acknowledged that profitability of American companies in India compared well with similar such investments elsewhere.

"Besides many distinct advantages that India offers, the investor finally looks at the return of investment while making a choice for investment. As existing investors would confirm, India is very good compared with other countries."

Kamal Nath also recalled Prime Minister Manmohan Singh's assessment that India would require \$150 billion over the next 10 years to upgrade infrastructure and said this offered a huge opportunity to foreign investors.

"Indian industry is growing at a blistering pace. But when we benchmark against fast-growing economies in the world, the biggest factor holding our productive energies back is the poor quality of the infrastructure we have," he said.

"Energy, water supply, solid waste disposal, roads, airports and seaports are crying for attention," he said, adding the government is focussing now on a regulatory and policy framework to encourage public-private partnerships.

Recognising the growing need for creating trade-related infrastructure, Kamal Nath said the government had decided to promote free trade warehousing zones where 100 percent foreign investment would be allowed as in special zones.

"Special Economic Zones would be at the centre of strategy for export growth. We have crafted a very attractive set of incentives for developers setting up the zones, and also for the units to be located within them," he said.

"We hope to soon put in place a specific legislation on special economic zones, which will consolidate and streamline all related issues." ■

IT market grew 26 percent in 2004

India's booming IT sector grew by 26 percent in 2004, a leading consultancy says. The market swelled to Rs. 950 billion (\$21.9 billion) in 2004, of which around 40 percent came from sales of computers, servers and services, said Skoch Consultancy Services CEO Sameer Kochhar while releasing highlights of the company's eighth annual analysis of the IT industry. Software exports registered a 32 percent growth during the period. While IT Services (ITS) exports grew by 24 percent, the business process outsourcing (BPO) sector witnessed a 49 percent growth.

The report, however, cautioned the industry, including the ITS and BPO segments, that it could face a shortage of trained manpower of up to a million by 2008.

The report noted that spending on e-governance grew by 23 percent with its impact on the society being felt in a pronounced manner in 2004. "Even rural India is giving thumbs up to e-governance initiatives like tele-medicine and computer literacy programmes in states like Assam and West Bengal," Kochhar said. ■

In a Nutshell

Foreign currency rating up

GLOBAL CREDIT rating major Standard and Poor's upgraded India's foreign currency rating citing strong foreign exchange reserves and impressive economic growth prospects. The long-term foreign currency rating on India has been raised by one notch to "BB+", said a statement issued by Standard and Poor's. The upgrading would help Indian companies access the international market for borrowing funds at lower costs.

Inflation at an 8-month low

INDIA'S ANNUAL rate of inflation based on wholesale prices fell to an eight-month low of 5.37 percent for the week ended January 22, as primary articles, fuels and manufactured products became cheaper. The inflation rate has now been declining for eight successive weeks.

Industrial output up 7.9%

INDUSTRIAL PRODUCTION was up 7.9 percent in December 2004 over the same month of the previous year, the data on quick estimates released by the Central Statistical Organisation said. On a cumulative basis, the country's industrial output has expanded 8.4 percent during the first nine months of the current fiscal. Among the three major indices that comprise the general index, that for the manufacturing sector expanded the most in December — up 8.8 percent over the same month of the previous year. Cumulatively, the index for manufacturing sector has risen by 9 percent between April and December 2004, when compared with the corresponding nine months of 2003.

India makes its debut at G7 finance ministers meeting

In a clear recognition of the increasingly important role the country is playing in the international economy, India was invited to attend talks with finance ministers of the Group of Seven (G-7) leading industrial nations in London on February 4. Ahead of the closed-door talks, India's Finance Minister, Palaniappan Chidambaram, articulated the country's views on globalisation at the Foreign Policy Centre, where he spoke on 'India and globalisation.' Excerpts:

"...My prediction is that globalisation will become a truly two-way street over the next 20 years. When India plugged its economy into the world economy, it marked the passage from childhood to adolescence for India. When, over the next 20 years, the countries of the world plug their economies into the Indian economy, it will mark the passage from adolescence to adulthood for India.

"However, I must enter a few caveats.

"India's producing classes range from the very poor to the very rich. Needless to say, the rich will be in the first line of beneficiaries of globalisation. The high growth rates witnessed in the industry and services sectors will keep them in the vanguard. However, the Indian train is long and, at the very end, are unskilled and semi-skilled workers who work on the land or work with their hands. Their aspirations

are modest and few — reasonable wages, shelter, drinking water, electricity, schools, hospitals and connectivity. As of now, many of them are sceptical of globalisation. The Indian State cannot ignore their aspirations even while it integrates the Indian economy into the world economy.

"You will therefore, I hope, understand our concerns — and constraints — when we argue the case of the developing world in the WTO. Or, when we enact a law on patents. Or, when we seek new markets. Or, when we suggest new ways for reorganizing the present architecture of international institutions.

"The issue is not globalisation. India accepts and willingly embraces the imperative of globalisation. We do so in our self interest. The real question is the terms of engagement in globalisation.

"As of today, the terms are heavily weighted in favour of the developed countries. Millions of people in the developing countries, and in the least developed countries, watch in silence, and with a growing sense of bitterness, that the Age of Prosperity is passing them by.

"This does not augur well for either globalisation or stability." ■



P. Chidambaram

Commerce Minister pitches for investment at Davos

Commerce and Industry Minister Kamal Nath led a high-powered 50-member delegation — which included political leaders as well as captains of Indian industry — to the World Economic Forum's annual meeting at Davos, Switzerland, from Jan. 26 to 30.

The Indian presence was palpable at the gathering of an estimated 2,000 global business captains, heads of governments, social activists as well as showbiz stars.

IT firm Infosys Technologies and the country's largest private sector industrial group Reliance Industries were among the 44 WEF global strategic partners for this year's meeting. And Infosys Chief Mentor N.R. Narayana Murthy was one of the co-chairs of the event.

On the sidelines of the event, Kamal Nath — who made a strong pitch to attract investment to one of the world's fastest-growing economies — held bilateral talks with U.S. Trade Representative Robert Zoellick and European Trade Commissioner Peter Mandelson, among others.

On Jan. 28, at the 'India Meeting', which is now a permanent fixture at the annual WEF meeting, it was indicated that the Central government would soon

unveil policy initiatives to solve infrastructure problems, relax labor market rigidities and to open up the economy further.

Addressing a large audience on Jan. 28, Kamal Nath focussed on India's comparative advantages as a destination for the world's leading corporates. In this context, he said that the question today before global business leaders was not whether their firms should go to India.

"On the tourism front, it is 'Incredible India' and on the economic front it is 'Opportunity India,'" the minister told the session titled 'India — Bigger, Better Business Horizons.' The minister said the country had registered the fastest economic growth among all major democracies in the world at an average expansion of 7 percent in gross domestic product. In terms of purchasing power parity, he said, India was the fourth-largest economy and the 10th-most industrialised nation by the sheer size of its industrial units.

The minister also spoke of the rich dividends on offer by investing in India because of its 500-million strong middle class, a large pool of skilled and technical manpower and expertise in IT that made it ideal for business process outsourcing. ■



Minister of Commerce and Industry Kamal Nath, left, with his Japanese counterpart Shoichi Nakagawa at the WEF

PALAMPUR

A picturesque

GETAWAY

Bejewelled with lush green terraced fields, majestic deodar trees, beautiful tea gardens, pine forests and ringed by snow clad mountains, Palampur makes for a picturesque getaway.



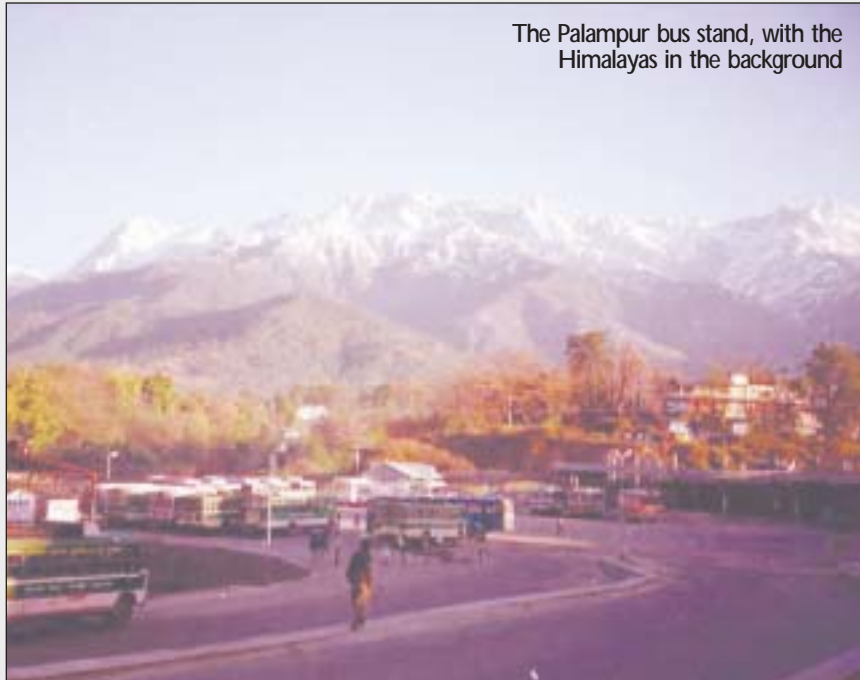
The Shiva temple at Baijnath

Situated in the Kangra Valley in the lap of the imposing Dhauladhar ranges is the exquisite town of Palampur. This small hill station is bejewelled with lush green terraced fields, majestic deodar trees, beautiful tea gardens, pine forests and ringed by snow clad mountains.

Palampur, a major railhead of the Kangra valley, is a leading hill station that sits at an altitude of about 1,249 metres. It was once a part of the Kingdom of Jalandhra.

Palampur got its name from the numerous streams and brooks that criss-cross the landscape. 'Palam', in local parlance, means a lot of water.

The landscape is also home to many tea gardens and rice fields. The town came into being when the tea bush was introduced in the 19th century and Palampur became a focus for the planters. Kangra tea, with its centre at



The Palampur bus stand, with the Himalayas in the background



The tea gardens around Palampur, famous for the Kangra tea

Other than its remarkable natural beauty, Palampur also has some interesting colonial architecture and the area around is richly garnished with historical temples and forts, and scores of picturesque hamlets.

Palampur, is internationally acclaimed. Other than its remarkable natural beauty, Palampur also has some interesting colonial architecture and the area

Tourism boom continues

Despite the tsunami devastation in some coastal states, 2005 has begun on a promising note for India's tourism sector, with 14.5 percent more tourist arrivals in January.

The country received 363,631 tourists in January and the sector earned Rs. 25.28 billion (\$555 million) in foreign exchange, according to statistics from the Ministry of Tourism. Tourist arrivals in January 2003 were estimated at 274,215 and in the same month next year at 317,510.

Tourist arrivals crossed the three million mark for the first time in 2004. ■

FACT FILE

How to Get There

By Road: Palampur is well connected by road and situated on National highway No. 20. Regular buses, coaches and taxis are available from Delhi and Chandigarh.

By Train: Baijnath is the nearest narrow gauge railhead just 16 km from Palampur. There is also a luxury narrow gauge train from Pathankot to Palampur.

By Air: Nearest airport is at Gaggal, which is 39 km from Palampur.

Climate

Summer (April-June): Mild

Winter (November-February): Cold but pleasant

Monsoon: July-September

Best time to visit

March to June and mid-September to November

Shopping

Kangra tea, local handicrafts; Tibetan carpets and pullovers

Where to stay

Highland Regency
Masand Nayar Motel
Nitika Guest House
Sawhney Hotel
Surbhi Hotel
Hotel Yamini
Silver Oaks Hotel
Hotel T-Bud

(For comments or further information, write to discoveringindia@globalindianme.com) ■

For more information, visit

www.hptdc.nic.in

www.tourindia.com

www.tourismofindia.com

around is richly garnished with historical temples and forts and scores of picturesque hamlets.

Since Palampur is located just where the valley meets the mountains, several adventure treks into the mountains are offered by tourist centres.

Tourists can also take short trips to several old forts and temples nearby —

the Kangra Fort, the Chamunda Devi, the Sujanpur Fort, and the Shiv temple at Baijnath. There is also a Tibetan monastery nearby at Tashijong.

March to May is the *mela* (fair) season in the villages that surround Palampur. The fairs, colourful and earthy rural celebrations, are definitely worth a visit for any tourist. ■



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