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“India has the potential to become the world leader in software engineering.”

— **John Chambers**
President and
Chief Executive
Cisco Systems

Message from the Minister (Economic)

Earthquake hammered Gujarat

A devastating earthquake hit India in the early hours of January 26, 2001, killing thousands of people as buildings and houses collapsed. Measuring 7.9 on the Richter Scale, epicenter of the quake was around 13 miles north-east of Bhuj, a small town in the state of Gujarat.

Prime Minister Vajpayee, while visiting some of the earthquake ravaged areas, described the devastation as “a massive tragedy” adding that the need of the hour was that everyone should join hands to save the people.

The requirement for funds for reconstruction from the most destructive earthquake to strike modern India is enormous. Gujarat is a major contributor to India's GDP and any slowdown of economic activity in Gujarat would have an impact on various aspects of national life.

Many non-governmental organizations are involved in relief and rehabilitation efforts. International organizations have also rushed relief materials and medical personnel to Gujarat.

The Government of India and the Embassy of India continue to receive a number of offers for contributions to the earthquake relief activities in Gujarat, India. Those who wish to make voluntary contributions may do so by sending checks in dollars or rupees to the Prime Minister's National Relief Fund. Checks/Money Orders should be drawn in favor of “**Prime Minister's National Relief Fund**” can be sent to any one of the following addresses:

Prime Minister's National Relief Fund

Embassy of India
Attn: Head of Chancery
2107 Massachusetts Avenue, NW
Washington, DC 20008

Donors can also wire transfer to “Prime Minister's National Relief Fund” account that has been set up by the Embassy.

Prime Minister's National Relief Fund

Riggs Bank
1913 Massachusetts Ave., NW
Washington, DC 20036
Account Number - 08115910, Route Number - 054000030

Yogesh Khanna
Minister (Economic)

Focus: India's Chemical Sector

India's Chemical industry is one of the fastest growing sectors, and accounts for about 14 percent of the total output produced by the Indian manufacturing sector. It also represents nearly 11 percent of the country's exports. A substantial proportion of these exports flows to the USA, Europe and other developed nations, which indicates the world class quality of Indian products.

There is tremendous scope for growth in the chemical sector. The per capita consumption of chemicals is well below the prevailing world level. By the way of example, sulphuric acid, which is considered as the barometer of growth of the chemical industry, the per capita consumption is only about 5 kilogram (kg) per annum in India as compared to 40 kg. in industrially developed countries.

The liberalized economic policies of the Government of India laid the foundation for augmenting the export base and attracting foreign investment in this sector, like several others. Industrial licensing has been done away with for all industries except a small list of hazardous chemicals. Entrepreneurs can now set up chemical industries simply by filing an Industrial Entrepreneurs' Memorandum.

In order to provide inputs at international prices, the Government has initiated steps for reducing custom duties on chemical products. Majority of the chemical items are now freely importable or exportable through simplified procedures.

The following figure depicts the composition of the India's chemical sector in terms of annual turnover.

Basic Chemicals and Pesticides

India produces a variety of **basic chemicals** both organic as well as inorganic. Manufacturing products ranging from Methyl Parathion, Malathion, and Quinalphos to Zinc Phosphide, Methyl Bromide, India's pesticides and disinfectants industry has also become one of the most significant players in the global market today.

Petrochemicals

India's Petrochemical industry has made rapid stride in terms of production and consumption. The demand of petrochemicals during India's Eighth Five-year plan period (1992-93 to 1996-97) grew at the rate of 14 percent per annum while production grew at the rate of 18.5 percent. In spite of the rapid growth in consumption, Indian per capita consumption is far below the global average consumption of petrochemicals. Since 1991, this sector has been considerably liberalized and import tariffs in this sector have been significantly reduced.

Pharmaceuticals

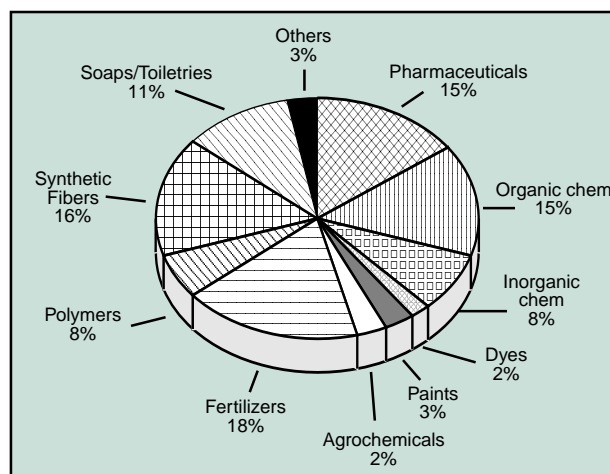
The Indian **Pharmaceutical industry** has shown tremendous progress in terms of infrastructure development, technology base creation and a wide range of production. Today, India produces bulk drugs covering a wide range of therapeutic groups. Indian pharmaceutical products are exported to various parts of the world. During the nineties, the pharmaceutical export from India has recorded a phenomenal growth. The liberalization policy pursued by the Government of Indian significantly contributed to this.

With large number of WHO certified and FDA approved production facilities and large presence of multinational and Indian companies, India has emerged as one of the largest producers of pharmaceuticals globally with around 8.5% of global production in this sector.

India's Edge

India is fast emerging as leader in the Knowledge Based sectors. Its potential in the IT sector has been very well recognized. Pharmaceuticals, Biotechnology and Speciality chemicals are the upcoming sectors of the economy, which provide tremendous opportunities to investors.

The presence of a large number of research oriented scientists and a large number of well-qualified doctors, makes India an ideal place for clinical trials by the world's major pharmaceutical companies. With a population of about a billion, India today possesses a rich genetic pool and large family structure, which provide ideal conditions for studying genetic patterns of diseases.



(Continued on page 4)

Fiscal Responsibility and Budget Management Bill 2000 Introduced in the Parliament

Fulfilling the commitment made in the last year's budget (Budget 2000-01), the Indian Finance Minister tabled in the parliament in December 2000, the Fiscal Responsibility and Budget Management Bill 2000. The Bill seeks to ensure inter-generational equity in fiscal management and long term macro economic stability by achieving sufficient revenue surplus, eliminating fiscal deficit and removing fiscal impediments in the effective conduct of monetary policy and prudential debt management, consistent with fiscal sustainability, through limits on the Central Government borrowings, debts and deficits. The Bill also envisages greater transparency in fiscal operations of the Central Government.

Salient Features:

- a) Laying before Houses of Parliament, along with the annual budget, the Medium-term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macro-economic Framework Statement by the Central Government.
- b) Appropriate measure by the Central Government to eliminate revenue and fiscal deficit and build up adequate revenue surplus.
- c) Elimination of revenue deficit by March 31, 2006 and bring down fiscal deficit to 2 percent of GDP in the same period.
- d) Greater transparency in fiscal operations and to minimization of, as far as possible, secrecy in the preparation of the annual budget.
- e) Prohibition of direct borrowings by the Central Government from Reserve Bank of India after three years except by way of advances to meet temporary cash needs in certain circumstances.
- f) Quarterly review of the trends in receipts and expenditures in relation to the budget by the Finance Minister and placing the outcome of such reviews before both houses of Parliament.
- g) The Central Government to cut expenditure authorizations in a proposed manner, while protecting the 'charged' expenditure, whenever there is a shortfall of revenue or excess of expenditure over specified targets.
- h) Finance Minister to make a statement in both houses of Parliament explaining any deviation in meeting the obligations cast on the Central Government and the remedial measures the Central Government proposes to take.
- i) Relaxation from deficit reduction targets to deal with unforeseen demands on the finances of the Central Government on account of national security or natural calamities of national dimensions.

World Bank Offers Help to Gujarat

Responding to a request from the Indian Finance Minister, Honorable Yashwant Sinha, the Bank has decided to support for reconstruction work in Gujarat, one of the most prosperous states of India ravaged by the Earthquake in the early hours of January 26, 2001. The Bank has offered assistance in two phases: First, about US \$300 million to be made immediately available for emergency rehabilitation work. Second, within six months, the Bank, along with the Government of Gujarat, will put together a longer-term reconstruction and disaster mitigation package for which a new loan will be provided, most likely on concessional terms.

In his letter to World Bank President James D. Wolfensohn, the Finance Minister requested the Bank to assist in rebuilding infrastructure, helping those who have lost their homes and livelihood, and setting up disaster prevention and management systems for the future. A Bank mission will visit Gujarat to assess the exact scale and priority of these needs. It has assured the Government that it is prepared to provide whatever technical and financial assistance it can to help address this emergency.

India's Chemical Sector *(Continued from page 2)*

Over the years, India has also developed a strong research and development base. Besides national institutes such as National Chemical Laboratory, Pune and the National Institute of Pharmaceutical Education & Research, Mohali, there are a large number of research laboratories in the private sector. Several private sector companies in the pharmaceuticals sector also have state-of-the-art in-house research facilities that have been successful in producing new molecules.

Recent Policy Initiatives

Major initiatives taken by the Government in the last one year are:

Encouragement to R & D in Pharmaceuticals Sector

For promoting research and development (R&D) in the pharmaceutical sector, the Government has initiated a number of proposals, including, granting of financial concessions. Recently, a Pharmaceutical Research and Development Support Fund has also been set up with budgetary support of Rupees 150 crore (about \$32.3 million) annually.

Advisory Group for Petrochemicals Vision 2010

The Petrochemicals Vision 2010 Advisory Group, set up recently by the Government of India, has been assigned a challenging task of drawing a roadmap for this sector over the next 10 years. The Group would also study various aspects, such as, futuristic approach to the Petrochemical industry and its growth, and would recommend policy initiatives - fiscal and non-fiscal - necessary to create a world scale, competitive industrial base. The group would also address infrastructure issues concerning the sector and analyze possibilities of the creation of petrochemical complexes at appropriate locations.

FDI limit Raised

Recently, the Government has raised the automatic foreign direct investment (FDI) approval limit of the pharmaceutical sector from 51 per cent to 74 per cent.

Environment-Friendly Chemical Estates

To modernize and geographically centralize the country's fast growing petrochemical pharmaceutical, chemical and fertilizers research and manufacturing sectors, the Government has decided to set-up separate environment-friendly chemical estates. The proposed estates would be a partnership between the Government and private investors. The estates would be established in coastal port accessible regions of the country and a formal site selection process is now under way.

Indian Power Alcohol Act, 1948 Repealed

During the Monsoon session of the Parliament last year, the Government has repealed Indian Power Alcohol Act, 1948. The molasses and alcohol based chemical industry and potable alcohol industry is now well developed and utilization of molasses and problems relating to its disposal are no longer issues of concern as they were when this law was enacted.

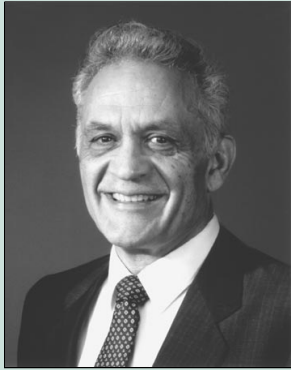
(Continued on page 6)

ISPs to have Choice of Multiple International Gateways to Access Internet

The Government of India has decided that the Internet Service Providers (ISPs), who set up International Gateways for Internet using satellite, may also provide international bandwidth to other ISPs. Earlier, the ISPs, who set up International Gateways for Internet by setting up Submarine Cable Landing Stations, had been permitted to provide international bandwidth to other ISPs. With these decisions, the ISPs across the country will now have the choice of multiple international gateways for accessing the Internet whether it is satellite or submarine cable. The present decision to provide international bandwidth from satellite gateways of ISPs to other ISPs, is a sequel to the recommendations of the Group on Telecom and IT Convergence (GOT-IT) and the Strategic Management Group. This will also increase the total Internet bandwidth availability for Internet in the country.

Further, as part of simplifying the procedure for obtaining ISP license, it has been decided that the relevant application form can be downloaded from the DOT website "www.dotindia.com" and used for obtaining the ISP license. The processing fee for such applications is Rs.6000 (about \$130/-).

Trail Blazers



DR. AMAR G. BOSE

Founder, Chairman & Technical Director,
Bose Corporation

Called a visionary in the world of sound, Dr. Bose, the electrical engineering professor in the Massachusetts Institute of Technology (MIT), is the founder and the Chairman of the Bose Corporation, which is one of the world's biggest manufacturers of home hi-fi speakers.

Born to an Indian father and American mother, Dr. Bose learnt business lessons in his early childhood. His father, who migrated from Kolkata (India), set up his import business in the United States. But his business suffered serious set back due to the out break of the World War II. To help his family, Dr. Bose, still in his early teenage, decided to run a repair shop. In his workshop, he used to repair transistors and other electrical home gadgets.

His early fascination with sound began while doing graduate work at MIT in the 1950s, when he decided to purchase a new stereo system. He was disappointed to find that speakers with impressive technical specifications failed to reproduce the realism of a live performance. This led him to begin extensive research in the fields of speaker design and psychoacoustics. His investigation of the relationship between reproduced sound as perceived by people and sound as measured by electronic instruments led to the development of new audio technologies, which helped him to hold numerous patents in the fields of acoustics and electronics.

Receiving encouragement from MIT, Dr. Bose founded Bose Corporation in 1964 in Massachusetts. The venture turned out to be a tremendous success and after that he never looked back. Today, Bose Corporation, with annual sales exceeding \$1 billion, is the best seller in the United States, Europe, Canada, Australia and Japan. The company has recently entered Russian, Chinese and Indian markets.

Dr. Bose has won several prestigious awards including the "Global Leadership Award" by the Alliance for the Commonwealth in March 2000 and "Best Practices for American Retail Excellence" - given by NRF and American Express in February 2000.

His name is continuously appearing in the list of "Forbes Richest Americans" since 1994. He has written extensively on acoustics and electronics in almost all prestigious international journals. His important papers include: "Sound recording and reproduction" and "On the design, measurement and evaluation of loudspeakers".

Now seventy years old, Dr. Amar Bose, is married and has two children.

Two Indians among the 50 richest in the world

Forbes, in its 14th annual list of world's billionaires, has placed two Indian families in the list of top 50 richest people of the world in terms of the estimated wealth. They are Azim Premji & family and Dhirubhai Ambani & family.

Premji family, the owner of technology and IT major Wipro, ranked 43rd in the list with an estimated wealth of about \$6.9 billion while Ambanis secured the 45th position with an estimated wealth of about \$6.6 billion.

Both the Indian recorded phenomenal growth this year. The Ambanis posted a record 450 percent increase in their wealth this year while the Premji group's wealth grew by 146 percent over the last the year.

In all, there were nine Indians and two Indian- Americans, who made it to the list of total three hundred and twenty two billionaires released recently by the Forbes.

India's Chemical Sector (Continued from page 4)

INDIACHEM' 2000

INDIACHEM' 2000, the largest chemical show in India, was organized jointly by the Government of India and the Federation of Indian Chambers of Commerce and Industry (FICCI) during October 6, 2000 in New Delhi. The event showcased strengths of the Indian industry and provided it with a platform for interaction with leading global companies. It has also been decided to organize this event in a regular interval of two years.

Foreign Investment Policy

The Chemical sector is covered under automatic approval of foreign equity up to 51%.

S N	Division	Group	Description
B-8	30	300	Manufacture of Industrial organic and inorganic chemicals
		301	Manufacture of Pesticides (excluding fertilizers)
		303	Manufacture of paints, varnishes & related products; artist's colors and ink
		309	Manufacture of chemical products not else where covered.

In addition to above automatic approvals, policy provides for the Foreign Investment Promotion Board (FIPB) recommending higher level of foreign equity in view of the special requirement and merit of each case. The policy also considers various proposals for 100% foreign owned holding/subsidiary companies based on the following criteria:

1. Where only holding operations are involved and all subsequent down stream investments to be carried out would require prior approval of Government.
2. Where proprietary technology is sought to be protected or sophisticated technology is proposed to be brought in.
3. Where at least 50% of production is to be exported.
4. Proposals for consultancy.
5. Proposals for power, roads, ports and industrial model towns/industrial parks or estates.

The Guidelines also permit in respect of trading companies, 100% foreign equity for the following activities:

1. Exports
2. Bulk imports with ex-port/ex-bonded warehouse sales
3. Cash and carry wholesale trading
4. Other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group

Petrochemicals

- No approval required for foreign investment up to 100 percent in sectors like synthetic resins & polymers, manmade fibers, synthetic rubber, synthetic detergents and other chemicals not requiring an Industrial License.
- Industrial licenses required for naphtha or gas crackers, aromatic complexes, mono ethylene glycol, ethylene oxide, low-density polyethylene, polycarbonate and polymethyl methacrylates.

Drugs & Pharmaceuticals

- i. FDI up to 74% in the case of bulk drugs, their intermediates and formulations (except those produced by the use of recombinant DNA technology) would be covered under automatic route.
- ii. FDI above 74% for manufacture of bulk drugs will be considered by the Government on case to case basis for manufacture of bulk drugs from basic stages and their intermediates and bulk drugs produced by the use of recombinant DNA technology as well as the specific cell/tissue targeted formulations provided it involves manufacturing from basic stage.

Economic Update

Food grains Stocks: Stocks of food grains stood at 44.49 million tons as on November 1, 2000. This level of stocks was higher by 38 percent than the level of 32.25 million tons as on November 1, 1999.

Industrial Production: In 1999-2000 (April 1, 1999 to March 31, 2000), industrial production increased by 8.1 percent as against 3.8 percent in the financial year 1998-1999. During April-November 2000-01, industrial production recorded an increase of 6 percent over the corresponding period of the previous financial year. During this period, the three sectors i.e., mining, manufacturing and electricity recorded cumulative growth rates of 4.1 percent, 6.3 percent and 4.9 percent respectively.

Infrastructure Industries: In 1999-00 the production in infrastructure industries grew by 7.8 percent, as compared to 2.5 percent in 1998-99. During April-September (2000-01), production in infrastructure industries grew by 6.7 percent as compared to 6.4 percent in the corresponding period of the previous financial year.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 19.2 percent. In 1999-2000 (March 31, 1999 to March 31, 2000), money supply growth was 13.9 percent. In the current financial year (from March 31, 2000 to December 29, 2000), money supply (M3) increased by 12.9 percent. The annual growth rate of M3 as on December 29, 2000 stood at 15.6 percent. The Prime Lending Rate, as on January 12, 2001 was 12 to 12.50 percent as against 12.00-12.50 percent on, January 14, 2000. The Deposit Rate ranged between 8.50 to 10 percent as on January 12, 2001 as against 8 to 10.50 percent as on January 14, 2000.

Foreign Trade: Exports in dollar terms during 1999-2000, increased by 11.6 percent as compared to a decline of 1 percent during 1998-99. Imports, in dollar terms, increased by 10.2 percent during 1999-2000 as against 2.7 percent during 1998-99. During April-November 2000-01, exports in dollar terms registered a spectacular increase of 20.56 percent over the corresponding period of the previous financial year. Imports also recorded 14.44 percent growth during April-November 2000-01. Oil imports

during April-November, 2000-01 are valued at \$11.35 billion, which was 82.96 percent higher than oil imports valued at \$5.3 billion in the corresponding period last year, which is one of main reasons for increase in imports. During this period, non-oil imports declined by 3.13 percent over the corresponding period of 1999-2000.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs) were \$ 35 billion at the end of March 2000 as against \$ 29.5 billion at the end of 1998-99 (March 31, 1999). These reserves stood at \$ 37.7 billion as on January 19, 2001.

Exchange Rates: The average market exchange rate of the Indian Rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, French Franc, Euro and Japanese Yen was Rs. 46.78, Rs. 66.73, Rs. 20.44, Rs. 6.10, Rs. 40.03 and Rs. 0.43 respectively during November 2000. During November 2000 the Rupee appreciated against Pound Sterling and depreciated against US dollar, Deutsche Mark, Euro, Japanese Yen and French Franc compared to the average market rate during October 2000.

Rate of Inflation: The annual rate of inflation based on the Wholesale Price Index (WPI) stood at 8.2 percent for the week ended January 6, 2001. The annual rate of inflation based on the All India Consumer Price Index for Industrial Workers (CPI-IW) for October 2000 stood at 2.8 percent over October 1999.

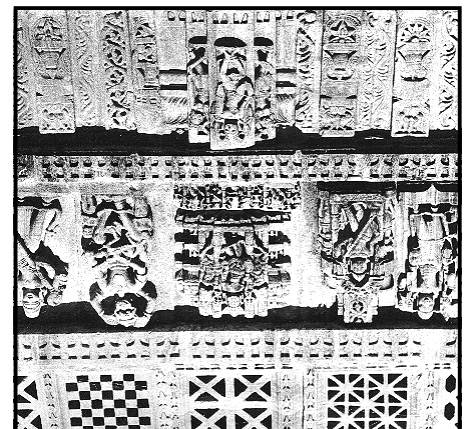
Foreign Direct Investment: The Foreign Direct Investment (FDI) flows during 1999-2000 were US \$2155 million, as compared to US \$ 2462 recorded during 1998-99. During April-October 2000, the FDI flows were \$1622 million as against \$1217 million recorded during the corresponding period last year.

Portfolio Investment: Portfolio Investment flows during 1999-2000 were US \$ 3026 million as compared to US \$ (-) 61 million recorded during 1998-99. During the first seven months of the current financial year (April-October 2000), the Portfolio flows were \$349 million as against \$1356 million recorded during the corresponding period last year.

NEWS BRIEFS

- **Cognizant Technology Solutions Inc.**, the US based IT company has decided to invest over \$40m in its development centers in Bangalore, Pune and Chennai over the next two to three years. Announcing the official launch of its ninth development center in India spread over 35,000 sq ft in Bangalore, Cognizant's President and COO informed that these centers would be dedicated to provide e-biz, telecom and CRM solutions. The company is also planning to focus on building B2B applications and exchanges, portals, ASP enabled solutions and e-biz application management solutions, providing wireless and mobile commerce solutions for telecom device manufacturers, equipment vendors and service providers. The company plans to ramp up its manpower rapidly this year. The numbers are expected to go up from 3,200 to over 4,700 by December end. — *Economic Times*
- **Cisco Systems Inc.**, the US IT major, plans to invest \$200 million in research and development in India in hopes of producing 100,000 software engineers in the next five years. The Cisco investment will go toward expanding the Cisco Global Development Center in Bangalore, a southern city known as Asia's Silicon Valley, which employs more than 400 engineers. In addition, the investment will promote five development centers in southern Karnataka and Tamil Nadu states. Cisco projects that it will need to expand its engineering work force in India by 300 percent over the next three years to meet its growth projections. The company is also planning to provide venture capital funding in India. India at present accounts for 1 percent
- of Cisco's total business but the country's share is expected to increase to nearly 15 percent in next seven years. — *Washington Post*
- **Enron**, the US major and Maharashtra State Electricity Board (MSEB) have decided to build a 5,000 km fiber optic fiber backbone in Maharashtra. Enron has emerged as the highest bidder for purchasing the right of way along MSEB's state wide electrical line network for the optical fiber cable network. The project was scheduled to start in January this year and was to have been completed over three years. Enron Communications recently had unveiled plans to set up data centers on its OFC network that is expected to connect large parts of the country. Its total investment in India, which is concentrated in Maharashtra and Karnataka for now, would be in the region of Rs 6.5 billion (\$140 million). The company is tapping state power utility Karnataka Power Transmission as well for the right of way to use its electricity cables, towers/poles to lay the fiber cable on the Belgaum-Bangalore stretch. — *Economic Times*
- The Washington-based **WorldSpace Corporation**, which extends direct satellite delivery of digital audio and multimedia services to emerging markets through its range of geo-stationary satellites, plans to invest about \$25 million in India in the next three years through its Indian subsidiary WorldSpace India. The company's satellite-based network would encompass three geo-stationary satellites and each of them would have three beams with each beam capable of delivering 50 plus channels of crystal-clear audio and multimedia programming directly to these transportable receivers. Currently offering about 24 channels, WorldSpace is looking at strategic alliances to offer more. — *Business Line*

NOTE: This newsletter can also be seen at:
<http://www.indianembassy.org>
<http://www.indiaserver.com>



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