INDIA ECONOMIC NEWS

Volume VIII, Number 8

August 1997

INSIDE:

Message from US Commerce Secretary 2

Message from US Treasury Deputy Secretary 3

From the Ambassador, Naresh Chandra 4-5

Indian Economy at a Glance 6

Overview of the Economy 7-10

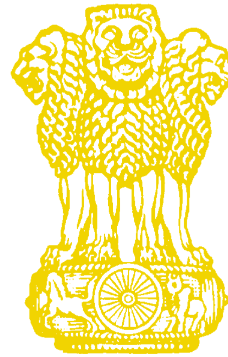
Foreign Investment in India 11-15

Investing in Indian Infrastructure 16-27

- Power
- Telecommunications
- Oil and Natural Gas
- Roads
- Ports

Indo-US Trade Relations 28-30

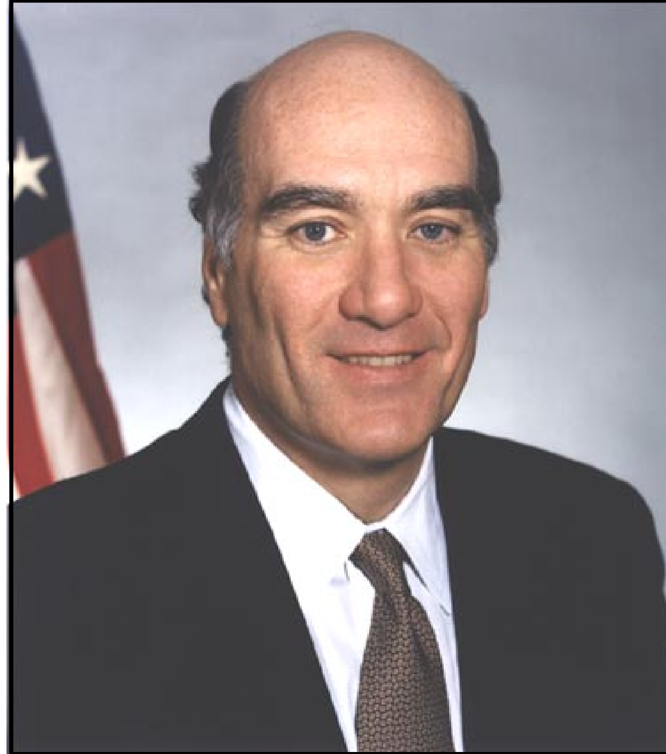
USAID Assistance to India 31-32



50th Anniversary of India's Independence

Published for the Embassy of India (Economic Wing) • 2107 Massachusetts Avenue, NW • Washington, DC 20008

Message from the Secretary of Commerce, William M. Daley



India is an old country with a young democracy, while the United States is a young country with an old democracy. But we are much more alike than that statement implies. India and America are large multicultural, democratic societies where a high value is placed on education and entrepreneurship. Both countries are fortunate to be richly endowed with natural resources and the possibilities they provide.

India's economy has undergone great change in the 1990s. Your country's rising economic growth demonstrates that the hard decisions made by recent Indian governments are bearing fruit — to the benefit of all Indians. The United States is eager to be a partner in India's future prosperity. Americans are keenly interested in trading with and investing in India.

I hope to visit India during this Fiftieth Anniversary year, to renew our commitment to commercial cooperation and highlight the interest and capabilities of American companies to work with India in achieving its economic development and modernization goals.

I congratulate India on the Fiftieth Anniversary of achieving independence.

Message from the Deputy Secretary of the Treasury, Lawrence H. Summers

Over the course of my professional relationship with India, at the World Bank and as a Treasury official, I have been happy to see India make significant strides towards economic liberalization and toward achieving a higher, more sustainable rate of growth. There is no reason to believe that India could not match rates of economic growth experienced by Southeast Asia if it continues the course of deepening its economic reforms. I wish the Government of India every success over the next 50 years of independence as it strives to reach India's full potential and play a greater role in the global economy.

From the Ambassador

India completes 50 years of Independence on August 15, 1997. It is a time to rejoice and to pay tribute to those who struggled and sacrificed so much to attain it. It is also an occasion to reflect on the dreams we had of independent India in 1947, the achievements so far and the task ahead.

Looking back at the post-independence period, with so many constraints and shortages, India pursued a pragmatic policy of planned economic development to achieve the basic objectives of growth and modernisation coupled with self-reliance and social justice. The catalytic role of the State in regulating investment flows in accordance with approved plan priorities was the cornerstone of this strategy. The First Five Year Plan was launched in 1951 and through seven successive five year plans, a stagnant, largely feudal agrarian economy has been transformed into one growing at persistently positive rates. The incidence of poverty has been reduced, a highly diversified industrial and service infrastructure has been developed along with a pool of skilled manpower. Self-sufficiency in food production has been achieved. In addition, India has never defaulted on its external debt.

What is noteworthy is that these successes have been achieved in a very complex social structure with diverse ethnic, linguistic and religious beliefs and within the framework of viable and vibrant democratic institutions. We have had our share of communal strife, regional dissidence and political crisis; yet, a solution has been found within the framework of our federal democratic polity.

The transformation of an economy which was stagnant before independence is no small achievement. However, for a country saving and investing over one-fifth of its GDP, the growth rates have been lower than expected. Serious macroeconomic imbalances in the economy became evident in the 1980s. India's policy-makers had begun to feel that a more market-oriented approach to economic management would be necessary. Simultaneously, a number of countries in South East Asia were opening up and achieving faster growth rates, benefitting from the rapidly growing integration of global markets.

By mid-1991, the growing macroeconomic imbalances had become unsustainable and India embarked on its new economic strategy and launched a comprehensive reforms package. The reform measures of the past six years have brought about an unprecedented strong economic performance. For the third year in a row, GDP is estimated to have grown by about 7% in the fiscal year 1996-97, placing India among the world's best performing economies. Unlike in the past, this expansion has been driven by private investment without putting pressure on the balance of payments. The country's external position is strong. The current account deficit was 1.1% of GDP in 1996-97; the country's US $94 billion external debt declined to 27% of GDP in 1996-97 from 34% in 1991-92.

Underlying the economy's strong economic performance are important structural changes. The declining role of the public sector since the start of the reform program in 1991, both as producer of goods and services and economic regulator, is one of the most fundamental changes since independence. The private sector now has access to areas that were previously the exclusive domain of the public sector - such as banking, civil aviation, telecommunications, power generation and distribution, ports, and roads. Equally important, the liberalization of the economy has reduced distortions and increased external and internal competition.

In agriculture, the sector's terms of trade have improved and agricultural commodities have been one of India's fastest growing exports. In industry, firms are restructuring and entering into joint ventures and alliances with foreign firms. Productivity has increased and consumers have a wider range of better quality goods from which to choose. Deregulation and entry of foreign companies has improved corporate management of industrial and financial firms. The regulatory and institutional framework of the financial sector has been strengthened considerably. The investment regime has been liberalized further, with particular emphasis on foreign investment. The new industrial policy is far more simple, more liberal and transparent, actively promoting foreign investment and the country's international competitiveness.

Reforms have continued through 1996-97 in spite of political changes. The positive effects of reforms have demonstrated the extent to which India stands to gain from deregulation and better fiscal management and have helped to create consensus in favour of it. This explains why reforms have continued and deepened in 1996-97, notwithstanding three changes of government of diverse political backgrounds. The political consensus in favour of reform is also evident from the policies pursued by various state governments ruled by different political parties, ranging from the left to the right, all of whom are actively welcoming foreign investment.

However, the process of reform is not yet complete and there are still some areas of concern. Fiscal consolidation is one such area of concern. The government is conscious that only with rapid fiscal correction can the economy hope to lower real interest rates, accelerate banking reform, improve the health of the financial system and manage the surge in capital inflows. Infrastructure development is another area of concern. Unless infrastructure constraints are removed, it would be difficult to sustain the high levels of growth that have been achieved as well as the targeted growth path. Financing the huge supply gap in our infrastructure is a mammoth task and public as well as private capital will have to contribute. Both fiscal consolidation and infrastructure development are the highest priorities of the Indian government today.

As we celebrate the 50th anniversary of our independence, we also resolve to pursue our cherished goal of upholding democratic values and, with renewed confidence and vigour, persevere with our strategy of economic reforms. We are confident that we shall succeed in the path of reforms that we embarked upon in 1991 to ensure a better quality of life for our people.

Naresh Chandra
Ambassador of India to USA

INDIAN ECONOMY AT A GLANCE

Gross Domestic Product	:	$295 billion (1995-96)
Growth Rate	:	6.8% (1996-97)
Agricultural Growth Rate	:	3% (1996-97)
Industrial Growth Rate	:	11.6% (1995-96) 6.7% (1996-97)
Fiscal Deficit	:	5% (1996-97) 4.5% (1997-98 - Projected)
Inflation Rate	:	5.8% (annual rate based on WPI for the week ending June 7, 1997)
Foreign Trade		
Exports	:	$33.1 billion (1996-97)
Growth Rate	:	4% (1996-97)
Imports	:	$38.5 billion (1996-97)
Growth Rate	:	6% (1996-97)
Foreign Exchange Reserves	:	$24.1 billion (as at end-May, 1997)
Exchange Rate	:	$1 = Rs.35.70 (August 6, 1997)
Foreign Direct Investment	:	$8.1 billion (1991- May 1997)
From USA	:	$1.2 billion (1991- Feb 1997)
Foreign Institutional Investment	:	$8.2 billion (1991-May 1997)
GDRs	:	$5.5 billion (1991-May 1997)
Total Foreign Inflows (including FDI, FII and GDRs)	:	$21.8 billion (1991-May 1997)
Stock Market	:	4465 (BSE Sensex close on August 4, 1997)

Overview of the Economy

India launched comprehensive economic reforms starting from 1991. The initial spurt of reforms from 1991-92 to 1993-94 was very successful by all accounts, resulting in a jump in ***economic growth*** to 7.2% in 1994-95 (in terms of GDP at factor cost). Since 1994-95, however, there was a marked slow down in the pace of reforms. Nevertheless, GDP grew by 7.1% in 1995-96. The slackening of reforms preceding and during the election period may have been responsible for some loss of momentum, but this has been revived with a series of measures in recent months. Economic growth in 1996-97 is estimated to be around 6.8% (GDP at factor cost). Thus, the Eighth Plan is likely to end with an average growth of 6.5% per annum, 0.9 percent point higher than the target rate of 5.6%, and 0.5 percent point higher than the actual achievement of the Seventh Plan. More important for the future is the fact that the average growth during the latest three years is 7%, probably placing India among the top ten performers in the world during this period. With the growing participation of virtually the entire spectrum of political opinion in the reform process, there is a good prospect that a higher growth rate would become a permanent feature of the economy.

Total gross domestic saving reached a new peak of 25.6% of GDP in 1995-96, exceeding its previous peak of 24.9% of GDP in 1994-95. This seems to vindicate the reform strategy of encouraging savings by expanding ***saving and investment*** opportunities, rather than giving special incentives. Gross domestic investment in real terms, as a proportion of GDP at constant prices, reached a new peak of 27.1%, exceeding the previous peak of 25.9% in 1990-91. Private sector investment appears to have responded vigorously to the policy of promoting competition, removing policy distortions and hurdles, and improving access to factors of production.

The economy in 1996-97 presents a mixed picture. Although overall economic growth remains high at 6.8%, and agriculture has rebounded, the growth of manufacturing value added has slowed and the performance of key infrastructure sectors, especially power and crude oil, is weak. The annual rate of inflation (point to point) has risen back to average long-term levels and export growth has decelerated markedly in recent months. Despite the slowdown in exports, a combination of sluggish imports and reasonably buoyant inflows of invisibles and capital flows have led to a build-up of foreign exchange reserves by over $2.5 billion.

Agricultural crop production in 1996-97 is expected to show good recovery from the slower growth in 1995-96. Growth is projected at 3% after a fall of 0.4% in 1995-96. The sharp decline in foodgrains production by 3.4%, which was responsible for the slow agricultural growth in 1995-96, is expected to be reversed by an increase of 3.3% in 1996-97. Foodgrains production is expected to recover to 191.2 million tonnes, only marginally lower than the level of production in 1994-95. This recovery is primarily due to coarse cereals, as well as an anticipated rise in wheat production which suffered a sharp setback in 1995-96.

Industrial production (as measured by the index of industrial production-IIP), grew by 6.7% in 1996-97 as against an increase of 11.6% in 1995-96. Production in manufacturing sub-sector increased by 8% (against an increase of 13% in 1995-96) in the same period. The slowing of industrial production is clearly attributable to the dramatic fall in the rate of growth of electricity production

to 3.8% and a slowing of growth in the mining sector mainly because of the 8.6% decline in crude oil production.

A number of changes have been made in 1996-97 in the area of ***foreign investment***. The Foreign Investment Promotion Council has been set up, the Foreign Investment Promotion Board (FIPB) streamlined and made more transparent, and the first ever guidelines have been announced by the Government for consideration of foreign direct investment proposals by the FIPB, which are not covered under the automatic route. The list of industries eligible for automatic approval of up to 51% foreign equity has been expanded. Foreign Institutional Investors (FIIs) have been allowed to invest in unlisted companies and in corporate and government securities, and external commercial borrowing (ECB) guidelines have been liberalized and made more transparent.

The government has repeatedly stressed its firm determination to reform the ***infrastructure*** and energy sectors. In line with this commitment, a number of policy decisions have been taken and new initiatives launched. These include:

- To provide long-term finance for infrastructure, the Budget 1996-97 announced the establishment of an Infrastructure Development Finance Company (IDFC). The IDFC has since been incorporated under the Companies Act in January 1997 with an authorized share capital of $1.4 billion.

- A 5-year tax holiday for companies developing, maintaining and operating infrastructure facilities such as roads, bridges, new airports, ports and railway projects, was extended to cover water supply, sanitation and sewerage projects.

- After the National Highway Act was amended to enable private participation, projects involving $12 million have been awarded on a Build-Operate and Transfer (BOT) basis. The capital base of the National Highways Authority of India has been increased by a provision of $57 million, thereby providing greater leverage to borrowing from external funding agencies and other lenders.

- The provisions relating to foreign investment have been further liberalized to give automatic approval for foreign equity participation up to 74% in key infrastructure sectors such as electricity generation and transmission, non-conventional energy generation and distribution, and construction and maintenance of roads, bridges, railbeds, ports, runways, pipelines and harbours. The automatic approval list for foreign equity up to 51% has been expanded to include support services for land and water transport. This includes operation of highway bridges, toll roads and vehicular tunnels, operation and maintenance of piers, and loading and discharging of vessels.

- The Government has established a statutory Telecom Regulatory Authority of India (TRAI) which will separate the regulatory functions from policy formulation and operational functions. Letters of intent have been given to basic telecom services in Karnataka and Madhya Pradesh. Cellular services are expanding rapidly beyond the four non-metro areas.

- The Government has announced that telecom will be treated as infrastructure and all fiscal benefits, like tax holiday and concessional duty on project imports, now being made available to the power sector will be extended to the telecom sector also.

- New guidelines have been published for private participation in ports for both leasing out of existing assets and construction and operation of new assets such as container terminals, cargo berths, warehousing, dry docking and ship repair. Private investment in ports will be on a BOT basis. The concession period will be decided by the Port Trusts, up to a maximum period of thirty years. A contract for a private container terminal at JNPT, valued at $200 million, has been awarded.

- An Independent Authority for regulating tariffs in major ports has been created.

- New guidelines for private investment in the highway sector have been announced, procedures simplified, and environmental clearance and equity participation made easier. An Ordinance has been issued containing provisions for acquisition of land for development and maintenance of national highways. Once the Government declares that the land is required for a highway, it would be deemed vested in the Central Government and be non-justicable. Only compensation can be settled through arbitration.

- A Common Minimum National Action Plan for Power was approved by the Centre and the States in December 1996. As a part of this Plan, State Electricity Boards are to be urgently reformed and restructured to give them more autonomy, retail tariffs and wheeling charges are to be rationalized, and independent regulatory commissions are to be set up at the Central and State level. Private participation in distribution is to be encouraged. The Central Government has already issued an Ordinance allowing private entry into power transmission as an independent service. States have been given authority to clear projects up to 250 MW.

- In-principle approval has been given by the Government for a rail-based mass rapid transit system (MRTS) in Delhi. The cities of Bangalore, Hyderabad, Mumbai and Calcutta have proposed major improvements in their public transport systems through the introduction/augmentation of rail-based transit systems.

- A new policy for private investment in civil aviation has been announced and this includes allowing 40% foreign equity in domestic airlines.

Issues and Priorities

There are three key challenges for economic policy: how to control the fiscal deficit; how to provide adequate and reliable economic infrastructure services at a reasonable cost and with sustainable financing and pricing policies; and how to ensure broad-based employment-generating growth of agriculture, industry and other sectors, together with strengthened programmes for basic social services and anti-poverty programmes to ensure a rapid alleviation of poverty. These challenges remain central to our concerns.

It is essential to keep reducing the Centre's fiscal deficit to below 4% of GDP as soon as possible in order to: reduce interest rates and free up resources to finance the high levels of investment, both

public and private; to contain Central Government borrowing from the RBI and thus check the growth of inflationary potential and pressures; to moderate the growth of rapidly rising interest payments which preempt the resources available for spending on priority, social and infrastructure needs; to facilitate orderly development of the market for long-term debt securities which is so essential for fostering the financing of infrastructure; and to reduce the risks associated with excessive government borrowing from external sources.

The path to fiscal deficit reduction is as well known in theory as it is difficult to implement in practice. India must persevere with her programme of tax reforms which has helped to raise the ratio of revenues to GDP. She must seek higher non-tax revenues in the form of larger dividends from government equity in public enterprises. India must reduce the growth of subsidies through better targeting and much more systematic application of user charges for government services. The normally difficult task of expenditure management will be accentuated in the coming years by the challenge of accommodating the recommendations of the Fifth Central Pay Commission. Finally, Government must act expeditiously on the recommendations of the Disinvestment Commission.

The responsibility for fiscal consolidation and prudence does not rest with the Central Government alone. The States have to do their part in reducing their borrowing requirements through better design and implementation of their tax systems and through steps to curb low priority expenditures.

The Government has taken a wide array of initiatives to accelerate expansion of infrastructure services in power, telecommunications, roads, ports, civil aviation and irrigation. All these initiatives need to be followed through with vigor and dedication. India must quickly resolve the residual difficulties in the induction of private providers of basic and cellular telecom services. She must follow up on the experience with the recently announced guidelines for private projects in roads and ports to iron out any difficulties that may arise. She must resolve remaining ambiguities about her policy on civil aviation. Above all, the country must press ahead with the recently agreed Common Minimum National Action Plan for Power on a war footing.

Fifty years after achieving independence, poverty, illiteracy, disease and lack of minimum social services continue to afflict hundreds of millions of our people. Experience from all over the world shows that rapid, employment-generating growth is the most effective way of reducing poverty. Our policies and programmes must accord the highest priority to encouraging growth of sustainable and productive job opportunities in all sectors. For the vast majority of our people to benefit from extension of job opportunities stemming from rapid labour-intensive growth, there has to be a commensurate expansion and quality improvement in the basic social services such as primary education and primary health care.

For those at the margins of a market driven economy, the effective provision of minimum social services and special programmes for employment and poverty alleviation fulfill an essential need. Over time these special programmes have proliferated, not always rationally. To maximize the beneficial impact of anti-poverty programmes, it would be desirable to seek ways of consolidation and rationalization, and some attrition.

Over the last 5 to 6 years the Indian economy has demonstrated enviable resilience and buoyancy as a result of wide ranging economic reforms and closer integration with the world economy. On the whole, those dimensions of the economy have performed best where reform efforts have been most thorough and far-reaching. India must learn from this experience as she looks ahead to meet the challenges of the future.

Foreign Investment in India

India, with its great market potential, offers an attractive investment opportunity for both domestic and foreign investors. Incentives for foreign investors include automatic approval in priority industries, special incentives for export activities, simplified tax structure, relaxed foreign exchange controls, well-balanced package of fiscal incentives and a sophisticated financial sector in general. A rapidly growing consumer and capital market also serves to attract investors. Other areas of comparative advantage include skilled manpower and professional managers available at competitive cost; an established free market infrastructure; a well-developed R&D infrastructure and technical and marketing services; and a policy environment that provides freedom of entry, investment, location, choice of technology, and import and export.

India is a large and rapidly growing market.

Policy initiatives specific to foreign investment have been designed to attract capital inflows into India on a sustained basis and to encourage technology collaboration agreements between Indian and foreign firms. Several important features regarding foreign investment policy are: automatic approval for foreign equity participation up to 51 per cent in a large number of areas and up to 74 per cent in some areas; foreign equity up to 100 per cent in several selected areas; Indian capital markets opened to foreign institutional investors; progressive reduction in corporate taxes; special investment and tax incentives in exports and certain sectors; Indian companies permitted to raise funds from international capital markets; avoidance of double taxation agreement with over 45 countries; permitting use of foreign brand names and trade marks for sale of goods in India; and several bilateral investment protection agreements with investing countries.

USA is the dominant investor in India in terms of Foreign Direct Investment (FDI) approvals, actual inflows and portfolio investment. The American interest is evident from the list of US Fortune 500 Companies which have invested in India (Annexure I).

FDI Approvals

Total FDI approvals between 1991 and March 1997 were $34.9 billion. The year 1996 saw the highest ever FDI approvals of $10.3 billion. The first three months of 1997 recorded an approval of over $5.8 billion of foreign direct investment. The year 1997 is expected to set a new record for the approvals given the initiatives being taken by the government and the approvals accorded in the first three months of the year.

Out of the total approvals, US FDI approvals accounted for $9.1 billion. Though the level of US FDI approvals has been going up consistently year after year, the first three months of 1997 seems to be a real breakthrough. The following table gives the country-wise break-up of FDI approvals.

FOREIGN DIRECT INVESTMENT APPROVALS: 1991 - MARCH 1997

(In US $ Million)

Country	1991	1992	1993	1994	1995	1996	1997	Total
USA	75.80	466.30	1100.05	1111.92	2137.69	2873.11	1306.96	9071.82
UK	13.09	45	197.88	414.14	522.99	435.60	700.84	2329.09
KOREA	2.51	14.92	9.32	34.06	95.21	920.26	484.20	1560.48
MAURITIUS	0	0	39.48	170.46	548.03	666.86	264.91	1689.74
JAPAN	21.50	231.06	82	127.80	458.87	425.21	141.64	1487.87
ISRAEL	0	0.48	0.46	2.72	1253.70	4.30	.342857	1262.01
GERMANY	17.05	32.67	55.90	181.50	405.91	439.40	48.92	1181.34
AUSTRALIA	1.06	29.39	9.39	123.83	455.82	238.41	29.80	887.71
NRI	8.03	166.27	331.53	156.48	215.06	625.91	63.68	1566.97
EURO ISSUE	0	0	0	1667.34	360.45	1503.94	814.29	4346.02
SUB-TOTAL	139.04	985.65	1825.82	3990.24	6453.73	8133.01	3855.58	25383.06
OTHERS	77.94	484.36	989.51	530.30	3265.43	2194.65	1925.75	9467.92
TOTAL	216.98	1470.00	2815.33	4520.54	9719.16	10327.66	5781.32	34850.98

If Euro (GDR) issues, and NRI investments, whose breakdown by country is not available, are excluded, then US accounts for 31% of the investment approvals.

FDI Inflows

Total FDI Inflows into India between 1991 and May 1997 were $8.1 billion. In 1996, the inflow was $2.4 billion, the highest ever in any single year. In the first five months of 1997, the FDI Inflows have been of the order of $1.7 billion. Given this trend, 1997 is likely to set a new record for FDI Inflows.

The country-wise FDI Inflows from 1991 to 1995, is given in the table below. As in the case of approvals, US leads in FDI Inflows as well (except for investments routed through Mauritius for which tax shelters are available).

FOREIGN DIRECT INVESTMENT INFLOWS: 1991-1995

(In US $ Million)

Country	1991	1992	1993	1994	1995	TOTAL
MAURITIUS	0	0	1.19	28.80	498.88	528.87
USA	13.26	44.35	152.05	107.03	198.01	514.69
UK	20.30	28.76	73.87	136.29	52.92	312.13
JAPAN	3.09	27.29	21.77	86.65	66.08	204.87
GERMANY	22.58	21.98	12.75	41.54	72.06	170.91
SINGAPORE	0	4.35	0.42	5.88	75.34	86.00
ITALY	1.29	1.30	1.76	3.38	9.80	17.52
AUSTRALIA	0	0.01	0.76	0.60	9.74	11.11
NRI	65.35	56.68	184.53	368.68	596.90	1272.14
SUB-TOTAL	125.87	184.71	447.90	750.04	1080.85	2589.37
OTHERS	17.46	70.94	119.58	197.25	849.26	1254.48
TOTAL	143.32	255.65	567.48	947.29	1930.11	3843.85

The proportion of US Inflows in the total works out to 20%, if we exclude the NRI Inflows for which country-wise breakdown is not available.

For the year 1996, the inflows from the US amounted to $271 million and from January to May 1997, these inflows were $443 million. This is indicative of a definite trend towards increasing American investment interest in India.

FDI Approvals By Sector

The table below shows the break-up of approved investment major sector-wise. Only those sectors are included which constitute more than 1% of the total approved investment.

FOREIGN DIRECT INVESTMENT BY SECTORS

(1991-August 1996)

SECTOR	Percent of Total Investment	US Investment as Percent of Sector Total	Rank of US in the Sector
Telecommunications	24	16	2
Fuels	20	45	1
Service Sector	07	51	1
Food Processing Industries	07	60	1
Transportation Industries	06	23	2
Metallurgical Industries	06	06	5
Chemicals (Other than Fert.)	06	16	1
Electrical Equipment	06	29	1
Hotel & Tourism	03	10	3
Textiles (Including Dyed)	02	14	1
Industrial Machinery	02	05	2
Paper and Pulp	01	03	4
Fermentation Industries	01	11	1

Out of the 13 sectors which have more than 1% of the total investment, the US is the leading investor in most. In fact, in seven out of these 13 sectors, the US occupies the first place. As is apparent from above, many of the sectors in which US leads, are also high priority sectors for the government.

Portfolio Investment

The total Foreign Institutional Investment (FII) in the country was $8.2 billion till May 1997. The table below presents the year-wise net FII investment in the country.

NET INVESTMENT BY FIIS

(in US $ Million)

Year	Amount
1993	827
1994	2165
1995	1191
1996	3052
1997 (upto May)	1009
Total	8244

Breakdown of portfolio investment by country is not available, but indications are that the major portion of the inflows are from US. Out of the 427 FIIs registered with SEBI, more than 170 are from US, and many of them are well known investment institutions.

Conclusion

Both FDI and FII have steadily increased from 1991 onwards when economic reforms were initiated. The continuing confidence of the US investors in India, as evidenced by the FDI and FII figures for 1997, is heartening. Also encouraging is the fact that the US is the major investor in the sectors which are high priority for India.

However, there still exists a vast potential for increased US investments in India. The total FDI inflows from USA into India from 1991 to May 1997 have been of the order of $1.2 billion which is significant but still very small compared to almost $50 billion US FDI abroad annually in the last few years. Ensuring that US business interest in India continues to grow so as to enable the country to realize its goal of $10 billion FDI per annum is one of the challenges before India.

Annexure I
UNITED STATES FORTUNE-500 INVESTORS IN INDIA

Abbott Laboratories
AlliedSignal Incorporated
American Express Company
American Home Products Corporation
AMP Incorporated
Apple Computer, Incorporated
Asarco, Incorporated
AT&T
Avery Dennison Corporation
BankAmerica Corporation
The Bank of New York
Bankers Trust New York Corporate
The Black & Decker Corporation
Brunswick Corporation
Caterpillar, Incorporated
The Chase Manhattan Corporation
Chevron Corporation
Citicorp
The Coca-Cola Company
Colgate-Palmolive Company
COMPAQ Computer Corporation
ConAgra, Incorporated
Cooper Industries, Incorporated
Corning Incorporated
CPC International Incorporated
Cummins Engine Company, Incorporated
Dana Corporation
Digital Equipment
The Dow Chemical Company
E.I. DuPont de Nemours & Company
Eastman Kodak Company
Emerson Electric Company
Enron Corporation
The Estee Lauder Co., Incorporated
Farmland Industries, Incorporated
Federal Express
Ford Motor Company
General Electric Company
General Motors Corporation
The Gillette Company
The Goodyear Tyre & Rubber Company
W.R. Grace & Company
Harris Corporation
Hasbro Incorporated
Hewlett-Packard Company
Honeywell, Incorporated
InaCom Corporation
Ingersoll-Rand Company
Intel Corporation
International Business Machines Corp.
Johnson Controls Incorporated
Johnson & Johnson
Kellogg Company
McDonald's Corporation
The McGraw-Hill Co., Incorporated
Merck & Company, Incorporated
Merrill Lynch & Company, Incorporated
Microsoft Corporation
Minnesota Mining & Manufacturers Co.
Mobil Corporation
Monsanto Company
J.P. Morgan & Company
Morgan Stanley Group
Motorola Incorporated
NYNEX Corporation
Oracle Corporation
Parker Hannifin Corporation
PepsiCo Incorporated
Pfizer Incorporated
Phelps Dodge Corporation
Phillip Morris Companies Inc.
Phillips Petroleum Company
PPG Industries, Incorporated
The Procter & Gamble Company
Raytheon Company
Rockwell International Corporation
Rohm & Haas Company
Sara Lee Corporation
Shering-Plough Corporation
Silicon Graphics
Sprint Corporation
Sun Microsystems
Tenneco Incorporated
Textron Incorporated
TRW Incorporated
Union Carbide Corporation
United Parcel Service of America, Inc.
United Technologies Corporation
UNISYS Corporation
US WEST, Incorporated
USX Corporation
The Walt Disney Company
Warner-Lambert Company
Western Digital Corporation

Investing in Indian Infrastructure

Before 1991 and the advent of comprehensive economic reforms, Indian infrastructure was dominated by public sector agencies and government departments. Since then, reforms have continued to reshape every aspect of the country's economy and markets. As a part of these reforms, private participation in infrastructure is being actively encouraged.

The estimated investment required over the next ten years to keep infrastructure on track with the projected growth of the economy is in the range of US $400 billion. A large part of this investment will need to come from the private sector, both domestic and foreign.

The infrastructure sectors present exceptional investment opportunities to the prospective foreign investor. Power generation, for instance, has increased annually at the rate of 7% to 8% both over the very long term and the first four years of the reform phase. Electricity consumption per capita is however less than one-tenth the global average. Basic telephone connections have grown annually at 10% to 22% over the last decade; but penetration ratio is still low at 1.5 per 100 population as compared to the global average of 10 per hundred.

Among the earliest measures taken in the wake of economic liberalization for promoting infrastructure investment was the simplification of procedures for approving foreign investments. There are sector-specific ceilings on foreign equity. In power projects, for instance, foreign share holding can be 100%. Ceilings ranging from 40% to 74% are applicable to other sectors. There are also specified sector-wise limits eligible for automatic approval by the Reserve Bank of India (RBI). The RBI grants automatic approvals normally within two weeks of filing applications.

Foreign investment proposals which do not fulfill any or all of the parameters prescribed for automatic approval are considered for approval, on their merits, by the Foreign Investment Promotion Board (FIPB). Composite proposals — those seeking other industrial approvals like industrial license or technical collaboration along with approval for foreign investment — are given composite clearance by the FIPB. The Secretariat for Industrial Assistance (SIA) in the Ministry of Industry is responsible for processing all applications requiring FIPB approval. The SIA places all proposals before the FIPB within 15 days of receipt.

Keeping in view the large volume of investments and long gestation periods that characterize infrastructure projects, various tax concessions are available to institutions engaged in their financing. 40% of the profits that long-term financing institutions make through infrastructure financing is tax-exempt, subject to specified conditions. Venture capital funds investing in power or telecommunications projects are exempted from taxes on dividend income and long-term capital gains. A five-year tax holiday followed by deduction of 25% (30% in case of companies) for the next five years is provided to Build-Operate-Transfer projects in the following areas: power, roads, highways, bridges, airports, ports, rail systems, water supply, irrigation, sanitation and sewerage systems.

The Central Government has, over the last one year, taken several fiscal and capital market-related measures designed to channel private investment into infrastructure sectors. Foreign Institutional Investors (FIIs) were earlier unable to invest in infrastructure because most infrastructure

projects are set up by companies which are not expected to be listed for some time. They are now permitted to invest in unlisted companies in the same manner as in listed companies. The Infrastructure Development Finance Corporation (IDFC) has been established to provide long-term finance for the infrastructure sector. The IDFC was incorporated in January 1997, with an authorized share capital of US $1.4 billion. Among other things, the IDFC will act as a direct lender, a refinancing institution and a provider of financial guarantees.

The write-up below provides an overview of some of the main infrastructure thrust sectors of the Government, the prospects and opportunities for the foreign investor, the policy and incentives provided, and the balance sheet of the progress so far.

Power

Since independence, India has seen a phenomenal growth in installed capacity and electricity generation. Total installed capacity now is 83,288 MW. Some 65% is owned and operated by the State Electricity Boards (SEBs), and 29% by corporations set up by the Central Government. Prominent among these are the National Thermal Power Corporation (NTPC) which uses coal and gas-fired units, National Hydroelectric Power Corporation (NHPC), National Lignite Corporation (NLC) and Damodar Valley Corporation (DVC) which generates both coal-based and hydel power. NTPC is the largest among these, owning some two-thirds (17,000 MW) of the total capacity of central undertakings.

Nuclear stations under the Central Government-owned Nuclear Power Corporation account for 2% of installed generating capacity, and four private distributors own the remaining 4%. The public sector Power Grid Corporation of India Ltd. (PGCIL) is in charge of interstate transmission.

In spite of the massive growth in generation capacity, severe power shortages persist throughout India. Energy deficiency is approximately 11% and peaking shortage 18%. Capacity addition has fallen far short of consumption growth. The gap between demand and supply has widened over the last five years and is expected to increase in the short term.

Domestic, industrial and irrigation sector consumers utilize over 85% of India's electrical energy. Per capita consumption has grown from 15.6 KwH in 1950 to 314 KwH currently, but this is still much lower than consumption standards prevailing in developed economies.

According to the 15th Electrical Power Survey conducted by the Central Electricity Authority (CEA), demand is expected to rise at a rate of 7.5% per annum over the next decade. The energy requirement 376.7 billion KwH in 1995-96 is assessed to be 502.3 billion KwH in 1999-2000.

Prospects and Opportunities

Since India's independence in 1947, generation, transmission and distribution of power were almost wholly the preserve of the Central and state governments. In 1991, the Government decided to allow private participation, both Indian and foreign, in the sector, creating tremendous investment opportunities.

Over the next 10 years, the minimum capacity addition needed is estimated to be over 83,000 MW. At an average cost of US $1 million per MW, the investment called for is US$83 billion. If the investment required in transmission and distribution are taken into account, the total figure rises to US $143 billion. A major part of this amount will have to be funded by the private sector, both domestic and foreign.

Besides the power from conventional sources, India has tremendous potential in the virtually untapped sector of renewable sources of energy (approximately 126,000 MW comprising 79,000 MW from ocean thermal, sea wave and tidal power; 20,000 MW from wind energy; 17,000 MW from bio-mass; and 10,000 MW from mini-micro hydel power projects).

The Policy and Incentives

The Power Policy announced in 1991 opened the power sector to private companies in a big way. The Indian Electricity Act, 1910, and the Electricity (Supply) Act, 1948, the two key legislations regulating the electricity sector in India, have been amended to permit power generation by private sector companies registered in India. As a result, the private sector can now set up coal, gas or liquid fuel-based thermal projects, hydel projects and wind or solar projects of any size. Up to 74% of foreign equity in a project for electricity transmission and generation, or for construction of a project for generation and distribution of non-conventional energy, is granted automatic approval. Foreign investors can be allowed up to 100% ownership of power projects subject to government approval.

Sales made to State Electricity Boards (SEBs) are covered by a two-part tariff regime, under which a return of up to 16% on the paid-up and subscribed equity is available as a part of the tariff charged where the plant functions at the stipulated efficiency levels. This 16% is to be denominated in the currency of the subscribed capital. Plus, an increased rate of return of up to 0.7% on equity for every percentage point increase above the norm of 68.5% Plant Load Factor (PLF) for thermal power plants and 90% Plant Availability Factor (PAF) for hydel power plants is permitted.

Till recently, award of power projects to an independent power producer was typically through the Memorandum of Understanding or Letter of Intent mechanism. However, it is now mandatory for projects to be granted clearance following a competitive bidding process.

New power projects are eligible for a five-year tax holiday. A debt-equity ratio of up to 4:1 is permitted. The lending by Indian Financial Institutions is to be limited to 40% of the total project cost. Duties on the import of equipment for power projects have been reduced considerably. The focus on increasing power production through the renovation and modernization of existing plants as well as through captive power generation, barge-mounted plants and cogeneration, has

been reinforced by simplifying the policy and approval process for such projects. The Government is encouraging short-gestation power projects based on Low Sulphur Heavy Stock (LSHS), Furnace Oil (FO), Heavy Petroleum Stock (HPS) and naphtha. Recently the Indian Government has taken an in-principle decision to allow private participation in the transmission of power.

One of the major concerns of private sector participants in power has been the poor financial health of SEBs. While the SEB in the state of Orissa has already been restructured, nine more SEBs have been launched on the reform route, with others expected to follow in due course. The National Development Council comprising the Central and all state governments has endorsed a Common Minimum Action Plan for Power, providing for a minimum tariff applicable to every consumer class, reducing cross-subsidies and promoting efficiency in power use.

Balance Sheet

Since 1991, both domestic and foreign developers have evinced keen interest in the Indian power sector. There have been as many as 128 expressions of interest amounting to over US$75 billion of investment and 71,000 MW of installed capacity. Twenty projects amounting to 11,878 MW have been given techno-economic clearance and another 82 proposals with a total installed capacity of 38,400 MW have been accorded 'in-principle' clearance. Construction has started at 17 projects with a total capacity of 4,500 MW. Generating units in seven projects have already been commissioned and are in operation.

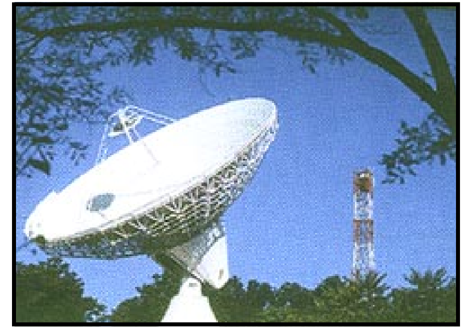
The Dabhol Power Project being set up by a consortium comprising Enron Development Corporation, Bechtel and General Electric, is an example of India's ability and determination to implement massive power projects. Being the first mega-power project to be implemented by a foreign developer in India, there were extensive deliberations and various legal and other challenges. Today project implementation is progressing fast, which is proof of India's commitment to developing this infrastructure sector and the solidity of the Indian legal system. The Jegurupadu project set up by the US-based CMS Energy and the G.V.K. Reddy group is already generating power, the first of the eight "fast-track power projects" to do so.

Principal Contacts

E.A.S. Sarma,
Secretary, Ministry of Power
Shramshakti Bhawan,
New Delhi 110001, INDIA
Tel: 91-11-3710271; Fax: 91-11-3721487

Pradip Baijal,
Additional Secretary, Ministry of Power
Shramshakti Bhawan,
New Delhi 110001, INDIA
Tel: 91-11- 3714367; Fax: 91-11-3731266

Telecommunications



India operates one of the largest telecom networks in Asia comprising over 21,328 telephone exchanges and 14 million telephone lines. Yet the country has a low telephone penetration rate of only 1.5 per 100 of population, as compared to the global average of 10 per 100 of population. This offers vast scope for growth. It is therefore hardly surprising that the country has one of the fastest-growing telecommunication systems in the world, with system size (total connections) growing at an average of 20% a year over the last four years.

Prospects and Opportunities

Indian telecom is poised for a boom by the turn of the century. The National Telecom Policy (NTP) approved by the Government of India in 1994 aims at providing telephone connections on demand. Demand projections for telephone lines in India made on the basis of actual demand for the past seven years 1991 to 1997 indicate an average growth rate of 16.5%. Based on this rate, the demand for the next 10 years, up to 2007, works out to 81.8 million lines. It is estimated that 23.7 million connections will have to be provided in the next five years up to 2002 to keep up with demand, and nearly double that number in the subsequent half-decade. The investment requirements for the provision of these new connections are calculated to be approximately US $53 billion. Apart from basic telephone lines, demand is expected to soar for value-added services.

To encourage the private sector to invest in telecommunications, the Government has a number of fiscal and financial incentives in place. Among them are: the telecommunications sector has been granted infrastructure status making investors eligible for fiscal benefits such as tax holidays; licenses granted to private operators for basic telephone services are transferable/assignable, to enable license holders to secure financing against their licenses.

Basic Services

With a view to supplement the efforts of Department of Telecommunications (DoT) in providing basic telephone services to the people, private companies registered in India are being licensed to install, operate and maintain this service. The DoT will continue to be a provider of basic telephone services in all the telecom circles (21 telecom regions into which the country is divided). Private operators are expected to provide around 5.2 million telephone lines between 1997 and 2002.

Proposals were recently invited from Indian registered companies for grant of 15 year operating license for basic telecom services. One private operator is being licensed for each telecom circle. Any number of Indian or foreign companies can combine to promote a bidder company. However, maximum foreign equity permitted is 49%. The Government now permits the investment of the balance 51% through a holding company incorporated in India, in which foreign equity holding up to 49% is allowed. Effectively, therefore, foreign equity holding in a telecommunications joint venture company is permitted up to 74%. Many multinationals including AT&T, US West, Bell Atlantic, Hughes, and Nynex have participated in the tenders. Licenses have been awarded in many circles.

Value Added Services

Value-added services (VAS) were opened to private investment in 1992. VAS include Cellular Mobile Telephones, Radio Paging, Electronic Mail, Voice Mail, Data Services, Audiotex Services, Videotex Services, Video Conferencing and Credit Card Authorization Services. In respect of the last seven of these services, companies registered in India are permitted to operate under license on a non-exclusive basis. In the area of radio paging and cellular mobile telephone services, a system of tendering is being followed for the grant of licenses because of limitations of frequency spectrum. The government has allowed maximum foreign equity of 51% for value-added services, other than radio paging, cellular mobile telephone, VSAT, and other wireless services for which it is 49%. Service providers can also submit their proposals for any other value added services giving complete details. Most of the value-added services are operational to varying degrees in the country.

Equipment Manufacture

India produces and exports a wide variety of telecom and electronic items which meet international quality standards. India's liberalized policies and vast base of educated manpower offers great opportunities in telecommunication equipment manufacturing. Some incentives that have been offered in this regard are: automatic approval of foreign equity up to 51% in the manufacture of all telecom equipment; automatic approval for technology fees up to US $2 million net of taxes; automatic approval of royalty up to 5% for domestic sales and 8% for exports; foreign equity of more than 51% and higher technology fees and royalties is also possible on a case by case basis; import of all capital goods and components required for manufacturing allowed without any license.

Telecom Regulatory Authority of India (TRAI)

The TRAI has been partially constituted in March 1997 and is expected to be fully functional shortly. Responsibilities entrusted to the TRAI include tariff fixation, access charge or revenue sharing between the DoT and the private operator, dispute settlement and consumer protection. Licensing, setting of standards and spectrum management will remain with the Ministry of Communications.

The establishment of TRAI is designed to promote orderly and healthy growth of telecommunication services in the multi-operator situation arising out of opening up of basic and value-added service sectors in which private operators have started competing with the government operator. TRAI divests the DoT of several regulatory functions it has exercised all along on behalf of the Government of India, and brings its service-providing and tariff-setting functions under the regulatory jurisdiction of an independent agency.

Principal Contacts

A.V. Gokak, Secretary
Department of Telecommunications,
Sanchar Bhawan, 20 Ashok Road,
New Delhi - 110001, INDIA
Tel: 91-11-3719898; Fax: 91-11-3711514

K. Sridhara, Dy. Director General (LTP)
Department of Telecommunications,
Sanchar Bhawan, 20 Ashok Road,
New Delhi - 110001, INDIA
Tel: 91-11-3710254; Fax: 91-11-3717108

Oil and Natural Gas

India is currently the fourth largest oil consumer in the Asia-Pacific region after Japan, China and South Korea. After independence in 1947, the industry which had Burmah Shell, Esso and Caltex as major players was nationalized. Every activity — exploration, development, production, refining, marketing, distribution — was controlled by the various national oil companies. Since India's economic liberalization programme started in 1991, however, the Indian oil and gas sector has gone through some very fundamental changes.

Prospects and Opportunities

Estimated to increase at the rate of 7% a year, the demand for petroleum products, in absolute terms, is expected to nearly double from the present level of 80 million tonnes to 155 million tonnes per annum by 2006-07. An estimated investment of over US$100 billion is needed over the next 10 years to meet the projected early 21st century demand. This includes the investment on exploration, refining capacity and distribution infrastructure. Additional refining capacity of 110 million tonnes per annum will be required by the year 2010 for domestic consumption. Extensive oil and gas distribution infrastructure such as cross-country pipelines, port terminals, tankages and strategic reserves build-up will have to be developed to meet the projected requirements.

India is endowed with 26 sedimentary basins totaling around 1.72 million sq. km of which offshore area (up to 200m isobath water depth) adds to 0.38 million sq. km. Most of the basins are under various stages of exploration. As per current estimates, coal bed methane (CBM) resources in India are of the order of 1,000 billion cubic meters (assuming gas content of 5 cubic meters per tonne). A CBM policy is being prepared.

The determined efforts of the Government to enhance investment in the oil and gas industry, divestment of equity in public sector undertakings for improved efficiency of operations, and execution of joint ventures overseas have flagged off a period of tremendous opportunity for the private investor.

Policy and Incentives

The entire Indian petroleum sector has been opened to the private sector, both domestic and foreign, for investments through joint ventures and strategic alliances. In exploration and production, Indian oil and natural gas fields have been opened up to the private sector as well as to foreign participation under production sharing contracts. The New Exploration Licensing Policy has been announced in March 1997. Under this policy, incentives such as reduction in royalty rates, abolition of cess, exemption of import duty for public sector oil companies at par with private firms and creation of a Hydrocarbon Development Fund have been proposed.

The refining sector has been opened to the joint sector (public-private partnerships) as well as to the private sector. Foreign share holding can go up to 100% in export-oriented refineries. These units can market up to 25% of their products in terms of value in the domestic market.

Refinery projects with a total capacity of about 27 million metric tonnes per annum (MMTPA) are currently available for investment. These include a joint venture with Hindustan Petroleum Corporation (capacity 6 MMTPA) on the west coast, and with Indian Oil Corporation in South India for the same capacity. In marketing and distribution, the private sector is now permitted to import most petroleum products. Private contractors are allowed to market crude oil and gas discovered in the blocks in the domestic market. Pipelines, terminals and tankages have also been cleared for private investment.

India has been gradually moving away from its traditional administered pricing regime — a retention price concept under which oil refineries, oil marketing companies and pipelines are compensated for operating costs and are assured a 12% post-tax return on net worth — to market-determined, tariff-based pricing to provide a level playing field for new investors in a freer and more competitive market.

Indian tax laws provide for deductions and allowances to companies prospecting for petroleum and natural gas. Expenses incurred by a prospector or developer on abortive exploration can be set off against revenues from other fields on the commencement of commercial production. The model Production Sharing Contract for exploration provides that capital expenditures incurred in respect of exploration and drilling operations are fully tax-deductible. Due to a recent amendment in tax laws, joint ownership of assets is now permitted for availing depreciation for tax purposes.

There is a seven-year tax holiday after commencement of commercial production for blocks in north-east India. Specific equipment imported for oil and gas exploration or exploitation has been exempted from customs duty. The Government has exempted crude oil and natural gas in gaseous state from excise duty. Liquified Natural Gas is, however, excisable at 10 per cent.

Balance Sheet

Many private domestic and foreign companies are participating to varying degrees in the oil and gas sector. In exploration and development, the Government has so far approved, through eight rounds of bidding, the award of contracts for 30 discovered fields and 35 exploration blocks. International corporations which have made successful bids in the various rounds are Command Petroleum, Australia; Niko Resources, Canada; Compagnie Geofinanciers, France; Tullow Oil, Ireland; Marubeni Corporation, Japan; Shell, The Netherlands; Premier Oil Pacific, UK; Enron, Occidental Oil, Okland International, Opseis, Petrodyne, Samson International, and Vaalco Energy, all from USA. A number of global lubricant oil majors have already established operations in India. Among the well known names are Mobil, Shell, Caltex, Elf, Pennzoil and Castrol.

Principal Contacts

Vijay L. Kelkar
Secretary, Ministry of Petroleum and Natural Gas, Shastri Bhawan
New Delhi - 110001, INDIA
Tel: 91-11-3383501; Fax: 91-11-3383585

S. Nigam
Joint Advisor (Finance), Ministry of Petroleum and Natural Gas,
Shastri Bhawan, New Delhi - 110001, INDIA
Tel: 91-11-3387936; Fax: 91-11-3383585

Roads

Thane-Bhivandi bypass toll road.

At almost three million kilometers, India's road network is the third largest in the world. However, the accelerating pace of industrialization is creating greater demand than ever before for more and better roads. Freight transport by road has risen from 6 BTK (billion tonne kilometer) in 1951 to 400 BTK in 1995 (67 times) and passenger traffic has risen from 23 BPK (billion passenger kilometer) to 1,500 BPK (65 times) during the same period. Freight and passenger traffic are expected to increase to 800 BTK and 3,000 BPK respectively by the year 2001. Similarly since 1951, the vehicle population has grown over 92 times to 27.5 million and is estimated to reach 54 million by the year 2001. As compared to these growth rates, the road network has increased just 7 times to about 3 million kms between 1951 and 1995.

Another indication of the overburdening of Indian roads is the traffic carried by National Highways. The National Highways carry nearly 40% of the country's total road traffic but constitute only 1.2% of the total road network. The growth of National Highways has been slow, from 22,000 kms in 1951 to 35,000 kms in 1995.

Roads in India, for the purpose of their management and administration, are divided into National Highways, State Highways, district roads and village roads. Under the Constitution, responsibility for the development and maintenance of National Highways rests with the Central Government, while all other roads are the responsibility of the state governments concerned. While the National Highways are intended to facilitate medium and long-haul inter-city passenger and freight traffic across the country, State Highways carry the traffic within the state. Together, they provide the main mobility function in the transportation system. District roads and village roads serve to connect villages to provide accessibility and market linkages.

Prospects and Opportunities

The demand-supply gap in the road sector is mammoth and growing. The investments needed till 2005-06, for the development of the National and State Highways are estimated to total Rs.1,180 billion (US $33.7 billion). Of this, government budgetary resources are expected to provide Rs.465 billion (US $13.3 billion), and multilateral and bilateral agencies a further Rs.220 billion (US $6.3 billion). Private sector investment is likely to contribute Rs.290 billion (US $8.3 billion). So, the government is inviting private domestic and foreign participation on commercially viable terms in road projects.

The Policy and Incentives

The principal legislations governing the National Highways are the National Highways Act, 1956

and The National Highway Authority Act, 1988. The former was amended in June 1995 to permit private participation in the sector. The National Highway Authority of India (NHAI) is the implementing agency for private sector participation policies for the National Highways.

Private sector participation in the highway sector is envisaged under the Build, Operate and Transfer (BOT) route. Private parties which invest their funds in identified highway projects, will be permitted to recover their investment by way of collection of tolls for specified periods. At the end of the agreed concession period, the facilities will revert to the government. The rate of toll charges as well as the period of concession can be negotiated by the companies with the government.

The land acquired for road development by private parties will have legal immunity against possible litigation by displaced dwellers. NHAI has been authorized to provide capital grant upto 40% of the project cost. NHAI will also consider providing traffic support to projects.

The following are the salient features of the scheme to encourage private participation in road sector: Debt-equity ratio of 4:1 permitted; Promoter's contribution should be at least 11% of the total cost of the project; Not more than 40% of the total cost of the project can come from Indian financial institutions; 100% foreign equity participation permitted on a case-by-case basis; Possibility of co-financing with external financial institutions like Asian Development Bank, World Bank, OECF and International Finance Corporation; Private parties will be allowed to develop service and rest areas along the road entrusted to them; Reduction in the rate of import duty in respect of specified construction plant and equipment; Government will carry out all preparatory work for the projects identified for private investment and meet the cost of detailed feasibility study, land for right-of-way and en route facilities.

The government has enunciated transparent evaluation criteria. For technical bid it is the financial strength and experience of the bidder. For financial bid, the criterion is lowest cost to user. Dispute resolution mechanism has been established under Indian Arbitration and Conciliation Act, 1996 which provides for procedures in accordance with United Nations Commission on International Trade Laws (UNCITRAL).

Some other reforms in the road sector are: *Pathkar* abolished by all state governments and octroi (tax on entry into a municipal area) by many of them to reduce overall transit time and to help free flow of traffic on roads. Road sector declared an industry to facilitate borrowing on easy terms and permit floating of bonds. Any enterprise which builds, maintains and operates facilities in the road sector will be exempted from paying tax on profits for the first five years of operation.

Principal Contacts

Yogendra Narain
Secretary, Ministry of Surface Transport
Parivahan Bhawan, Sansad Marg,
New Delhi 110001, INDIA
Tel: 91-11- 3716656; Fax: 91-11-3716656 Ports

Deepak Dasgupta
Chairman, National Highway
Authority of India, Maharani Bagh,
New Delhi 110 065, INDIA
Tel: 91-11-6923901; Fax: 91-11-6924383

Ports

India enjoys a strategic location in the Indian Ocean and has a vast coastline of around 6,000 kms. India has 11 major ports and 139 operable minor ports. The major ports account for nearly 95% of the total traffic handled, which in 1996-97 was approximately 227 million tonnes. The Indian Ports Act confers the power of administering major ports to the Central Government. Minor ports are the responsibility of the state governments. As India globalises its economy fast, it will need to handle a growing volume of international trade. Thus, the upgradation and expansion of its ports will be a key success factor for India's economic development programme.

Indian port productivity may still not measure up to acceptable international standards, but efficiency indicators like the Average Ship Turn Around (ASTA) and the Average Ship Berth Output (ASBO) have been improving rapidly over the last decade. The ASTA fell from 11.9 days in 1984-85 to 6.9 days in 1993-94, with the ASBO moving from 2,314 tonnes per day to 3,990 tonnes per day.

Prospects and Opportunities

The total capacity of the major ports is currently 215 million tonnes. Overall port capacity required to handle the projected traffic is estimated to be 325 million tonnes in 2000-01 and 540 million tonnes in 2005-06. It is estimated that investments worth US $7.3 billion are necessary to create the 325 million tonnes of additional capacity needed by 2005-06. Of this, the ports' internal resources are likely to yield US $3.9 billion between 1996 and 2006. The balance of around US $3.4 billion will need to come from other sources like the domestic capital market or through international capital flows.

Recognizing the need for major expansion of India's port infrastructure to handle increased foreign and coastal trade, the Government has thrown open the sector to private participation. The objectives, besides augmenting resources, are to introduce competition in port services, improve efficiency, productivity and quality of service; reduce the gestation period for setting up new facilities; and bring in the latest technology and management techniques.

The following areas have been identified for privatization, or investment by the private sector: Leasing out existing port assets; Creation of additional assets like construction or operation of container terminals, construction or operation of bulk, break bulk, multipurpose and specialized cargo berths, warehousing, container freight stations, storage facilities and tank farms, cranage and handling equipment, setting up captive power plants, dry docking and ship repair facilities; Leasing of equipment and floating craft from the private sector; Pilotage; Captive facilities for port-based industries. These areas are indicative in nature. Individual major ports can expand the scope of these activities after consultation with the Central Government.

Policy and Incentives

The Government has recently announced a series of far-reaching measures to promote foreign investment in the ports sector. Automatic approval of foreign equity up to 51% in projects providing supporting services to water transport, such as operation and maintenance of piers, loading and discharging of vehicles. Automatic approval for foreign equity up to 74% in construction and maintenance of ports and harbors. The Government will consider proposals for 100% foreign-owned holding/subsidiary companies for port infrastructure.

The Government has announced comprehensive guidelines for private investment in major ports. Open tenders will be invited for private sector participation on a Build-Operate-Transfer (BOT) basis. Bids will be invited based on a two-cover system consisting of technical and financial bids. Financial bids of only technically qualified bidders will be opened. Evaluation of the bids will be based on the maximum realization to the port by Net Present Value method using a discount rate as periodically fixed by the Government. In identified projects to be put out on tender on BOT basis, the feasibility report will be made at the expense of the port, the cost of which would be subsequently recovered from the successful tenderer.

Maximum license period (including construction period) will not exceed 30 years. At the end of the concession period, all assets will revert to the port free of cost. The ports will give no guarantee either for financial return or for the traffic which can be expected. The ports will maintain their regulatory role under the Major Port Trusts Act. However, the power to fix and revise tariffs is entrusted to an independent Tariff Regulatory Authority. The tariff fixed by the authority will be a ceiling and the developer will be free to charge less.

Balance Sheet

Privatization in the Indian port sector has made some progress. Multinational giants like G P Shipping of Thailand, Lisnave of Portugal, American President Lines, Keppel of Singapore and VanOmmeren Tank Terminals of The Netherlands have shown great interest. Vying with the international competition are Indian heavyweights such as TISCO, SAIL, the Chokanis and Cochin Refineries Limited.

Several important projects in the ports sector are being implemented in the private sector, the most important being the mechanized coal handling facilities at Ennore near Madras and Paradip port. Construction of second oil jetty at Haldia and construction of additional cargo berth at Marmugao port, multi-purpose berth at Paradip port and replacement of Pirpau oil pier at Bombay are among the other projects being implemented in the private sector.

Principal Contacts

Yogendra Narain
Secretary, Ministry of Surface Transport
Parivahan Bhawan, Sansad Marg,
New Delhi 110001, INDIA
Tel: 91-11- 3716656; Fax: 91-11-3716656

K. V. Rao
Joint Secretary (Ports),
Ministry of Surface Transport,
Sansad Marg, New Delhi 110001, INDIA
Tel: 91-11-3711873; Fax: 91-11-3328549

Indo-US Trade Relations

In the new post Cold War period, trade and economic co-operation has provided an important dimension for building a close Indo-US partnership. The process of comprehensive economic reforms started in India in 1991 has created further opportunities for promoting bilateral cooperation in the economic sphere. In 1994, the US Commerce Department identified India as one of the 10 big emerging markets in the world.

The United States is India's largest trading partner. Two way trade in 1996 totaled over US $9 billion, recording an increase of over 70% since 1991. While there was a slight increase in bilateral trade with the US during 1996, the rate of growth has slowed down. This was in keeping with the general trend in international trade during 1996. The following table shows the trends in Indo-US trade over the last 5 years.

INDO-US TRADE

(in US $ millions)

	1992	1993	1994	1995	1996	1997 (Jan-April)
Indian Exports	3,780.6	4,550.9	5,301.7	5,736.1	6,169.2	2,283.0
Indian Imports	1,914.4	2,761.1	2,296.3	3,295.7	3,318.1	1,233.5
Turnover	5,695.0	7,312.0	7,598.0	9,031.8	9,487.3	3,516.5
Balance (+)	1,866.2	1,789.8	3,005.4	2,440.4	2,851.1	1,049.5

(Source: US Department of Commerce)

Since 1991, India's exports to the US have been growing at an average rate of 16.6% in dollar terms. During 1996, Indian exports increased by 7.5%, which is the slowest rate of growth that Indian exports to the USA have seen since 1991. Imports from the USA have been fluctuating. After growing by 44% in 1993, they dropped by 16.8% in 1994, but rose again by 43.5% in 1995. This has mainly been because of greater capital machinery imports by India during the year. The rate of growth of imports from USA has again dropped to 0.6% in 1996.

India has had a favorable balance of trade with the US, the surplus in India's favor increasing from $1.1 billion in 1991 to $3 billion in 1994. This surplus, however, is beginning to show a reduction as capital and high technology goods for the various tie-ups and agreements contracted for start flowing into India. It fell to a little under US $2.5 billion in 1995 and was $2.8 billion in 1996.

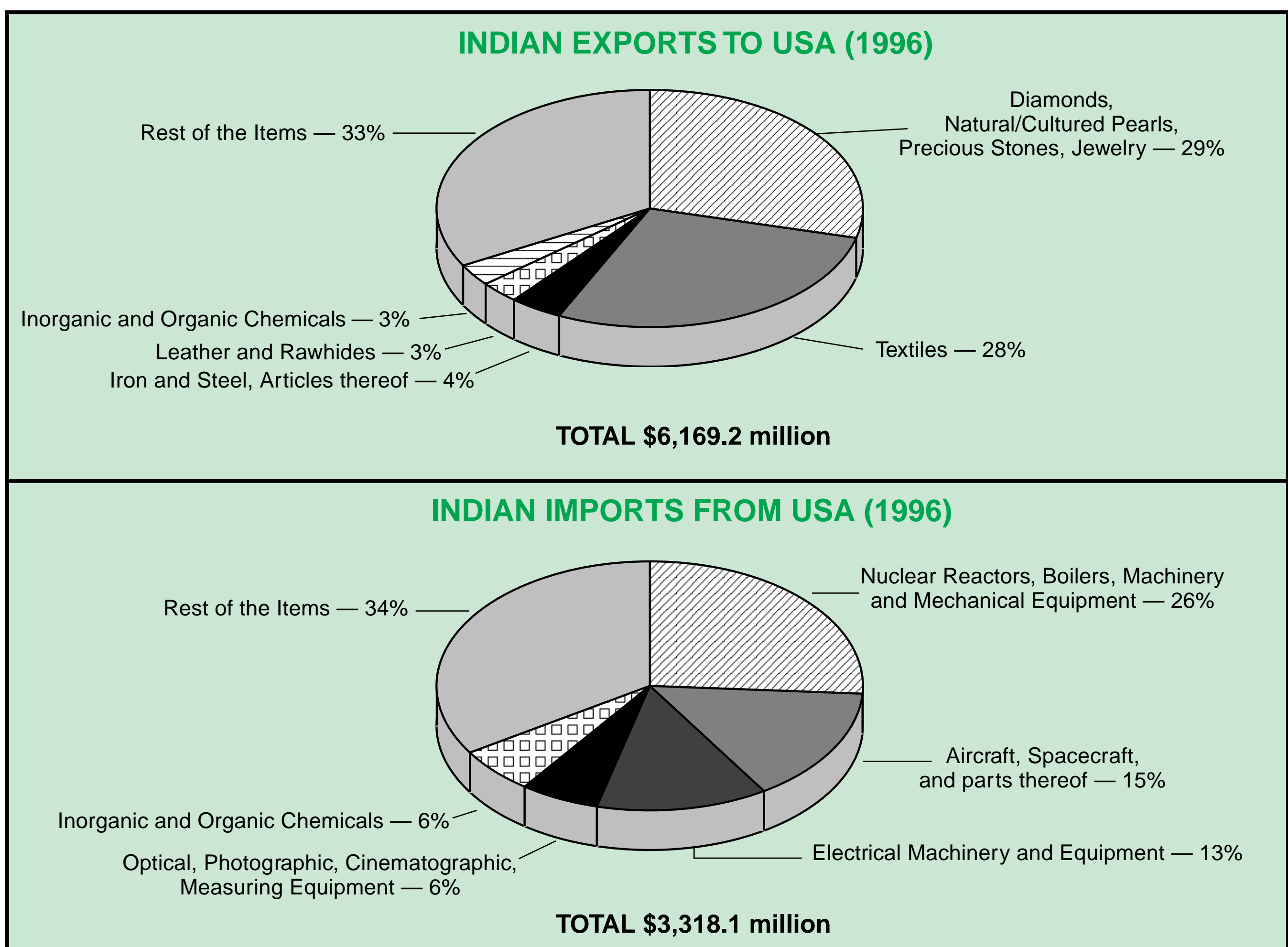
The level of bilateral trade between India and the USA is still only a tiny fraction of USA's global trade. While US exports to India account for nearly 12% of India's non-oil imports and the US is the destination of 18.9% of Indian exports, USA's trade turnover with India constitutes less than 1% of its global trade.

Composition of Indo-U.S. Trade

The composition of India's exports, over the years, has undergone a change. India's exports to the US have been rising mainly on account of significant increases in the exports of diamonds, jewelry and related products, textiles and ready-made garments, footwear and leather products, carpets, dyes, tube and pipe fittings etc. While there is a good market in the USA for Indian chemicals and pharmaceuticals, the export of these items has slowed down due to the removal of Generalized System of Preferences (GSP) benefits in 1992 by the US for these items on Intellectual Property Rights (IPR) related grounds.

There has also been a change in the composition of our imports from the USA. With India having become self sufficient in foodgrains and the PL 480 funds having been used up, imports of wheat and edible oil from the USA on a regular basis have stopped. Crude oil, which was the second highest import item in 1985 has been virtually phased out. The chief items imported from the US at present are aircraft and aeronautical equipment, machinery including project items, fertilizers and crude minerals, chemicals, and ferrous waste scrap.

The pie-charts below present the composition of trade between the two countries.



Prognosis

While differences in certain areas, such as the patent protection issue, market access to textiles (both ways), internal trade statutes of the US (Super 301, Special 301, Anti Dumping and Countervailing Duty action etc.) and tougher laws relating to flow of skilled labor (H1 - B visas) etc. persist, the climate for bilateral trade is improving and businessmen from both countries are looking at possible longer-term commitments. Cooperation in infrastructure projects, power, telecommunications, information technology, food processing and even consumer goods is the focus of such business interests. The benefit of tapping each others' markets is now more apparent with increased flow of information following India's liberalization of trade and investment. USA's primary interest in India is the access it provides to a large market for US products which are facing increasing competition in the developed markets, as well as a higher return on investments.

Institutional Framework for Trade and Investment

Over the last few years, several steps have been taken to create a strong institutional framework for promoting trade and investment between India and the USA.

During the visit of the then US Commerce Secretary, late Ron Brown to India in January 1995, the two sides agreed to set up an **Indo-US Commercial Alliance (USICA).** The Alliance comprises of Indian and US business leaders and has acted as a catalyst for business development in identified sectors, namely Informatics, Transportation, Energy and Food Processing. Other sectors can be added by mutual agreement. The Board of the Alliance consists of 10 members on each side nominated by the two Governments. While the Commerce Minister and Commerce Secretary are not members of the Board, they have been meeting with the Board regularly to review its activities.

The first meeting of the Board of the Alliance, which was held in June 1995 in Santa Clara, was attended by the Commerce Minister and the then US Commerce Secretary. The Second meeting of the Board, where Commerce Minister and the US Under Secretary for International Trade were present, was held in October 1996 at Washington DC. At the recommendation of the Board, Commerce Minister and the US Secretary of Commerce extended the terms of reference of USICA, initially valid for two years, till January 15, 1999. The Board also recommended the addition of a fifth sectoral alliance on Environmental Technology and endorsed the proposal by the two governments to give additional emphasis on small and medium enterprises. Next meeting of the USICA is to be held at the end of 1997.

The **Joint Economic Sub-Commission** (which is chaired by the Finance Secretary on the Indian side and the Under Secretary of State for Economic Affairs on the US side) has also been revived and held its first meeting after a gap of almost five years in April 1995. A decision was taken to set up three Working Groups under the Sub-Commission relating to Trade, Investment and Private Sector**.** The Investment and Private Sector Working Group met in Washington in December 1996 just before the second meeting of the Sub-Commission. The Private Sector Working Group met again in Washington DC in June 1997.

In the private sector, too, there is a lot of interest. The main joint business group is the **India-US Joint Business Council**. This has become much more active in organizing promotional events apart from holding the Annual meeting of the JBC alternatively in Washington and New Delhi. General Electric has taken the initiative to set up the **India Interest Group** with the Washington-based representatives of some major US corporations as its members. The India Interest Group, the National Association of Manufacturers and the India-US Joint Business Council are actively participating in the Commercial Alliance.

USAID Assistance to India

The US annual bilateral assistance to India has been of the order of about $150-160 million. This amount is not very large compared to either the development needs of India or the amount of assistance being given by other bilateral donors to India. It is still, however, a significant contribution to India's enormous development effort especially since USAID assistance is in the form of grant and bulk of it goes for programmes aimed at the poor and the under-priveleged.

The strategy for USAID assistance to India has been to focus on a few key objectives. Of the total assistance, about $50-60 million goes as developmental assistance and about $100 million as food aid under PL 480 Title II and Title III grants.

Bilateral assistance from the US to India in the past few years is summarised in the following table:

BILATERAL ASSISTANCE FROM USA TO INDIA

(in US $ million)

Fiscal Year	Development Assistance	PL 480 Title II/Title III	Total
1993	24.3	144.0	168.3
1994	62.3	103.8	166.1
1995	69.9	103.0	172.9
1996	48.0	109.5	157.5
1997 (Estimated)	60.0	96.5	156.5

(Note: The US fiscal year is from 1st Oct to 30th Sept)

Development assistance is provided for projects under three broad areas and these projects have implementation periods ranging between 5 and 10 years. These three areas are:

(i) Accelerating economic growth —

Under this rubric, USAID makes available grants for projects such as:

- Housing Finance System Expansion Programme
- Technical Assistance and Support Project — to promote economic policy research and advocacy to increase the competitiveness of the Indian economy.
- Indian Private Power Initiative (IPPI)
- Agricultural commercialization and enterprise
- Program for financing of commercial technology and
- Setting up Centre for Technology Development

(ii) Stabilizing Population —

Under this category, assistance is being provided for the following projects:

- Innovation and family planning services and
- Quality control and health technologies

(iii) Protecting the Environment —

The following projects are being funded under this category:

- Energy management consultancy and training
- Plant genetic resources

(In addition to the above, USAID is also providing assistance for an AIDS Prevention and Control project).

The PL 480 Title II Program is the largest non-emergency program worldwide. It is implemented through two US private voluntary organizations, i.e., CARE (Cooperative for Assistance and Relief Everywhere) and CRS (Catholic Relief Services). The CARE component of the program is aimed at child survival through Government of India's ICDS (Integrated Child Developmental Services) program. It is considered to be one of the most ambitious primary health care programs in the world. The CRS component of the program covers a wide variety of programs targetting mothers and small children, community development activities, orphanages and other institutional programs under which Mother Teresa's Sisters for Charity is a major recipient. Title II assistance is also channelised through World Food Program (WFP) in India. WFP also participates in the ICDS program.

The PL 480 Title III Program was conceived in order to provide a safety net to alleviate some of the short-term dislocations caused by structural adjustment as a consequence of India's economic reforms. Under this program, as per the grant agreement, about 85,000 tonnes of crude soya been oil was provided over a two-year period (since expired) and the program was designed to: (a) provide balance of payment support during a tough period of structural adjustment. (b) support India's open market policy by privatizing the processing and marketing of Title III vegetable oil and (c) contribute to the development of the food and agriculture sector by providing credit to small and medium sized agro industries.

NOTE: This newsletter can also be seen at:
http://www.indiaserver.com

Embassy of India (Economic Wing)
Attn: Minna Radway
2107 Massachusetts Avenue, NW
Washington, DC 20008

First Class
U.S. Postage
PAID
Washington, DC
Permit #1137