INDIA
ECONOMIC NEWS
50th Anniversary of India's Independence
Volume IX, Number 8 August 1998

INSIDE:

India Has Underlying Strengths, says World Bank

The India 1998 Macro Economic Update released on June 30, 1998 by the World Bank states that in 1997-98, India's GDP grew at 5%, notwithstanding a 2% decline in agricultural production and the East Asian turmoil. Inflation has declined to the 5% range. The external position has remained comfortable: the current account deficit remained a low 1.6% of GDP, foreign direct investment remained strong, the debt service ratio fell below 20%, and reserves increased by $3.6 billion to over $26 billion, raising reserve cover to over 6 months of imports or 1.2 times potential short-term obligations. It also mentions certain advances on the policy front: petroleum and gas prices were increased and linked more closely to world prices, contributing to a 0.5 percentage point of GDP reduction in the consolidated public sector deficit (to 9.1% of GDP) and improved efficiency and equity. The central government tax net was expanded.

On the more recent state of the economy, the document points out certain developments that need to be watched. In the first quarter of 1998-99, the exchange rate came under pressure, falling about 7.5% from March 31, with a reserve loss of over $1.6 billion. The pressure reflected both the turmoil in international markets, which affected the yen and developing country markets, and developments specific to India.

In this context, the Update makes three suggestions for sustaining a high growth rate:

- Substantial reduction of the government deficit, through subsidy reduction and tax base broadening, in order to reduce the risk of macro-economic instability, increase resources for rapid, private sector-led growth and improve equity;
- realignment of government toward basic human development and truly public infrastructure, with greater reliance on the private sector in other areas; and
- broader, deeper, faster deregulation of external and internal markets to encourage efficiency improvements and higher private investment.

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

Morgan Stanley gives India top billing in Asia-Pacific slot

Morgan Stanley Dean Witter (MSDW) has picked India as the relative out-performer in the Asia-Pacific region. The firm's Hong Kong-based research team said India's fundamentals remain healthier than anywhere else in the region, justifying Morgan Stanley's overweight position in its Asia Pacific model portfolio of 12% versus a Morgan Stanley Capital International Asia Pacific current weighting of 8.9%. "That means that if a client believes in our investment rationale, we will tell him to put 12% of his Asia-Pacific money into India," Morgan Stanley strategist Markus Rosgen said.

MSDW has said that market valuations in India still appear supportive. In a report it has said though commodity and agriculture sectors show weakness, technology, finance and consumer companies are still reporting good numbers. Overall results for April-June in the current year showed an earnings improvement of 8.7% year-over-year with sales growing by 8.2%, Morgan Stanley said, predicting a 10% earnings growth for 1998.

The firm said although a comparison of India with the rest of Asia may show that valuations on the basis of price to book value are higher in India, the premium can be justified. "First, India continues to show earnings growth. Second, book value is not being eroded because of losses or foreign exchange write down. Third, the cost of funds is still below the return on equity," it said. "India is operating under "normal" circumstances, unlike most other Asian economies.

Morgan Stanley Asset Management is one of India's largest foreign institutional investors (FIIs) and manages two major offshore funds — the India Magnum Fund (traded on Dublin Stock Exchange) and the India Investment Fund (traded on the New York Stock Exchange).

State Bank of India raises $4.2 billion from Non-Resident Indians

One of the proposals announced by the Government of India in its budget for the financial year 1998-99 was a new scheme for attracting Non-Resident-Indian (NRI) investment in the infrastructure sector in India. The new scheme has been formulated as the Resurgent India Bonds (RIB), which was launched by the State Bank of India (SBI). The RIB issue of SBI has broken all records in debt mobilization by any Indian entity by mopping up $4.2 billion.

While $103 million came in German deutsche marks, $106 million came in the form of British pound sterling and the remainder in the form of US dollars. The total number of applications received was over 74,000. Around 70% of the collections came from the Middle, Far and South East Asia, while the remaining 30% was contributed by Europe and the United States. 27 countries in every continent were covered. "This indicates that NRIs world-wide have faith in our fundamentals," M.S. Verma, chairman SBI said.

Verma said that this year, only "AAA" rated countries and those belonging to the European Union have been able to raise funds at rates lower than 7.75% offered on RIB. Moreover, in 1997, only two issues have been able to mobilize more than $4bn from the international markets. Verma also said that the RIB pricing should lower the benchmark of interest rates being quoted to Indian corporates overseas in spite of the recently lowered credit rating by Moody's.

Asian Infrastructure Fund II selects India as focus country

India has been selected as a focus country for equity investments by the Asian Infrastructure Fund II, which has raised $1.7 billion from international institutional investors recently. Together with China, India is expected to receive more than half the funds collected in the second dedicated Asian Infrastructure Fund in the past four years.

India is likely to receive about $500 million through equity investments in infrastructure projects within the next three years. The fund will invest in utility, transportation, and telecommunications projects, which are private sector-sponsored or which are being privatized. It will focus on equity and equity-related investments.

The AIF-II, sponsored by the American International Group (AIG), will be advised and managed by the Washington-based Emerging Market Partners (EMP). Among the main investors in AIF-II are the Government of Singapore, AIG and other long-term institutional investors like pension funds, trusts and multilateral agencies. The fund was privately placed and the final closing took place in end-July 1998.

Government Sets Up New Committees to Boost Economy

The Government of India has set up two committees — an Economic Advisory Council and a Council on Trade and Industry — which would be headed by the Prime Minister and have leading businessmen and economists as members. This initiative forms a significant part of the government's effort to enhance awareness and refashion policy instruments for achieving its desired economic goals and impart momentum to the growth process. The 10-member Economic Advisory Council and the 12-member Council on Trade and Industry would have N.K. Singh, secretary, Prime Minister's Office, as the member-secretary. Brajesh Mishra, principal secretary to the PM, would be a member of both the councils.

Members of the trade and industry council include Ratan Tata, Mukesh Ambani, Nusli Wadia, R.P. Goenka, Kumar Mangalam Birla, N.R. Narayana Murthy, Suresh Krishna, P.K. Mittal and A.C. Muthiah. Those nominated to the council will hold their positions on a rotational basis so that the Prime Minister can interact with a wide spectrum of the representatives of trade and industry.

The Economic Advisory Council, designed as a mechanism for leveraging brain power outside the government, has I.G. Patel, who has been RBI governor and director, London School of Economics, and M.S. Ahluwalia, former finance secretary who played a key role in designing the reforms package and was recently redesignated as Member, Planning Commission. Other members of the council are P.N. Dhar, Arjun Sengupta, Kirit Parekh, Amaresh Bagchi, Ashok Desai and G.V. Ramakrishna, chairman of the Disinvestment Commission.

POLICY UPDATE

India joins Paris Convention on Intellectual Property Rights

India has decided to accede to the Paris Convention for the Protection of Industrial Property and Patent Cooperation Treaty (PCT). The Paris Convention is a multilateral treaty dealing with the protection of industrial property in its widest sense. It is administered by the World Intellectual Property Organization (WIPO), one of the specialized agencies of the United Nations dealing with the protection and promotion of intellectual property rights. Presently, 147 countries are members of the Paris Convention.

The basic provisions of the Paris Convention are National Treatment, Common Rules and the Right of Priority. The most important element of the Paris Convention is provision relating to the Right of Priority. If a country is not a member of the Paris Convention, its inventors will have to file for patents in several countries at the same time to seek protection in these countries. If an inventor does not do so, another person who has subsequently filed an application for the same invention in a second country before the inventor does so, would get priority over the original inventor.

However, if the country is a member of the Paris Convention, the inventor may, within a period of time (12 months for patents; 6 months for trade marks and industrial designs) on the basis of an application filed in his home country, apply for protection in one of the other member states. The later applications will be treated, as if they have been filed on the same date as the first application. The priority thus accorded to the inventor is called the Right of Priority.

The main advantages to be derived by India by joining the Convention are:

- Improved industrial climate.
- Improved information flow.
- Better and more extensive protection for Indian inventors abroad.
- Benefit of National Treatment to Indian inventors.
- Support to India's export efforts.
- Encouragement to scientific research and technological development.
- Membership of the Patent Cooperation Treaty (PCT) and other treaties.

The Patent Cooperation Treaty is a special agreement under the Paris Convention for international cooperation in the field of patents. It deals with rationalization and cooperation with regard to filing, searching and examination of patent applications and the dissemination of information contained in them. The principal objective of the PCT is to simplify and render more effective and economical the means of applying for patents in several countries. Before the introduction of the PCT the only way in which protection could be sought in several countries was by filing a separate application in each country. The PCT provides for:

- Filing of a single application, in one language, having effect in each of the countries party to the PCT as designated by the applicant.
- Formal examination of the application.
- 'International search' which gives a report on the previously published applications in this field of invention.

(Continued on page 5)

India joins Paris Convention on Intellectual Property Rights *(Continued from page 4)*

- Centralized publication.
- Options for an 'international preliminary examination' before the applicant decides to seek protection in a specific country.

The agreement also provides benefits to patent offices which are struggling with heavy work load. Under the PCT system, by the time the international application reaches the Indian office, it would have been searched by the international office thereby providing the office with the necessary search report, on the basis of which it can carry out its examination. The ultimate examination and grant of the patent would, however, be left entirely to Indian patent office which will examine the application within the framework of domestic law.

India would not have to make any changes in the Patents Act 1970 in order to accede to the Convention. If all the laws on industrial property are looked into, the only change required is a minor amendment in Section 78 A of the Designs Act 1911 to extend reciprocal priority arrangements to all countries party to the Paris Convention. Presently, this is restricted to Commonwealth countries.

India would not have to incur any additional amount as fees for membership of the Paris Convention and the Patent Cooperation Treaty.

With the accession to the Paris Convention and the PCT, it is expected that India would be able to play a more significant role in the determination of matters related to industrial property in international fora and forcefully articulate its concerns on such issues. Accession to the Convention and the Treaty is expected to provide a tremendous boost to scientific research, inventive and innovative activity in the country.

Government clears introduction of Global Mobile Personal Communication by Satellite

The Government in a major policy decision has permitted the introduction of Global Mobile Personal Communication by Satellite (GMPCS) in the country. GMPCS, as coined by the International Telecommunication Union (ITU), is a mobile telecommunication service similar to the cellular service, with a difference that the cells are formed over the entire globe or region by a network of satellites above the earth. GMPCS service complements the existing fixed public telephone and cellular service by enabling reach of telecommunication to unserved and remote areas. When the policy is implemented, the subscribers of this service would be able to communicate from any point on earth through hand-held telephone units. The subscriber will have a single telephone number irrespective of his location. With GMPCS, flexible and convenient communication will be possible with more economical use of radio frequency spectrum.

There will be no restriction on the number of players in the sector. The foreign equity in the licensee company will be limited to 49%. In the matter of inter-connection, GMPCS would be governed by the regulations framed by Telecom Regulatory Authority of India (TRAI). The tariff policy will also be determined by TRAI.

Upcoming Events

Agro Advantage Maharashtra, November 6-9, Mumbai, India

The Government of Maharashtra in association with Agricultural Products Export Development Authority (APEDA), Chemtech Foundation and the Confederation of Indian Industry are organizing the Agro Advantage Maharashtra—Global Investors' Convention and International Exposition.

Agro Advantage Maharashtra aims at highlighting developments and growth opportunities in the agro-food sector. The specific sectors covered will be: agro-inputs, post harvest infrastructure, agro-processing, food processing, floriculture, bio-technology, dairy, poultry and fisheries, meat and meat products, and agro-based industries.

Maharashtra is the industrial, financial and commercial powerhouse of India. Agriculture contributes more than 22% of Maharashtra's annual income. Over the last few years, the Government of Maharashtra has taken several policy measures for the fast growth of the agro-food sector. This has given rise to increased investment opportunities.

For further information, please contact:

Agro-advantage Infocenter, MAIDC, 2nd Floor, Rajan House, Prabhadevi,
Mumbai 400 025, India
Tel: 91-22-432 7686; Fax: 91-22-430 7098; Email: agro@biosys.net;
Internet: www.agroadv.gov.in

Investment & Technology Market, December 4-6, Ahmedabad, Gujarat, India

The Government of India, the state Government of Gujarat, United Nations Industrial Development Organization (UNIDO) and the Confederation of Indian Industry (CII) are jointly organizing the Intechmart Gujarat '98 — An Investment and Technology Market — from December 4-6, 1998 at Sanskar Kendra, Paldi, Ahmedabad.

The Intechmart Gujarat '98 is aimed at attracting foreign technology and direct investment to Gujarat to further contribute to the acceleration of industrial development through equity investment, joint venture arrangements, strategic alliances, technology tie-ups, buyback arrangements and commercial linkages.

Gujarat, located in the mid-west of the Indian sub-continent, is known as the land of enterprise and the industrial hub of India. With an area of 196,000 square kilometers and a population of approximately 42 million, Gujarat is India's second largest industrial state accounting for 10% of India's total consumption, 16% of total exports and 30% of the total stock of market capitalization.

For further details, please contact:

General Manager (Investment Promotion), Industrial Extension Bureau, Block # 18, 2nd Floor, Udyog Bhawan, GH-4, Sector - 11, Gandhinagar - 382011, Gujarat, India.
Telephone: 91-2712-32228; Fax: 91-2712-21297; Email: indxbgn@ad1.vsnl.net.in;
Website: http://www.gujaratindustry.gov.in

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 28.52 million tonnes as on July 1, 1998. This level of stocks was higher by 28% than the level of 22.4 million tonnes as on July 1, 1997.

Industrial Production: During the financial year 1997-98 (April 1, 1997-March 31, 1998) industrial production increased by 5.9%. In the period April-June 1998, industrial production increased by 5.4% up from 3.7% in April-June 1997.

Infrastructure Industries: During 1997- 98, production in infrastructure industries grew by 5.4%. During April-June 1998 average growth rate of this sector was 4% compared to 5.4% in April-June 1997.

Money Supply: During the financial year 1997-98, money supply (M3) growth was at 17.6%. During the current financial year up to July 17, 1998 money supply (M3) growth was lower at 4.1% as against 4.4% in the corresponding period of 1997-98. As on July 17, 1998, Prime Lending Rate was 12.75% to 13% as against 13.5% on July 18, 1997. As on July 17, 1998, Deposit Rate ranged between 9% to 12% against 10% to 13% as on July 18, 1997.

Foreign Trade: In the financial year 1997- 98, exports recorded an increase of 2.6% in dollar terms while imports increased by 5.8%. In April-June 1998, exports declined by 7.9%. Imports increased by 3.7% during the same period.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were $ 25.98 billion at the end of 1997-98 (March 31, 1998). These reserves have decreased by $1.99 billion and stood at $23.99 billion at the end of July 1998. This level of reserves is enough to finance about seven months of imports.

Exchange Rates: The average market exchange rate of the Rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, French Franc and Japanese Yen was Rs.42.51, Rs.69.93, Rs.23.66, Rs.7.06, and Rs.0.30 respectively during July 1998.

Rate of Inflation: The annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 8.3% on July 25, 1998. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 12.4% for the month ending June 1998.

Infosys Technologies – the first Indian company to issue American Depository Receipts

The finance ministry has cleared the $125 million American Depository Receipt (ADR) issue of Infosys Technologies, thereby making it the first Indian corporate to issue ADRs and also be the first Indian company to seek a listing on Nasdaq.

NEWS BRIEFS

- Equifax Venture Infotek Limited (EVI) has announced the launch of collection management services for consumer credit payments. EVI is a 50:50 joint venture between ***Equifax Inc.*** of the United States and Venture Infotek in India. (Economic Times)

- US major ***Hayes Lemmerz International*** (HLI), supplier of wheels and brake components, has acquired majority control in its Indian joint venture by buying out most of the Kalyani group's holding. (Business Standard)

- ***ST-CMS Electric Power Company*** promoted 250-mw Neyveli power project in Tamil Nadu has been given counter-guarantee by the finance ministry, paving the way for its financial closure. (Business Standard)

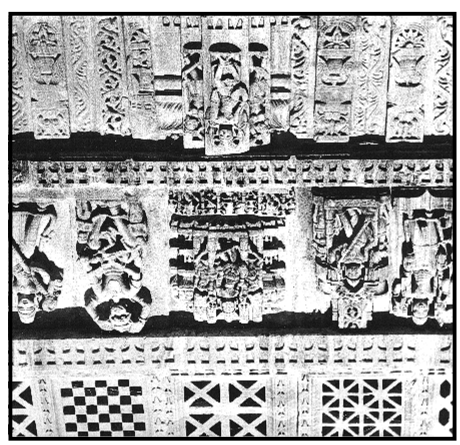
- ***Goodyear Tire & Rubber Company*** of the US has acquired control over South Asia Tires Ltd. by acquiring 50% equity in it from RPG-CEAT. The Foreign Investment Promotion Board (FIPB) has approved the move. The acquisition is part of Goodyear's global strategy for leadership in Asian markets. (Business Standard)

- US-based ***Qualcomm*** has won a $ 45 million order from Shyam Telelink, basic private phone service provider in the Indian state of Rajasthan, to set up its wireless local loop (WLL) infrastructure in the state. This is the first order that Qualcomm has won in India. (Times of India)

- Hindustan Photo Films Manufacturing Company Ltd. (HPF), a public sector undertaking (PSU), has entered into a strategic marketing alliance for its products with ***Phil Corporation Limited*** (PHIL) of USA. (Economic Times)

- Steel major Ispat International NV has renamed its latest acquisition, the US-based ***Inland Steel Company*** as Ispat Inland Inc. Ispat is steel in Sanskrit. Ispat, owned by London-based non-resident Indian L N Mittal, acquired Inland, the sixth largest producer of steel in the US, in July this year. (Economic Times)

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