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INSIDE:

"Notwithstanding which political configuration comes to power at the center, reforms will continue. Nothing can stop the reforms as the direction has been clearly set. Differences may occur only about the details."

— Yashwant Sinha, Indian Finance Minister

One-stop authority for Foreign Direct Investment cleared

The Indian Cabinet has paved the way for setting up of a Foreign Investment Implementation Authority (FIIA) to act as a single window clearance for projects from abroad, especially those involving Foreign Direct Investment (FDI).

Information and Broadcasting Minister Pramod Mahajan told reporters, "The proposed authority would provide a pro-active, one-stop after care service to foreign investors in obtaining necessary approvals, sorting out operational and coordination problems with different arms of government." FIIA will act as a single point interface between the investor and government agencies, including ministries, state governments, pollution control boards, director general of foreign trade and other regulatory agencies. FIIA would address the concerns of the investors as well as these agencies and help in expediting approvals and permissions. The authority shall also set up a fast track committee to review and monitor mega projects and initiate inter-ministerial consultations to resolve policy problems.

FIIA would be headed by Secretary, Industrial Policy, Ministry of Industry. Secretaries of other concerned ministries and Chief Secretaries of state governments will be members of the authority. Other functionaries or experts would be co-opted as members whenever necessary.

The Foreign Investment Promotion Board (FIPB) would continue to function as it does at present. FIPB deals with cases of foreign investment approvals not covered under the automatic route.

The need for such a mechanism had been felt as actual inflow of foreign direct investment in the country since 1991 was only $19.7 billion (till April 1999) as against the total approval of $ 53.7 billion (till February 1999).

Policy Update

Telecom Sector

A New Telecom Policy (NTP 99) effective from April 1, 1999 was announced by the Government of India in March 1999. The policy has been hailed as a comprehensive and forward-looking document for the establishment of a world class telecommunication infrastructure.

Regarding the problems of existing operators, it has been envisaged in NTP 99 that " it is the Government's intention to satisfactorily resolve the problems being faced by existing operators in a manner which is consistent with their contractual obligations and is legally tenable." After taking into account the relevant facts, the Government has decided to permit migration of existing licensees to NTP 99 regime prospectively with effect from August 1, 1999. It is hoped that this package will resolve the difficulties being faced by the existing operators. The broad terms of the package are enumerated below.

The following package has been offered for migration of the existing Cellular (metros and telecom circles) and Basic Telecom Service Operators to NTP 99 regime.

- The cut-off date for change-over to NTP 99 regime will be August 1, 1999.
- The licensee will be required to pay one-time Entry Fee and License Fee as a percentage share of gross revenue under the license.
- The License Fee as a percentage of gross revenue under the license shall be payable with effect from August 1, 1999. The Government will take a final decision about the quantum of the revenue share to be charged as license fee after obtaining the recommendations of the Telecom Regulatory Authority of India (TRAI). In the meantime, Government will take interim decision to fix an appropriate percentage of the gross revenue as provisional license fee subject to subsequent adjustment retrospectively as per final decision on TRAI recommendation on this issue.
- A total of at least 35% of outstanding dues including interest payable as on July 31, 1999 and long distance charges will have to be paid on or before August 15, 1999. The balance dues will have to be paid on or before January 31, 2000 along with interest calculated up to the actual date of payment.
- The existing bank guarantees even where these have been encashed earlier will be kept alive/ refurnished along with acceptance of the package.
- If either of the cellular operators in a given service area does not accept the package, both the existing operators will continue in the existing licensing arrangement until the validity of the present licenses.
- Consequent upon migration to NTP 99, the licensees will forego the right of operating in the regime of limited number of operators as per the existing license agreement and would operate in a multipoly licensing regime, i.e., additional licenses without any limit may be issued in a given service area.
- There shall be a lock-in of the present shareholding for a period of five years counted from the date of license agreement. Transfer of shareholding directly or indirectly through

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subsidiary or holding companies shall not be permitted during this period. However, issue of additional equity share capital by the licensee companies/ their holding companies by way of private placement/public issues shall be permitted.

- The liquidated damages as per the existing license agreement shall be paid latest by August 15, 1999.
- The period of license shall be 20 years starting from the effective date of the existing license agreement.

Migration to NTP 99 on the conditions mentioned above will be permitted on the premise that the aforesaid conditions are accepted as a package in its entirety and simultaneously all legal proceedings in courts, tribunal authority or in arbitration instituted by the licensee and associations of cellular and basic service operators against Department of Telecommunications (DoT) or Union of India shall be withdrawn. Further, any dispute with regard to the license agreement for the period up to July 31, 1999 shall not be raised at any future date. The acceptance of this package will be deemed as a full and final settlement of all existing disputes whatsoever irrespective of whether they are related with the present package or not.

Latest Developments

The Delhi High Court on August 10, 1999, declared that each and every licensee who wanted to migrate to the new telecom package shall give an undertaking that the implementation of the package will be subject to the approval of the new Union Council of Ministers and the Lok Sabha (lower house of Parliament) to be constituted after the general elections (slated to be held in September-October 1999).

If the Council of Ministers and the Lok Sabha do not approve of the new policy, the licensees shall not claim any right or equity out of the package. They will be relegated to the existing license agreement. If the policy was disapproved, the rights and equity of the operators would be decided as per their existing contracts with the government before the new policy came into force. In such a case, new licenses granted will also stand terminated.

The undertaking will be in force till December 31. Only those who give the undertaking will be eligible for the license now.

Earlier, the Cellular Operators Association of India and the Association of Basic Telecom Operators agreed to give the undertaking suggested by the Delhi High Court.

Silicon Valley to advise SEBI on Venture Capital Funds

Securities and Exchange Board of India (SEBI) has named K B Chandrasekhar, chairman of Silicon Valley-based Exodus Communications Inc., to head its committee on venture capital funds. Hotmail founder Sabeer Bhatia is also part of the 19-member, high-profile committee. The panel comprises non-SEBI members. Apart from Indian entrepreneurs from Silicon Valley, the committee also has key representatives from venture capital funds, institutions, tax and legal experts and academicians.

Status of Y2K Compliance in the Indian Financial Sector


India's central bank, The Reserve Bank of India

The Reserve Bank of India (RBI), India's central bank, has been undertaking a number of initiatives for Year 2000 (Y2K) compliance of the Banking and Financial Sectors. The focus now is not so much on awareness, remedy, testing and implementation, but on the need for business continuity planning. This involves continued testing of the systems and preparation of detailed Contingency Plans and their testing in simulated environment. Group meetings of public sector, private sector, urban cooperative banks and financial institutions have been arranged periodically to review the progress at different levels. The Reserve Bank of India has also set up a High Level Working Group for reviewing the progress in Y2K preparedness by the banking and financial sectors.

A wide range of Year 2000 related risks have been assessed and taken up with the management of the banks for taking remedial action. Having adopted the definition of the British Standards Institution for Year 2000 conformity, directions were issued to banks and financial institutions for achieving Year 2000 compliance of hardware, operating system, system and application software, networking products, conversion of old data, etc. Attention of the financial sector was also drawn to the embedded sector, interface with customers, house keeping and Management Information Systems.

The review has shown that all the commercial banks, non-banking subsidiaries of commercial banks, financial institutions, primary and satellite dealers, with the exception of a few are Y2K ready. The Working Group desired that it is necessary to interact on individual basis with each of the non-compliant institutions in an expeditious manner. The Group also took note of the receipt of contingency plans from 95 commercial banks. The Group recommended that banks should have dry-runs of their contingency plans in simulated environment and ensure availability of resource persons and vendors during the transition period. Banks would have to also ensure that the recovery plans of their main systems are in place in the event of failure so as to cut the duration to operate contingency plan to the minimum. The Group was also assured that those institutions not yet found to be Y2K ready will soon become compliant and are not likely to pose any business continuity problem.

The fiscal incentives announced in the Union budget for the Year 1999-2000 providing for deduction of expenditure incurred exclusively for making the existing systems Y2K compliant is a positive measure in this regard. This measure has provided an incentive for corporate and other businesses for achieving Y2K compliance, thus indirectly reducing the risk exposure of banks in their loan portfolios and third party exposures.

The RBI has issued an update on Y2K preparedness in banks and financial institutions in June 1999 which is available on RBI web site http://www.rbi.org.in. In this context, the Group urged that infrastructure and corporate sector should disseminate information on their Y2K preparedness as widely as possible to further confidence about business continuity.

US Investors Shifting Focus to India Again, says Asia Society

After a decline in US investor interest in India, conditions are turning favorable for re-igniting investor interest in the country. This was stated by Marshall Bouton, executive vice-president, Asia Society, while addressing members of the Confederation of Indian Industry (CII) in New Delhi on August 3, 1999.

The Asia Society is America's leading institution dedicated to fostering understanding of Asia and communication between Americans and the peoples of Asia and the Pacific. Bouton said India was again emerging as an attractive investment destination as the US economy was slowing down and there was a realization that companies would have to look at overseas markets. Moreover, China was not being considered a lucrative destination any longer.

He was of the view that some major initiatives such as the passage of the insurance bill, resolution of the telecom tangle, acceleration of the privatization process and progress in controlling fiscal deficit would boost the sentiments of US investors about India. "Some prospects of government stability and the continuity of policy that flows from stability will help," he said.

According to Bouton, there had been a decline in US investor interest in India as a result of a cyclical slump in the Indian economy, slowdown of the reform process, bad publicity as a result of delay in implementation of projects, particularly in the power and telecom sector and serious miscalculations by US companies about the size of the Indian markets.

Bouton said, the US should engage India in a broad-based constructive relationship. He put forward an agenda for building and strengthening the bilateral relationship. He suggested that the US should completely suspend sanctions; that India should sign the Comprehensive Test Ban Treaty (CTBT); that the government and private sector in both countries must manage expectations; that US policy towards India should be broad-based and not hinge on a single issue; that high level contact should be encouraged; that US should consider supporting India's entry into Asia Pacific Economic Cooperation (APEC) and that the governments and business communities in both countries must work actively to increase economic co-operation.

Contributions for Mahatma Gandhi Memorial in Washington, DC

Members of the Indian-American community are invited to contribute towards the cost of construction of the Mahatma Gandhi Memorial in Washington, DC. The Memorial will bear the inscription "From the People of India and of Indian Origin in the United States". Efforts are being made to dedicate the memorial on the next birthday of Mahatma Gandhi on October 2, 1999.

Those who wish to contribute to the Memorial may send their checks to the Embassy of India (2107, Massachusetts Ave., NW, Washington, DC 20008) latest by end of August 1999. The checks should be in favor of "India Centre Inc. - Mahatma Gandhi Memorial Fund." Contributions will be entitled for tax exemption (EIN-52-2135483).

Indian Subsidiaries of Foreign Companies: An Analysis

On hundred eighty companies out of over 500,000 registered with various Registrars of Companies (ROCs) have been identified as Indian Subsidiaries of Foreign Companies. An analysis of distribution of these companies by country reveals that the maximum number of subsidiaries are from the USA, followed by those of UK and Germany. The country-wise distribution of these subsidiary companies is given below:

Name of the Country	Number of Companies
USA	50
UK	47
Germany	19
Other Countries	64
TOTAL	180

It is observed that 76% of these companies belong to “Processing and Manufacturing” sector and 10% to “Finance, Insurance, Real Estate & Business Services”.

A foreign company is one that is incorporated outside India. Section 4 of the Companies Act, 1956, stipulates that a company A shall be deemed to be subsidiary of another company B provided (a) the latter controls the composition of its Board of Directors; or (b) (i) exercises or controls more than half of the total voting power of such a company in case it was incorporated under any Act prior to 1956 when the present Companies Act came into being; (ii) holds more than half in the nominal value of its equity share capital if it is any other company; or (c) the first mentioned company A is a subsidiary of any other company C which itself is a subsidiary of the company B.

Embassy News

West Bengal Business Delegation Visits USA

A West Bengal Business Promotion Delegation led by Somnath Chatterjee, Chairman, West Bengal Industrial Development Corporation, visited Washington DC between July 4 and 7, 1999. It included a contingent of business-persons on a look-out for joint venture partners. While in Washington DC, the delegation had meetings at the United States-India Business Council (USIBC), International Finance Corporation, US Small Business Administration and the IBM Institute of Electronic Government.

At the Luncheon Meeting organized by USIBC, Chatterjee highlighted the changing investment climate of West Bengal and invited US companies to invest in the state. McKinsey and Co., he said, attributed to West Bengal “substantial advantages relative to other states”. McKinsey also observed that, “its markets are large and growing, its resource base is rich and the level of rivalry in its markets is low. In addition, the government has recently adopted a pro-investor orientation.”

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 33.35 million tonnes as on June 1, 1999. This level of stocks was higher by 17% than the level of 28.61 million tonnes as on June 1, 1998.

Industrial Production: In the financial year 1998-1999 (April 1, 1998 - March 31, 1999), industrial production increased by 3.9% as compared to 6.6% in the last financial year. In April-May 1999, industrial production grew by 6.3% as compared to 4.2% in April-May 1998.

Infrastructure Industries: During 1998-1999 average growth rate of this sector was 2.5% compared to 5.4% in the last financial year. During April-May 1999, production in infrastructure industries grew by 4.8% as compared to 3.7% in April-May 1998.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 17.8%. In the current financial year up to June 18, 1999, money supply growth was 4.6% as against an increase of 4.2% in the corresponding period of 1998-99. As on June 18, 1999, Prime Lending Rate was 12% to 12.5% as against 12.75% to 13% on June 19, 1998. As on June 18, 1999, Deposit Rate ranged between 8% to 10.5% as against 9% to 12% as on June 19, 1998.

Foreign Trade: In 1998-99, exports increased by 3.7% in dollar terms while imports increased by 7.9%. In April-May 1999, exports increased by 6.1% and imports declined by 3.8%.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were $ 29.52 billion at the end of 1998-99 (March 31, 1999). These reserves have increased to $30.56 billion at the end of June 1999. This level of reserves is enough to finance about eight 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.43.14, Rs.68.86, Rs.22.96, Rs.6.85, and Rs.0.36 respectively during June 1999.

Rate of Inflation: The annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 1.8% as on July 3, 1999. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 7.7% for the month ending May 1999.

India's Export Growth Rate Among Highest In Asia During Current Year

India's export growth rate in US dollar terms is estimated to be the among the highest in Asia during the current year, according to the latest foreign trade trends in the major trading nations of Asia, published in the Far Eastern Economic Review. According to this data, during February to April 1999, India recorded a growth of 5.8% followed by Malaysia at 3.7%. The comparable figures for the same period (February-April 1999) for several other countries in the region have been negative.

During the first quarter of the Indian financial year 1999-2000 (April-June 1999), according to the provisional data available, India's exports at US $7.9 billion have been 6.5% higher than the level of exports in April-June 1998. Exports during the month of June 1999 were valued at US $2.6 billion, which was 11.1% higher than the level of US $2.3 billion in June 1998.

NEWS BRIEFS

- ***Ford Motor Company***, as a part of its "Ford 2000 Plan", has decided to make India the base for its latest model Ikon. This would mean that kits for assembling Ikon in other world markets, whenever they are launched, would be sourced from India. (The Financial Express)

- Global investment banking and securities firm ***Goldman Sachs*** is planning to invest in Indian Internet and Internet Service Provider (ISP) start-ups. A recent study by Goldman Sachs shows that ISPs offer the best revenue generation potential in the next one year, and advertising and e-commerce to become the most significant revenue drivers for the Internet in Asia over the medium to longer term. (Business Standard)

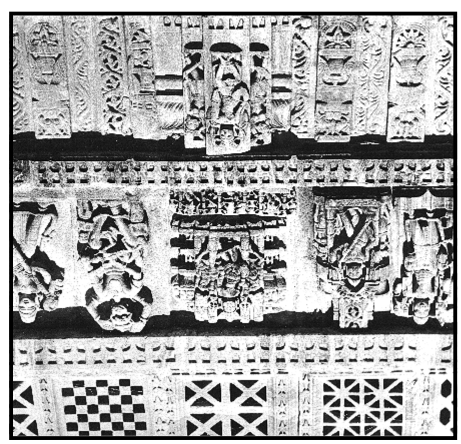
- US-based food major ***ConAgra*** has decided to launch its best-selling microwave popcorn brand Act II in India. Act II will be the first from ConAgra's foods portfolio to be launched in India. (Economic Times)

- ***The Estee Lauder Companies Inc.***, the US-based premium perfumes and cosmetics giant, will set up a 100% subsidiary in India. The proposed subsidiary will co-ordinate local launches, undertake bulk import of select products and sell to distributors. (Business Standard)

- The Tata group, through its subsidiary Tata Petrodyne, has decided to reduce its presence in the field of oil exploration and production. To this end, Tata Petrodyne is at an advanced stage of negotiations to sell at least two oil fields to two ***Enron***-promoted companies, Enron Oil and Gas and Enron International Mauritius Ltd. (Business Standard)

- Indian Oil Corporation has initiated a proposal for entering into a joint venture and share purchase agreement with ***Lubrizol Corporation*** of the USA for restructuring of Lubrizol India Limited (LIL). (Business Standard)

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



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