INDIA ECONOMIC NEWS

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INSIDE:

"India has an excellent university system. Its computer scientists are among the leaders of companies worldwide."

— Mr. Bill Gates, Chairman & CEO, Microsoft

India's reform programme surges ahead

Within a short span of twenty-two days from taking the oath of office, the new government cleared several much-awaited reform bills for introduction in the Parliament, putting the second generation reforms programme on a fast-track. The discussion on these bills is scheduled for the winter session of the Parliament commencing on November 23, 1999.

The most eagerly awaited legislation is the Insurance Bill, which would pave the way for opening up of the insurance sector in India to private players, including foreign investors who would be permitted to invest up to 26 percent of the equity. The bill also proposes minimum capital requirements of Rs. 100 crore (about $23 million) for life and general insurance firms and Rs. 200 crore (about $46 million) for reinsurance. It will be recalled that the Insurance Bill was introduced last year but had been referred to a parliamentary Standing Committee. In its present form, the bill incorporates the recommendations made by the Committee.

Introducing the bill in the parliament, Finance Minister Mr. Yashwant Sinha said that the opening of the insurance sector would not only create employment opportunities, but would also improve competition, coverage and quality of the insurance services at a lower cost to the customers.

The Derivative Bill, introduced in the Parliament on October 29, 1999, would allow trading in derivatives i.e. options and futures. Trading in derivatives, which has not been allowed in India since independence, requires amendment in the Securities Contracts (Regulation) Act of 1956. The amendment would enable the Government to delegate powers to the Reserve Bank of India. The Government would also be repealing the notification of 1969

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India's Reforms programme *(Continued from page 1)*

which bans forward trading in Government Securities. The derivatives bill, once approved by the Parliament, is expected to boost the confidence of retail investors in the capital markets and would also deepen the debt market, which is in its infancy in India.

The Government also introduced in the Parliament a bill for Prevention of Money Laundering (PMLA). The bill covers a wide range of offences including forgery of valuable securities, use of counterfeit currency notes as also provisions relating to illegal gratification and influencing of public servants under the Prevention of Corruption Act, 1998. All the offences under the Act would be cognizable and non-bailable. The banks and financial institutions would have to intimate to the director of the billing authority all transactions of their customers for the purpose of income tax. Another important provision is that movable property purchased out of laundered money is liable to be attached.

In the first week of November, the Union Cabinet cleared the Information Technology (IT) Bill for introduction in the winter session of the Parliament. The IT Bill is aimed to facilitate electronic communications, trade, and commerce. It would also help in preventing computer crimes such as unauthorized access to computer networks, creating and spreading computer viruses, copying of softwares and offences such as electronic forgery and tampering with computer source documents.

The bill also proposes amendments in the existing Acts such as Indian Evidence Act (1872), Indian Penal Code Act (1860), Bankers Book Evidence Act (1891), and RBI Act (1934). With a view to facilitating the development of secure regulatory environment for electronic commerce by providing a legal infrastructure governing electronic contracting, security and integrity of electronic transactions, the use of digital signatures and other issues related to electronic commerce.

Among the other reform legislation ready for introducing in the forthcoming parliamentary session, is a set of bills to strengthen the intellectual property rights (IPR) regime in India. These include the Patents (Amendment) Bill, Designs Bill, Trademarks Bill and Geographical Indications Bill. Once they become law, these bills will enable India to discharge its commitments under the Trade Related Intellectual Property Rights (TRIPs) agreement within the framework of WTO.

The winter session of the parliament is the last one in this millennium. Its importance will be more than just symbolic, as it ushers India into the phase of second generation reforms.

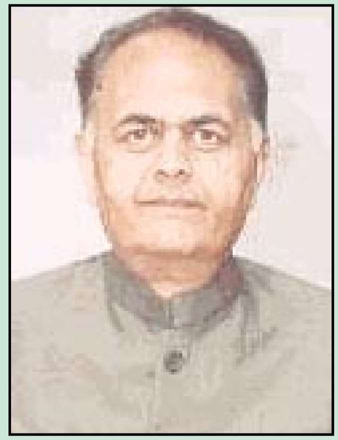
India to receive US investments worth $6 billion

Addressing a luncheon meeting of the Punjab, Haryana and Delhi Chamber of Commerce and Industry on October 22, 1999, H.E. Mr. Richard Celeste, the US Ambassador to India, complimented the government for taking quick decisions on opening up of the insurance sector and announcing the telecom package. He stated that these measures could invite US investments of over $6 billion into India.

The Ambassador expressed his hope that the insurance sector would receive investments of about $2-3 billion from USA. In the telecom sector, the investment would be of the order of half a billion dollars while in the power sector, it would be to the tune of another $2-3 billion.

The Ambassador urged the industry to support the government in its endeavor to carry out second generation reforms and said the state governments should also put strong efforts to carry forward the reform process for the benefit of its citizens.

Deputy Chairman Planning Commission visits USA



K.C. Pant, Deputy Chairman, India Planning Commission

The Deputy Chairman of India's Planning Commission, Mr. K.C. Pant visited USA in the second week of November 1999. He delivered a keynote address at the Center for International Development, Harvard University on November 8, 1999. In the inaugural session of the International Conference on '*India in the New Millennium: Energy, Environment and Development*', the Deputy Chairman highlighted India's performance on the economic front, which had been undergoing a steady transformation with a long term acceleration in growth. He stated that the growth of India's GDP was around 5.8 percent per annum in the 1980s, which increased to nearly around 7 percent in the *Eighth Plan* period (1992-1997). This made India one of the fastest growing economies in the world.

Speaking on the environmental issues, the Deputy Chairman said that the central tenets of Indian culture and philosophy led to solicitousness for life in all its forms, and to preservation of the environment and ecology as central desiderata of existence. He also stated that the uncontrolled urbanization is not desirable for the environment sustainability and quality of life and stated that it can be checked by strengthening the rural economy and enhancing its productivity sufficiently, thereby making the rural/urban migration unattractive.

The Deputy Chairman informed that the government had been making concerted efforts in India to meet energy requirements in the rural areas in an appropriate manner, but meeting the increasing energy requirements from commercial sources would be the most challenging task for the government. However, the government is committed to put efforts to enhance the hydro-electric power generation capacity and tap country's vast potential of non-conventional and renewable sources of energy. At the same time, the Government is also looking for the practical solutions to the basic problems of people dependent on non commercial or traditional energy sources and for protecting the environment.

The Deputy Chairman also emphasized the importance of international cooperation based on the Kyoto Mechanisms, which could offer the opportunity to achieve mutually beneficial partnerships between industrialized and developing nations. The US had already taken a lead in taking steps, in terms of Kyoto protocol, to meet its energy requirements in an increasingly climate friendly manner including reduction of green house gas emissions of roughly 30% by 2010. He said that Government of India recognized the need for voluntary "no regrets measures" at the national level, which would have additional benefits of dealing with air and water pollution, urban transportation and other important sectors of the domestic economy.

In a lecture delivered on November 11, 1999 at the Kellogg Business School in Chicago, the Deputy Chairman mentioned about the advances made by India in the field of science and technology since independence. He stated that India has no intention to miss the Information Revolution. The Deputy Chairman invited the faculty and students of the school to visit India.

At the South Asia Center in Chicago University, the Deputy Chairman spoke about the role of the Planning Commission in a liberalized economy. He said that the focus of the Planning Commission in India has been shifted to policy planning and it now works more as a strategic thinker. The Deputy Chairman also met several prominent members of the business as well as academic community during this visit.

RBI liberalizes norms for NRIs and FDI

Dr. Bimal Jalan

RBI Governor, Dr. Bimal Jalan, stated that the case by case approval of the RBI would not be required for foreign direct investment (FDI) proposals in conformity with the government policy. He was addressing a press conference on October 29, 1999 while releasing the mid-term Monetary and Credit Policy 1999.

Dr. Jalan announced that authorized dealers and banks may grant rupee loans and overdraft facilities in India to NRIs against the security of shares, debentures and immovable properties held by such persons. He also outlined the simplification of procedures and elimination of delays in tackling the issues relating to the foreign investors and Non-Resident Indians (NRIs).

He further declared that companies in India are now permitted to issue non-convertible debentures by way of public issue to NRIs and Overseas Corporate Bodies (OCBs) on complete repatriation basis. The powers to permit portfolio investment by NRIs and OCBs in shares and debentures in India have also been delegated to authorized dealers.

Dr. Jalan expressed his satisfaction on India's favorable macro economic indicators and the monetary situation. Referring to the trends in monetary aggregates, he said that the inflation rate for the current year is likely to be less than last year's rate of 4.8 per cent and the monetary expansion is projected to remain within a reasonable limit of around 15.5-16.0 per cent.

On the current balance of payments situation, he stated that the current account deficit in 1999-2000 is expected to remain less than two per cent, in view of the encouraging trends in exports and invisibles, particularly in private transfers and software exports.

Referring to the recent cut of one per cent in the cash reserve ratio (CRR) and withdrawal of incremental CRR of 10 per cent on FCNR (B) deposits, Dr. Jalan said these were primarily aimed at providing comfortable lendable resources to the banking system as a result of which, the interest rates in the economy would also stabilize.

$1 billion Cellular market in India

Frost & Sullivan, the international marketing consultancy firm sees a cellular market in India with five million users and revenue worth $1 billion by 2005. In a report on '*Strategic analysis and forecast of Indian cellular services market'* prepared by the Frost & Sullivan, the growth of the cellular market is seen to hit high in 2000-01, after the entry of the third player.

During the forecast period the market structure is expected to change. In terms of the numbers of users, the share of metro would decline form 43.4 percent (1995) to 33.5% (2005). It would still continue to be the largest segment of the market. The share of category 'A' circles is also projected to fall. However, the share of category 'B' circles is projected to increase from 23.7 percent (1995) to 31.1 percent (2005).

In terms or revenue, the share of category 'B' circles would increase the maximum from 15.4 percent to 27.2 percent (2005). Metro's share would decline from 54.2 percent to 37.1 percent while the share of category 'A' circles is projected increase moderately from 28.9 percent to 32.5 percent during this period. The category 'C' circles would continue to remain insignificant both in terms of the revenue and the number of subscribers.

Reduction in tariffs, entry of a third operator, penetration of prepaid cards, and the calling-party pays (CPP) schemes are expected to push the growth of market as per the report prepared by the Frost and Sullivan.

Foreign Investment Implementation Authority

To facilitate quick translation of foreign direct investment (FDI) approvals into actual flows, the Foreign Investment Implement Authority (FIIA) was set up by the Government of India in August 1999. The authority aims to provide a proactive one stop after care service to foreign investors by helping them obtain necessary approvals, sort out operational problems and meet with various government agencies to find solutions to problems and maximizing opportunities through a partnership approach.

Role

The FIIA is to take steps to:

- Understand and address concerns of investors.
- Understand and address concerns of approving authorities.
- Initiate multi agency consultations.
- Refer matters not resolved at the FIIA level to higher levels on a quarterly basis, including cases of project slippage on account of implementation bottlenecks.

Functions

The Functions of the FIIA would be the following:

- Expediting various approvals/permissions.
- Fostering partnership between investors and government agencies concerned.
- Resolving difference in perceptions.
- Reviewing policy framework.
- Liaising with the Ministry of External Affairs for keeping India's diplomatic missions abroad informed about translation of FDI approvals into actual investment and implementation.

Modalities of Functioning of FIIA:

- Set up Fast Track Committees (FTC's), comprising members from various Ministries/agencies and State Government, to review and monitor mega projects and to give recommendations on each project, based on the inputs provided by the FTC.
- Initiate inter-Ministerial consultations on issues requiring policy interventions.
- Hold monthly review meetings for proposals involving Investment of Rs.100 crore (approx. $23 million) or more.
- Act as single point interface between the foreign investors and all agencies of the Government, Center as well as State Governments.
- Entertain complaints of FDI approval holders on implementation bottlenecks.
- Recommend on issues relating to the speedy implementation of FDI projects and for improving transparency in procedures pertaining to FDI projects.

Secretariat

The Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion functions as the Secretariat of the FIIA.

Minister of Communications Visits USA

Mr. Ram Vilas Paswan

Union Minister for Communications, Mr. Ram Vilas Paswan visited USA in the second week of November 1999 to participate in the infoDev Symposium organized by the World Bank.

Addressing the conference on the issue of 'Universal Access', the Minister stated the problems being faced by the developing countries in providing access of basic telephone and information based IT services especially in rural areas. He also highlighted the initiatives being taken by India in resolving the issues of providing access of telecom facilities to all villages in the country by the year 2002. He reiterated that the main objective of the Union Government, as stated New Telecom policy 1999, is to provide telecom facilities to all at affordable and reasonable cost.

The Minister suggested that the World Bank should provide a concessional financing window to developing countries for the development of telecom infrastructure in rural areas. The Bank should also participate in the efforts of the Indian Government to implement a comprehensive development package comprising roads, educational institutions and efforts for literacy, as these components are closely integrated with the growth of the telecom sector.

The Minister also spoke about the government's intention to develop rural internet kiosks or "dhabas" to provide communication facilities to rural, remote and hilly areas and urged the developing world to share India's experience in developing cost effective switching and transmission technologies for providing voice communication, fax, public call office and data services in rural areas.

The Minister emphasized the importance of private sector, NGOs and international agencies for achieving the objectives of 'Universal Access'.

Recent Developments on waiver of sanctions

On October 27, 1999, the US President waived the sanctions as applied to India and Pakistan under what is commonly known as the Glenn Amendment. The waiver would allow the continuation of US commercial bank lending and Export-Import Bank loans to India. India will also be eligible to loan facilities under the Overseas Private Investment Corporation (OPIC), Assistance under Elephant, Rhinoceros and Tiger Conservation Funds and the Indo-American Environmental Leadership Program. Lending by US Banks to the Government of India and financial assistance or credit guarantee provided by the US Department of Agriculture to support agriculture commodity purchases would also be allowed to continue due to the waivers.

Apart from restrictions on defence cooperation, sanctions now remain on the loans or financial assistance for all 'non basic human needs' (BHN) projects provided to India by the international financial institutions like World Bank, International Monetary Fund and the Asian Development Bank. At present four World Bank projects in the roads and power sectors totalling about $ 1.2 billion are held up for approval due to US opposition, which would continue until the waiver is extended to cover such assistance.

The Articles of Agreements of the World Bank stipulates that only economic consideration will determine decision making in the Bank. India's position has been that the World Bank should follow its own Charter and not be guided by political considerations. The World Bank lends for projects aimed at basic development of the economy and reduction of poverty. An artificial distinction has been made between 'BHN' and non-'BHN' projects and classifying those development projects in road and power sector as those not serving to uplift the poor is erroneous.

Recently, several prominent US Congressmen have written letters to the US President urging him to waive the sanctions in respect of World Bank loans. Notable among them are Congressmen Benjamin Gilman, Sam Gejdenson, Frank Pallone, Eliot Engel, James Greenwood, Robert Wexler, Carolyn McCarthy, Jim McDermott, Robert Andrews and Eni Faleomavaega. All of them have argued in their communication that these loans are targeted at the development of rural areas where the bulk of India's poor population lives.

Economic Update

Food grains Stocks: Stocks of food grains stood at 29.90 million tones as on September 1, 1999. This level of stocks was higher by 15.7% than the level of 25.85 million tones as on September 1, 1998.

Industrial Production: In the financial year 1998-1999 (April 1st 1998 to March 31st 1999), industrial production increased by 4% as compared to 6.6% in the last financial year. In April-August 1999, industrial production increased by 6% as compared to 4.2% in April-August 1998.

Infrastructure Industries: During 1998-1999 average growth rate of this sector was 2.5%. During April-August 1999, production in infrastructure industries grew by 5.8% as compared to 4.8% in April-August 1998.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 19.2%. In the current financial year up to September 24, 1999 money supply growth was 7.0% as against an increase of 9.0% in the corresponding period of 1998-99. As on October 1, 1999, Prime Lending Rate was 12% to 12.5% as against 12.75% to 13% on October 2, 1998. As on October 1, 1999, Deposit Rate ranged between 8% to 10.5% as against 9% to 11.5% as on October 2, 1998.

Foreign Trade: In 1998-99, exports increased by 3.7% in dollar terms while import increased by 7.9%. Exports in dollar terms during April-August, 1999 increased by 4.6% as compared to a decline of 2.9% during April-August, 1998. Imports increased by 3.9% as against 5.8% during April-August, 1998.

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 $30.49 billion at the end of September 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.43.53, Rs.70.61, Rs.23.34, Rs.6.96, and Rs.0.41 respectively during September 1999.

Rate of Inflation: As of October 2, 1999, the annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 1.95% as compared to 8.3% in 1998. For the month ending August 1999, the annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 3.1% as compared to 15.0% in the corresponding period last year.

Duff & Phelps bullish on India

DUFF & Phelps (DCR), the internationally recognized credit rating agency, is bullish on the Indian economy. In the recent release of its '***Economy Update'*** last month, DCR observed that the simple majority secured by the BJP-led alliance in the recent parliamentary elections is likely to lend stability to the government at the Center.

In the '*Economy Update', the DCR* mentioned that the GDP at factor cost recorded a spectacular growth of 5.5 per cent in the first quarter (April-June '99) compared to 3.6 per cent in the same period last year, which reinforces the hopes of an economic recovery in India. The industrial production during the first quarter increased by 6 per cent against 4.2 per cent during the corresponding period of the previous year. The growth was mainly due to the manufacturing sector, which registered a 6.7 per cent growth over the corresponding period last year.

Another encouraging aspect of the Indian economy, according to DCR is the positive reaction of the stock markets. The sharp rise in the stock market indices shows that the confidence of the retail investors had risen. This had resulted in a significant growth of the aggregated collections of mutual funds to Rs. 21,000 crores ($5000 million) in the first quarter compared to Rs. 22,700 crores ($5491 million) in the entire year of 1998-99. FII investment also turned positive.

DCR also observed a double-digit growth for the third time in five months of the current financial year. Exports recorded a double-digit growth of 10.2 per cent in August 1999.

NEWS BRIEFS

- ***Microsoft Corporation*** and Pune-based Kale Consultants have formed an alliance to develop software products for the banking and financial sector. Microsoft has said it would work closely with Kale as a technology partner to provide mutual customers advanced banking business solutions. – *India Abroad*

- ***IBM***, the US computer major, has launched its PC manufacturing center in Pondicherry recently. The facility will be used for making commercial desktop products for Indian market. The US major, which enjoys a five percent market share in India, would stop imports of finished products with the commissioning of the Plant. – *Business Standard*

- ***Intel Corporation***, the world's largest chipmaker, has made an equity investment in an Indian company. Intel has picked up a 20-percent stake in Bharti Telespatial, the holding company of Bharti Telecom's VSAT (very small aperture terminals) and Internet ventures. Bharti Telespatial holds a 51-per-cent stake in Bharti BT Internet and Bharti VSAT, the Rs. 250-million ($6 million) VSAT business venture. – *Economic Times*

- ***GE Capital corporation*** is acquiring 10.7 per cent stake in domestic Internet service provider major, Infotech Enterprises Limited. GE Caps will acquire the equity through the preferential route. The MNC will make payments in two parts. The upfront payment would be around $3.05 million followed by the second tranche of $0.76 million. – *Business Standard*

- A graduate of the Indian Institute of Technology (IIT) has been appointed president of ***Bell Labs,*** one of the world's leading research and development organizations. Technology management expert ***Mr. Arun Netravali***, executive vice-president for research at Lucent Technologies was named for the new position. Mr. Netravali, 53, is recognized as one of the world's leading experts in the burgeoning field of multimedia communications – *Economic Times*

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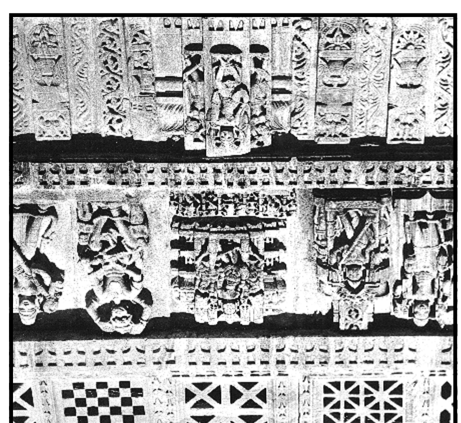

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