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Insurance Sector opens up in India

The eagerly awaited Insurance Regulatory and Development Authority (IRDA) Bill to open the insurance sector in India to private and foreign players, was passed by the Lok Sabha on December 2, 1999 and by the Rajya Sabha on December 7, 1999. The Bill seeks to grant statutory status to the interim Insurance Regulatory Authority and amend the 1938 Insurance Act, the 1956 Life Insurance Corporation Act and the 1972 General Insurance Business (Nationalization) Act to end the public sector monopoly. The IRDA Bill incorporates the recommendations made by the parliamentary Standing Committee on Finance.

Salient Features of Insurance Sector Reform Bill:

- The bill seeks to regulate, promote and ensure orderly growth of the insurance industry and provides for solvency norms and specifies that the funds of policyholders would be retained within the country.
- The minimum capital requirement for life and general insurance has been retained at Rs 100 crore (\$23.02 million) and for reinsurance firms at Rs 200 crore (\$46.04 million) as provided in the earlier IRA Bill.
- It has been stipulated that the aggregate foreign holding in an Indian insurance company shall not exceed 26 per cent of the paid-up equity. Moreover, to provide a level playing field, It has been proposed that the Indian promoters would also be required to bring down their equity holding to 26 percent after a period of 10 years from the commencement of business.

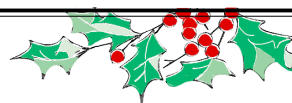
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“India is the fifth largest economy in the world, and the country is expected to have 500 million middle class consumers within next eight years. The demand for consumer and industrial products and services has been expanding rapidly and removal of some investment and trade barriers has given new momentum to this growth”.

—Congressman Sam Gejdenson
Ranking Member of the
House International Relations
Committee.



*Seasons Greetings and
Best Wishes for the New Year*



Insurance Sector *(Continued from page 1)*

- The Bill has proposed solvency margins of Rs. 50 crores (US \$ 11.51 million) for life and general Insurance and Rs. 100 crores (US \$ 23.02 million) for reinsurance companies.
- IRDA, in addition to other functions, would supervise the functioning of the Tariff Advisory Committee (TAC) and specify the percentage of premium income of the insurers to be set aside to finance schemes for promoting and regulating professional organizations in the insurance sectors.
- The four amendments, made in the Insurance Bill by the Lok Sabha, are as under:
 - I. The Insurance Regulatory and Development Authority (IRDA) should give priority to health insurance.
 - II. Policyholders' funds will be invested in the social sector and infrastructure. The percent may be specified by the IRDA and such regulations will apply to all insurers operating in the country.
 - III. Insurers will be expected to undertake a certain percent of business in rural areas, and cover workers in the unorganized and informal sectors and economically backward classes.
 - IV. In the event of insurers failing to fulfill the social sector obligations, a fine of Rs. 25 lakh (\$0.06 million) would be imposed the first time. Subsequent failures would result in cancellation of licenses.

US Business Lauds Passage of Indian Insurance Bill

The Chairman of US-India Business Council, Mr. Dean R. O' Hare has warmly applauded the adoption of the Insurance Bill by India's Parliament. The swift passage of the IRDA bill in both chambers of Parliament was a great leap forward in India's reform process. He said that it was a welcome development to see both majority and opposition working together for constructive and forward looking consensus on issues of fundamental national economic importance. The most spectacular aspect, he said, was the fact that the whole action was completed within scarcely a week, which shows that India has both the will and the capacity to take decisive action in support of the reform when it is clear that vital national interests are at stake. However, there are lessons also to be learnt for future reform efforts.

First, it was important to demonstrate that passage of the bill was good not only for India, but for all Indians. Second, it is clear that the process of building consensus across parties and regions is critical, even if it is slow and arduous. Third, the experience with passage of the insurance bill once again demonstrates the political significance of transparency and accountability.

Mr. O' Hare said that the reliance on a rule based market system for assuring transparency and accountability would prove to be a major competitive advantage for India in drawing foreign investment.

WTO Ministerial Conference in Seattle

The Minister for Commerce and Industry, Mr. Murasoli Maran, visited USA as the head of the Indian delegation that attended the Third Ministerial Conference of World Trade Organization (WTO) held in Seattle. Speaking at the Plenary Session, the Minister appreciated the efforts of the Government of United States, authorities of the State of Washington and the Seattle Host Organization for hosting the Ministerial Conference of the WTO.



Murasoli Maran

The Minister drew attention of the house to the critical gaps in the Uruguay Round Agreements which needed to be addressed. He said that there are asymmetries and inequalities in several of the agreements including those relating to anti-dumping, subsidies, intellectual property and TRIMS. Similarly, it is a matter of great concern that the expected benefits have not been realized from the agreements relating to textiles and agriculture. The special and differential treatment clauses have remained virtually inoperative. The Minister said that addressing the implementation issues effectively up-front would alone ensure an image of fairness and equity to WTO.

Mr. Maran declared that India is committed to a strengthened, rule-based and non-discriminatory multilateral trading system which is fair and equitable. He said that economic integration cannot advance if the interests of the poor are left behind. It would, therefore, be necessary that trade negotiations should concentrate on core issues of market access ensuring smooth flow of trade based on the principle of equity. The Minister also emphasized the role of e-commerce and information technology in the development process. Regarding agriculture sector, he urged the developed countries to eliminate export subsidies and other measures that distort trade. Future negotiations in agriculture should not limit the flexibility of large rural agrarian economies to support and protect their domestic production as well as achieve the objectives of food security and rural employment.

Speaking on the issue of investment, the Minister disclosed that India is opening up to foreign investment in a transparent manner and is committed to progressive economic reforms and liberalization. However, India does not subscribe to the view that a multilateral framework on investment is either necessary or desirable.

On the issues relating to environment, the Minister said that the very ethos of India's culture and history was based not only on respect but worship of nature. But the multilateral trading system had been designed to deal with issues involving trade alone. India had agreed in good faith at Marrakesh to the establishment of a WTO Committee on Trade and Environment. However, it strongly opposes any attempt to either change the Committee's structure or mandate, which could be used for legitimizing unilateral trade restrictive measures. He expressed his apprehension that the attempts aimed at inclusion of environmental issues in future negotiations go beyond the competence of the multilateral trading system and have the potential to open the floodgates of protectionism.

On the issue of labor, the Minister informed the house that India is committed to observance of labor standards and has ratified most ILO conventions. The country also cherishes the values of democracy, workers' rights and good governance. These issues however are not under the purview of WTO. It was decided at Singapore that labor-related issues rightly belong to the ILO. He reiterated that India is not in favor of any attempt to introduce labor standards in the WTO in one form or another.

In his concluding remarks, Mr. Maran said that every step in the direction of trade liberalization should ensure rewards in the form of larger markets and greater trade flows for all.

The Talks at Seattle eventually turned out to be inconclusive. The trade group would be reconvened in Geneva for negotiations next year.

Trail Blazers



Desh Deshpande

DR. GURURAJ "DESH" DESHPANDE

Founder and Chairman
Sycamore Networks, Inc.

Called a 'visionary' and one who 'makes technology happen', he has been figuring in top billings for the last several years. The Forbes magazine named his company one of the 'top 25 very cool companies' in 1996. The latest is by the Red Herring magazine, which places him among the top 10 entrepreneurs of 1999. This is Dr. Gururaj "Desh" Deshpande, the founder and chairman of Sycamore Networks, Inc. Prior to co-founding Sycamore Networks, Dr. Deshpande

was founder and chairman of Cascade Communications. Between 1991 and 1997, Cascade grew from a two-person startup to a company with \$500 million in revenue and nine hundred employees. Cascade was acquired by Ascend Communications for \$3.7 billion in June 1997.

Sycamore Networks, headquartered in Chelmsford, MA USA, is a publicly held corporation focused on developing the transport, switching and management products that are required to create a flexible, intelligent optical network. Intelligent Optical Networking offers the promise of transforming the existing fiber optic transmission core from an inflexible transport medium into an intelligent network foundation for high-speed service delivery. With the March 1998 introduction of the SN 6000, the first intelligent optical networking product, Sycamore Networks has staked a leadership claim in this new and rapidly expanding segment of the public network infrastructure market.

Prior to Cascade, Dr. Deshpande co-founded Coral Network Corporation in 1988 and was with the company until 1990. Earlier, he served in various management positions for Codex Corporation, a subsidiary of Motorola, and taught at Queens University in Kingston, Canada.

Dr. Deshpande holds a BS degree in Electrical Engineering from the Indian Institute of Technology in India, M.E. in Electrical Engineering from the University of New Brunswick in Canada and a Ph.D. in Data Communications from Queens University in Canada.

Dr. Deshpande also serves as the chairman of Cimaron Communications — a leader in silicon solutions and ASIC cores for high-speed SONET systems — and Web Dialogs, Inc. — a startup focusing on Internet-based customer interaction technology.

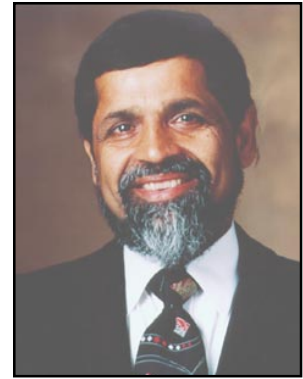
Dr. Deshpande has garnered many top industry honors, including being named one of the "Visionaries of the Industry" (Communications Week, 1996), one of the "Top 25 Technology Drivers" (Network Computing, 1996) and "Entrepreneur of the Year" (1995). He has also been featured in numerous business and trade press articles.

MR. ARUN NETRAVALI

President, Bell Laboratories

Mr. Arun Netravali, a technology management expert and the Executive Vice President for research in Lucent Technology since 1995, has been appointed the president of Bell Laboratories, one of the world's leading research and development organizations.

Mr. Netravali was born in India in May 1946. He received his undergraduate degree in electrical engineering from the *Indian Institute of Technology, Bombay (India)*, and master's and doctorate degrees from Rice University in Houston, Texas. He holds an honorary doctorate from the Ecole Polytechnique Federale in Lausanne, Switzerland.



Arun Netravali

The Bell Labs President is regarded as a pioneer in the field of digital technology and led the research and development work of Bell Labs high definition television (HDTV) effort. He holds more than 60 patents in the areas of computer network, human interfaces to machines, picture processing and digital television. He is the recipient of several prestigious awards for scientific achievement

Prior to joining Bell Labs in 1972, Mr. Netravali served two years at NASA, where he worked on problems relating to filtering, guidance and control for the space shuttle. He is a fellow of the Institute of Electrical and Electronic Engineers (IEEE) and is a member of the United States National Academy of Engineering. He is also the advisor to the Center for Telecommunications Research of Columbia University, and the Beckman Institute of the University of Illinois.

Mr. Netravali is the author of more than 120 technical papers. He has co-authored two books, *Digital Picture Representation and Compression*, (Plenum, 1987) and *Visual Communications Systems*, (IEEE Press, 1989). He has been the adjunct professor at the Massachusetts Institute of Technology (MIT) and has taught graduate courses at City College (N.Y.), Columbia University and Rutgers University. He also served on the New Jersey Governor's Committee on Schools programs.

Rolling Settlement in Indian Stock Exchanges

The Security and Exchange Board of India (SEBI) has made an announcement regarding the introduction of rolling settlement on a T+5 basis from January 10, 2000.

As the rolling settlement marks a major change in the market architecture, it has been decided to introduce it initially with ten scrips having high liquidity. The criteria followed by SEBI for the selection of scrips was that it should be in the mandatory demat (dematerialized scrips) list and have a daily turnover of Rs. 1 crore (US \$0.23 million) or more.

The ten scrips in which T+5 trading would be done are BFL software, Citicorp Securities, Cybertech Systems, Hitech Drilling Services, Lupin Laboratories, Maars Software, Morepan Lab, Sri Adhikari Brothers, Tata Infotech and Visual Soft.

The list would be expanded further on the basis of the experience of the stock exchanges, clearing houses, depositories, custodians, brokers and investors with the initial lot of ten scrips.

Wharton Forum sees high growth path for India

The Annual Wharton India Forum was held at the Franklin Plaza Hotel in Philadelphia on November 30, 1999 and was attended by over three hundred Wharton students, business leaders and academics.

The Chairman of Enron, Mr. Joseph Sutton, in his address at the Forum stated that India, with a population of one billion and large pool of young workers, is bound to grow. He disclosed that his company is more optimistic about India than about any other developing country.

Mr. Sutton said that the story of his company in India had been a long roller coaster ride, but eventually it turned out well. The first phase of the Houston Conglomerate's controversial \$3.3 billion Dabhol power project is now operational and the second phase is expected to reach its completion point by 2001.

The former President of AT&T India, Mr. Bala T. Kuchinad shared the views expressed by the Enron's chairman and added that the promise of India lies in its vast markets. So far most companies have not branched out beyond the major cities into the rural areas where India's true promise lies. Mr. Kuchinad said that businesses must use new technologies and develop strategies to reduce the price of their product to compete in India's rural market, which has a tremendous potential for sales as well as profits.

Mr. Pradeep Kar, the chairman of India's leading information technology services company Microland Electric Limited, told the Wharton students that the internet is likely to speed change in India. He said that the Internet users in India are expected to grow from 2.3 million today to about 70 million by 2003.

Software exports record 58 percent growth

Software Exports registered a spectacular growth of 58.3 per cent to touch Rs. 8,060 crore (\$1.9 billion) during the first half of the current fiscal year (April 1, 1999 to March 31, 2000) - up from Rs. 5,090 crore (\$1.2 billion) during the same period a year ago.

A survey conducted by the NASSCOM shows that the software export revenues in the first half of the current fiscal year has been generated mainly by sectors like banking, manufacturing, processing, infrastructure, government and apparel. New segments like e-commerce solutions and IT- Enabled Services have brought in almost 16 percent of total software export revenues in the first half of 1999-2000.

Overall, India's total exports registered a growth rate of 7.39 percent during the first half in the current financial year (April 1 to September 30, 1999) over the corresponding period last year. In the month of September 1999, the exports recorded a double-digit growth of 12.01 percent. In Indian rupee terms, the growth rate was 14.68 percent higher than the value of exports during September 1998.

According to the NASSCOM survey, the upward trend registered in the first of the fiscal year is expected to continue even in the latter part of the year to achieve an overall growth of 55 percent for the fiscal year 1999-2000 as a whole.

Economic Update

Food grain Stocks: Stocks of food grains stood at 29.22 million tonnes as on October 1, 1999. This level of stocks was higher by 20.7% than the level of 24.20 million tonnes as on October 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-September 1999, industrial production increased by 6.4% as compared to 4% in April-September 1998.

Infrastructure Industries: During 1998-1999 average growth rate of this sector was 2.5%. During April-September 1999, production in infrastructure industries grew by 6.4% as compared to 3% in April-September 1998.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 19.2%. In the current financial year up to October 22, 1999 money supply growth was 8.5% as against an increase of 10.7% in the corresponding period of 1998-99. Prime Lending Rate, as on October 29, 1999, was 12% to 12.5% as against 12.75% to 13% on October 30, 1998. Deposit Rate, as on October 29, 1999, ranged between 8% to 10.5% as against 9% to 11.5% as on October 30, 1998.

Foreign Trade: In 1998-99, exports increased

by 3.7% in dollar terms while import increased by 7.9%. During April-September 1999, exports, in dollar terms, increased by 7.4% as compared to a decline of 3.3% during April-September 1998. Imports, in dollar terms, increased by 5.6% during April-September 1999 as against 10.2% during April-September 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 \$30.57 billion at the end of October 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.43.45, Rs.72.00, Rs.23.82, Rs.7.10, and Rs.0.41 respectively during October 1999.

Rate of Inflation: As of November 11, 1999, the annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 3% as compared to 8.6% in 1998. For the month ending September 1999, the annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 2.1% as compared to 16.3% in the corresponding period last year.

PM's Economic Advisory Council reconstituted

The Economic Advisory Council of the Prime Minister of India was reconstituted recently in view of the new government's thrust on the second generation reforms, especially in the vital areas of infrastructure, financial sector and agriculture.

Mr. M. Narasimham, who headed the committee on financial sector reforms, Dr. Rakesh Mohan, who prepared the India Infrastructure Report, agricultural economist Dr. Ashok Gulati, and Mr. Jagdish Shettigar are the new members of the Council.

The other members of the Council are Mr. I.G. Patel, Mr. P.N. Dhar, Mr. Montek Singh Ahluwalia, Mr. Kirit Parikh and Mr. Amresh Bagchi.

Mr. Brijesh Mishra, Principal Secretary to the Prime Minister will be a member, while Mr. N.K. Singh, Secretary to the Prime Minister, will be the Member-Secretary of the council.

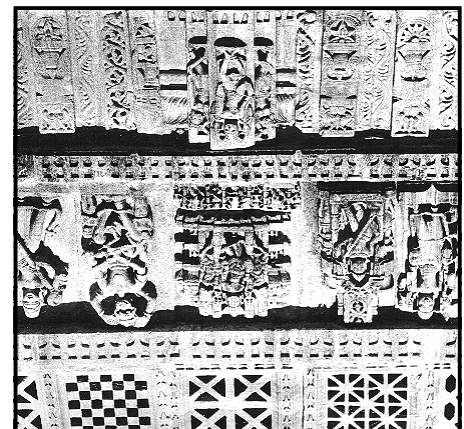
NEWS BRIEFS

- **Aptech**, the Indian software education major has tied up with Wipro and Lotus to launch an educational portal in January next year for providing interactive training in e-commerce, knowledge management and software engineering. As per the collaboration, the Lotus Development Center will provide the software and the delivery mechanism for the virtual education network (VEN), which will be hosted on the infrastructure provided by Wipro Net. The company aims to build a comprehensive education portal through independent server in five global locations. It has a global training network of 1284 centers spread across India, Middle and Far east, and Africa. - *Express India*
- **American Express**, world's leading management travel company, has formed a joint venture with Tata Finance Limited (TFL), the country's premier Non-Banking Finance Company, to expand its foreign exchange operations in the Asia-Pacific countries. The newly formed tie-up to be known as 'Tata Finance American Express' (TFL-AMEX), which would provide a range of money changing and foreign exchange services through a large number of co-branded outlets across the country. - *PTI*
- **Federal Express (FedEx)**, the global express transportation company, has teamed up with a

number of portal sites in the country which are doing retail e-business. The company has tied up with 20 portal sites from August 1998. The portal site owner signs up with FedEx for transportation services. In turn, FedEx offers free consultancy to portal site owners, right from building appropriate business models after identifying target customers, dealing with their vendors, providing advice on sourcing, packaging, and deliveries and offering solutions on taxation and regulatory issues. - *Financial Express*

- **Satyam Infoway's** American depository shares (ADS) gained \$32.25, or 30.5 percent, on December 1, 1999 following the news that the Internet services company has bought the biggest India-interest portal IndiaWorld.com for 499 crore (US \$ 115 million). Analysts feel that this bodes well for Satyam Infoway's future equity raising plans as its valuations has increased by over 30 percent on the basis of the acquisition. - *Business Standard*
- **Compuware**, the \$1.6 billion computer software solutions major is planning to set up its fifth software development center in India. The facility, if it comes up, will be the company's first such initiative in the Asia-Pacific region. - *India Abroad*

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