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New Telecom Policy Announced

The New Telecom Policy (NTP) was announced on 26 March 1999. The policy comes into effect from April 1, 1999.

Background

National Telecom Policy 1994 recognized the importance of private investment for bridging the resource gap in the telecom sector. The Government invited private sector participation in a phased manner from the early nineties, initially for value added services such as Paging Services and Cellular Mobile Telephone Services (CMTS) and thereafter for Fixed Telephone Services (FTS). Subsequently, in 1998, the Government announced the policy for Internet Service Provision (ISP) by private operators and has commenced licensing of the same. The Government has also announced opening up of Global Mobile Personal Communications by Satellite (GMPCS) and has issued one provisional license. However, the results of the privatization efforts have not been entirely satisfactory so far.

Objectives and Targets of the New Telecom Policy 1999

The objectives of the NTP 1999 are:

- Availability of affordable and effective communications for the citizens is at the core of the vision and goal of the telecom policy.
- Strive to provide a balance between the provision of universal service to all uncovered areas, including the rural areas, and the provision of high-level services capable of meeting the needs of the country's economy.
- Create a modern and efficient telecommunications infrastructure taking into account the convergence of Information Technology (IT), media, telecom and consumer electronics and thereby propel India into becoming an IT superpower.
- Transform in a time bound manner, the telecommunications sector to a greater competitive environment in both urban and rural areas providing equal opportunities and level playing field for all players.
- Enable Indian Telecom Companies to become truly global players.

(Continued on page 2)

“...New telecommunications policy... would ease the financial burden on investors, introduce greater competition and strengthen an independent regulator ...”

— Wall Street Journal

New Telecom Policy *(Continued from page 1)*

In line with the above objectives, the specific targets that the NTP 1999 seeks to achieve are:

- Make available telephone on demand by the year 2002 and sustain it thereafter so as to achieve a teledensity of 7 by the year 2005 and 15 by the year 2010.
- Encourage development of telecom in rural areas making it more affordable by suitable tariff structure and making rural communication mandatory for all fixed service providers.
- Provide Internet access to all district headquarters by the year 2000.

New Policy Framework

Cellular Mobile Service Providers

The Cellular Mobile Service Providers (CMSP) shall be permitted to provide mobile telephone services including permission to carry its own long distance traffic within their service area without seeking an additional license. Direct interconnectivity between licensed CMSP's and any other type of service provider (including another CMSP) in their area of operation including sharing of infrastructure with any other type of service provider shall be permitted. The CMSP shall be allowed to directly interconnect with the VSNL after opening of national long distance from January 1, 2000. CMSP would be granted separate license for each service area. Licenses would be awarded for an initial period of twenty years and would be extendable by additional periods of ten years thereafter. CMSP would be eligible to obtain licenses for any number of service areas.



Based on the immediately available frequency spectrum band, apart from the two private operators already licensed, Department of Telecommunications (DoT)/Mahanagar Telephone Nigam Limited (MTNL) would be licensed to be the third operator in each service area in case they want to enter. The entry of more operators in a service area shall be based on the recommendation of the Telecom Regulatory Authority of India (TRAI) who will review this as required and no later than every two years.

Fixed Service Providers

The Fixed Service Providers (FSP) shall be freely permitted to establish 'last mile' linkages to provide fixed services and carry long distance traffic within their service area without seeking an additional license. Direct interconnectivity between FSP's and any other type of service provider (including another FSP) in their area of operation and sharing of infrastructure with any other type of service provider shall be permitted. The FSP shall be allowed to directly interconnect with the VSNL after the opening up of national long distance from January 1, 2000. The FSP shall be granted separate license, on a non-exclusive basis, for each service area of operation. Licenses would be awarded for an initial period of twenty years which shall be extended by additional periods of ten years thereafter. The FSPs shall be eligible to obtain licenses for any number of service areas. The number of players in a service area and their mode of selection will be recommended by TRAI in a time-bound manner.

(Continued on page 3)

New Telecom Policy *(Continued from page 2)*

National Long Distance Operator (NLDO)

National long distance service beyond service area of the private operators will be opened for competition with effect from January 1, 2000. To promote setting up of long distance bandwidth capacity in the country, provide a choice to consumers and promote competition, all NLDOs should be able to access subscribers. With a view to achieving the above, all access providers (CMSP, FSP and Cable Service Providers) shall be required to provide interconnection to the NLDOs. For this purpose, the terms and conditions and other modalities would be worked out in consultation with TRAI and the same will be announced by August 15, 1999. The terms and conditions would also specify the number of operators, license conditions and other related issues. The subject of opening up of international telephony service to competition will be reviewed by the year 2004.

Resolution of problems of existing operators

The New Policy Framework, which seeks to significantly redefine the competitive nature of industry, would be applicable to new licensees. There are, however, multiple licenses that have been issued by the Government for cellular mobile services, basic services, radio paging services, internet services, etc. 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.

Role of Regulator

The Telecom Regulatory Authority of India (TRAI) was formed in January 1997 with a view to providing an effective regulatory framework and adequate safeguards to ensure fair competition and protection of consumer interests. The Government is committed to a strong and independent regulator with comprehensive powers and clear authority to effectively perform its functions. Towards this objective the following approach will be adopted:

- Section 13 of the TRAI Act gives adequate powers to TRAI to issue directions to service providers. Further, under Section 14 of the Act, the TRAI has full adjudicatory powers to resolve disputes between service providers. To ensure a level playing field, it will be clarified that the TRAI has the powers to issue directions under Section 13 to Government (in its role as service provider) and further to adjudicate under Section 14 of the Act, all disputes arising between Government (in its role as service provider) and any other service provider.
- TRAI will be assigned the arbitration function for resolution of disputes between Government (in its role as licensor) and any licensee.
- The Government will seek TRAI's recommendations on the number and timing of new licenses before taking decision on issue of new licenses in future.
- The functions of licensor and policy maker would continue to be discharged by Government in its sovereign capacity. In respect of functions where TRAI has been assigned a recommendatory role, it would not be statutorily mandatory for Government to seek TRAI's recommendations.
- The appropriate level of entry fee and percentage of revenue share arrangement for different service areas for CMSPs and FSPs would be recommended by TRAI in a time-bound manner, keeping in view the objectives of the New Telecom Policy.

The full text of the New Telecom Policy 1999 is available at the Embassy of India website at <http://www.indianembassy.org>

Revised Export-Import Policy Announced

The Commerce Minister R.K. Hegde announced the revised Export Import Policy of India (1997-2002) on March 31, 1999. The revised policy takes effect from April 1, 1999. The following are some of the highlights of the policy.

Integration with Global Economy

To ensure easy access to inputs and to integrate with the global economy, 894 items have been added to the free list of imports. 414 additional items have been put on the Special Import License (SIL) list of imports. Only 667 items now remain in the restricted list of imports.

Free Trade Zones

All Export Processing Zones will be converted into Free Trade Zones, on the lines of those that exist the world over, from July 1, 1999. Units in free trade zone shall be permitted to carry out any manufacturing or trading activity. They shall not be subjected to any predetermined value addition, export obligation, input-output/wastage norms. They shall be treated as outside the Customs territory of the country and the Customs shall be manning only entry and exit points. Sale in the Domestic Tariff Area will be permitted on payment of full Customs duty.

Ombudsman

For on the spot solutions to the problems faced by exporters, an institutional mechanism, “Ombudsman”, is being put in place. To begin with it will be made operational in Mumbai and later on, similar arrangement will be considered at other major ports.

Computerization & Electronic Communication with Exporters

Electronic filing of application is being started on pilot basis for issuance of advance license at Delhi. This will enable the exporter to file his application electronically and receive a response through email. All Status holders will have the facility to collect the hard copy of their license within 24 hours of filing their application. This facility will gradually be extended to all other Ports within a prescribed time frame. The objective is to bring about transparency and reduce physical interface between the exporter and the Directorate General of Foreign Trade (DGFT). This would also result in ensuring time bound sanction of licenses.



Involvement of States in Export Promotion

A Scheme is being evolved to involve the State Governments in the export promotion effort particularly for encouraging agro-exports. Assistance for infrastructure development for exports would be broadly linked to export performance of each State.

Besides, the package of trade reforms also incorporates a series of measures aimed at cutting transactions costs for exporters including provision for annual advance license to avoid unnecessary interface between government and exporters, reduction of threshold limit for zero-duty imports under the Export Promotion Capital Goods (EPCG) Scheme for many more sectors, additional facilities for gem and jewellery exports, and benefit of special import licence (SIL) to promote branded exports.

Details of the Revised Export-Import Policy (1997-2002) are available at:
<http://www.nic.in/eximpol>

Policy Update

Insurance

The Union cabinet has decided to allow the opening up of the insurance business to private participation, pegged foreign equity participation at 26% and approved the Insurance Regulatory Authority of India (IRAI) Bill. Foreign insurance companies have been allowed up to 26% equity in domestic insurance companies. Promoters who hold more than 26% equity are to divest the excess share capital in phases within 10 years. Private companies which are planning to enter the insurance business are allowed to do so only in one area of business, i.e., life, general or reinsurance. The Bill, which accords statutory recognition to the IRAI, is expected to be tabled soon in Parliament.

The government has inserted several safeguards. The net worth of the private insurance ventures in life and general insurance business has been pegged at a minimum level of Rs.1 billion (\$24 million). For reinsurance business, the peg is at Rs.2 billion. The Bill does not permit repatriation abroad of insurance premiums earned by the private insurance companies in India. Compulsory rural insurance business is to be undertaken by new companies. The move, welcomed by potential foreign insurance players, seeks to give a big push to the country's reform program and remove the shackles on the insurance sector. It will also help harness long-term funds for infrastructure projects with long gestation period.

Mining

The Union cabinet has decided to replace the Mining and Minerals Regulation and Development Act, 1957, with a fresh Act. The new Act aims at ushering in an investor friendly environment and delegates more powers to the state governments, including provisions to renew mining licenses and the powers of granting mineral concessions. Currently, these powers are exercised by the federal government.



Patents

The Indian Parliament has passed the Patents (Amendment) Bill that amends the Patents Act of 1970 by providing for establishment of a mail box system to file patents and according Exclusive Marketing Rights (EMR) for 5 years. The Bill contains safeguards relating to pricing, compulsory licensing and powers to revoke EMR licenses in the national interest.

Pursuant to the World Trade Organization's Dispute Settlement Body recommendations, India had agreed to make necessary changes to its Patents Act to put in place a machinery for implementation of Articles 70.8 and 70.9 of the TRIPS Agreement by April 19, 1999. With the passing of the Patents (Amendment) Bill, India has fulfilled this WTO commitment.

Persons of Indian Origin Card Launched



In his first Budget Speech on June 01, 1998, the Finance Minister had said “Government have decided to draw up a scheme for issuance of a Persons of Indian Origin (PIO) Card for those living abroad and having foreign passports. The PIO Card, which would be extended to Persons of Indian Origin settled in countries to be specified by Government would besides introducing a visa free regime, also confer some special economic, educational, financial and cultural benefits.”

In pursuance to that commitment, the Government has launched a comprehensive Scheme for the Persons of Indian Origin — called the “PIO Card Scheme”. Under this Scheme, Persons of Indian Origin up to the fourth generation (great grand parents) settled throughout the world, except for a few specified countries, would be eligible for the PIO Card. The Card would be issued to eligible applicants through the concerned Indian Embassies/High Commissions/Consulates. For those staying in India on a long term visa, the concerned Foreigners Regional Registration Officer (Delhi, Mumbai, Calcutta, Chennai) would do the same.

The fee for the card, which will have a validity of 20 years, would be US \$1000.

Besides making their journey back to their roots simpler, easier and smoother, this Scheme entitles the PIOs to a wide range of economic, financial, educational and cultural benefits. The benefits envisaged under the Scheme include:

- No requirement of visa to visit India.
- No requirement to register with the Foreigners Registration Officer. If continuous stay exceeds 180 days, then registration is required to be done within a period of 30 days of the expiry of 180 days.
- Parity with Non-Resident Indians in respect of facilities available to the latter in economic, financial, and educational fields. These facilities will include:
 - Acquisition, holding, transfer and disposal of immovable properties in India except of agricultural/plantation properties.
 - Admission of children in educational institutions in India under the general category quota for NRIs - including medical/engineering colleges, IITs, IIMs, etc.
 - Various housing schemes of Life Insurance Corporation of India, State Governments and other Government agencies.
- All future benefits that would be extended to NRIs would also be available to the PIO Card holders.
- However, they shall not enjoy political rights in India.

The above steps would go a long way in renewing and strengthening the emotional bond amongst PIOs with the land of their origin. The attractive features of the Scheme will further exhort them to play an increasingly constructive role in the socio-economic and cultural development of the country of their origin.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 23.75 million tonnes as on February 1, 1999. This level of stocks was higher by 29% than the level of 18.35 million tonnes as on February 1, 1998.

Industrial Production: During the financial year 1997-98 (April 1, 1997-March 31, 1998) industrial production increased by 6.6%. In the period April 1998-January 1999, industrial production increased by 3.3% as compared to 6.9% in the same period last year.

Infrastructure Industries: During 1997-98, production in infrastructure industries grew by 5.4%. During April 1998-January 1999 average growth rate of this sector was 2.1% compared to 5.4% in the same period last year.

Money Supply: During the financial year 1997-98, money supply (M3) growth was 17.6%. During the current financial year up to February 26, 1999 money supply (M3) growth was higher at 14.6% as against 13.4% in the corresponding period of 1997-98. As on February 12, 1999, Prime Lending Rate was 12.75% to 13% as against 14% on February 13, 1998. As on February 12, 1999, Deposit Rate ranged between 9% to 11.5% as against the same 10% to 12% as on February 13, 1998.

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 1998-January 1999, exports declined by 2%. Imports increased by 5% 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 increased by about \$2 billion and stood at \$27.79 billion at the end of February 1999. 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.42.47, Rs.69.20, Rs.24.23, Rs.7.22, and Rs.0.36 respectively during February 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 5.2% as on March 6, 1999. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 9.4% for the month ending January 1999.

Infosys stock records highest gain among all initial public offerings listed on Nasdaq

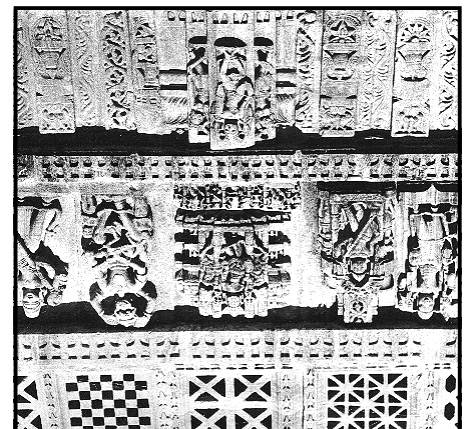
The Indian software company Infosys Technologies' \$61 million American depository receipts (ADR) was warmly received by investors in USA. 'Infy', as the company is known on Nasdaq, posted the highest gain among all IPOs listed on Nasdaq. With this, Infosys became the first Indian company to be traded in the American stock markets.

Infosys Technologies develops customized software products and performs a variety of software services for business customers around the globe. The company's BANCS 2000 system automates banking operations; other products and services assist with year 2000 conversion, inventory and distribution management, warehouse management, and Internet-based electronic commerce. Infosys serves clients such as J. C. Penney, Northern Telecom, Reebok, and Visa through development centers and marketing offices in Africa, Asia, Europe, and North America. Chairman Narayana Murthy co-founded the fast-growing company — whose Silicon Valley-esque culture sports stock options and a relaxed dress code — in 1981.

NEWS BRIEFS

- Satyam Computer Services Ltd. was given the highest certification from the **US Software Engineering Institute at Carnegie Mellon University**, which is seen as the world's most stringent software standard. Satyam has obtained Level-5 in the Capability Maturity Model, which evaluates the quality process by which software products are designed. Satyam is the first Indian company to obtain Level-5 certification for the company as a whole. (Economic Times)
- **All State Insurance**, a US insurance major has initiated talks with Escorts Finance Ltd. for a possible tie-up in life insurance. Another American multinational, **GE Capital**, has also shown interest in joining hands with the finance company for foraying into insurance and other new ventures. (Business Standard)
- The Foreign Investment Promotion Board has approved the proposal of **GE Plastics** to increase the foreign partner's equity stake in its joint venture with IPCL from the existing 50% to 60%. The joint venture is engaged in manufacturing of advanced engineered plastics. (Business Standard)
- The US-based **Ogden Energy Group** has inked a deal with Assam State Electricity Board (ASEB) for power generation in the state. Ogden will lease, rehabilitate, operate and transfer (LROT) power generation while ASEB will continue to distribute the power which will be sold to it by Ogden. (Business Standard)
- Private equity funds **Goldman Sachs** and the **American Insurance Group** (AIG) are all set to buy 26% in the Dalmia-promoted DSQ Software. (Business Standard)
- Lyka Labs has sold its cardiovascular brand Amlopin to unlisted pharma company **US Vitamins**. With the sale of this five-year-old brand, the company has now exited from the cardiovascular category. This is the second cardiovascular brand sold to US Vitamins. Earlier in 1997, Lyka Labs had sold Angispan. (Business Standard)

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



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