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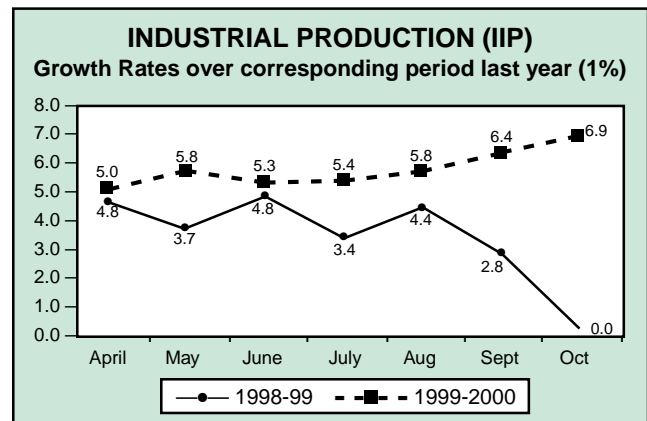
1999 - the year of high growth, low inflation and fast-track economic reforms

1999 was an eventful year for India. The country went through a peaceful general election that reflected the vibrancy of its democratic institutions. The handling of the Kargil conflict and the country's decisive victory boosted the image of the government. An all-round improvement in economic performance resulted from the consolidation of the reform process begun in 1991. These achievements give a sense of great satisfaction and pride, as the country prepares to face the challenges of the new millennium with renewed confidence.

Macroeconomic Review

The year 1999 saw signs of stepped-up growth, low inflation, comfortable foreign exchange position and remarkable calm in the foreign exchange market.

In the second quarter of the fiscal year 1999 (April 1, 1999 to March 31, 2000), the overall GDP grew by 6 per cent, almost one and a half times higher than the 4.2 per cent growth posted in the correspond-



ing period last year. Data on the index of industrial production (IIP), available for the first seven months of 1999-2000, corroborates the growth upsurge. The 6.9 per cent growth in IIP in April-October, 1999 was significantly higher compared with the 3.4 per cent achieved during the same period of 1998.

During 1999, India's balance of payments position showed remarkable strength and resilience. The foreign exchange reserves registered an increase of around \$1.8 billion during the first seven months of the current financial year. The exchange rate of the Indian Rupee remained stable against all major currencies during the year.

India's export growth, measured in dollar terms, showed a com-

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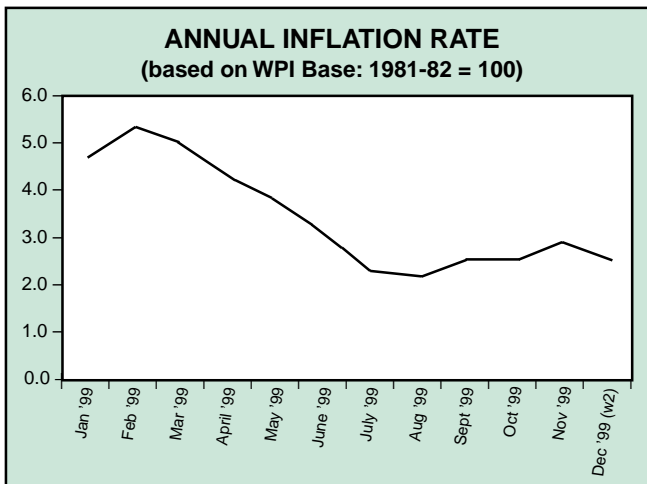
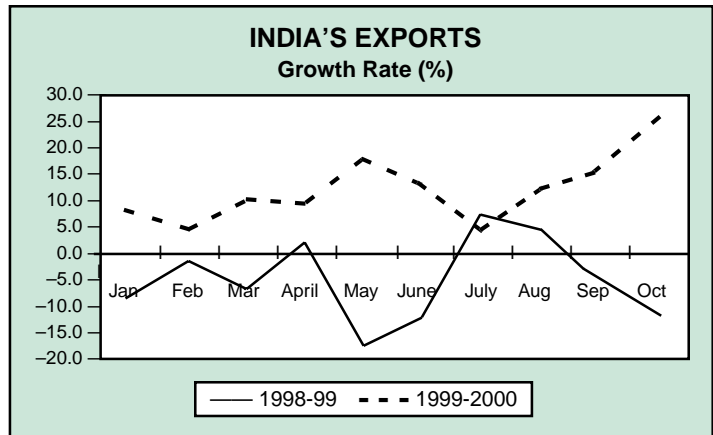
“The reliance on a rule based market system for assuring transparency and accountability would prove to be a major competitive advantage for India in drawing foreign investment”.

— Mr. Dean R. O'Hare
Chairman,
US-India Business
Council

1999 – the year of high growth . . . (Continued from page 1)

plete turnaround by recording an increase of over 10 per cent during April-October, 1999 compared with a negative growth of about 5 per cent during the same period of 1998. The month of October 1999 saw India's exports braking the 32-months old record by registering a spectacular growth of 21.65 percent in dollar terms.

Inflation rate in terms of increase in WPI continued to be subdued. The annual rate of inflation was 2.84 per cent for the week ending December 11, 1999. Inflation has been persistently below 3 percent for more than 25 weeks in the current year (except for the first two weeks of November, when it was moderately higher than 3 percent) as against a high of about 8 per cent a year ago.



In 1999, significant developments took place in the capital market in India. The year saw increased investors' confidence and tremendous improvements in stock market infrastructure. In 1998, the benchmark BSE sensx had remained on an average around 3000 points. There was a significant turnaround in 1999 as the sensx remained on an average around 4500 points and crossed the 5000 mark on the last trading day of the year. Investment by the FIIs also recorded a significant increase. As against the net investment of \$ (-) 338 million in 1998, the FIIs have booked a net investment of \$1561 million in 1999. The cumulative net investment by the FIIs since 1992 crossed the \$10 billion mark in 1999.

Economic Reforms

Economic reforms remained on track during the year inspite of the general elections. After the new government took office, there has been a perceptible speeding up of reforms. The highlights of economic policy changes ushered in 1999 are as under:-

- Major rationalization of indirect taxes undertaken in the Budget of 1999-2000. The number of excise duty rates reduced from eleven to three (namely, 8%, 16% and 24%). A Central rate of 16 per cent applicable to most commodities and 100 per cent MODVAT for excise paid on inputs restored. Similarly, the peak customs duty brought down from 45% to 40% and the number of customs duty rates reduced to five ad-valorem basic rates (5%, 15%, 25%, 35% and 40%).
- All State Governments agree to adopt uniform floor rate of sales tax from January 1, 2000 and VAT from April 4, 2001.
- The maximum period for availing tax exemption under 80 IA of the Income Tax Act for infrastructure sectors made uniform across all sectors, and extended to a maximum period of 15 years.
- Mega power projects exempted from the imposition of a minimum 5 per cent basic customs duty. Transmission and distribution of power brought at par with other infrastructure units to avail of fiscal incentives for all new assets created after April 1999.

(Continued on page 4)

Turnaround in the performance of India's Industrial Sector

The Reserve Bank of India released its Report on Currency and Finance for 1998-99 on December 30, 1999. The Report highlights that the share of the services sector in the real Gross Domestic Product (GDP) in India has surpassed that of agriculture and industry at a relatively faster pace as compared to most industrialized nations. The contribution of the services sector in the GDP has been significant in the 1990s. Its share has grown from 42.2 per cent of GDP in the 1980s to 46.6 per cent in the 1990s. This development is significant as it makes the Indian economy less vulnerable to economic shocks arising out of the failure of agriculture. The contribution of the services sector, according to the Report, is evident in the recovery of real GDP growth during the fiscal year 1998-99 that took place despite continued sluggishness in the industrial sector.

The trend also has wider implications for prospects for employment and trade. The Report emphasizes the need for policy initiatives towards introducing greater competition and efficiency so that the contribution of the services sector to India's exports increases in the long term as well. The services sector constitutes a wider tax base, which is still unexploited and therefore its growth has long term implications for the fiscal policy.

The good news is that the RBI sees an end to the long recession in the industrial sector. According to the Report, the fiscal year 1999-2000 has so far witnessed a definite turnaround in the performance of the industrial sector. Available indications suggest robust performance of some of the corporates in the first half in terms of sales and profits. The total flow of credit to the commercial sector including investments in debt issued by corporates was up by Rs 25,699 crore up to October 22 against a growth of Rs 18,227 crore in the corresponding period last year.

Regarding fiscal deficit, several measures have been suggested in the Report. The Report also urges the government to remove incentives that encourage corporates to opt for debt over equity financing. The Report states that it is essential for corporate funding to have a substantial equity component because banks and financial institutions (FIs) cannot substitute market-induced corporate governance practices. There is also a need to take appropriate measures to develop the capital market along sound lines.

The Report points out that the savings investment gap has declined from 2.1 per cent of GDP in the 1980s to 1.4 per cent in the 1990s. This was facilitated by strong growth in savings by the household sector in financial assets.

On the whole, according to the Report, the Indian economy did much better in the 1990s than in the 1980s. In the 1990s it clocked a growth of 6.9 per cent as against the 5.5 per cent recorded in the 1980s.

Update on US Sanctions – 51 Indian companies removed from list

The US Administration has removed 51 Indian firms, out of the original list of 200 government and private sector entities. This would make it easier for them to obtain US goods and technology especially non-sensitive products that ordinarily do not require an export license for India.

The pruning of the list was an outcome of the on-going high level bilateral talks between Deputy Secretary of State, Mr. Strobe Talbott and India's Minister of External Affairs, Mr. Jaswant Singh. Several US Congressmen and Senators had represented that the imposition of sanctions was counter-productive and against the economic interest of American companies. In their letters to the US President, they had urged that only those entities that directly and materially make contribution to weapons of mass destruction and missile programs should be sanctioned.

The list of remaining entities is still too broad. Hopefully, further review would ensure that more entities are removed from the list in the coming months.

1999 – the year of high growth . . . *(Continued from page 2)*

- The New Telecom Policy (NTP) 1999 announced. Envisages provision of universal service at affordable cost to all uncovered areas including rural areas. It also aims at the creation of a modern and efficient telecommunications infrastructure along with a more competitive environment and level playing field for all players. Migration for private telecom operators to a new system of revenue sharing allowed.
- A new Ministry for Information Technology created to focus on the development of the internet sector in India. The sector is witnessing a boom with a total of 5.3 lakh internet connections estimated by the end of March 2000 and a growth of 145 per cent over the next one year.
- Full exemption from dividend tax granted to investors investing in open-ended equity oriented schemes of UTI and other mutual funds with more than 50% investment in equity. Long-term capital gains tax on transfer of shares and securities in respect of resident Indians reduced from 20 to 10 per cent.
- Time-bound investment and minimum lock-in period requirements for Venture Capital funds (VCFs) removed for boosting investment in venture capital activities in high-tech sectors and supporting first generation entrepreneurs. Guidelines for registration of venture capital activity with the CBDT harmonized with those for registration with SEBI. A Venture Capital Fund with a corpus of Rs. 100 crore set up.
- Derivatives instruments included in the definition of securities in the Securities Contract (Regulation) Act, 1956 to diversify financial instruments and to provide options and futures market to hedge against risks. The Securities Laws (Amendment) Bill, 1999 passed by the Parliament to develop and regulate the market for Collective Investment Schemes.
- Several new measures to ensure market safety and transparency in the secondary market initiated by the SEBI. Special attention devoted to strengthening institutional arrangements for protecting small investors from defaults and financial failure induced by brokers and other market intermediaries.
- The Insurance Regulatory and Development Authority (IRDA) Bill passed by the Parliament to allow private entry in insurance sector and confer statutory status on the insurance regulator. Foreign equity up to 26 per cent allowed. Mobilization of large volume of long term funds for infrastructure projects as well as increasing penetration and improving the quality of insurance service envisaged.
- The Foreign Exchange Management Act (FEMA) Bill passed by the Parliament to facilitate external trade and payments and promote orderly development and maintenance of forex markets.
- Copyrights (Amendment) Bill, Trademarks Bill and Geographical Bills passed by the Parliament in line with India's commitment to WTO.

Dividend Balancing Condition for MNCs scrapped

Government of India has scrapped the dividend balancing condition for multinational companies in India from January 1, 2000. Under the dividend-balancing requirement, exports of foreign investors were linked to the extent of dollars taken out as dividend earnings. It was felt that this requirement restricts the operations of the companies. With this decision, no restrictions remain on the remittance of dividends by foreign investors. This is in line with India's commitments to the WTO.

Trail Blazers



Dr. Raj Reddy

DR. RAJ REDDY

Herbert A. Simon University Professor
Carnegie Mellon University

Recently appointed as co-chair of President Clinton's Advisory Committee on Information Technology (PITAC), Dr. Raj Reddy is the Herbert A. Simon University Professor of Computer Science and Robotics in the School of Computer Science at Carnegie Mellon University. He also serves on the board of trustees of Peres Institute for Peace in Israel.

Dr. Reddy received a BE degree from the Guindy Engineering College (currently named Anna University) of the University of Madras, India in 1958 and a MTech degree from the University of New South Wales, Australia, in 1960. He received a Ph.D. degree in Computer Science from Stanford University in 1966.

During 1960-63, Dr. Reddy worked as an Applied Science Representative for IBM Corp. in Australia. He began his academic career as an Assistant Professor at Stanford in 1966. He joined the Carnegie Mellon faculty as an Associate Professor of Computer Science in 1969. He became a Full Professor in 1973, a University Professor in 1984, and was named as the Simon University Professor in 1992. He served as the founding Director of the Robotics Institute from 1979 to 1991. He has served as the Dean of School of Computer Science since 1991.

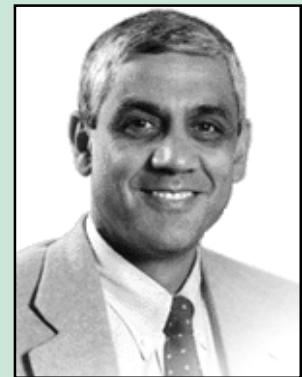
Dr. Reddy's research interests include the study of human-computer interaction and artificial intelligence. His current research projects include spoken language systems; invisible computing, gigabit networks; universal digital libraries; and distance learning.

Dr. Reddy was awarded the Legion of Honor by President Mitterand of France in 1984. He was awarded the ACM Turing Award in 1994. He has also been awarded Doctor Honoris Causa from SV University in India and Universite Henri-Poincare in France.

MR. VINOD KHOSLA

Partner
Kleiner Perkins Caufield & Byers

Mr. Vinod Khosla, the general partner of the leading venture capital firm Kleiner Perkins Caufield & Byers was in news recently for getting a place in the board of Redback Network Inc., which is a leading equipment manufacturer for advance high speed Internet traffic. He is also well known for the famous Cerent deal, the company that was acquired by Cisco Systems for \$6.9 billion. He was not only the lead partner for the deal; it was his idea that spawned the development of the company in the first place. There are very few people who can claim an accomplishment like founding one of the largest blue-chip companies in the Silicon Valley, Sun Microsystems. In Sun Microsystems, he pioneered open systems and commercial RISC processors.



Mr. Vinod Khosla

Mr. Khosla holds a Bachelor of Technology in Electrical Engineering from the Indian Institute of Technology in New Delhi, a Master's in Biomedical Engineering from Carnegie Mellon University and a MBA from the Stanford Graduate School of Business.

Mr. Khosla was also a co-founder of Daisy Systems. His latest venture is Asera, which means 'fast' in Latin. The company plans to revolutionize the entire supply and demand chain for businesses. His website offers extranet with password-protected, personalized information to business customers.

Apart from Asera, Mr. Khosla serves on the boards of Concentric Network, Corio Inc., Corvis Corporation, Doublebill.com, Juniper Networks, Siara Systems and QWEST Communications.

Upcoming Events

TERI's International Conference on Global Sustainable Development in 21st Century, February 19-21, 2000, New Delhi, India

Tata Energy Research Institute (TERI), a premier research institute of India in the fields of energy, environment and sustainable development research, is organizing a series of seven international conferences on the occasion of its Silver Jubilee celebrations. Global leaders and decision makers from all spheres — government, business, NGOs, think tanks and academia — will participate in these conferences to draw up a global agenda that meets local, regional and global concerns and needs. The Hon'ble President of India, Mr. K.R. Narayanan will inaugurate the event.

For further information, please contact:

The Silver Jubilee Conferences Secretariat
TERI, Darbari Seth Block, Habitat Place, Lodhi Road, New Delhi -110003, India
Tel.: 91-11-462-2246, 460-1550 or 465-3001; Fax: 91-11-462-1770 or 463-2609
E-mail: program@teri.res.in Web site: www.teriin.org

7th Global Conference of Women Entrepreneurs February 7-9, 2000, New Delhi, India

Theme - Women Entrepreneurs: a major force for new vistas of growth in the new millennium.

The Federation of Indian Women Entrepreneurs (FIWE) is co-hosting the 7th Global Conference of Women Entrepreneurs with Department of Small Scale Industries and Small Industries Development Bank of India (SIDBI) at Vigyan Bhavan, New Delhi.

The conference combines plenary sessions, panel discussions & interactive workshops to bring women entrepreneurs together internationally and also to give an opportunity to exhibit their products in India International Trade Fair.

For further information, please contact:

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Economic Update

Food grains Stocks: Stocks of food grains stood at 32.34 million tons as on November 1, 1999. This level of stocks was higher by 28.1% than the level of 25.25 million tons as on November 1, 1998.

Industrial Production: In the financial year 1998-1999 (April 1, 1998 to March 31, 1999), industrial production increased by 4% as compared to 6.6% in the last financial year. In April-October 1999, industrial production increased by 6.9% as compared to 3.4% in April-October 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 November 19, 1999 money supply growth was 9.3% as against an increase of 11.4% in the corresponding period of 1998-99. Prime Lending Rate, as on November 12, 1999, was 12% to 12.5% as against 12.75% to 13% on, November 13, 1998. Deposit Rate, as on, November 12, 1999, ranged between 8% to 10.5% as against 9% to 11.5% on November 13, 1998.

Foreign Trade: In 1998-99, exports increased by 3.7% in dollar terms while import increased by 7.9%. During April-October

1999, Exports, in dollar terms, increased by 10% as compared to a decline of 5.1% during April-October 1998. Imports, in dollar terms, increased by 7.5% during April-October 1999 as against 9.5% during April-October 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 \$31.32 billion at the end of November 1999.

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.43.40, Rs.70.48, Rs.22.82, Rs.6.80, and Rs.0.41 respectively during November 1999. The average exchange rate of Indian Rupee appreciated during October 1999 against US dollar, Pound Sterling, Deutsche Mark, French Franc and depreciated marginally against Japanese Yen.

Rate of Inflation: As of December 4, 1999, the annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 2.4% as compared to 7.4% in 1998. For the month ending October 1999, the annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 0.9% as compared to 18.6% in the corresponding period last year.

Investment Norms for Venture Capital Funds Liberalized

On December 30, 1999, the Ministry of Finance liberalized the norms for venture capital funds (VCFs) to invest in companies undertaking high-risk businesses. They have been permitted to invest up to 100 percent equity in a new start up company subject to a maximum of 25 percent of its own fund base in one company. Earlier, VCFs were not permitted to acquire more than 40 percent of the equity of a company. The removal of the 40 percent limit is aimed at encouraging venture entrepreneurship and would boost investments in sectors where normally banks do not take exposures due to high risks. These guidelines were liberalized by the ministry in consultation with the Securities and Exchange Board of India (SEBI).

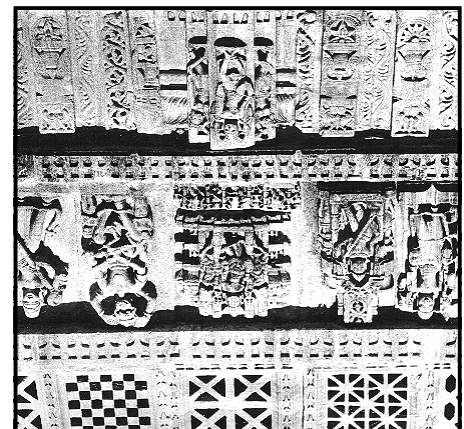
NEWS BRIEFS

- **Fourth R**, the US based children's computer education firm is planning to set up 100 training centers in India by December 2000. Fourth R, which entered India in September 1998 through a tie-up with Chennai-based Interactive Learning Solutions Private Ltd. (ILS), has already set up a strong network with over 30 centers through the franchise route in South India. The Company is now in the process of setting up centers in Delhi. The main strategy of the company for Indian markets is to achieve the number one position by focusing on the specialized courses for schools. - *Economic Times*
- **Ogden Energy Pacific Limited** of the US will partner Development Consultants-Kuljian group, and State-owned West Bengal Power Development Corporation Limited (WBPDC) to implement the second and the final stage of the Bakreshwar Thermal Power Project. The agreement was signed on December 21, 1999 in the presence of the West Bengal Chief Minister Mr. Jyoti Basu. With 60 percent equity in stage two of the project, Ogden would have a controlling stake. The first stage of the project, commissioned recently, is being implemented by the WBPDC with OECF aid. - *Business Line*
- **Mckinsey and Co.**, a fortune 500 international consultancy firm, is planning to set up an "incubator initiative", called Venture 2000 in India, which will identify entrepreneurs with fresh ideas, and hold their hands all the way to the market. Venture 2000

will be limited to IT start-ups to begin with, but eventually extend to other sectors like pharmaceuticals, health care, biotechnology and high-tech engineering. - *India Abroad*

- **TD Waterhouse Group, Inc.**, a leading international brokerage firm and member of New York Stock Exchange, has entered into a joint venture with Tata Financial Securities Limited to bring online trading in India. Tata Finance Securities Ltd. will hold the majority share. According TD Waterhouse Official, India is an exciting growth market with over 25 million investors. With internet revolution under way, there is a tremendous business opportunity in India. The company is planning to set up mutual funds and online services in India with the Tata Group. The company has a customer base in the US, Canada, Australia, Hong Kong and the UK. - *Siliconindia*
- **Iwerk Entertainment Inc.**, one of the world's leading full-service providers of high-tech entertainment systems, support services and film based software in Giant Screen, has struck an alliance with Chennai-based multimedia major PentaFour Software & Exports limited. As per the agreement, a motion simulated theme park ride-film based on the 'Sinbad' feature film would be developed and distributed by the newly formed alliance to theme parks attractions across the world. PentaFour Software and Iwerks will also identify other properties to be developed and distributed to various theme parks. - *Economic Times*

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



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