



**INSIDE:**

**Highlights of the Economic Survey 1999-2000** .....

3

- Macroeconomic Overview
  - Balance of Payments
  - Money and Prices
  - Production
  - Infrastructure
  - Capital Markets
- Issues and Priorities

**Trail Blazers** ..... 5

- Raj Singh
- Mohan Gyani

**US EX-IM Bank to extend loan guarantees in Indian Rupees** .....

6

**News Briefs** ..... 8

*“With Globalization and with technology revolution, India is uniquely placed to do extraordinarily well over the next decade.”*

—Kerry Packer  
CEO  
Consolidated Press Holdings

## **Salient Features of Union Budget 2000-2001**

The Indian Finance Minister Mr. Yashwant Sinha presented a Rs. 338487 crore (\$77.8 billion) budget to the Parliament on February 29, 2000 for the financial year 2000-01 (April 1, 2000 to March 31, 2001).

### **Broad Strategy of the Budget 2000 - 2001:**

To abolish poverty through job creating growth of 7% to 8% per annum by:

- Harnessing the revolutionary potential of knowledge-based industries like infotech, biotechnology and pharmaceuticals.
- Mounting sustained assault on infrastructure bottlenecks in power, roads, telecom, railways, ports and airways.
- High priority to Human Resource Development through education, health and other social services.
- Strengthening the external sector through high export growth, high foreign investment and prudent debt management.
- Modernizing traditional industries like textiles, leather, agro-processing and the Small Scale Industry Sector.
- Strengthening foundations of growth of rural economy.
- Establishing a credible framework for fiscal discipline.

### **Tax Proposals**

- Introduction of a single rate Central Value Added Tax (CENVAT) at the center, three ad-valorem excise duty viz. 8%, 16% and 24% converged to a single rate of 16% CENVAT.
- Special Excise rates of 8%, 16% & 24% introduced.
- Peak rate of basic customs duty reduced from 40% to 35%.

### **Boost to IT Sector**

Customs duties have been further reduced as follows:

- Computers: 20% to 15%
- Mother boards: 20% to 15%
- Floppy Diskettes: 30 to 15%
- Microprocessors: 5% to Nil
- Memory Storage Devices: 5% to Nil
- CD-ROMS: 5% to Nil
- ICs and Microassemblies: 5% to Nil

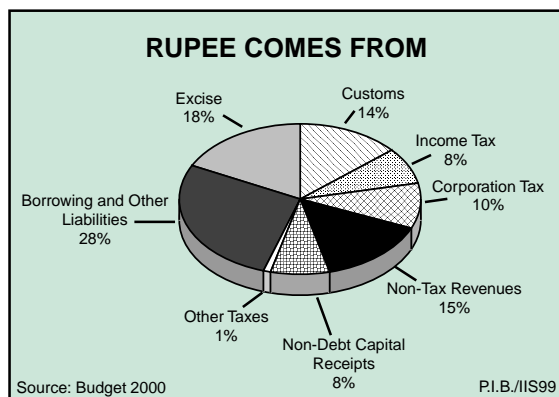
- Customs duty on information technology products and Telecommunications products reduced.
- Duties on petroleum products, diamonds for jewelry exports and products required by the entertainment industry reduced.

- Direct tax proposals to include increase of exemption limits for Senior citizens and women and higher tax relief for Housing and Higher education.
- Most items on which quantitative restrictions are to be removed to be charged customs duty at peak rate plus surcharge. Tariff rate of basic customs duty reduced to four major rates of 5 percent, 15 percent, 25 percent and 35 percent.

*(Continued on page 2)*

## Salient Features of the Budget 2000-01 *(Continued from page 1)*

- Tax exemptions on export earnings to be phased out. The 100 percent exemption will be removed over five years with an additional 20 per cent of export earnings being taxed each year.
- Tax on dividends distributed by domestic companies raised from 10 per cent to 20 percent.
- Tax on income distributed by debt oriented mutual funds and UTI raised from 10 percent to 20 percent.



With these new proposals, total tax revenues are expected to be Rs. 146209 crore (\$34.4 billion). The aggregate revenue receipts of the Government are estimated to be Rs. 203673 crore (\$47.9 billion). The Fiscal deficit during the fiscal year 2000-01 is estimated to be Rs. 111275 crore (\$25.6 billion), which is equal to 5.1 percent of the GDP.

### Capital Market

- Tax regime liberalized and Securities and Exchange Board of India (SEBI) to be made single-point nodal agency for guidelines.
- Indian firms to get more flexibility for undertaking capital account transactions, especially for acquisitions for business abroad in knowledge based sector.
- Access of Indian companies to foreign portfolio investment made more flexible.
- Automatic route for overseas investment by Indian corporates liberalized.
- Interest Tax on Banks and Financial Institutions abolished.
- Major liberalization of tax treatment for Venture Capital Funds.

### Banking and Finance

- Banks to be allowed to raise capital from the market to expand operations and for meeting capital adequacy norms.
- More Debt Recovery Tribunals and Debt Recovery Appellate Tribunals to be set up.
- A new Deposit Insurance Bill to replace the existing Deposit Insurance and Credit Guarantee Act of 1961.

### Reforms in Public Sector Units

- Potentially viable PSUs to be restructured and revived.
- PSUs, which cannot be revived, to be closed down.
- Government equity in all non-strategic PSUs to be brought down to 26% and below.

### Infrastructure Development

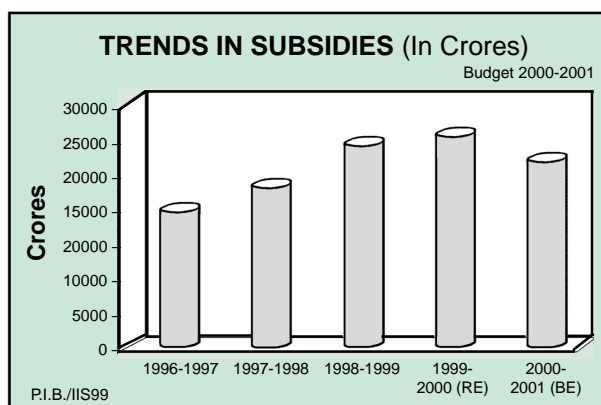
- Progressive corporatization of public sector service providers in areas like telecommunications, ports and airports.
- Plan outlay for Central PSUs in the power sector raised from Rs. 7,626 crore (\$1.8 billion) to Rs. 9,194 crore (\$2.1 billion).
- Speedy implementation of National Highways Development Project.

### Science and Technology

- Rs. 50 crore (\$11.5 million) provided in the for Technology Information Forecasting.
- Council for taking up technology vision projects and boost cooperation between Universities and R&D Institutions.

### Subsidies

- No allocation of sugar under PDS for Income Tax assesses.
- Maximum retail price of urea raised by 15 percent and prices of Diammonium Phosphate (DAP) and Muriate



*(Continued on page 7)*

# Highlights of the Economic Survey 1999-2000

The Economic Survey is a comprehensive annual document brought out by the Ministry of Finance, Government of India on the eve of the budget. It provides a review of developments in the preceding and current financial years, outlines the prospects for the succeeding financial year and highlights the policy imperatives. The Economic survey 1999-2000 was released on February 28, 2000. The Indian financial year starts from April 1 and ends on March 31.

## Macroeconomic Overview

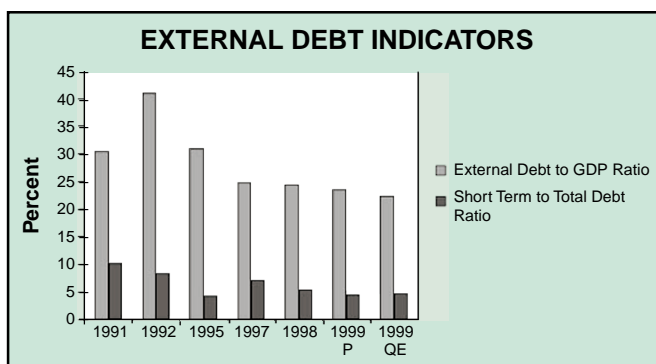
According to the Survey, the Indian economy is expected to grow by 5.9 per cent during 1999-2000, aided by an industrial recovery that is already underway. The growth of GDP from manufacturing will almost double to 7 per cent and that from the construction sector to 9 per cent in 1999-2000 from 3.6 per cent and 5.7 per cent respectively in 1998-99.

## Balance of Payments

The balance of payments survived the twin shocks of the East-Asian crisis and the post-Pokhran sanctions with a low current account deficit and sufficient capital inflows. This was demonstrated by the continuing rise in foreign exchange reserves by over US \$2.4 billion during the year, coupled with a relatively stable exchange rate.

Export performance has improved in 1999 leading to a rise in India's share of world exports. Exports grew by 12.9 per cent in April-December 1999 in US dollar value. Software exports also continued to show vigorous growth of over fifty per cent during April-September 1999. Despite a 57.8 per cent growth in the US dollar value of oil imports in April-December 1999, overall import growth remained at a manageable 9 per cent. As a result the trade deficit was lower during April-December 1999 as compared to April-December 1998.

Capital account in the balance of payments has improved significantly in 1999-2000. Total inflows during April-September 1999 were \$4247 million, compared to \$3057 million during April-September 1998. Portfolio investments have shown a sharp turnaround increases to an inflow \$1349 million from an outflow of \$540 million in the corresponding period. Non-resident deposits also show a similar turnaround, to \$932 million from \$46 million. FDI inflows decelerated to \$1057 million from \$1408 million over the corresponding period. However, it is expected that the introduction of an automatic approval system based on the negative list principle will reverse this trend.



Foreign currency assets of the RBI increased by US \$3.5 billion in 1998-99 and further by about US \$2.4 billion in 1999-2000 (till end January 2000) and had aggregated to US \$31.94 billion as on January 31, 2000.

External debt to GDP ratio has been declining continuously from a high of 41 per cent in 1991-92 to 23.5 per cent in 1998-99. At the end of September 1999, it was 22.3 per cent. The absolute value of external debt rose marginally from \$97.68 billion in March 1999 to \$98.87 billion in September 1999.

## Money and Prices

Inflation dropped dramatically in 1999. As of January 29, 2000, the annual inflation as measured by WPI was 2.9 per cent (point to point), down from a peak, 8.8 per cent on September 25, 1998. Inflation touched a record eighteen-year low of 2 per cent at the end of July 1999. The decline in inflation as measured by the CPI for industrial workers has been even more dramatic, falling to zero in November, 1999 from a peak of 19.7 per cent in November 1998. Strong agricultural growth in 1998-99, increasing openness of the economy to manufactured imports along with the fall in international prices contributed greatly to this decline.

Growth in Broad money (M3) during the financial year till January 14, 2000 at 12 per cent was lower than the 13.7 per cent during the corresponding period of last year.

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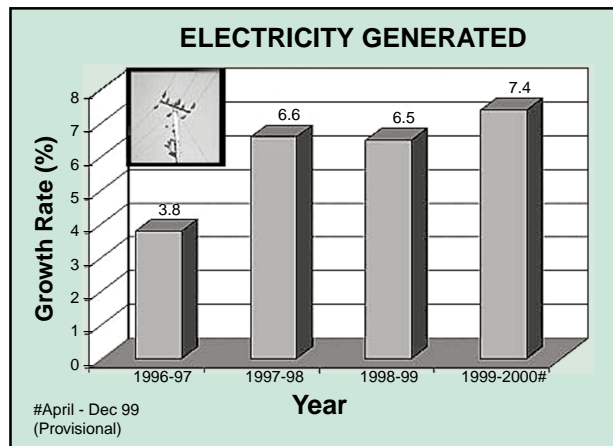
## Highlights of the Economic Survey . . . (Continued from page 3)

### Production

India has emerged as a marginal exporter of foodgrains. Foodgrains production in 1998-99 reached 203 million tons.

*Industrial growth*, as measured by the Index of Industrial Production, has shown a firm recovery this year with 6.2 per cent growth in April-December 1999, as compared to only 3.7 per cent during the corresponding period last year.

*Manufacturing growth* at 6.7 per cent during April-December 1999 was 1.7 times of the 3.9 per cent witnessed in the corresponding period of last year. Basic goods, intermediate goods, and consumer goods have all shown an up-turn in growth. During April-December 1999 (April-December 1998) their growth rates were 5.1 per cent (1.9 per cent), 8.7 per cent (5.2 per cent) and 4.9 per cent (2 per cent) respectively. Improved performance of the electricity sector also contributed to the industrial recovery.



### Infrastructure

Infrastructure performance has improved substantially during 1999-2000.

*Electricity* production increased by 7.4 per cent in April-December 1999 compared to 7 per cent in the corresponding periods of 1998. Financial performance of the State Electricity Boards, however, continued to deteriorate with all financial parameters such as losses and subsidies worsening.

*The Telecommunications* sector continued its fast growth. New telephone connections provided (Direct Exchange Lines) increased by 33.4 per cent in April-December 1999

compared to 26.1 per cent in April-December 1998. An Ordinance was issued in January 2000 to modify the TRAI Act so as to strengthen the TRAI and to make a clear distinction between the recommendatory/advisory functions of the authority. It will be mandatory for the government to seek TRAI's advice on policy and licensing issues.

*Revenue earning goods traffic on railways* showed a sharp upturn of 8 per cent in April-December 1999 after having fallen by 2 per cent in 1998-99.

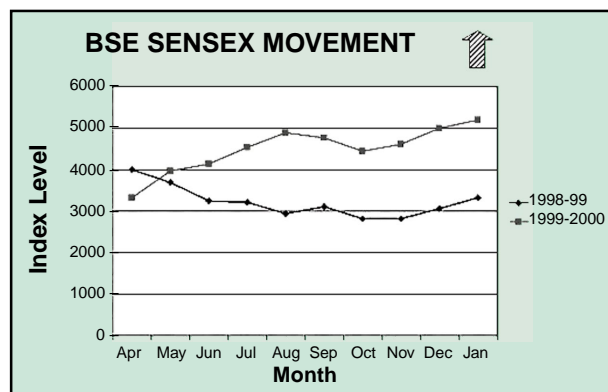
*Cargo handled at major ports* showed a similar turn around with a growth of 9.2 per cent in April-December, 1999, compared to zero growth in 1998-99.

### Capital Markets

There has been a strong revival of capital markets, as reflected by the bullish trends in the stock exchanges. The introduction of a new regulatory regime for NBFCs in 1998-99 has gradually restored the capital markets to health. The amount raised from primary market through public and rights issues registered an increase of 46 per cent during the first nine months of the current financial year over the corresponding period of the previous financial year. Equity constituted 61 per cent of total resource mobilization from the primary market during April-December 1999 as against a much lower share of 18 per cent in the corresponding period of 1998-99.

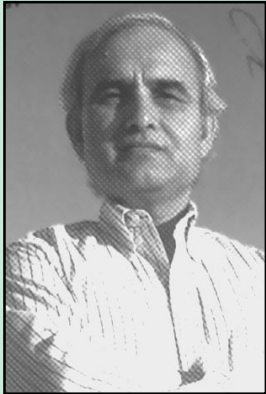
The sensitive Index of Bombay Stock Exchange (BSE-Sensex) increased by 39.2 per cent from 3740 to 5205 and the National Stock Exchange Index (S&P CNX Nifty) increased by 43.4 per cent from 1078 to 1546 during April-January, 1999-2000.

The phenomenal spurt in IT stocks witnessed in leading markets abroad was mirrored in the Indian market and contributed to stock market buoyancy. The other two sectors, namely pharmaceuticals and fast moving consumer goods also contributed to the uptrend in share prices.



(Continued on page 6)

# Trail Blazers



## **RAJ SINGH**

Partner, Redwood Ventures

Recently in the news for a \$435 million deal, one of the largest in 1999, for his latest start up Stratumeone, which was acquired by Cisco Systems, Mr. Raj Singh is the portrait of a fast emerging company builder.

As a software engineer, Mr. Singh has worked with technology at the grass roots level. As an entrepreneur, he has led three startups to success. As a Venture Capitalist, he has helped build some of the Valley's biggest success stories. He was instrumental in founding Cerent, which was also acquired by Cisco for \$6.9 billion.

Mr. Singh graduated in Computer Sciences from IIT Delhi and worked at the Tata Institute for Fundamental Research in Bombay. He then left India to work on a project in Abu Dhabi and Libya. After spending three years in Tripoli, Mr. Singh moved to the United States in 1980 to study computer science at the University of Minnesota, Minneapolis.

In the United States, his career started with a job at National Semiconductor Laboratory in Santa Clara. But soon he decided to go on his own. After finishing his work on Cerent in October of 1997, Mr. Singh started working simultaneously on Stratumeone, and Redwood III, his venture capital firm.

Mr. Singh has continued to work on new startups even after the acquisition of Stratumeone by the Cisco Systems. Presently, he is working on 15 startups.

## **MOHAN GYANI**

President and CEO  
AT&T's Wireless Service Unit

Mr. Mohan Gyani, a telecom and wireless industry veteran and former CFO of Air Touch Communications, has been appointed as a new chief of AT&T's Wireless Service Unit. He will succeed Mr. Daniel R. Hesse as president and chief executive officer of its wireless services unit.



Born in India, Mr. Gyani, now 48 years old, grew up in several countries before settling in San Francisco in 1970. After an MBA from San Francisco State University, he began his career in 1978 with Pacific Telesis Group where he held a number of financial and operations positions.

Most recently, as executive vice president and CFO of Air Touch, Gyani was a key leader in the \$120 billion merger of Air Touch and Vodafone and the subsequent \$70 billion joint venture with Bell Atlantic. Prior to the merger, Mr. Gyani played a major operational and strategic role in company's growth from IPO to \$70 billion global company in five years.

In his new role, Mr. Gyani would be leading the company's domestic voice and data mobility businesses, focusing on completing the expansion of AT&T's foot across the US and accelerating growth, particularly in the wireless data business.

## Highlights of the Economic Survey. . . (Continued from page 4)

### Issues and Priorities

According to the Economic Survey, the prospects for accelerating economic growth depend crucially on the success in managing the fiscal challenge confronting the economy. There are several common themes for an effective strategy. They include: a redefinition and narrowing of government responsibilities to those functions that only government can discharge effectively with a view to down-sizing government; systematic efforts to reduce subsidies by targeting them to the poorest segments of society; a vigorous drive to divest commercial undertakings such as power utilities and transport undertakings; a concerted program to deploy user charges for economic services rendered by government; systematic induction of information technology tools and modern management practices to enhance efficiency of governance; and, above all, a determined political commitment to truly effect expenditure management. India should also consider the option of ushering fiscal responsibility legislation, which has been experimented successfully in several countries.

Effective functioning of the market economy requires legal and administrative structures which ensure the basics of law and order and provide for effective implementation of economic laws, such as law of contract, which encourage growth of the market economy and the creation of income and wealth. Experts have identified several economic laws as redundant. A start should be made by abolishing these redundant laws.

Restoration of fiscal health, especially of State Governments, is also a critical pre-requisite for more effective implementation of policies and programs for primary education, public health care, other social services, rural infrastructure and programs for alleviation of poverty and employment creation. The main operational responsibility for implementing these programs lies with State Governments. In November 1999, major decisions were agreed to harmonize state sales tax systems and move towards a value-added tax (VAT). In addition, the Central Government supported fiscal reforms by states through a special facility.

Infrastructure, including power, roads, ports, telecommunications and civil aviation, continues to be a serious constraint on the country's economic growth potential. The unsustainable under-pricing of electric power has to be phased out sooner rather than later. The reform of the State Electricity Boards must be accelerated. No amount of guarantees and counter-guarantees can substitute for the systematic application of commercial principles in the generation, transmission and distribution of power. While regulatory authorities have been established in most infrastructure sectors, their ambit and independence often need to be strengthened.

Information Technology revolution sweeping across the world provides tremendous opportunities for India, especially in view of the proven successes of many of our IT entrepreneurs and specialists. Our early lead in IT will not last if we do not move swiftly to banish existing bottlenecks to further growth and development of this sector. This includes rapid progress in telecommunications, strong encouragement of venture capital finance and a liberal policy approach to laws and regulations for electronic commerce.

The early success of our IT industry has to be extended to other knowledge-based industries, such as pharmaceuticals and biotechnology. The government should work to remove pricing, financial and administrative controls and bottlenecks in these sectors and encourage generation of educated manpower.

Private entry into higher education will be critical to ensure that supply keeps pace with demand. Sustained growth of knowledge-based industries requires an expanding base of economically viable, quality education.

Financial sector, especially banking, needs to be strengthened. Difficult decisions have to be taken in respect of problems of weak banks, structural rigidities of the banking system and continued problems with non-performing assets.

Effective public programs for irrigation, agricultural research and rural credit are an essential ingredient for more rapid growth of agriculture and allied activities. But existing policies must also be reformed to encourage more private investment and participation in irrigation, storage and transportation.

Confronted by the continuing challenges of globalization, the central lesson of the nineties is to persevere with the thrust of our economic reforms. This includes continued liberalization of our foreign trade, reduction of customs tariffs, clear and decisive policies to encourage foreign direct investment, continued prudence on external debt, carefully calibrated expansion of convertibility on capital account and continued reliance on a market-determined exchange rate policy.

## **US EX-IM Bank to extend loan guarantees in Indian Rupees**

Export-Import Bank of the United States (Ex-Im Bank) has decided to guarantee loans denominated in Indian rupees, under the Bank's Foreign Currency Guarantee program. The bank would extend the guarantee on rupee denominated loans worth \$1 billion to facilitate greater trade with India. "The rupee guarantee is going to be a powerful tool for helping Indian businesses of all sizes access U.S. goods and services," said Ex-Im Bank Chairman Dr. James A. Harmon, who was on a week long visit to India last month.

As part of his tour program, Dr. Harmon visited New Delhi, Chennai, and Mumbai to meet representatives of the Indian Government, private companies and banks to discuss ways to increase Ex-Im Bank financing to government and private sector buyers of US goods and services.

The Ex-Im Bank is an independent US government agency that helps finance the sale of US exports primarily to emerging markets throughout the world by providing loans, guarantees, and insurance. Worldwide in fiscal year 1999, Ex-Im Bank supported nearly \$17 billion in exports. Since 1990 its business in India has increased twelve fold to \$1.8 billion in outstanding loans and guarantees.

During his trip to India, the Ex-Im Bank chairman also signed an MOU with the state owned Power Finance Corporation (PFC) of India confirming a US \$500 million fresh line of credit for funding power projects. As per the agreement, PFC will identify appropriate power projects in India as potential recipients of the Ex-Im Bank loans particularly to those employing clean and efficient power technologies, goods and services.

According to the MoU, these technologies may include environmental and efficiency upgrades, computerization, generation and T&D systems, hydro and thermal power generation, captive and cogeneration plants.

### **Salient Features of the Budget 2000-01** *(Continued from page 2)*

of Potash (MOP) raised by 7 percent and 15 percent respectively. Fertilizer subsidies to be rationalized.

#### **Defense**

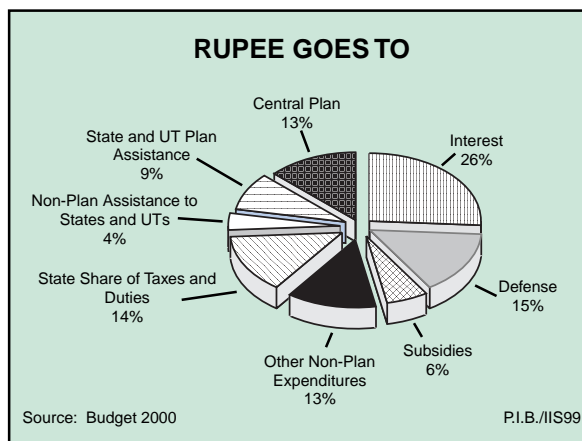
- Allocation raised to Rs. 58,587 crore (\$13.4 billion) from Rs. 45,694 crore (\$10.5 billion) last year. The revised allocation amounts to 2.68 percent of GDP. Revenue expenditure, primarily for pay and allowances and stores to constitute 69 percent of total defense expenditure and capital expenditure envisaged for the modernization of the defense forces the balance 31 percent.

#### **Annual Plan**

- Central Plan Outlay increased from Rs. 1,03,521 crore (\$23.7 billion) to Rs. 1,17,334 crore (\$26.9 billion).
- Gross Budgetary support for Plan increased from Rs. 77,000 crore (\$17.7 billion) to Rs. 88,100 crore (\$20.3 billion).
- The Central Plan Outlay for Social Sectors raised by 24.5 percent.

#### **Agriculture and Rural Development**

- Rural Infrastructure Development Fund VI enhanced from Rs. 3500 crore (\$804.5 million) to Rs. 4500 crore (\$1034.48 million) and interest rates reduced by half per cent.
- Credit flow to agriculture through institutional channels to increase to Rs. 51,500 crore (\$11.8 billion) in the coming year.
- Kissan (Farmers) Credit Cards coverage to be enlarged from about 50 lakhs to cover additional 75 lakh farmers.



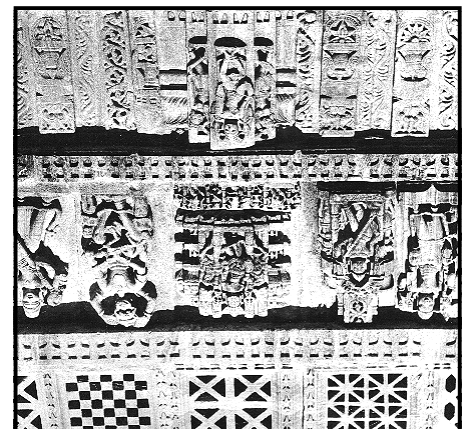
# NEWS BRIEFS

- **Infosys Technologies** has forged an alliance with Cephren, a key provider of online collaboration and e-commerce services in US. The new alliance would pave the way for the Infosys to Cephren's project management and e-commerce services for large commercial construction projects. As per the terms of the agreement, the tie up will encompass four primary collaborative areas including product development, quality assurance and maintenance, systems integration, and professional services. Cephren allows building professionals to use the web to share documents, to collaborate on construction projects and to procure goods and services. - *Financial Express*
- **Third Millennium Test Solutions (3MTS)** of US has tied up with SRA Systems Limited, a Chennai-based firm engaged in workflow solutions, migration projects and Web applications, for the design and development of software for automatic test equipment (ATE) systems, which are used to confirm the quality of all integrated circuits. The software under development by 3MTS and SRA, will provide one single program ability to control ATE equipment from any manufacturer for the first time and this ability would improve the efficiency of introducing new integrated circuit designs by simplifying the process of ensuring quality. The first such software would be out in the US in October. The two companies will work on the project using a secure virtual private network (VPN) between SRA's facility in Chennai and several development facilities in the US.

A virtual private network uses the Internet as the medium to move data from one center to another through a network of servers. Data security is guaranteed by encryption devices. - *Business Line*

- **Tata Infotech** has entered into a strategic alliance with the US-based **Wausau Financial Systems** for software development, joint marketing of financial services consulting packages and manufacturing ATMs (automatic teller machines). The new alliance would allow the US based company to tap Indian software development skills for catering to demand worldwide. Tata Infotech will manufacture ATMs for Wausau for distribution in the international market, but will market these under its brand name in India. ATMs will be manufactured at Tata's existing plant in Goa, which will be upgraded over the next year at a cost of \$3 million to \$5 million. - *Business Standard*
- Two Indian American women were among 25 honored for their pioneering role in the field of technology and for their community services in the US. Ms. Radha Basu, president and chief executive officer of Redwood and Support.com, a leading supplier of electronic support solutions and Ms. Deb Agarwal, a computer scientist at Lawrence Berkeley National Laboratory, were among the "Top 25 women on the web" winners honored by San Francisco Women on the Web (SFWoW), a networking and professional development organization for women in new technologies. - *The Hindustan Times*

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



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