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“We see in India today a rising economic leader, making breathtaking strides in information technology; an emerging environmental leader, promoting ambitious goals for energy efficiency; a pioneering health leader, recently immunizing 140 million children against polio; a leader in our community of democracies, reminding the world that freedom is not a western value, but universal longing.”

— U.S. President Clinton

Prime Minister Visits USA

The visit of the Honorable Prime Minister of India H.E. Atal Bihari Vajpayee to the U.S. in September added a new dimension to Indo-U.S. relations. For the first time the world's oldest and the largest democracies have come so close to each other.

The visit began with an address to the Asia Society. Apart from attending the millennium session of the UN General Assembly in New York, the Prime Minister inaugurated a 'Vande-Mataram' function organized by the Bhartiya Vidya Bhawan, an Ayurveda Conference, and attended a business event organized by the CII.

Speaking at the business event in New York, Mr. Vajpayee stated that for historical reasons, private enterprise in India had not been assigned the desired role in the initial years after independence. The Government has been rectifying this over the last decade through a comprehensive set of economic reforms. He disclosed that his Government is committed to further broaden, deepen and accelerate the process of reforms. He said that his Government is convinced that this would unleash the full potential of economic growth and social development in India.

The highlights of the Prime Minister's five-day state visit to the American Capital were his address to the joint session of the Congress, his meeting with President Clinton, his address at a

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Prime Minister Vajpayee with President Clinton and First Lady Hillary Rodham Clinton at the state dinner hosted in his honor by the U.S. President (September 17, 2000; Photo: Rajan Devadas)

Prime Minister Visits USA *(Continued from page 1)*

business event organized by the National Association of Manufacturers (NAM) and CII, dedication of the Mahatma Gandhi statue in the presence of President Clinton, and meetings with think tanks and leading Indian-American Entrepreneurs. The Prime Minister also addressed a large gathering of NRIs in Washington, DC. The PM's delegation included the Indian Finance Minister Mr. Yashwant Sinha, the Indian External Affairs Minister Mr. Jaswant Singh, and the Deputy Chairperson of Rajya Sabha (Upper House of the Indian Parliament) Mrs. Najma Heptulla.

On September 14, the Prime Minister addressed the Joint Session of the U.S. Congress. Speaking on the occasion he said that there was a time when the two countries were on the other side of their respective globes but today, on the digital map, India and United States are neighbors and partners. He expressed the view that the two countries had the potential to do more to shape the character of the global economy in this century.

Mr. Vajpayee attended a luncheon meeting with the Indian Caucus and met with American Think Tanks at Blair House in the evening.

In a separate event, the Finance Minister, Mr. Yashwant Sinha, co-chaired the first cabinet level meeting of the India-U.S. Financial Economic Forum with U.S. Treasury Secretary, Mr. Larry Summers, and discussed various bilateral economic and financial issues concerning the two economies.

Mr. Sinha also inaugurated the India-U.S. commercial dialogue organized by the U.S. India Business Council (USIBC) and FICCI. In the dialogue Mr. Sinha, along with U.S. Commerce Secretary Mr. Mineta, witnessed the signing of commercial MoUs worth \$7 billion.

On September 15, after the welcome ceremony at the White House, the Prime Minister had a meeting with President Clinton. He also attended a lunch hosted by Vice President Al Gore in his honor.

In the evening, Mr. Vajpayee addressed a large gathering of American business leaders organized by the National Association of Manufactures (NAM) jointly with the CII. NAM is one of the oldest and largest associations of Entrepreneurs in the United States. Speaking on the occasion, Mr. Vajpayee said that the continued U.S. prosperity is almost a miracle, which has evoked global admiration and has also inspired India. Talking about the economic performance of the country, the Prime Minister stated that India, with an average growth of 6.5 percent per annum in the Nineties, has been among the top ten fastest growing economies of the world. He declared that India would do even better in the decade that had just begun. He said that his government had pledged to double per capita income in the next ten years, which implied achieving a challenging growth rate of around 9 percent. Mr. Vajpayee said that India's reforms had impacted most areas of the economy — industry, infrastructure, international trade, foreign trade, foreign exchange market, financial system and taxation. He said that rules, procedures and policies, which hinder private initiative, are being changed or adapted. On Foreign Direct Investment, he said that his government's policy was to make the climate hospitable and competitive with due emphasis on automaticity, transparency, simplicity, speed and removal of conditionalities.

One of the major events on September 16, 2000 was the dedication of the statue of Mahatma Gandhi in Washington, DC in the presence of President Clinton. Speaking on the occasion, the Prime Minister said that Gandhiji's statue in the heart of Washington would be a symbol of the triumph of the human spirit against oppression, just as the statue of Liberty in New York has been the beacon of freedom for the world. Speaking about his visit he said that it has been very satisfying and fruitful. It had laid the foundation for more broad based economic cooperation

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Agreements for Economic Cooperation Signed during the Prime Minister's Visit to the United States

1. Protocol of Intent signed between Ministry of Power, GOI and USAID, for capacity building for power sector personnel.
2. Protocol of Intent signed between Ministry of Power, GOI and USAID for the Integrated Gasification Combined Cycle (IGCC) demonstration power plant at one of the NTPC power plants in India.
3. Joint Development (Commercial) Agreement between the Power Trading Corporation of India and Southern Electric Asia-Pacific and Reliance Power for the development of the 3960 MW HIRMA Thermal power project in Orissa. Investment envisaged is over U.S. \$4.5 Billion.
4. Joint Development (Commercial) Agreement between the Power Trading Corporation of India and Dakshin Bharat Energy and a consortium of Power developers including CMS energy, Grasim, Siemens, Woodside Development and Unocal Bharat to develop the 1850 MW Ennore LNG project in Tamil Nadu. Investment envisaged is around US \$2 Billion.
5. Joint Development (Commercial) Agreement between Duncans India Limited and Synergics Energy Development of the U.S. to develop the 330 MW hydel project in Shrinagar in U.P. The investment envisaged is U.S. \$500 Million.
6. Memorandum of Understanding between SBI and U.S. Exim for financing small and medium sized Indian companies to buy U.S. goods and services (worth U.S. \$500 million).
7. Memorandum of Understanding between U.S. Exim and IDBI for Master credit facility worth U.S. \$150 million under which Bank of America would be guaranteed lender, and U.S. \$150 million where IDBI would be a guaranteed lender (total U.S. \$300 million).
8. Master Guarantee Agreement signed by Export Import Bank of India and US Exim to provide financing to Indian firms under an Exim Bank guarantee. This agreement solidifies a U.S. \$500 million Memorandum of Understanding signed earlier this year.
9. Agreement signed by USAID to provide a U.S. \$20 million guarantee to India's Housing and Urban Development Corporation Ltd. (HUDCO). The funds will be used to expand water and sanitation services into a number of low-income neighborhoods in Ahmedabad (Gujarat) and would help the Tamil Nadu Urban Development Fund float a municipal bond.
10. Memorandum of Understanding signed by Govt. of India and United States to resolve a long pending issue relating to the binding of textile tariffs. The agreement has also paved the way for the restoration of GSP benefits in the U.S. for nine varieties of cotton fabrics manufactured by the Indian handloom sector.

FDI Policy Further Liberalized

In pursuance to the commitment to liberalizing the FDI regime, the Government of India has decided to bring about the following changes in FDI policy:

- I. FDI up to 100 percent is allowed through the automatic route for all manufacturing activities in Special Economic Zones (SEZs), except for the following activities:
 - a. Arms and ammunition, explosives and allied items of defense equipment, defense aircraft and warships;
 - b. Atomic substances;
 - c. Narcotics and psychotropic substances and hazardous chemicals;
 - d. Distillation and brewing of alcoholic drinks; and
 - e. Cigarettes/cigars and manufactured tobacco substitutes.
- II. FDI up to 100 percent is allowed, with certain restrictions, for the following activities in the telecom sector:
 - a. ISPs not providing gateways (both for satellite and submarine cables);
 - b. Infrastructure Providers providing dark fiber (IP Category I);
 - c. Electronic Mail; and
 - d. Voice Mail
- III. Payment of royalty up to 2 percent for exports and 1 percent for domestic sales is allowed under automatic route on use of trademarks and brand name of foreign collaborators without technology transfer.
- IV. Payment of royalty up to 8 percent on exports and 5 percent on domestic sales by wholly owned subsidiaries to offshore parent companies is allowed under the automatic route without any restriction on the duration of royalty payments.
- V. Offshore Venture Capital Funds/Companies are allowed to invest in domestic venture capital undertakings as well as other companies through the automatic route, subject only to SEBI regulations and sector specific caps on FDI.

ADR/GDR linked ESOP facility for knowledge sectors

The Government of India has extended recently the facility of offering ADR/GDR-linked Employees Stock Option Scheme (ESOPs) to all knowledge-based sectors, which earlier was limited to information technology and software companies. The sphere of ESOPs linked to ADR and GDR issues has now been broadened to include companies in pharmaceutical, biotechnology and entertainment software sectors. The new guidelines would come into effect immediately.

The move to liberalize the ESOP regime would significantly enhance the ability of the companies in these sectors to retain their skilled workforce by offering attractive stock options.

The ADR/GDR-linked ESOP facility would also be available to multi-product diversified companies, which did not conform to the criteria of 80 per cent of their turnover from the sector classified as knowledge-based under the guidelines, provided they achieved a minimum export earning of Rs. 1000 million (about \$22 million) from these sectors during three preceding financial years.

The Government had also relaxed guidelines for overseas acquisitions by domestic corporates in all sectors that have been allowed ADR/GDR-linked ESOPs.

Trail Blazers



K.B. CHANDRASEKHAR

Co-founder and Chairman,
Exodus Communications, Inc.

Recently honored as the Ernst & Young Northern California Entrepreneur of the year 1999, Mr. K.B. Chandrasekhar popularly known as “Chandra”, is the cofounder and chairman of the Exodus Communications. His company was also in the news recently for its announcement to team up with Microsoft in a web-hosting initiative called Rapid Deployment Initiative (RDI) aimed at e-commerce companies. Under the joint initiative, Exodus would provide professional services by deploying and managing e-commerce companies applications on the Microsoft Windows DNA 2000 platform.

Mr. Chandrasekhar was born and raised in Chennai, India and received Bachelor’s degree in Science and Technology from Annamalai University, Tamil Nadu, India. He began his career in 1983 at Wipro, an Indian information technology company, as customer support engineer. Over his seven years with the company, he advanced through various sales, marketing and support functions including building highly available networks for satellite applications and managing marketing for Europe. In 1990, Mr. Chandrasekhar moved to the U.S. as a Country Manager of Rolta India Limited where he was primarily responsible for business development, marketing and software consultancy services to software developers and end users.

Two years later, in 1992, Mr. Chandrasekhar set out to live the Silicon Valley dream and started Fouress Inc., a consulting firm that specialized in networking, serving clients like Sun Microsystems, Adaptec, Toshiba and Lockheed.

Once the Internet entered the picture, together with Fouress partner B.V. Jagadeesh, Mr. Chandrasekhar started Exodus, a company that provided companies MIS (management information services) solutions. The dramatic change in Exodus’s line of business came with the 1994 launch of the Netscape browser. Exodus swiftly shifted to the Web-hosting market, reaping the first-mover advantage. The company went public in March 1998 in one of the most successful IPOs of the year. Today, Exodus’s market cap is fast approaching \$25 billion and Mr. Chandrasekhar holds a sizable stake of over \$500 million in the company. Mr. Chandrasekhar has also invested in more than a dozen other startups.

Mr. Chandrasekhar has recently funded a center of excellence at his alma mater, Anna University in Chennai and he is also funding a sanitation project in rural Karnataka. He has also been nominated as member of the NRI advisory committee on Information Technology that will suggest measures to fine tune the IT policy of the Government of India to meet the global challenges faced by the Indian IT industry today.

Prime Minister Visits USA *(Continued from page 3)*

between the two countries. He expressed the confidence that this foundation would support the attractive architecture of Indo-American relations in the coming years. The Prime Minister thanked President Clinton for attending the ceremony and said, “ I am grateful to President Clinton for taking time out of his schedule to join me at the function. This extraordinary gesture, along with the glowing tributes he paid to the Mahatma in his opening remarks at the White House ceremony yesterday, have further endeared America and its President to our people.” The Prime Minister also thanked President Clinton for the enormous personal commitment he had brought to bear on the success of the Indo-American dialogue.

In another major event of the day, the Prime Minister had a useful interaction with leading Indian American Entrepreneurs. Addressing the attendees, Mr. Vajpayee stated that they had truly done India proud, and that their success stories have had a positive impact both in America and India. He said that his dream was to create world-class conditions and facilities in India, so that talented Indians would achieve the same success while living and working in India as they do when they come to the United States. He also congratulated the community of Indian American Entrepreneurs for their spirit of philanthropy and said that the GIST initiative was highly commendable.

On September 17, the Prime Minister attended a dinner at the White House hosted by President Clinton in his honor.

On the whole, the visit of the Prime Minister was extremely successful. In an article published in the International Herald Tribune, the Prime Minister wrote, “ My recent visit to the United States has consolidated relations between the world’s two largest democracies. The joint initiatives and understandings that we reached represent a major step forward. India and United States can be natural allies in the 21st century. Events and circumstances over the last two years have confirmed this.”

IT Enabled Services to get Tax Concessions

In the newly substituted sections 10A and 10B of the Income-tax Act by the Finance Act, 2000, the meaning of “computer software” has been enlarged to include IT enabled services. An identical definition has been provided in section 80 HHE of the Income-tax Act also. The Central Board of Direct Taxes (CBDT) has issued a notification listing the following activities to be covered under IT enabled products or services for getting the benefit of tax concession:

- Back-office Operations
- Call Centers
- Content Development/Animation
- Data Processing
- Engineering and Design
- Geographic Information System Services
- Human Resource Services
- Insurance Claim Processing
- Legal Databases
- Medical Transcription
- Payroll
- Remote Maintenance
- Revenue Accounting
- Support Centers
- Web-side Services

Under Section 10A and 10B of the IT Act, 100% deduction on profit from Export and Sale up to 25% of total sales can be made in case of Software Technology Parks, Export Processing Zones, Export Oriented Units, Free Trade Zones and Special Economic Zones. Similarly, under Section 80HHE of the Income Tax Act, profits earned by any unit set up anywhere exporting computer software and specified IT services are exempt from taxes subject to certain conditions.

Economic Update

Food grains Stocks: Stocks of food grains stood at 42.25 million tons as on July 1, 2000. This level of stocks was higher by 30.5 percent than the level of 32.37 million tons as on July 1, 1999.

Industrial Production: In 1999-2000 (April 1, 1999 to March 31, 2000), industrial production increased by 8.1 percent as against 3.8 percent in the financial year 1998-1999. During April-August 2000, industrial production recorded an increase of 5.3 percent over the corresponding period of the previous financial year.

Infrastructure Industries: In 1999-00 the production in infrastructure industries grew by 7.8 percent, as compared to 2.5 percent in 1998-99. During April-May (1999-2000), production in infrastructure industries grew by 6.8 percent as compared to 4.8 percent in the corresponding period of the previous financial year.

Money Supply: During the financial year 1998-99, money supply (M3) growth was 19.2 percent. In 1999-2000 (March 31, 1999 to March 31, 2000), money supply growth was 13.9 percent. In the current financial year (from March 31, 2000 to September 8, 2000), money supply (M3) increased by 6 percent as against increase of 5.6 percent in the corresponding period last year. The Prime Lending Rate, as on September 22, 2000 was 12 to 12.50 percent as against 12.00-12.50 percent on, September 24, 2000, 1999. The Deposit Rate ranged between 8.50 to 10 percent as against 8 to 10.50 percent as on September 24, 1999.

Foreign Trade: Exports in dollar terms during 1999-2000, increased by 11.6 percent as compared to a decline of 1 percent during 1998-99. Imports, in dollar terms, increased by 10.2 percent during 1999-2000 as against 2.7 percent during 1998-99. During April-August 2000, exports in dollar terms registered a spectacular increase of 23.66 percent over the corresponding period of the previous financial year. Imports also recorded a 20.15 percent growth during April-August 2000. Oil imports during April-August, 2000-01 are valued at US \$6898.57 million, which is 91.65 percent higher than oil imports valued at US \$3599.58 million in the corresponding period last year, which is one of main reasons for increase in imports. Non-oil

imports during this period registered a modest increase of 2.78 percent over the corresponding period last year.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs) were \$35 billion at the end of March 2000 as against \$29.5 billion at the end of 1998-99 (March 31, 1999). These reserves stood at \$32.6 billion as on September 29, 2000.

Exchange Rates: The average market exchange rate of the Rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, French Franc, Euro 42.14 and Japanese Yen was Rs. 44.78, Rs. 67.59, Rs. 21.44, Rs. 6.39, and Rs. 0.41 respectively during July 2000. The average exchange rate of the Indian Rupee appreciated during July 2000 against the Deutsche Mark, Japanese Yen, Euro and French Franc and depreciated against the US dollar, Pound Sterling compared to the average market rate during June 2000.

Rate of Inflation: The annual rate of inflation based on the Wholesale Price Index (WPI) stood at 5.6 percent for the week ended September 16, 2000 compared to 1.9 percent a year ago. The Index of fuel, light and lubricants shot up by 25.9 percent during the last one year, while indices of other two major groups, primary articles and manufactured products rose merely by 0.4 percent and 2.4 percent respectively. The annual rate of inflation based on the All India Consumer Price Index for Industrial Workers (CPI-IW) for September 2000 stood at 5.5 percent over September 1999.

Foreign Direct Investment: The Foreign Direct Investment (FDI) flows during 1999-2000 were US \$2155 million, as compared to US \$2462 recorded during 1998-99. During April-July 2000, the FDI flows were US \$916 million as against US \$648 million recorded during the corresponding period last year.

Portfolio Investment: Portfolio Investment flows during 1999-2000 were US \$3026 million as compared to US \$(-)61 million recorded during 1998-99. During the first four months of the current financial year (April-July 2000), the Portfolio flows were US \$482 million as against US \$1154 million recorded during the corresponding period last year.

NEWS BRIEFS

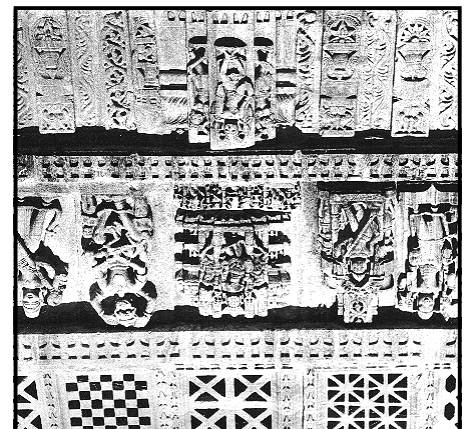
- **Microsoft Corporation**, the global software major and Infosys, India's leading IT player, have recently announced a strategic global relationship for developing, promoting, and delivering a comprehensive portfolio of Infosys business solution offerings and enterprise services built using the Microsoft.Net enterprise server platform. The alliance would develop business solutions in areas such as e-commerce, financial services, insurance, and retail and customer relationship management. – *Economic Times*
- **Dell Computer, USA** is evaluating the possibility of setting up a computer assembly line facility in India. It is also planning to bring its strategic investment arm Dell Ventures to India and launch Dell Direct - the company's direct marketing infrastructure in India. The company is also looking at investing in telecommunication, bandwidth, broadband, wireless access providers and software companies. Dell pointed out that the company has grown by 231 percent in India and expects to continue with triple digit growth in the Indian market. It also plans to upscale its relationship for software development in India.
– *Business Standard*
- **Intel Corporation, USA**, the world's largest chip manufacturing US Company, is planning to invest over \$100 million in India through venture capital investments during the calendar year 2000. The company's President and Chief Executive Officer Mr. Craig R. Barrett while addressing a press conference

said that India is well positioned to be a global leader in the internet economy and its internet economy is expected to grow exponentially in the next 2-3 years.

– *Wall Street Journal*

- **SEAGULL**, a leading provider of e-business enabling software technology based in Atlanta (US) and Wipro Technologies, a full service provider of e-business systems integration and implementation services, have teamed up to provide rapid delivery of software solutions to Wipro's target markets of emerging, high growth and established global corporations and their suppliers. Under the agreement between the two companies, Wipro Technologies would set up a 'competency center' in India, which would specialize in implementation, knowledge management and project management. – *Business Line*
- **Sun Microsystems**, the global computing major will open two development support centers in Mumbai and New Delhi, introduce 'iForce' initiatives in the country with the information technology (IT) ministry and expand the country's engineering capabilities. The iForce initiatives would provide dotcom companies broader access to Sun's technologies and services. As part of its global engineering development initiatives, Sun will also expand the India Engineering Center. The center, launched in 1998, primarily provides core competency in support of Sun's engineering operations. The center, at present, supports 160 engineers and is scaled to grow to 400 engineers in two years time. – *Business Standard*

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