



INSIDE:

The Indian Economy is Stronger and More Competitive: World Bank 2-3

India's Macro Outlook Strong: IMF 4

Upcoming Event 4

Economic Update 5

First Private Toll Road Opens to Traffic in India 5

State Focus: West Bengal 6-7

News Briefs 8

This is the place we wanted to be in the 21st century... In the long term, our shareholders will be glad we made the decision to come here.

— Scott R Bayman,
CEO of GE India

India Development Forum Pledges \$6.7 billion to India

India's economic reforms received strong support and endorsement from the community of bilateral and multi-lateral donors assembled at Paris in late June for India Development Forum (IDF) meeting. Many delegates expressed appreciation of India's performance since 1991 and complimented the Indian Government for continuing the reform process despite the difficulties of managing a coalition.

An amount of around \$6.7 billion in external assistance of various types was pledged by the donors for the current year, which is more or less equal to the last year's level of \$6.6 billion. Japan was the largest donor nation with a new commitment of \$1.16 billion and the World Bank, the largest institutional financier with a pledge of \$3 billion. Germany has overtaken the United States to become the second largest aid giver with a pledge of \$500 million. Other major contributors are the Asian Development Bank with a pledge of \$800 million; and European Commission, International Finance Corporation and UNDP with \$200 million each.

The Union Finance Secretary, in the course of the IDF meeting, said infrastructure is an area where expanded public investment goes hand-in-hand with efforts to attract private investment. He outlined a number of initiatives including liberalization of foreign investment policies for strengthening infrastructure development in the country.

The IDF meeting was chaired by Mieko Nishimizu, Vice President for South Asia Region at the World Bank. The IMF was represented by David Goldsborough, Senior Advisor for Asia-Pacific. The Indian delegation was led by Union Finance Secretary, Montek Singh Ahluwalia and included the Chief Economic Advisor, Shankar Acharya.

The Indian Economy is Stronger and More Competitive: World Bank

The World Bank in its recently released, **India 1997 Economic Update: Sustaining Rapid Growth**, says that the reforms of the past six years have brought about an unprecedented strong economic performance. For the third year in a row, GDP is estimated to have grown by about 7% in the fiscal year 1996-97 ending on March 31, placing India among the world's best performing economies. Unlike similar episodes in the past, this expansion has been driven by private investment (which reached the historically high level of 18% of GDP out of a total investment of 26% in the last two years) and has not put pressure on the balance of payments. In spite of the persistent poor performance of public savings, national savings have risen (from 23% of GDP in 1991-92 to 26% of GDP in 1996-97). The country's external position is strong. The current account deficit was 1.1% of GDP in 1996-97; the country's US \$94 billion external debt declined to 27% of GDP in 1996-97 from 34% in 1991-92, and the debt service to 24% of current account receipts from 29%.

Underlying the economy's strong economic performance are important **structural transformations**. The declining role of the public sector since the start of the reform program in 1991, both as producer of goods and services and economic regulator, is one of India's most fundamental structural changes since Independence. The liberalization of the economy has opened to the private sector areas previously the exclusive domain of the public sector — such as banking, civil aviation, telecommunications, power generation and distribution, ports, and roads. Equally important, the liberalization of the economy has reduced distortions and increased external and internal competition.

In **agriculture**, the sector's terms of trade have improved. As a result, agricultural commodities have been one of India's fastest growing exports. In **industry**, firms are restructuring and entering into joint ventures and alliances with foreign firms. Productivity has increased

and consumers have a wider range of better quality goods from which to choose. Important legislative changes, deregulation, and foreign investors are improving corporate governance of industrial and financial firms. The regulatory and institutional framework of the **financial sector** has been strengthened considerably. In the **banking system**, although still vulnerable, the financial health of the public banks has improved and 19 of the 27 public sector banks reached the capital adequacy ratio of 8% in 1995-96. The entry of new private banks and the mainstreaming of Non-Bank Finance Companies (NBFCs) in a financial sector still dominated by public banks (which control 85% of the system's assets) have increased competition and forced the latter to reduce costs, and improve quality of service.

Reforms have continued during 1996-97 in spite of political uncertainty. The positive effects of the reforms have demonstrated the extent to which India stands to gain from deregulation and better fiscal management, and have helped create some consensus on the need to continue liberalizing the economy and correcting fiscal imbalances. This may explain why, notwithstanding three changes of government of diverse political backgrounds, reforms have continued in 1996-97 and expanded into some new areas, albeit at a rate that can be seen as excessively gradual.

The **investment regime** has been liberalized further, with particular emphasis on foreign investment. Announced a few years ago, the independent **Telecom Regulatory Authority of India** has started its operations. In the case of **major ports** (regulated by the central government), an independent Tariff Authority was established and guidelines have been issued for private investment through BOT-type contracts. Several private investments in **minor ports** (under the states' jurisdiction) have already taken place. In **roads**, attempts have been made to facilitate private sector entry with some degree of success, particularly in bridges. Legislative changes have been an-

nounced to facilitate land acquisition — an important impediment to private investment in roads. In **power**, where the need is the greatest, private sector interest to invest the strongest, and action by state governments essential to transform this interest into concrete investments, a conference of state Chief Ministers reached agreement on a *Common Minimum National Action Plan for Power* (CMNAP) reforms, issued by the Ministry of Power in December 1996. The CMNAP envisages changes in legislation to enable the states to have their own independent power regulatory agencies, with authority to grant licenses including for distribution, and fix tariffs.

However, the World Bank points towards some **areas of concern**. In spite of the reduction of the central government fiscal deficit, consolidated **fiscal imbalances** remain serious. A May 1997 government paper shows that implicit and explicit subsidies for “non-merit” goods absorb an alarming 11% of GDP and are a major factor behind India’s chronically high fiscal deficits. Yet, it is only with a more rapid decline in fiscal imbalances that the high real interest rates that have prevailed in the recent past will decline. Lower fiscal deficits and interest rates would provide favorable conditions for an acceleration of banking reform, would help improve the health of the

financial system, would provide more flexibility to the RBI in the conduct of monetary policy, would reduce pressure for opening the capital account ahead of the structural reforms needed to make it a success, and would make it easier to manage surges in capital inflows, and possible external shocks.

Another area of concern is **infrastructure**. Unless investment in infrastructure expands significantly, India’s emerging infrastructure crisis may prevent the country from sustaining the high levels of growth that the last few years have shown to be within reach. The recently completed report of an Expert Group on Infrastructure provides a sobering review of India’s tremendous infrastructure problems and makes three recommendations to address them. The first is fiscal reforms to strengthen state and local governments capacity to mobilize resources to invest in infrastructure. This is particularly important for infrastructure of a public nature where benefits are best captured through taxation. The second is regulatory and pricing reforms to translate India’s immense infrastructure needs into commercial ventures capable of attracting private capital. The third is financial sector reforms to enable the large pool of India’s financial savings to flow to high returns infrastructure investments.



India's infrastructure lags behind her growth rate.

India's Macro Outlook Strong: IMF

The International Monetary Fund (IMF) has projected a strong macro-economic outlook for the country, with particular emphasis on its stable external sector growth. In a report on the country's current status, the IMF has said the strong capital inflows into the country will continue this year and will put an upward pressure on the value of the rupee vis-a-vis the dollar. The IMF has stated that the only way to mitigate the larger effects of accelerated capital inflows is by reducing the government's fiscal deficit and simultaneously liberalizing the trade regime by removing the quantitative restrictions on imports.

The IMF report is a consequence of its recent consultation with the government under Article IV of the Funds' mandate. Under this, the IMF conducts a surveillance of the exchange rate policy of the member-country and emphasis is given to the macro-economic developments on the capital account front.

In this context, the IMF, while welcoming the Tarapore Committee report (*carried in June 1997 issue of India Economic News*) outlining the road map to full convertibility on the capital account, has said it may be difficult to fulfill all the macro-economic parameters laid down by the panel within the stipulated period.

The IMF report projects the country's GDP growth rate at 6.5 per cent for 1997-98 and a domestic savings rate of 26.3 per cent in this current financial year. The IMF puts the gross domestic investment rate at 28.1 per cent of GDP in 1997-98. The IMF has said the outlook on the growth in the domestic savings and investment rate is healthy. The report notes the current phase of growth in the economy is accompanied by stable domestic and external sector parameters. In sharp contrast, the period of reasonably high growth in the economy in the late 1980s was accompanied by a deteriorating external sector, which eventually led to the balance of payments crisis in 1991.

This is a significant observation by the IMF as its specific mandate under Article IV is to study the external sector stability of member-countries and possibly read advance signals of a Mexico-type situation. Thus, the IMF has virtually ruled out the possibility of an external sector crisis. On the contrary, it has suggested the country should further liberalize imports and lower tariffs so that larger imports soak up part of the accelerated capital flows. In this respect, the IMF has said the average import tariff in the East Asian economies is about 12%, whereas in India it is as high as 20%.

Upcoming Event

Telecommunications India '97, International Conference and Exhibition, 7-8 October 1997, Hotel Hilton, New Delhi

India is one of the fastest growing telecommunications markets in the world. Huge opportunities are opening up for investors in metropolitan and rural India which need to be tapped into. This Conference will identify the commercial and investment opportunities in the telecom sector in India.

Top officials from the Indian Department of Telecommunications, Telecom Regulatory Authority, the main Indian telecom operators and service providers, as well as key decision-makers from the IFC, World Trade Organization, OFTEL, Intelsat, BT, France Telecom, Motorola, Nokia, Scientific Atlanta, Tata Lucent, Hughes Network Systems, AT&T, Telstra, Tellabs, BPL US West, World Partners, Nynex Network Systems will be participating in the Conference.

For further information, please contact the organizers, The Adam Smith Institute in London at 44-171-505-6013/43 or fax 44-171-251-6909/336-0681.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 17.40 million tonnes at the end of April 1997.

Industrial Production: During the financial year 1996-97 (April 1, 1996 - March 31, 1997) industrial production increased by 6.7% as against an increase of 11.6% in 1995-96. Production in manufacturing sub-sector increased by 8% (against an increase of 13% in 1995-96) in the same period.

Infrastructure Industries: During the financial year 1996-97, production in basic infrastructure industries showed a mixed performance compared to the financial year 1995-96: Electricity Generation increased by 3.8%, Cement by 9.5%, Petroleum Products by 6.9% and Saleable Steel by 1.6% while Nitrogenous Fertilizers declined by 2% and Crude Petroleum by 8.6%.

Money Supply: During the current financial year 1997-98 till May 23, 1997 money supply (M3) growth was higher at 3.1% as compared to 2.4% in the corresponding period of 1996-97.

Foreign Trade: In the financial year 1996-97, exports recorded an increase of 4% in dollar terms while imports increased by 6%. During April 1997 exports recorded a decline of 10.1% in dollar terms while imports increased by 1.7%.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were \$22.4 billion at the end of 1996-97 (March 31, 1997). These reserves have increased to \$24.1 billion at the end of May, 1997. This level of reserves is enough to finance more than 7 months of imports.

Exchange Rates: The average exchange rate of the Rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, Japanese Yen and French Franc was at Rs.35.81, Rs.58.47, Rs.21.04, Rs.0.30, and Rs.6.24 respectively during May 1997.

Rate of Inflation: The annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 5.8% for the week ending June 7, 1997.

First Private Toll Road Opens to Traffic in India

After years of preparation, the government's programme of privatizing the roads sector has finally taken off. The distinction of becoming the country's first toll road constructed with private sector participation has gone to Thane-Bhivandi bypass in Maharashtra. The bypass — constructed under the build-operate-transfer (BOT) scheme by Mumbai-based Ideal Road Builders Ltd. — opened to traffic on June 11, 1997. The concession period during which the promoters are expected to recover the investment is seven



Thane-Bhivandi bypass toll road.

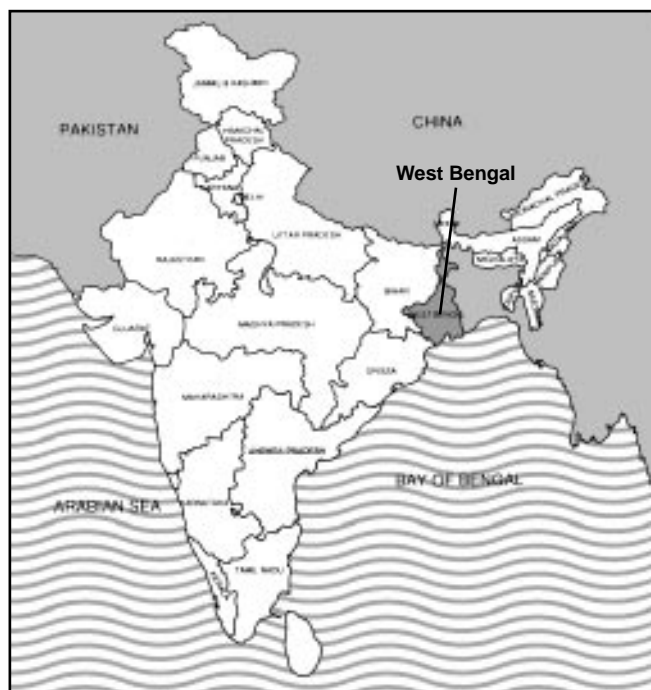
years and eight months, after which the asset will return to the state government for further operation. The initial traffic flow is said to be highly encouraging.

State Focus: West Bengal

West Bengal covers the bottleneck of India in the east, stretching from the Himalayas in the north to the Bay of Bengal in the south. Countries that share international boundaries with West Bengal include Bhutan, Bangladesh and Nepal while Sikkim, Assam, Orissa and Bihar frame its domestic borders. The alluvial plain in the south is watered by the legendary River Hooghly and its tributaries — Mayurakshi, Damodar, Kangsabati and the Rupnarayan. The Himalayan north, comprising the districts of Darjeeling, Jalpaiguri and Cooch Bihar are watered by the swift flowing rivers Tista, Torsa, Jaldhaka and Ranjit. Variations in altitude result in great variety in the nature and climate of West Bengal. From the northern highlands at the feet of the Himalayas to the tropical forests of Sunderbans, West Bengal is a land of myriad beauty, each region different from the other.

General Profile

State Capital:	Calcutta
Area:	88,752 sq. kms.
Population:	68.1 million (1991 census)
Principal Language:	Bengali
Literacy Rate:	58%
State Domestic Product:	Rs.497.8 billion in 1994-95
Road Length:	61,660 kms.
Rail Length:	3,815 kms.
Airports:	Calcutta (International) Baghdogra, Balurghat, Koch Bihar (Domestic)
Sea Port:	Haldia
Stock Exchange:	Calcutta
Power:	3576 MW (Installed Capacity)



Agriculture

Agriculture plays a pivotal role in the state. Nearly three in four persons in the state are directly or indirectly involved in agriculture, which accounts for 50% of West Bengal's state domestic product. The more important crops are rice, tea, jute, oilseeds, tobacco, wheat, barley and maize. West Bengal, which is among the principal rice growing states of India, produced 12.5 million tonnes of rice in 1994-95, and its total foodgrain production that year was 13.5 million tonnes.

Industry

When India got Independence in 1947, West Bengal was among the most industrialized states in the country. Over the years that advantage was lost due to a combination of factors.

Fortunately, with a number of initiatives taken by the state government in recent years, West Bengal is poised to regain its rightful place among the states of India. The state government has announced a **new industrial policy** whose main features are as follows:

- It recognizes the importance of the role of private industry in accelerating economic growth.
- It welcomes foreign investment and technology, provided it is in priority areas and mutually advantageous.
- It recognizes that good quality physical and social infrastructure facilities act as a magnet for private investment, and commits the state government to plug all infrastructure gaps through private and state investment.
- To ensure quick disposal of project proposals, it establishes a single-window clearance cell known as “*Shilpa Bandhu*” (Industrial Development Agency) within the West Bengal Industrial Development Corporation (WBIDC), the state government agency whose responsibility it is to promote the growth of industry in West Bengal.



Victoria Memorial, Calcutta

The state government offers a package of **investment incentives** for the establishment of new projects, expansion of existing industries and revival of moribund enterprises. The main features of this assistance are:

- Investment grant at the rate of 15% to 30% of fixed capital cost with a ceiling of Rs.3 million.
- A subsidy for the purchase and installation of captive power generating sets.
- Waiver of electricity duty for a period of five years from the time commercial production begins.
- Exemption from payment of sales tax for periods of upto nine years for new enterprises, and between four and eight years for substantial expansion of existing enterprises, depending on their location.
- Special incentives for setting up projects in the Falta Export Processing Zone, 55 kms. from Calcutta.

The results of the new industrial policy have been good. West Bengal has accounted for over 5% of the value of total foreign investment proposals approved between 1991 and January 1997 for the whole of the country. It is the chosen location for **Siemens, Philips, ICI, Motorola, Sumitomo, Matsushita, Rolls Royce, ABB, Price Waterhouse, Itochu, Toyo, Mitsubishi, Caltex, Marubeni, George Soros, Pepsi, Tata, SAIL, Birla Group, Hindustan Lever, ITC, INDAL, Exide** and more.

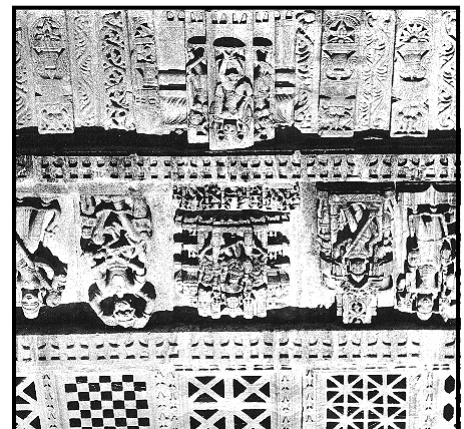
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NEWS BRIEFS

- Even as the United States has put the Indian Institute of Science (IISc) on its watch list, top multinational companies (MNCs), including American MNCs, are making a beeline to the institute to tap the brainpower of this premier Indian academy. The American companies that have forged some sort of alliance with the IISc include big names in the computer and microprocessor industry such as **Sun Microsystems, Texas Instruments, General Electric** and **IBM**. Others itching to make forays into this institute are **Microsoft, Intel,** and **Hewlett Packard**. (The Asian Age, New Delhi)
- The seventh biggest US accounting firm, **Summit International**, has tied up with the Indian firm Chaturvedi & Shah of Mumbai. The Indian chartered accounting firm, who are the auditors for Reliance Industries Ltd (RIL), will represent the New York-based firm in India. (Economic Times)
- US-based **Sensormatic Electronic Corporation** (SEC) has announced the launch of its security systems in India. It aims to capture a larger market share in India with the association of its business partner in India, Adtech Power Systems Ltd. (Economic Times)
- Powertel Boca Ltd., the Bangalore-based technology start-up firm with the second-largest market share in modems in India has entered into a marketing alliance as an exclusive distributor for the US-based **Livingstone Enterprises Inc.** PowerTel, a joint venture with **Boca Research** of US, is focused on servicing the internet, remote access and multimedia communications market. (Economic Times)
- Food major **CPC International** USA, has identified India as a major growth market in the Asian region in the coming years and plans to pump in sizable direct investment in the country. (Economic Times)
- The US-based **Scientific Atlanta Inc.** has entered into a strategic alliance with Punjab Wireless Systems Ltd. (Punwire) for contract manufacture of selected radio frequency electronic-cable distribution products in Punwire's plant at Mohali. The agreement covers sales, service and manufacturing of Scientific Atlanta's broadband network products in India under the US company's brand name. (Economic Times)

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