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Information Technology Gets a Major Boost

India has the potential of becoming a global Information Technology (IT) superpower and a front-runner in the age of Information Revolution. Realizing this potential, the government has constituted a National Task Force on Information Technology and Software Development headed by Mr. Jaswant Singh, Deputy Chairman, Planning Commission. The Task Force has submitted its first report to the government. This report, called the Information Technology Action Plan contains 108 recommendations covering both bottleneck areas and broad promotional measures that are crucial for boosting IT in India.

These recommendations cover a wide spectrum of issues relating to telecommunications, finance, banking, revenue, commerce, electronics, human resource development, defense and rural development. They address critical national needs in the areas of information infrastructure, internet access, software development and exports, hardware manufacture, electronic commerce, research and development in IT, manpower training and education. A unique promotional campaign suggested in the report is Operation Knowledge, which aims at universalizing IT and IT-based education at all levels of the education pyramid in India.

Finance Minister Yashwant Sinha has recently announced major tax incentives for the IT sector. The tax incentives, both direct and indirect, announced by the Minister were based on the recommendations of the IT Task Force. These include, 60% depreciation on IT products and exemption of "all software used in the IT sector from customs duty". The Finance Minister also exempted from customs duty computers and computer peripherals imported under 100% Export Oriented Units / Export Processing Zones / Software Technology Parks / Electronic Hardware Technology Parks schemes when donated to recognized educational institutions, government organizations and registered charitable hospitals after use for a period of two years from the date of import. These changes will be given effect to from 16th July, 1998. These concessions are expected to give a big boost to overall volume of software exports and employment in the sector.

India could be the "top place for software development in the world."

— Bill Gates, CEO, Microsoft Corporation

Further details on the National Task Force on Information Technology and Software Development are available at the following website: <http://it-taskforce.nic.in>

Embassy News

Indian Ambassador Addresses National Association of Manufacturers

On May 28, Ambassador Naresh Chandra addressed members of the National Association of Manufacturers (NAM) regarding recent developments in India. NAM is USA's oldest and largest broad-based industrial trade association. Its 14,000 member companies and subsidiaries produce about 85% of US manufactured goods. The salient points made by the Ambassador at the meeting were:

- India remains committed to economic reforms and improved commercial relations with the United States;
- The United States is only hurting itself by imposing sanctions on India and there needs to be a dialogue to address common concerns;
- India has no intention to enter into a nuclear arms race;
- India did not break any international laws when it conducted the tests;
- US business sector can make substantial contribution to increased understanding between the world's two great democracies (USA and India).

Ambassador Chandra Meets Representatives from the India Interest Group

Ambassador Naresh Chandra met with representatives of the India Interest Group (IIG) on May 27, 1998. Several senior representatives of US companies doing business in India participated in the meeting.

After presenting the Indian perspective on the nuclear issue, the Ambassador discussed with the Group the current economic situation in the country and stated that the Indian Government is committed to push the economic reforms forward. In this context, the Ambassador stated that US industry has a very important role to play in ensuring that the commercial relations between the two countries continue to grow in this difficult phase of Indo-US relations.

Unocal Corporation Plans Projects worth \$4 billion in India

US-based energy group Unocal Corporation has outlined detailed plans to set up a bevy of infrastructure projects in areas like oil and gas exploration, pipelines, power generation, LNG terminal and port development and fertilizer projects in the country. The projects to be developed over the next five years and estimated to cost \$4 billion would not be affected by the US sanctions on India. The move shows US corporations still consider the large Indian market to have tremendous potential.

In exploration, Unocal is jointly studying some blocks with ONGC in Assam and plans to bid for some of the 47 blocks expected to be offered by the government under the new exploration licensing policy (NELP) in mid-August. It has just bagged an exploration block contract worth \$10 million in Assam through Hindustan Oil Exploration Company, in which it has recently acquired a 26% stake.

Unocal is in the final round of negotiations with the Gujarat government for the \$225 million LNG receiving terminal-cum-port facility at Maroli. Unocal has also bid for the LNG-cum-power project facility promoted by Tidco at Ennore in Tamil Nadu.

As far as power projects are concerned, Unocal has bid for the 600-mw Bawana Phase II project in Delhi. It is also developing the 300-mw Bidadi power project along with Karnataka Power Corporation, near Bangalore. Unocal has also launched the \$2-billion 'Project Energy Renaissance' in West Bengal — a clutch of projects, which includes a 1,500 mw combined cycle power project, a 2,350 tons per day fertilizer plant at Haldia and a pipeline project to supply 14 MMCMD of natural gas to industrial centers.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 21.92 million tonnes as on May 1, 1998. This level of stocks was higher by 26% than the level of 17.40 million tonnes as on May 1, 1997.

Industrial Production: During the financial year 1997-98 (April 1, 1997 - March 31, 1998) industrial production increased by 6.5%. In April 1998, industrial production increased by 6.3% up from 3.9% in April 1997.

Infrastructure Industries: During 1997-98, production in infrastructure industries grew by 5.4%. During April 1998 average growth rate of this sector was 4.7% compared to 4.3% in April 1997.

Money Supply: During the financial year 1997-98, money supply (M3) growth was at 17%. During the current financial year up to May 22, 1998 money supply (M3) growth was slightly higher at 3% as against 2.7% in the corresponding period of 1997-98. As on May 15, 1998, Prime Lending Rate was 12.75% to 14% as against 14% to 14.5% on May 16, 1997. As on May 15, 1998, Deposit Rate ranged between 9% to 12% against 11% to 13% as on May 16, 1997.

Foreign Trade: In the financial year 1997-98, exports recorded an increase of 2.6% in dollar terms while imports increased by 5.8%. In April 1998, exports increased by 2.2%. Imports increased by 13.9% during the same period.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold & SDRs), were \$ 25.98 billion at the end of 1997-98 (March 31, 1998). These reserves have decreased by \$410 million and stood at \$25.57 billion at the end of May 1998. This level of reserves is enough to finance more than seven months of imports.

Exchange Rates: The average market exchange rate of the Rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, French Franc and Japanese Yen was Rs.40.47, Rs.66.22, Rs.22.80, Rs.6.80, and Rs.0.30 respectively during May 1998.

Rate of Inflation: The annual rate of inflation based on Wholesale Price Index (WPI) and measured on a point-to-point basis stood at 6.5% on June 6, 1998. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 8.2% for the month ending April 1998.

Foreign Direct Investment Inflows Pour in June 1998

After a sluggish trend in investment flows, particularly after the May nuclear tests, there has been a dramatic upsurge in the FDI inflows in June 1998 with the total touching \$381 million in the month. This is significantly higher than the inflows in May (\$205 million) and is at the highest level since April 1997. The total inflows for the year have, thus, crossed \$1.5 billion.

India received the highest ever FDI inflows in 1997 at \$3.3 billion. This year is expected to set a new record if the June trends persist in the rest of the year.

India's External Debt: A Status Report

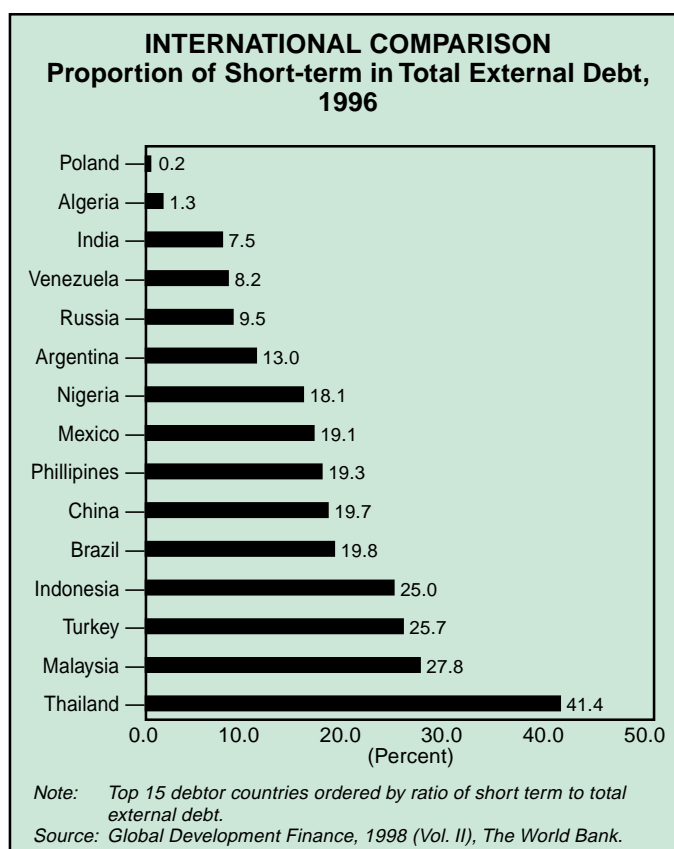
A white paper entitled "India's External Debt: A Status Report" prepared by the Ministry of Finance has been released by the government. This document provides an overview of India's external debt position at the end of September 1997. The Paper also includes international comparisons based on World Bank's Global Development Finance 1998.

External debt of India was US \$92.9 billion at the end of September 1997. This was marginally above the end-March 1997 level of US \$ 92.2 billion. The debt indicators, however, have continued to improve over the years. The **debt service payments** as a ratio of current receipts declined from 24.8% in 1995-96 to 22.6% in 1996-97 despite redemption of India Development Bonds. The ratio has shown a steady improvement from the high of 35.3% in 1990-91.

Another key indicator, the **debt-GDP ratio**, improved from 41% in 1991-92 to 28.2% in 1995-96 and further to 25.9% in 1996-97. End-September 1997 debt as a proportion of 1997-98 GDP shows further improvement to 23.8%.

The **share of short term debt** in the total is one of the most important indicators in the overall debt management of a country. Large ratio of such debt was one of the reasons precipitating the South East Asian crisis. India's short term debt has been low and stood at \$5.84 billion at the end of September 1997 which is 6.3% of the total debt. The chart gives a comparative position of the top 15 debtor countries. As the chart shows, the share of short term in total debt is among the lowest for India.

There are signs of **structural change in the composition of India's external debt**. The share of **concessional debt** that was steady at around 45% since end-March 1991, declined to 42.8% at end-March 1997 and further to 41.4% at end-September 1997. This means that the share of debt on non-concessional terms has begun to rise after remaining steady since the beginning of the decade.



The signs of change are also visible in the **share of Government debt** in the total and the creditor composition of debt. The Government share that was around 60% since the beginning of the decade has begun to decline since 1996 and was 51.3% of the total debt at end-September 1997. Similarly, the share of multilateral and bilateral creditors has been declining gradually after reaching the peak of 63.5% of total debt at end-March 1994. The share was 58.1% at end-September 1997.

Currency composition of India's external debt is weighed heavily in favor of US dollar. The share of US dollar denominated debt has also increased over the years and accounted for 48.9%

(Continued on page 5)

India's External Debt *(Continued from page 4)*

of the total debt at the end of September, 1997. Other important currency components are Special Drawing Rights, Rupee, Japanese Yen, Deutsche Mark and Pound Sterling which together with the US dollar account for over 95% of the total debt.

International comparison is a guide to the strengths and weaknesses of debt profile of a country. India has been among the top ten developing country debtors. Its comparative indebtedness position has, however, improved over the years. India ranked third after Brazil and Mexico in 1993; fourth after Brazil, Mexico and China in 1994; sixth after Mexico, Brazil, Russian Federation, China and Indonesia in 1995; and eighth after Brazil, Mexico, Indonesia, China, Russian Federation, Argentina and Thailand in 1996.

Certain key debt indicators are: ratio of debt to GNP; ratio of debt to current receipts; the ratio of debt service to current receipts and the ratio of interest payments to current receipts. A country is classified as severely indebted if three of the four indicators are above their critical values. The critical values of these indicators are: debt to GNP ratio — 50%; debt to current receipt ratio - 275%; debt-service to current receipts ratio — 30%; and interest to current receipts ratio — 20%. If a country is not classified as severely indebted and at least three out of four indicators exceed 60% of their critical values, then it is classified as moderately indebted. Otherwise, the country is in the less indebted category. In the case of India, two of the criteria viz. debt to GDP (23.8%) and interest payment to current receipts (8.1%) already fulfill the less indebtedness criteria. The debt to current receipts ratio is 168.9% and debt service to current receipts is 22.6%.

Conclusion

India's external debt position has improved considerably in recent years. The comparative international indebtedness position has also improved. India, however, continues to be a moderately indebted country according to the World Bank classification. This points towards the need for further reduction in the burden of debt. Further debt management has to focus on following areas:

- Consolidating the gains already made. The main planks of this strategy are: sustaining a high growth of exports, keeping the maturity structure as well as the total amount of commercial debt under manageable limits, prioritizing the use of commercial credit and encouraging foreign investment. Further reduction in debt burden would not only mean easing the pressure of debt service payments on balance of payments but also improvement in India's international credit standing which shall bring benefit in the form of improved terms of borrowing and greater flow of resources from abroad.
- There is considerable scope for refining debt management strategy through optimizing currency, interest and maturity mix of debt. Such model building exercise would give a new dimension to liability management and should lead to savings through minimizing currency/interest risks/costs.
- Another area of priority has to be short term debt management. Though India's short term exposure has been low by international standards, a more conscious short term debt management policy should be followed. This policy should make allowance for contingencies and learning from the experience of South East Asian countries.

The complete document "India's External Debt: A Status Report" is available at the Ministry of Finance website at: www.nic.in/finmin

Resurgent India Bonds

One of the proposals announced by the Government of India in its budget for the financial year 1998-99 was a new scheme for attracting Non-Resident Indian (NRI) investment in the infrastructure sector in India. The new scheme has since been formulated as the Resurgent India Bonds (RIB), which is being launched by the State Bank of India.

Salient Features of RIB

Tenure:	5 Years
Currencies:	US Dollar, Pound Sterling, Deutsche Mark
Interest Rates:	US Dollar: 7.75% per annum Pound Sterling: 8.00% per annum Deutsche Mark: 6.25% per annum
Minimum Subscription:	US Dollar: 2,000 Pound Sterling: 1,000 Deutsche Mark: 3,000
Interest Payment Frequency:	Half Yearly Cumulative/Non-Cumulative
Repatriability:	Principal and Interest will be paid in Foreign Currency to Non-resident holders
Tax Benefits:	Interest exempt from Income Tax in India. Bond exempt from Wealth Tax and Gift Tax in India for Holder as well as Transferees
Loans:	Available to Holders and Third Parties against Collateral of the Bonds
Premature Payment:	No Penalty but only in Non-repatriable Rupees after a Minimum Lock-in period of Six months
Transferability:	By Endorsement and Delivery
Joint Holdings:	Permitted with non-residents/residents in the form of "Former or Survivor"
Date of Launch:	5 August, 1998
Scheduled Closing Date:	4 September, 1998
Earliest Closing Date:	10 Working Days

Upcoming Events

India Infrastructure Summit, 30 September, 1998, Washington DC, USA

The India Infrastructure Summit is a comprehensive full day meeting at The Seventh Annual World Economic Development Congress dedicated to providing detailed insights into maximizing the opportunities for and overcoming the obstacles to developing infrastructure projects in the huge Indian market. Invited speakers will outline the latest regulatory and approval mechanisms, capacity upgrade programs, and new projects on offer to the international private sector while leading private sector developers and financiers will provide “on the ground” case study experiences of fast-track projects in India.

The Summit will help in assessing market opportunities and the business environment as also building public/private partnerships for over \$230 billion worth of infrastructure development projects in India.

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Global Indian Entrepreneurs Conference, 12-13 November, 1998, New Delhi, India

The economic liberalization and progress in India has unfolded new avenues for investment and growth. The **overseas Indians** have played an important role in the nation-building exercise and are destined to make fundamental contribution to the future development of the country.

The Indian Investment Center, Government of India, and the The Federation of Indian Chambers of Commerce and Industry (FICCI), are jointly organizing the Global Indian Entrepreneurs Conference on November 12-13, 1998 at Vigyan Bhawan, New Delhi. This is the second in the series of conferences on this subject. The first was held in Singapore in 1996.

Prime Minister Atal Behari Vajpayee will inaugurate the Conference.

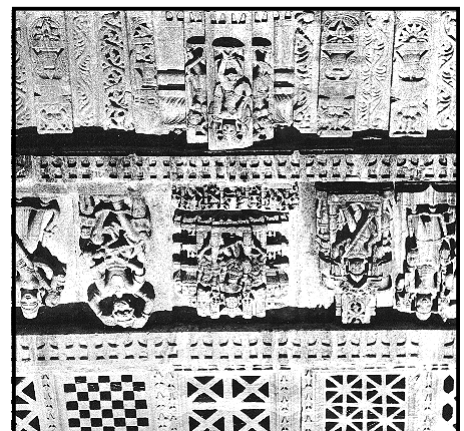
For further details, please contact:

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NEWS BRIEFS

- **Oracle Corporation**, the American software giant, will invest \$40 million by the year 2000 to expand its India operations. Oracle's plans for the coming year include starting a new facility at Hyderabad, as well as launching a new oil and gas solution called "Oracle Energy Downstream." (Economic Times)
- **Goldman Sachs** has upgraded its India office from representative status to a full-fledged company — Goldman Sachs India — in a tie-up with Kotak Mahindra Finance Limited (KMFL). Goldman Sachs has expressed its commitment to India in the long-run. India represents Goldman Sachs' only foreign joint venture. (Economic Times)
- **Whirlpool**, the US based white goods manufacturer, has decided to set up a microwave oven facility in the Maharashtra state of India. Whirlpool is already in the washing machine and refrigerator markets in India. Whirlpool will bring in foreign technology as well as considerable foreign investment for the new project. (Economic Times)
- Reliance Industries Limited has bid for four road projects in the country together with the US-based engineering firm, **Carter Burgess Ltd.** Through this tie-up, Reliance will utilize the expertise of Carter Burgess in the technical aspects including project management and other engineering details. (Economic Times)
- US automobile giant **Ford Motor Company** plans to extend the operations of its wholly-owned subsidiary, "Business Service Center", to India. The Center to be established in Chennai would take care of the complete range of financial accounting services of Ford for the entire Asia-Pacific region. (Economic Times)
- The US based DCV Biologics Inc., a joint venture between **Dupont** and **ConAgra**, has launched two new natural dietary nutritional supplements — Genpro and Prologic — in India. These will be distributed by the Mumbai-based Gulmohar Developers and Builders (GDB). (Economic Times)

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



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