INDIA ECONOMIC NEWS

50th Anniversary of India's Independence

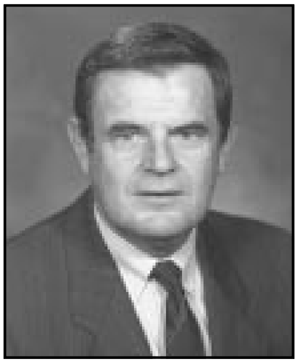
Volume VIII, Number 11 November 1997

INSIDE:

"Indian software skills are unparalleled in the world.... India offers advantages which no other country can match."

— Vice President of Microsoft's international operations, Orlando Ayala, while announcing that Microsoft is nearly certain to locate its second software development center in India, the only other center being at the company's headquarters in the US.

General Motors Chief John Smith Sees India as an Attractive Investment Destination



John Smith, Jr.
Chairman and CEO
General Motors

General Motors has affirmed its faith in India, along with Russia and China, as a major future investment destination."I believe in India's economic future for the next 50 years," said John F. Smith, chairman and chief executive officer of General Motors. "We believe we are underrepresented in China, Russia and India and see great possibilities here," Smith said.

He said India's democracy, with its belief in the rule of law, was one of the factors that made it attractive for foreign investors. This, along with the huge market, make for a "very powerful combination", Smith observed. The widespread use of English language and vast pool of technical manpower also contributed towards India's attractiveness to foreign investors. Finally, he said, it was widely expected that economic reforms will continue.

"In the years ahead, GM would like to become even more of a major investor in this country", he said. Smith was hopeful that GM would soon reach the $1 billion investment mark in India through its four ventures, including the car venture with the C K Birla group, an automotive components venture through Delphi Automotives, a software and telecommunications business venture through Hughes Electronics and a financial services venture with 20th Century Finance. GM has already invested $300 million through these ventures in the country.

GM has also identified automotive components as a more important area as compared to car operations. He said, "Our focus (in India) is on auto components, which is a major thrust area, along with car operations. But components look a lot better than the car business."

He stated that GM was studying the option of launching the Opel Corsa, one of the smallest and also the largest selling car in the GM stable, in India.

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 16.5 million tonnes at the end of August 1997.

Industrial Production: During the financial year 1996-97 (April 1, 1996 - March 31, 1997) industrial production increased by 6.8%. Industrial production in the period April-July 1997 increased by 6.4%.

Infrastructure Industries: During the period April-August 1997, production in basic infrastructure industries registered a better performance compared to the corresponding period last year: Electricity Generation increased by 6.4%, Cement by 3.4%, Petroleum Products by 4.4%, Nitrogenous Fertilizers by 22.6% and Crude Petroleum by 4%.

Money Supply: During the current financial year 1997-98 to September 26, 1997 money supply (M3) growth was marginally lower at 6.4% as compared to 6.6% in the corresponding period of last year.

Foreign Trade: In the financial year 1996-97, exports recorded an increase of 4% in dollar terms while imports increased by 5%. Exports increased by 4.2% during April-September 1997 as compared to their level in April-September 1996. Imports increased by 7.6% during the same period.

Foreign Exchange Reserves: Foreign Exchange Reserves (excluding Gold and SDRs) were $22.4 billion at the end of 1996-97 (March 31, 1997). These reserves have increased to $25.7 at the end of September 1997. This level of reserves is enough to finance about 7 months of imports.

Exchange Rates: The average market exchange rate of rupee per unit of US Dollar, Pound Sterling, Deutsche Mark, French Franc and Japanese Yen was Rs.36.43, Rs.58.31, Rs.20.35, Rs.6.06 and Rs.0.30 during September 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 4% for the week ending October 18, 1997.

Upcoming Event

An Exhibition of Indian Handicrafts and Textiles, January 2-12, 1998, Washington, DC

Rich in content, fascinating in form, Indian handicrafts are a visual treat of design and color. Nearly 500 exhibits will be on display depicting the rich cultural heritage of the various regions of India.

This exhibition is organized by The Embassy of India and Development Commissioner for Handicrafts, Government of India.

So come visit “Parampara”. A tribute to the craftspersons of India. The venue is: The American News Women’s Club, 1607 22nd Street, NW, Washington, DC 20008. Time: 11 a.m.-8 p.m. Tel: 202-939-9807.

Policy Update

Hydrocarbons: Oil Sector Gets Nod for Market-based Pricing

The Indian government has decided to undertake the remaining reforms in the hydrocarbon sector by approving the framework and time-table for dismantling the administered price mechanism (APM) and introducing a market-determined price mechanism (MDPM). The APM dismantling will be carried out in phases over four years beginning 1998-99.

The major features of the APM dismantling schedule, which is expected to attract large investments in the hydrocarbon sector, include reduction and rationalization of duty structure, decanalization of crude imports for all actual users, phased reduction of subsidies on LPG and kerosene and a total shift to market-driven price mechanism.

The government has decided to gradually reduce duties on petroleum products like high speed diesel, motor spirit, aviation turbine fuel and LPG to 15%. The current duty of 27% on crude will be reduced to 0-5% by the terminal year. To provide a cushion for the revenue loss on account of duty rationalization it has also been decided to increase excise duty on motor spirit to 165%.

Prices of paraffin wax, bitumen, naphtha, LSHS and fuel oil will be decontrolled immediately. Subsidies on kerosene, which today stands at 75% of import parity price, will be reduced to 33% while that on LPG would be reduced to 15% from 40%. As of now, the oil pool account has to provide for a subsidy bill of Rs.63 billion for kerosene and Rs.18.50 billion on LPG. Subsidies on kerosene, LPG and freight for far-flung areas will be shifted to the general budget by 2002-03.

While refinery companies will be allowed to import crude and process it, imports and exports of ATF, MS, NGL and HSD will continue to be canalized for the next five years. This is expected to be welcomed by private refinery companies which are willing to take risk and go in for futures contracts for crude.

It has also been decided that while refineries would pay import parity prices for crude, the crude producing companies will get an adjusted fob price. The difference between the two would go towards amortization of bonds. The prices receivable by oil producers would reach import parity levels by the end of the fifth year. The system of retention pricing will also be abolished for all refineries and pricing of petroleum products at the refinery gate level should move towards import parity price levels.

Experts said that the move from APM to MDPM would increase investments and have a negligible impact on inflation. It is estimated that overall inflation on a cumulative basis will be 1.57% in five years. The total revenue accrual from the hydrocarbon sector is projected to be around 1.5% of GDP by 2001-02 against the current level of 1.7%. The suggested duty structure is expected to provide an effective rate of protection of 21% to the refining sector.

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Civil Aviation: 100% Foreign Equity Allowed in Airports

The Indian government has cleared a liberal policy on airports, permitting up to 100% foreign equity in airports as well as allowing flexibility in ownership and management. The policy, aimed at attracting "massive inflow of funds", paves the way for private airports. All airports in the country are presently owned and managed by the government.

Attracting investment into airport projects is considered difficult as most of these projects take as long as 10 to 15 years to break even. Modernization, upgradation and creation of world-class facilities at Mumbai alone is estimated to cost Rs.100 billion, according to the policy paper approved by the government.

The patterns allowed to the operating companies include build-own-transfer (BOT), build-own-lease-transfer (BOLT), build-own-operate (BOO), lease-develop-operate, joint ventures and management contracts. In each individual case, the exact pattern can be negotiated. The government can also seek international aid and bilateral cooperation for airport projects.

Under the new policy, up to 74% foreign equity in airports will be automatically cleared and 100% foreign equity will be allowed on a case-by-case basis. The Airports Authority of India, which at present owns most airports and manages all of them, will slowly withdraw from this role and act as a facilitator and regulator of private investment.

For purposes of development, airports have been classified into five categories — sub-continental hubs, international hubs, national hubs, regional hubs, and airports at state capitals and other places. The airports at Delhi and Mumbai, which together handle 52% of the traffic are to be developed as sub-continental hubs with world-class facilities. Other international airports in the country are also to be developed to handle traffic to and from other countries. Regional hubs will serve as operational bases for regional airlines. The classification is to be reviewed every five years.

Under the new policy, special attention will be given to speedy handling of cargo and reducing its "dwell time", which is the time taken at airports for clearance of cargo. For exports, the "dwell time" is to be reduced from the present four days to 12 hours and for imports from the present four weeks to 24 hours. Cargo clearance will be on a 24-hour basis. Infrastructure for handling cargo, such as satellite freight cities and other facilities are to be set up along with electronic data interchange (EDI) systems.

An airport restructuring committee within the civil aviation ministry will identify existing airports for which private sector involvement is required for development and upgradation. It will also identify greenfield projects available for foreign investment. It has been decided that no greenfield airport will be allowed within an aerial distance of 150 km. of an existing airport.

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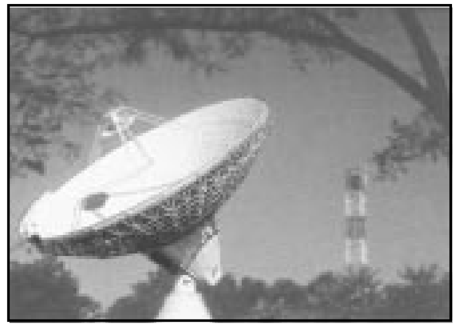
Policy Update *(Continued from page 4)*

Telecommunications:
The Telecom Regulatory Authority of India (TRAI) Act Passed

The Telecom Regulatory Authority of India Act received the assent of the President of India on March 28, 1997. This Act provides for the establishment of the TRAI to regulate the telecommunication services and related matters.

The following are some of the salient features of the TRAI:



Composition

- The Authority will have a Chairperson, and not less than two, but not exceeding six members, to be appointed by the Central Government.
- The Chairperson shall be a person who is or has been a Judge of the Supreme Court or who is or has been the Chief Justice of a High Court.
- A member shall be a person who has special knowledge of, and professional experience in, telecommunication, industry, finance, accountancy, law, management and consumer affairs.
- The Chairperson shall be appointed for a period of five years and the Members for a period of five years or up to the age of 65 years whichever is earlier.

Functions

- Recommend the need and timing for introduction of new service providers.
- Recommend the terms and conditions of license to a service provider.
- Ensure technical compatibility and effective inter-connection between different service providers.
- Regulate arrangement amongst service providers for sharing their revenue derived from providing telecommunication services.
- Ensure compliance of terms and conditions of license; recommend revocation of license for non-compliance of terms and conditions of license.
- Lay down and ensure the time period for providing local and long distance circuits of telecommunication between different service providers.
- Facilitate competition and promote efficiency in the operation of telecommunication services so as to facilitate growth in such services.
- Protect the interest of consumers of telecommunication service.
- Monitor the quality of service and conduct periodical survey of such service provided by the service providers.
- Inspect the equipment used in the network and recommend the type of equipment to be used by the service providers.
- Settle disputes between service providers.
- May notify the rates at which telecommunication services shall be provided.
- Ensure effective compliance of universal service obligations.
- Levy fees and other charges at such rates and in respect of such services as may be determined by regulations.
- Render advice to the Central Government in matters relating to the development of telecommunication technology and any other matter relating to telecommunication industry in general.

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Policy Update *(Continued from page 5)*

Powers

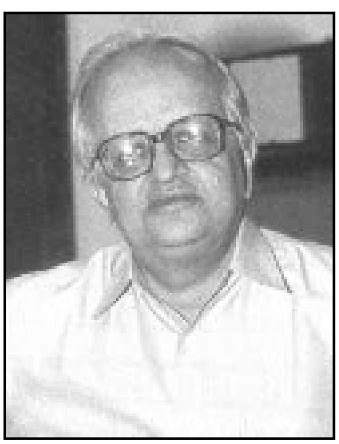
- To seek information on all aspects of service provider's activities.
- To appoint one or more persons to make an inquiry in relation to the affairs of any service provider.
- To direct any of its employees to inspect the books of account or other documents of any service provider.
- To issue such directions to service providers as it may consider necessary for proper functioning by service providers.

General

- The orders and directions of TRAI shall be binding on the service providers, government and all other persons concerned.
- Any person aggrieved by any decision or order of the TRAI may file an appeal to the High Court within 30 days from the date of communication of the decision of the TRAI to him.
- Every order made by the TRAI or the order made by the High Court in any appeal against any order of the TRAI shall be deemed to be a decree of the civil court and shall be executable in the same manner as a decree of that court.
- The jurisdiction of subordinate civil courts in respect of matters within the jurisdiction of TRAI shall be barred. However, the TRAI shall not deal with matters falling within the purview of Monopolies and Restrictive Trade Practices Act and Consumer Protection Act.
- If any person wilfully fails to comply with the orders of the TRAI or any order of the High Court, as the case may be, he shall be punishable with a fine which may extend to Rs.0.1 million and in case of a second or subsequent offense with a fine which may extend to Rs.0.2 million and in the case of continuing contravention with an additional fine which may extend to Rs.0.2 million for every day during which the default continues.

In its first judgement issued in April 1997, the TRAI quashed an order of the Department of Telecommunications (DoT), which is the government operator, increasing the tariff for calls made from fixed to cellular networks in non-metro circles. The TRAI directed DoT to provide both-way connectivity to cellular operators subject to technical feasibility.

Dr. Bimal Jalan is the new RBI Governor



Dr. Bimal Jalan took over as the new Governor of the Reserve Bank of India, the country's central bank, on November 22, 1997. He has been appointed Governor for a term of three years.

An economist by profession, Dr. Jalan, has held several administrative and advisory positions in the Government of India including those of Banking Secretary, Finance Secretary and Chairman of the Economic Advisory Council to the Prime Minister. He has also served as the Executive Director, representing India, on the Boards of the International Monetary Fund and the World Bank in Washington DC. At the time of his appointment as Governor, Dr. Jalan was Member-Secretary, Planning Commission in New Delhi.

India and USA Sign Investment Incentive Agreement

Finance Minister P. Chidambaram and US Secretary of State Madeleine Albright signed an Investment Incentive Agreement on November 19, 1997 in New Delhi. The intent of the Agreement is to promote and protect US investments in India by facilitating investment support to US investors from Overseas Private Investment Corporation (OPIC), a designated agency of the Government of USA.

The Agreement incorporates the principle of reciprocity. For any investment support extended by Export Credit Guarantee Corporation of India, or any other designated agency of Government of India for Indian investments in USA, provisions equivalent to those contained in the Agreement shall apply to US investments upon completion of constitutional or other legal processes of either Government and upon exchange of notes made at the initiative of either Government.

The Agreement enlarges the scope and nature of investment support or risk coverage extended to potential US investors by way of OPIC investment support. OPIC investment support includes any debt or equity investment, any investment guarantee and any investment insurance or reinsurance provided in connection with a project in India. Investment insurance includes insurance against risks relating to inability to convert other currencies into US dollars, loss of investment due to expropriation or confiscation, losses due to war, revolution, insurrection or civil strife.

The Agreement provides for dispute resolution mechanism for disputes between the two Governments in matters relating to the interpretation of the Agreement and in relation to claims arising out of acts attributable to the Government of India involving questions of liability under public international law, and includes recourse to international arbitration.

The Agreement will apply to investment support by OPIC if approvals from Reserve Bank of India, Foreign Investment Promotion Board, Ministry of Finance, Ministry of Industry or concerned agencies of the Government of India as may be specified, have been obtained for making of the loan, equity investment or any other form of investment underlying the investment support.

Taxation matters would continue to be governed by the Double Taxation Avoidance Agreement between India and USA.

This Agreement will replace and supersede the previous exchange of notes between the two governments of 1957, 1959 and 1966 which sought to protect US investments in India against currency non-convertibility and expropriation by providing risk insurance coverage.

It is expected that the signing of this Agreement would give a boost to US investments into India.

NEWS BRIEFS

- ***Ernst & Young*** has announced formation of a separate company for consultancy services, Ernst & Young Consulting India Pvt. Ltd., in collaboration with its member firm S R Batliboi & Co. The setting up of the new company is aimed at enhancing Ernst & Young's presence in the consulting market in India. (Business Standard)

- Cadila Pharmaceuticals is going in for a 50:50 equity partnership with the US herbal medicine major ***Nature's Way***. It is likely that 11 products from the Nature's Way range would be launched by the Indian company by the end of November. (Business Standard)

- ***Allergan Inc.***, the US speciality health care products major, has entered the contact lens care market in India in collaboration with Nicholas Piramal Group. (Times of India)

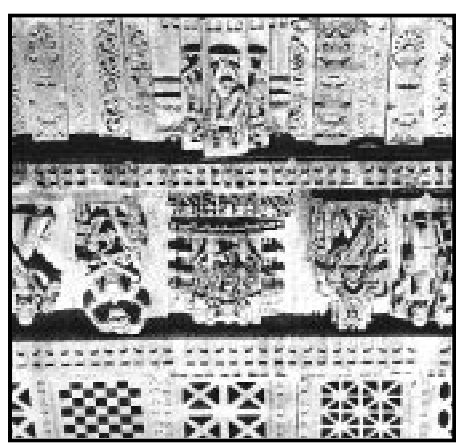
- Global telecom player ***Lucent Technologies International*** is picking up a 34% stake in Tata Telecom through the preferential allotment route. Tata Telecom has several joint ventures with leading companies, including a marketing and engineering services agreement with ***Harris Corporation*** Ltd. for microwave radios. (Business Standard)

- ***IBM Global Network's*** services will be available in India through an alliance with Videsh Sanchar Nigam Ltd. (VSNL). The alliance will considerably strengthen VSNL's portfolio of corporate data networking offerings. (Times of India)

- ***Indian exporters' directory on the web***: Tata Donnelley has launched exporters' pages on the internet. The directory is a comprehensive compilation of registered Indian exporters and comprises information on over 26,000 exporters all over India. The site, Indian Exporters Online can be accessed at:
  http://*www.indianexporters.com*

- Articles of interest on ***Indian software industry*** have appeared in ***Financial Times***, December 03, 1997 and ***Forbes Magazine***, November 17, 1997.

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



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