INDIA ECONOMIC NEWS

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INSIDE:

We recognize that given the global shortage of capital, nations must compete in creating a milieu that attracts foreign investment. India would be second to none in establishing a transparent framework in which such investment can flourish.

—Atal Bihari Vajpayee, Prime Minister of India

Partial Lifting of US Sanctions Announced

The US Administration announced a partial lifting of economic sanctions against India on 6 November 1998 in pursuance of the authority given to the US President by the Brownback Amendment passed by the US Congress recently. The relaxations include:

- Restoration of US Export-Import Bank (EXIM), Overseas Private Investment Corporation (OPIC) and Trade and Development Agency (TDA) programs in India.
- Restoration of US bank lending to Government of India.
- Restoration of International Military Education and Training (IMET) Program for India.

This partial lifting of sanctions applies till 21 October 1999. Extension of the waiver of sanction beyond this period is contingent upon further action by US Congress.

Left in place are restrictions on the export of US "dual use" technology that could have military applications, and US objections to non-basic human need lending to India by the World Bank and other international financial institutions. The US Commerce Department has subsequently named 40 Indian entities along with a number of subordinate entities which will be covered by export restrictions. Commerce Department licenses will be required for exports to the entities listed.

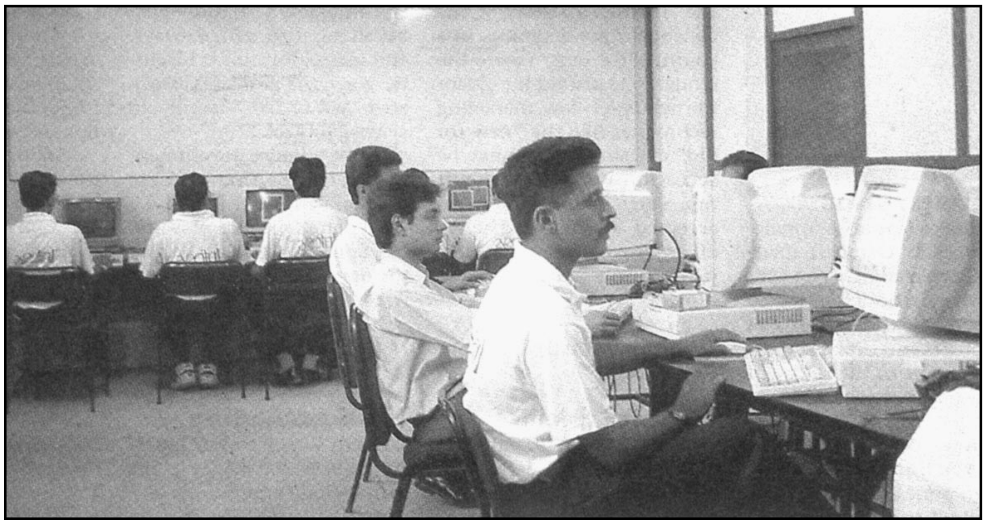
Following India's nuclear tests in May 1998, sanctions were imposed by the US Administration as required by the Glenn Amendment of 1994. The restoration of US EXIM Bank and OPIC assistance to India would give a boost to the market sentiments. US promoters and exporters who had started seeking alternative sources would be relieved with this decision and a number of projects are expected to get back on-track.

Given the fact that the unilateral restrictions that remain are unjustified and counterproductive, these must also be lifted especially those relating to lending by multilateral financial institutions. These institutions are economic and development oriented and should not be misused for political purposes to suit the whims and preferences of particular countries.

New Internet Policy Announced

On November 6, 1998, the Government of India announced detailed policy guidelines pertaining to privatization of internet services in the country. The Department of Telecommunications (DoT) signed four license agreements with three companies including Mahanagar Telephone Nigam Limited (MTNL) on the same day.

The government, under the direct initiative of Prime Minister A. B. Vajpayee, has pushed hard to rapidly increase information technology (IT) access throughout the country through the internet. While inaugurating IT.Com 98 in Bangalore, an information technology exhibition and conference on 1 November 1998, the Prime Minister had said that the aim of the internet policy is to encourage the fastest possible proliferation of internet services throughout India at an affordable price. In addition, the internet license policy was to be customer- and investor-friendly. He had set a deadline of 7 November for DoT to issue the licenses.



The highlights of the present policy are:

- Private Internet Service Providers (ISPs) will be allowed to enter the internet service market which was exclusively reserved for Videsh Sanchar Nigam Limited (VSNL) and Department of Telecommunications until now.

- Foreign equity up to 49% has been permitted.

- An applicant company can get any number of licenses and there will be no limit on number of licenses granted in a particular area. ISPs will be required to set up their node/server within the geographical limits of the service area.

- License holders have to start the services within 18 months of signing the agreement.

- Separate licenses will be granted for each service area. Applicants will be required to submit separate application for each service area. The country has been divided into separate service areas in three categories for this purpose as follows:

  Category A - all India basis

  Category B - consists of 20 territorial telecom circles; the four major metros, i.e., Mumbai, New Delhi, Calcutta and Chennai; and other major cities of Ahmedabad, Bangalore, Hyderabad and Pune.

  Category C - any secondary switching area of DoT will form a separate service area.

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New Internet Policy Announced *(Continued from page 2)*

- The companies should provide bank guarantees of Rs.20 million (about USD 0.47 million) for category A service area, Rs.2 million (about USD 47,000) for category B service area and Rs.0.30 million (about USD 7,000) for category C service area.
- The license will be valid for a period of fifteen years which can be extended by another five years on request of the licensee.
- The policy virtually does away with the license fee. The ISPs will pay no license fee for the first five years and a token fee of Rs.1 (about 2 cents) thereafter.
- Private ISPs can obtain transmission links on lease from DoT, licensed basic service operators, Railways, State Electricity Boards, National Power Grid Corporation etc. They may also establish their own transmission links provided they are not available from authorized sources and subject to the permission of Telecom Authority.
- International connectivity will be through gateways of DoT, Videsh Sanchar Nigam Limited (VSNL) or authorized public/government organizations. Private ISPs have been allowed to establish their own gateways after obtaining security clearances from an inter-ministerial body.
- ISPs will be free to fix their own tariffs. The tariff will be left open to be determined by the market. However, the Telecom Regulatory Authority of India can review and fix a tariff at any time during the validity of the license which will be binding on the licensee.

Over 150 companies are expected to apply for ISP license, out of which at least 50 will be national level players. These include CMC, HCL, Global Telesystems, Satyam Computers, Wipro, Bharti-British Telecom Internet Limited, Sterling Group, RPG, Sprint, Birla Group and most of the other existing e-mail providers and VSAT companies. After the announcement of the policy, three companies signed the license agreement with DoT for providing internet services on the first day itself. The companies are: Mahanagar Telephone Nigam Limited (for Delhi and Mumbai), Surewin Consultants (for Ghaziabad and Noida) and Ortel Communications (for Cuttack and Bhubaneshwar).

India has an installed base of 2 million computers and barely 150,000 internet connections now. With the announcement of this policy, industry sources expect the demand for PCs as well as internet connections to go up significantly.

Fortune 500 Club Sources Software From India

As many as 158 of the Fortune 500 companies either have their own software set-up in India or tie-ups with Indian software companies. All of them source a substantial part of their in-house software from India. Some of these are: Coca Cola, British Airways, Swissair, Alcatel, Prudential Insurance, Citicorp, American Express Bank, General Electric, GE Capital Services, PepsiCo, Intel, Informix and SAP.

Software exports from India grew by 50% in dollar terms during the first quarter of 1998-99 and is well within reach of achieving the target of $2.6 billion for the full financial year (April 1, 1998 - March 31, 1999).

Policy Update

Road Sector

The government plans to begin a 7,000 kilometers road project including a north-south corridor connecting Kashmir to Kanayakumari and an east-west corridor linking Silchar and Saurashtra. This $7 billion project is expected to provide a big boost to the cement and construction industries.

Also a massive program for developing National Expressway Network in the country is to be taken up for speedier movement of goods and to sustain a faster pace of development. The expressway network will be developed as a toll-based facility and will be financed essentially from private sector funds under Build-Operate-Transfer (BOT) scheme. 100 per cent foreign equity would be allowed in these ventures. Financial support from the Government in the form of equity participation in a joint public private partnership model will be possible. Land for expressway development will be provided by the Government.

The government proposes to establish the National Expressways Authority of India, which will be responsible for the construction and maintenance of expressways in the country.

Four road projects under the build, operate and transfer (BOT) scheme worth $23 million were signed recently. These projects involve the construction of a tunnel and its approaches on national highway (NH) 4 in Maharashtra, the construction of rail over bridge and its approaches on NH 6, construction of a river bridge on NH 6 and another river bridge on NH 8 in Gujarat.

The tunnel on NH 4 in Maharshtra will be constructed by Ideal Road Builders of Mumbai. The length of the tunnel and the approach roads will be 8 kilometers and the cost of construction is estimated at $9 million. The construction and concession period of the project are 24 months, and 9 years and 9 months respectively. The prescribed rate for cars and jeeps is $0.25 per trip, and for buses and trucks the rate is $0.75 per trip.

The rail over bridge on NH 6, also in Maharashtra, will be 30 meters long and will cost $2.5 million. The construction and concession periods for the project will be one year and 10 years and 11 months respectively. The project will be executed by Ashoka Vastushilp of Nashik.

The Wainganga bridge on NH 6 will be constructed by Jaiswal-Ashoka Infrastructure Ltd. of Nashik at a cost of $7.5 million and will be 530 meters long. The concession period of the project will be 18 years and 9 months and the construction period has been fixed at two years and six months.

The Mahi bridge on NH 8 in Gujarat, to be constructed at a cost of $4 million, will have a construction period of 18 months. The project has been awarded to Vijay Mistry & Rajmal Patel construction companies.

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Policy Update *(Continued from page 4)*

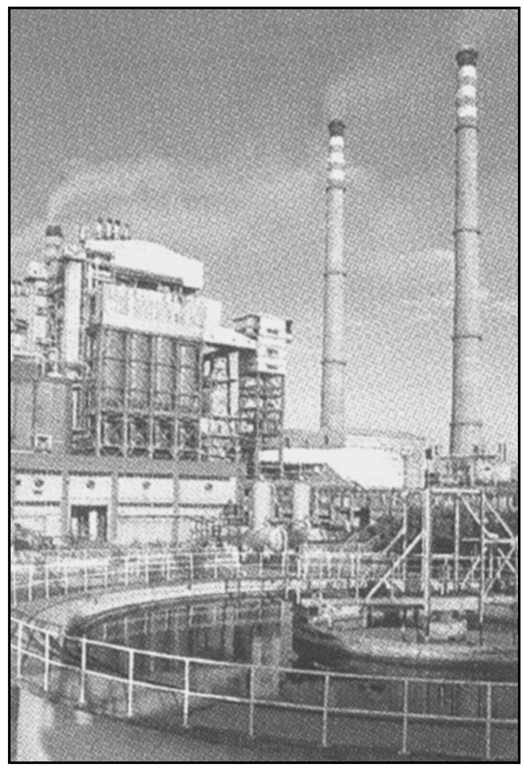
Insurance Sector

The Union cabinet has decided to allow the opening up of the insurance business to private participation, pegged foreign equity participation at 40% and approved the Insurance Regulatory Authority of India (IRAI) Bill. Foreign insurance companies have been allowed up to 26% equity in domestic insurance companies. Non-resident Indians, overseas corporate bodies and foreign institutional investors have been allowed to hold the balance 14% stake in the ventures. The Bill, which accords statutory recognition to the IRAI, is to be placed in Parliament in the winter session, which began on November 30.

The government has inserted several safeguards, including pegging the net worth of the private insurance ventures at a minimum level of Rs.100 crore ($24 million) and not permitting repatriation of insurance premiums earned by these companies in India.

The move, welcomed by potential foreign insurance players, seeks to give a big push to the country's reform program and remove the shackles on the insurance sector. It will also help harness long-term funds for infrastructure projects with long gestation period.

Power Sector



Under the New Mega Power Policy (multi-state power projects with a capacity of more than 1000 MW each) power from these projects will be sold to ***Power Trading Corporation*** (PTC), which in turn, will sell it to the states.

In case of cities with population of more than one million, the PTC will supply power only if their distribution is privatized. This will, in effect, force state governments to privatize distribution in order to purchase power from mega projects. Besides, the federal government has also laid down additional conditions whereby beneficiary states will have set up independent regulatory commissions with power to fix tariffs.

It may be mentioned that the ***Central Electricity Regulatory Commission*** (CERC) has been set up at the federal level. Three states — Orissa, Haryana and Andhra Pradesh — have already set up the State Electricity Regulatory Commissions (SERCs) while many others are in the process of doing so.

Aviation Sector

Civil Aviation ministry has cleared a liberal foreign investment policy for airports allowing 74% foreign equity through the automatic route. Even 100% foreign equity is permissible on a case-to-case basis through the Foreign Investment Promotion Board. Airports may be built through Build-Operate-Transfer (BOT), Build-Operate-Lease-Transfer (BOLT), Build-Own-Operate (BOO) or Lease-Develop-Operate (LDO) routes. The directorate-general of civil aviation will continue to

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Policy Update *(Continued from page 5)*

be the licensing body for airports. Air traffic control will remain with the Airports Authority of India. The government also plans to identify five cities for international airports with up to 100% foreign equity.

Oil Sector

The lower house of Parliament has passed the Oilfield Regulation Bill to make changes in royalty payments for attracting a higher flow of foreign investment in oil exploration and production. The Bill is aimed at empowering the government to adjust royalty rates for mineral products under different conditions and to grant exemptions from royalty in cases where exploration failed. This is an enabling amendment bill to the New Exploration Licensing Policy (NELP) under which the government has proposed to invite bids for 48 oil blocks, both onshore and offshore. Roadshows for the NELP will be held in January 1999. Notice inviting bids for the blocks are expected to be issued shortly after the roadshows.

Real Estate

Ministry of Finance has cleared 100% foreign equity in the housing sector. The policy is expected to be approved by the Union Cabinet shortly. Under the proposed policy, foreign investment in housing will have a lock-in period of three years. This is to ensure that the investment is not withdrawn prematurely.

Upcoming Events

Seminar on Investment Opportunities in Electrical Industry in India, 24 January 1999, Mumbai (Bombay), India

The Ministry of Industry, Government of India, and Indian Electrical & Electronics Manufacturers' Association (IEEMA) are jointly organizing a seminar on Investment Opportunities in Electrical Industry in India on January 24, 1999 at Mumbai (Bombay). The seminar will coincide with and will be held at the venue of ELECRAMA - 99, The Fourth International Exhibition of Electrical, Professional Electronics and Allied Products organized by IEEMA.

The seminar will focus on investment opportunities in the Electrical Generation, Transmission, Distribution and Equipment Manufacturing fields. It will be a get-together of the potential investors in the electrical sector in India. It will facilitate foreign companies to have one-to-one interaction with their Indian counterparts to decide on strategic alliances, technical collaboration, and consultancy.

For further information, please contact:

Director, Ministry of Industry, Department of Industrial Policy & Promotion, Room # 256, Udyog Bhawan, New Delhi 110 011.
Phone: 91-11-301 4147
Fax: 91-11-301 1770
Email: iisdc@sansad.nic.in
Website: http://www.nic.in/indmin

Secretary General, Indian Electrical & Electronics Manufacturers' Association (IEEMA), 501, Kakad Chambers, 132, Dr. Annie Besant Road, Worli, Mumbai - 400 018
Phone: 91-22-493 6528
Fax: 91-22-493 2705
Email: mumbai@ieema.org
Website: http://www.ieema.org

Economic Update

Foodgrain Stocks: Stocks of foodgrain stood at 25.85 million tonnes as on September 1, 1998. This level of stocks was higher by 57% than the level of 16.51 million tonnes as on September 1, 1997.

Industrial Production: During the financial year 1997-98 (April 1, 1997-March 31, 1998) industrial production increased by 6.6%. In the period April-August 1998, industrial production increased by 3.5% as compared to 5.5% in April-August 1997.

Infrastructure Industries: During 1997-98, production in infrastructure industries grew by 5.4%. During April-August 1998 average growth rate of this sector was 4% compared to 5.8% in April-August 1997.

Money Supply: During the financial year 1997-98, money supply (M3) growth was at 17.6%. During the current financial year up to September 11, 1998 money supply (M3) growth was higher at 7.4% as against 5.8% in the corresponding period of 1997-98. As on September 11, 1998, Prime Lending Rate was 12.75% to 13% as against 13.5% on September 12, 1997. As on September 11, 1998, Deposit Rate ranged between 9% to 11.5% against 10% to 12% as on September 12, 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-August 1998, exports declined by 2.8%. Imports increased by 5.6% 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 increased by $0.21 billion and stood at $26.18 billion at the end of September 1998. This level of reserves is enough to finance about 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.42.52, Rs.71.39, Rs.24.94, Rs.7.46, and Rs.0.32 respectively during September 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 8.2% as on October 3, 1998. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 15% for the month ending August 1998.

Private Basic Telecom Gets Going

Hughes Ispat, the basic telecom service company in Maharashtra, went on-line in early November 1998, which makes it the second private licensee to go on stream in the country. Bharti Telenet started services in Madhya Pradesh in June this year. More companies like Tata Teleservices (Andhra Pradesh), Reliance Telecom (Gujarat) and Telelink Networks (Rajasthan) are expected to launch their services in 1999.

NEWS BRIEFS

- US-based IT firm ***QAD Inc.*** plans to enter the education business in India in a big way. To be launched within the next six months, the company is planning to work with existing educational institutions. The company would be helping institutions to design ERP-related curriculum. (Economic Times)

- Chennai based energy meter producer, India Meters Ltd. (IML), has entered into a technical collaboration with the US major ***General Electric*** for updating the manufacture of electro-mechanical meters at its Chennai plant. The tie-up will help IML to manufacture and offer GE's current line of electro-mechanical meters to Indian electricity boards and private utilities, which would significantly improve their measurement and billing accuracy. (Economic Times)

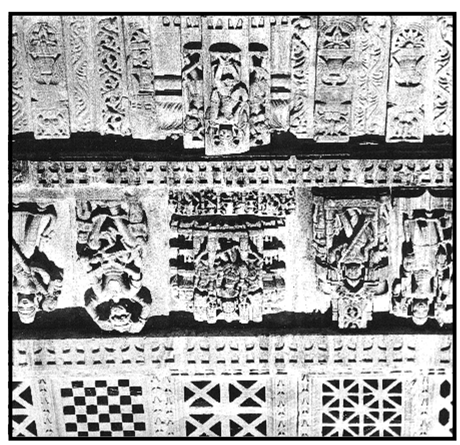
- The Tamil Nadu Electricity Board (TNEB) and ***Texas Utilities*** of the US are signing a memorandum of understanding (MoU) to focus on demand side management, restructuring, independent power and plant management. (Economic Times)

- The US-based ***Adobe Systems Incorporated*** has set up a research and development center at Noida, near Delhi in India. (Business Standard)

- ***Computer Associates International Inc.,*** the US-based software major, will soon shortlist information technology companies and individual entrepreneurs in India to start high-end projects. These projects will be funded through a separate $30 million venture capital fund of the company. (Business Standard)

- ***Aetna International,*** a wholly-owned subsidiary of US-based insurance giant Aetna, expects to finalize a domestic partner for its Indian joint venture by December-end. The company is initially looking to enter three areas — life insurance, health insurance and pension funds.

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



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