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*I think India has immense potential for growth as an economy and that may be good for Intel . . . I am very positive about that.*

— Craig R. Barrett, CEO, Intel Corporation

**Annual Fund-Bank Meetings**

**Finance Minister Visits USA**



*Mr. Yashwant Sinha  
Finance Minister*

The Finance Minister of India, Mr. Yashwant Sinha visited USA in the first week of October as the head of the Indian delegation to attend the Annual Meetings of the World Bank and IMF. This year's meetings were held in the backdrop of the **economic crisis in Asia** and its spreading tentacles to rest of the world. Speaking at the IMF Interim Committee, the Finance Minister said that "the international financial community seems to be at a loss

both in explaining the scope of the contagion and in coming up with remedial measures."

Sounding a note of caution towards **capital account convertibility**, he said that it is now amply clear that unless prerequisites such as strong macroeconomic fundamentals and a sound financial system are in place, capital account liberalization should be approached with appropriate safeguards.

Speaking at the Development Committee Meeting (Joint Ministerial Committee of the Board of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries), the Finance Minister expressed concern about the recent trends. While the world is facing the biggest financial challenge in half a century, the Official Development Assistance (ODA) as a share of GNP of developed countries has come down to 0.22% — the lowest rate recorded in the same period. Further, the East Asian crisis has resulted in reduced flow of private capital from the international markets to developing countries. The East Asian crisis has underlined the important role of official flows, especially concessional assistance, in underpinning stable capital flows to poorer countries.

**Recent Developments in the Indian Economy**

The Finance Minister also spoke about the Indian economy and the challenges it faces from the turbulent international environment. Since the early 1990s, India has made far reaching progress in addressing underlying structural distortions in the economy

*(Continued on page 2)*

## **Finance Minister Visits USA** *(Continued from page 1)*

and encouraging private sector activity. Trade and tariff reforms, financial sector liberalization, and the opening up of the investment regime prompted a strong supply response. The real economy grew at an average annual rate of over 6.5% in the last three years; export growth was buoyant for most of this period; and the share of foreign trade to GDP rose sharply. Concomitantly, the external position continued to remain easily manageable. The current account deficit was modest; foreign direct and portfolio investment inflows increased strongly over most of the period; and external debt parameters continued to improve.

India has continued to forge ahead with far-reaching reform agenda. Prudential norms and supervision practices of the financial sector have been strengthened. Foreign trade policies have been liberalized further. Capital market reforms have continued. Policies for foreign investment have been liberalized further. Major reforms have been enacted to promote investment in infrastructure sectors such as power, ports and roads. A new modern law on foreign exchange management has been introduced in Parliament. Wide ranging initiatives have been taken to spur investment in housing and information technology. India is pressing ahead with the program for privatization and disinvestment of state-owned enterprises.

In 1998-99, India is confident of performing well in spite of adverse external environment. Growth is expected to be of the order of 6 to 6.5%, current account deficit a little over 2% of GDP and the debt service ratio will continue to decline. Foreign exchange reserves are expected to remain at a comfortable level and will provide for an import cover of about 6 months.

However, India has not been spared entirely of the spill-over effects of the Asian financial turmoil. Against the backdrop of anemic world trade performance, Indian export growth has suffered, particularly because East Asia accounts for 20% of the country's exports. Moreover, given the retreat of the global stock markets, the impact on financial flows through portfolio investment into India has also been affected. However, thus far the outflow has been modest in comparison to other economies in the region.

### **India tops Morgan Stanley's model portfolio**

Morgan Stanley Dean Witter, the \$230 billion company in terms of assets managed, has moved India to the top slot in its global emerging markets model portfolio, from the number three position less than a year ago. The firm has awarded a 13.1% weightage to India, ahead of South Africa (12.1%) and Brazil (11.5%). Morgan Stanley will thus advise clients investing in 28 emerging markets around the world that they allocate the maximum amount for India.

Morgan Stanley managing director and global emerging markets strategist Robert Pelosky said that the reason behind his optimism was that India had good micro-stories. "There are good corporates who are not exposed to export-competitive pressures and have shown reasonably good growth," he said. Factors like a Standard & Poor downgrade did not concern him, Pelosky said, but issues like non-performing assets on the balance sheets of banks have to be addressed.

# **Power Minister visits USA for World Energy Congress**

The federal Power Minister, Mr. P. R. Kumaramangalam, led a delegation from India to the 17th Congress of the World Energy Council held at Houston, Texas, from September 13-18, 1998. This is a triennial event with participation from over 100 countries. This year's Congress marked the 75th anniversary of the WEC. The goals of WEC are to study, analyze and discuss matters of energy and energy related importance, so as to offer its views, advice and recommendations to industry, government leaders and decision-makers globally. The theme of this year's Congress was "Energy and Technology: Sustaining World Development into the Next Millenium".

Mr. Kumaramangalam addressed the Congress of the WEC on September 15 on "Overcoming obstacles to implement Energy Reforms and Expansion of Energy Sector in Developing Countries: The Indian Perspective". Giving an overview of power sector reforms in India, he said that these reforms were initiated in 1991. Regulations relating to fuel supply have been liberalized. Legislative measures have been effected to unbundle the State Electricity Boards into generation, distribution and transmission entities. With a view to build confidence of the private investors and to promote healthy competition as well as to ensure a reasonable and transparent tariff mechanism, the **Central Electricity Regulatory Commission** has been set up at the national level. It will also protect consumer interest. Similarly, a few State Electricity Regulatory Commissions have been set up and others will come up soon.

In addition, another major legislative measure undertaken has been the Electricity Laws Amendment to facilitate **privatization of transmission of electricity**. Other policy measures having far reaching implications include:

- New liquid fuel policy for power generation.
- Comprehensive hydropower policy to promote additional investment in this sector.
- Development of availability based tariff for rationalizing power tariff structure and stabilizing availability of power.

All these legislative and policy measures have helped in creating an extremely investor friendly environment in the power sector.

Senator Daniel P. Moynihan hosted a lunch in honor of the visiting Indian Power Minister at Washington DC on September 17, 1998. The lunch was attended among others by Ambassador Naresh Chandra, Senator Jesse Helms, Senator Robert Kerrey, Senator William Roth, Senator Connie Mack, Senator Paul Sarbanes and Senator Charles Robb. Assistant Secretary of State Karl Inderfurth was also present.

During the discussions, Mr. Kumaramangalam highlighted the developments in the power sector in India which have taken place in the context of the economic reforms over the past seven years. He also talked about the investment opportunities available in this very important infrastructure sector. Participants in the luncheon meeting stressed the importance of continuing close bilateral friendship and cooperation between the two countries.

# India Infrastructure Summit

A high-powered Indian delegation comprising of Mr. Sikander Bakht, Minister of Industry, Ms. Sushma Swaraj, Minister of Information & Broadcasting and Communications, and Mr. Thambi Durai, Minister of Surface Transport, visited Washington DC for the India Infrastructure Summit on September 30, 1998. The Federation of Indian Chambers of Commerce and Industry (FICCI), a premier industrial association of the country, also sent a delegation to attend the Summit. The India Infrastructure Summit was 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 this huge market.

In her address at the India Infrastructure Summit, Ms. Swaraj talked about the initiatives taken for the development of the telecommunications sector in India:

- To remove apprehensions that the growth may be haphazard and unregulated, and that there may be dominance of the government operator to the detriment of the private sector, the government has set up the **Telecom Regulatory Authority of India** (TRAI) in the year 1997.
- A decision has been taken that no license fee would be charged from **Internet Service Providers** (ISPs) for the first five years and thereafter a nominal license fee of Rs.1 will be charged.

## Embassy News

### **Memorandum of Understanding signed between the Department of Telecommunications, Government of India, and IUNet Inc. (USA)**

Anil Kumar, Secretary, Department of Telecommunications and Chairman Telecom Commission, Government of India, and Professor Raj Reddy, Chairman IUNet Inc. and Dean, School of Computer Science, Carnegie Mellon University (CMU), Pittsburgh, signed the Memorandum of Understanding on October 16, 1998, in the presence of Naresh Chandra, Indian Ambassador to the USA.

On September 5, 1998, the Information Technology Task Force, Government of India, concurred in pursuing the proposal of establishing High Speed National Data Network operating in the range of 2.5 to 10 Gbps (OC 48 to OC 192) and to connect it to International University Network being established by CMU, Pittsburgh, USA. The proposal is code named "**SANKHYA VAHINI**".

The **SANKHYA VAHINI** Network will be a High Speed Data Network which will connect institutes, private and public corporations, organizations and individuals requiring high speed data rates for learning, training, research, and other multi-media activities. **SANKHYA VAHINI** will also provide a test bed for research in developing and proving multi-gigabit technologies that will soon become the norm throughout the world.

IUNet Inc. was set up by Carnegie Mellon University (CMU), a leading educational institution based in Pittsburgh, USA, with a charter to design, develop and manage a high technology, high speed data network internationally to primarily promote educational services. The program will also access educational content from other leading US and global scientific institutions.

# **Reserve Bank of India expects the Growth Rate to be 6% in 1998-99**

Dr. Bimal Jalan, Governor, Reserve Bank of India, announced the "Mid-Term Review of Monetary and Credit Policy for 1998-99" on October 30, 1998. In the course of this announcement, he also talked about the prospects of the Indian economy in 1998-99.

## **Domestic Developments**

At present, there is some uncertainty about the extent of likely increase in agricultural production during the year as some parts of the country have been affected by floods and late rains. Taking this factor into account, a rate of growth of 3% in agricultural production over the depressed level of 1997-98 seems a reasonable estimate at this point of time, pending further confirmation about the effect of late rains. As regards industrial growth, although there are some incipient signs of recovery, it is not yet clear whether the rate of growth in industrial output will be substantially higher than last year's growth of 6.5%. Allowing for the turnaround in agriculture and some recovery in industrial production, the best estimate for GDP growth for 1998-99 is in the region of 6% (as compared with 5.1% in 1997-98). ***In view of the global slow-down in economic activity, this order of growth will place India as one of the very few countries, developed or developing, which will show a relatively high positive rate of growth during the current year.***

The Governor mentioned that the rate of inflation, currently ruling at over 8%, was high. Expressing the hope that with the arrival of the new crop and the beginning of the period of seasonal decline in prices, the annual rate of inflation could decelerate in the next few months, he added that recent trends in inflation were a matter of concern, and there could be no room for complacency.

## **External Developments**

The East Asian economic crisis, which appeared to be coming under control during the earlier part of the year, continues to remain serious. The contagion spread to Russia in August and could affect some Latin American countries as well. The economic outlook in Japan appears uncertain. Equity, bond and foreign exchange markets in the United States and Europe have also been affected. Although there has been some upward movement in global stock markets in the past fortnight, the world economy, as a whole, continues to be faced with considerable uncertainty. In addition to the unfavorable external situation, India was also confronted with certain other developments after the May 1998 nuclear tests. Among these developments were the economic sanctions imposed by certain industrial countries, the suspension of fresh multilateral lending (except for some sectors), the downgrade by rating agencies, and the reduction in net investment of foreign institutional investors.

Viewed against the above background, developments in respect of India's foreign exchange market have been orderly and generally satisfactory. A major positive development has been the success of the Resurgent India Bonds (RIBs) floated by the State Bank of India. Foreign currency resources amounting to US \$ 4.2 billion were raised under the RIB scheme. India's present foreign currency assets are higher than at the beginning of January 1998 in both gross and net terms (i.e., after excluding forward liabilities). Considering the unfavorable international environment, this is a matter of some satisfaction. The level of reserves also substantially exceeds the total stock of short-term debt and portfolio flows. As a matter of cautious policy, India has kept its short-term as well as forward liabilities at a low level in relation to the size of its reserves.

# Upcoming Events

## ***International Seminar on Expressway Development in India, New Delhi, December 12-15, 1998***

Accelerated economic growth since the process of liberalization began in 1991 has put a great strain on the existing road network and has made its expansion more urgent. A series of new policy initiatives aimed at attracting private investment into this sector have been announced.

In this context, a massive program for developing National Expressway Network in the country aggregating about 13,000 kilometers 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. 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.

In order to apprise the entrepreneurs about the potential investment opportunities in the Expressway Development Program, the Ministry of Surface Transport, Government of India, will hold an International Seminar from December 12-15, 1998, in New Delhi. The Seminar will be of immense value to prospective investors, financiers, contractors and consultants in highway infrastructure sector.

*For further information, please contact:*

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## ***International Conference on Investment Opportunities in Infrastructure Sector in Rajasthan, February 3-4, 1999, Jaipur - Rajasthan, India***

The Indian state of Rajasthan, not only has a glorious past, but also offers a bright economic future through investment opportunities in key sectors like energy, oil and natural gas, lignite, mineral based industries including gem stones, information technology, software and a variety of other industries. The venue of the conference, Jaipur, is the capital of Rajasthan and is a great tourist attraction because of its historical forts, museums and other places of interest.

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# Economic Update

**Foodgrain Stocks:** Stocks of foodgrain stood at 27.31 million tonnes as on August 1, 1998. This level of stocks was higher by 53% than the level of 17.82 million tonnes as on August 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-July 1998, industrial production increased by 4% as compared to 5.5% in April-July 1997.

**Infrastructure Industries:** During 1997-98, production in infrastructure industries grew by 5.4%. During April-July 1998 average growth rate of this sector was 3.5% compared to 5.5% in April-July 1997.

**Money Supply:** During the financial year 1997-98, money supply (M3) growth was at 17.6%. During the current financial year up to August 14, 1998 money supply (M3) growth was lower at 4.7% as against 4.9% in the corresponding period of 1997-98. As on August 14, 1998, Prime Lending Rate was 12.75% to 13% as against 13.5% on August 15, 1997. As on August 14, 1998, Deposit Rate ranged between 9% to 11.5% against 10% to 12% as on August 15, 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-July 1998, exports declined by 3.8%. Imports increased by 8.3% 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 \$1.04 billion and stood at \$24.94 billion at the end of August 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.42.76, Rs.69.81, Rs.23.92, Rs.7.14, and Rs.0.30 respectively during August 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 8.8% as on August 29, 1998. The annual rate of inflation based on Consumer Price Index for Industrial Workers (CPI-IW) stood at 12.4% for the month ending June 1998.

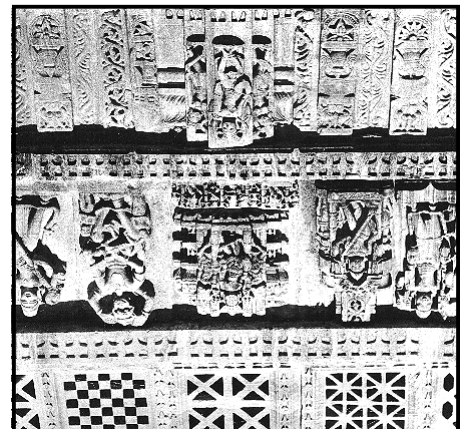
## Rajasthan to be India's first e-state, says IBM

Global computer giant, IBM, will develop Rajasthan as the first e-state in the country, the company's director for emerging markets software (Asia-Pacific) Mike Colleary said. As a first step towards achieving this vision, IBM had developed a "file and letter tracking system" to assist the Rajasthan government's efforts in automating office operations. This was part of the Tata-IBM's on-going efforts to usher in the automation of various state governments across the country in support of the IT task force recommendations.

## NEWS BRIEFS

- US major **Hughes Software Systems** has become the first company to offer credit card based payment over internet in India. (Press Trust of India)
- US multinational **Enron** has tied up finances of over \$1 billion for the 1444 MW second phase of the Dabhol power project in western Indian state of Maharashtra with guarantees coming from the Exim banks of Japan and Belgium. The company had to finalize the foreign loan component for the second phase with Japan and Belgium as the US Exim bank had suspended its guarantees in the wake of sanctions against India following its nuclear tests. (Press Trust of India)
- Essar Cellphone has entered into a strategic alliance with **Iridium** to offer the latter's Global Mobile Personal Communication Service (GMPCS) in India. As part of the alliance, Essar and Iridium have agreed to jointly promote Iridium services through co-branding of promotional and marketing communications. (Press Trust of India)
- **Intel Corporation** has set up a venture capital fund which has already taken equity positions in one company and plans to do so in six other high-tech start-up firms in India. These companies are primarily providers of value added software. (Business Standard)
- Gujarat Fun N Water Park Ltd., an Ahmedabad-based entertainment company, is in talks with **A\*Basic Service**, a US-based consortium which supplies and services amusement rides, games, manufacturing and entertainment equipment, for a financial participation in the Indian company. Currently, A\*Basic Service is a technical collaborator providing know how for manufacturing various entertainment equipment. (Economic Times)
- The Foreign Investment Promotion Board (FIPB) has paved the way for infusion of \$25 million into **Dupont's** subsidiary in India. The subsidiary manufactures nylon industrial yarn and tire cord. (Economic Times)

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



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