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INDIA NEWS

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NOVEMBER 16-30, 1997

Excerpts from

Finance Minister P. Chidambaram's address at "The India Conference"

Organized by

**The Washington Post, the Confederation of Indian Industry and
the Coalition of Service Industries**



*Finance Minister
P. Chidambaram*

market system are better drivers of growth and prosperity that Indians now accept to be the essential prerequisites for true equal opportunity and tangible social justice.

We have a long way to go but we can look back with some satisfaction. Growth has averaged 7% in the last three years. This has been achieved without any significant deterioration in the external account or in an upsurge of inflationary pressures. Currently, inflation is just a little over 4% and under control. Our objective and our determination is to sustain 7% growth and to attain 8% growth by the turn of the century. If we are able to do this, we would have succeeded in abolishing poverty by 2020. We are managing our external debt prudently. Our repay-

A 4000-year old civilization has just turned 50. But India's economic revolution is only six years old. The reforms were triggered by a crisis engendered by long years of a state controlled and state-directed economy. They are now based on the conviction that deregulation, competition and the mar-

ket system are better drivers of growth and prosperity that Indians now accept to be the essential prerequisites for true equal opportunity and tangible social justice. ment record is impeccable. India's debt service ratio is around 23% of current receipts and the proportion of short-term debt is very small at around 5%. Total external debt has come down sharply from 36% of GDP to 27% in the last four years. The structure of our debt is also radically different: slightly over half of the total debt is to bilateral and multilateral creditors and is on concessional terms.

Current account deficits are at extremely safe levels, so safe that we are in the happy position of wanting a higher level of deficit in order to have a higher order of investment. This year I expect the current account deficit to be less than 2% of GDP. The rupee is relatively stable in a sea of turbulence and we wish to keep it that way. The exchange rate is market determined but we will ensure that there is no excessive speculation or volatility. Full convertibility is on the horizon over the next few years. The first steps have already been taken with the liberalization of gold imports, permission given to exporters to retain 50% of their earnings overseas and the flexibility given to mutual funds to invest in overseas markets. Banks have been allowed to borrow and invest-abroad up to certain limits. Interest rates, still high by world standards, have declined by over 400 basis points over the past six months and prime

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Comprehensive National Policy on Renewable Energy on the Anvil

A comprehensive renewable energy policy is under formulation. This was disclosed by the Minister for Non-conventional Energy Sources Captain Jai Narain Prasad Nishad at the first meeting of the newly re-constituted Parliamentary Consultative Committee of his Ministry, here today. Captain Nishad said that as a first step towards this, a renewable energy policy statement has been prepared and would be laid in Parliament during the winter session. He pointed out that such a policy will help concretise programmes and expedite implementation of renewable energy schemes at the State level and also help in taking any legislative measures.

The meeting was called to discuss "Rural energy - biogas, improved chulhas and biomass programmes". Capt. Nishad told the Committee that his Ministry has also formulated an ambitious proposal for a quantum jump in exploiting the potential of renewable energy sources in the country, during the 9th Plan. The emphasis will be on meeting the minimum energy needs for cooking, lighting and electrification of villages. It is planned to promote 14.5 lakh family-type biogas plants, 250 lakh improved chulhas, 5 lakh solar cookers, 15 lakh square metres of solar collector area, 45 MW capacity solar photovoltaic systems, 2,000 MW wind farms, 350 MW small hydro power and 400 MW bio-

mass cogeneration. The Minister stated that this should result in paving the way for power generation through renewable sources of energy to the tune of 10 per cent of the total installed capacity by the year 2012 AD. He said his Ministry has projected an outlay of Rs. 3,000 crore for the 9th Plan and announced that the Prime Minister has asked the Planning Commission to allocate the requisite resources.

Turning to the current programmes, Capt. Nishad said that efforts are being made to promote renewable energy systems on a saturation area basis on high focus areas such as the North-Eastern States and hilly, tribal and backward areas where conventional power has not reached. It is also proposed to take up "Biogas Sanitation Programme" in a big way in collaboration with the Ministry of Rural Areas and Employment. This is because of the successful implementation of the programme in a number of States and it becoming popular. 26 lakh rural households are covered under it. Under the national programme on improved chulhas, over 260 lakh households have already been covered and the Ministry is providing a grant of 20 to 30 Rupees per chulha and Rs. 500 to 700 per biogas plant. The Ministry is also promoting biomass briquetting and biomass gasifier technology. The Indian Renew-

able Energy Development Agency has been providing soft loans for biomass briquetting units. Since the programme could not become very popular mainly due to non-availability of working capital, the Ministry has requested the Reserve Bank to include biomass briquetting units under "priority area".

Capt. Nishad said that his Ministry will be organising a "Renewable Energy Week" for the first time in India, may be in the world from 14th to 21st January, 1998. A number of activities relating to solar energy, biomass, small hydro power etc. will be taken up during the week. Members who took part in the meeting suggested setting up of biogas plants at the dairies. The Secretary, Mr. S.S. Boparai said that his Ministry will look into making it obligatory, the setting up of biogas plants at the dairy sites. Another Member suggested, wide use of vegetable market waste for producing energy. Mr. Boparai said that his Ministry has written to the States suggesting setting up of biogas plants obligatory at the vegetable marts.

The Members who attended the meeting from the Lok Sabha are Mr. Lakshman Singh, Mr. A. Sampath, Mr. Nirmal Kanti Chatterjee, Prof. R.R. Pramanik and from Rajya Sabha are Mr. O. Rajagopal, Mr. Satish Pradhan.

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lending rates are now between 13% and 13.5% — the lowest in recent years.

Foreign investment inflows continue to be strong. In 1996/97, total foreign investment inflow was about \$5.6 billion, of which the equity component — both foreign direct investment and Global Depository Receipts — was about \$3.7 billion. This year, we expect equity inflows alone to touch \$5 billion. Our total foreign exchange reserves have crossed \$30 billion, equal to almost eight months of imports. Demands on public expenditure are many and will escalate in a democracy where there are many equally deserving claims. Even so, I am determined to keep the fiscal deficit of the Central government under tight control. In short, our macroeconomic fundamentals are sound. My message is invest in India not only for its promise and potential but, equally importantly, for its performance. Our performance may not yet be stunning but it is definitely solid, robust and durable. The world knows what India must do but, sadly, is less informed on what has been done. What has been done may constitute small steps in the eyes of the world but are giant leaps judged by where we were just six years ago.

The oil and gas industry is in the midst of fundamental restructuring. We have announced that the Administered Price Mechanism for petroleum products will be dismantled in four to five years and tariffs brought down sharply. We are phasing out petroleum subsidies. Diesel is now on import parity prices. Subsidy will be confined to kerosene that is consumed as cooking and lighting fuel by the poor. Twenty-six exploration contracts and twelve pro-

duction contracts will be signed with private companies, many of them American, over the next few weeks.

The learning period for private power that lasted about three years is over. Almost 5000 MW of IPP capacity is under construction and another 10,000 MW are poised for financial closure and will soon enter the implementation phase. We have identified 10,000 MW of coal pithead mega projects, which will be offered to private investors through an international competitive bidding process. The tender for the first such 1000 MW power station along with the coalmines was issued last month. States like Orissa, Rajasthan, Haryana and Andhra Pradesh have initiated far-reaching reform measures to transform, financially and organizationally, their state electricity boards. These States are, incidentally, ruled by four different political parties.

In three States of India with a combined population of about half of the United States — Maharashtra, Madhya Pradesh and Gujarat — private basic telecom services will be launched shortly in competition with what the government provides. American companies are closely involved with two of these projects. Government monopoly over the provision of Internet services was ended last week. Two ports, Pipavav and Dahej in the State of Gujarat, are under construction by the private sector, and at least five more in other States are on the anvil. In ports owned by the government, we allow leasing out existing assets of ports as well as private sector construction and operation of new facilities like container terminals,

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India Has Valuable Technology For The World

India can offer valuable lessons to the rest of the world in the fields of software technology and utilisation of waste material, according to the head of an international institution for technology transfer. "Indian technologies are quite well placed on the international market," Dr. Jurgen Bischoff, Director of the Asia and Pacific Centre for Transfer of Technology (APCTT), has said. APCTT, whose aim is to promote technology exchanged in the Asia-pacific region, is on the lookout for technologies for small and medium enterprises. "What we are doing really is match-making between companies, between research institutions and small and medium enterprises, with the intention of transferring technology," Bischoff said. Indian firms too had brought in technology through the APCTT, particularly for better waste management, leather, paper and food processing industries, he said. Food processing technology is also much needed in India, as is light mechanics and biotechnology for medical purposes. South Korea and China have a lot of relevant technologies for India, he said.

More Private Investment Required to Meet Energy Needs

India will need to invest over 60 billion dollars in the next ten years to accelerate the pace of development and to meet the growing demand of petroleum products.

Against the total demand of 80 million tonnes of petroleum products at present, the crude oil production is only 34 million tonnes. In the Ninth Five Year Plan the crude oil production is estimated to be 37 million tonnes against a demand of 130 million tonnes.

To ensure adequate availability of gas and petroleum products, the Government has taken wide-ranging measures to increase production and to make Hydrocarbon Sector internationally more competitive. This was stated by Shri Janeshwar Mishra, Minister for Petroleum and

Natural Gas at a Seminar on "Petroleum Industry - future perspectives". The Minister said that the Government has agreed upon a comprehensive package of reforms which includes gradual dismantling of Administrative Price Mechanism (APM); to bring the prices of fuel oil, LSHS, Naphtha and Bitumen in parity with international prices. Bringing about changes in customs and excise duties are some of the measures taken to make Petroleum Sector more competitive.

Even then it is a matter of concern that our dependence on imports will grow from 55% to 75% of the total requirement by the end of the Ninth Plan. The main focus of governmental efforts has been to increase domestic crude oil production and strengthen the marketing system.

The new Exploration Licensing Policy and to provide Naphtha to independent power producers for generation of 12,000 MW of electricity are but a few of the measures in this direction.

The Minister said that the Government has also seriously taken up the work of deep-sea exploration. New alternatives like coal bed methane and liquified natural gas are some of the alternatives on which the work has been going on.

To develop CBM, 9 blocks have been identified. ONGC has been able to discover CBM in Parbatpur region of Bihar and its commercial viability is being established. The Government has decided to invite private investment for CBM blocks also.

Railways Develop High Horse Power Passenger Locomotive

The Railways are in the process of developing 3100 horse power WDP2 locomotive for passenger service through its in-house research. The prototype of this high performance diesel locomotive will be ready by January 1998. Development of this more powerful loco will greatly help in speedier operation of passenger services on non-electrified broad gauge routes. The 2600 horse power WDM2 diesel locomotive in use on Indian Railways during the last three decades has been upgraded by indigenous design at the Research, Design and Standards Organisation (RDSO), Lucknow. The freight version of 3100 horse power locomotive WDG2 was developed. This locomotive has been found to be extremely good for freight movement particularly, in sections having steep gradients. Series manufacture of this locomotive were taken up in 1996-97. So far, 115 such locomotives have been manufactured and put in service. A light weight 2300 horse power WDP 1 locomotive has also been developed specifically for passenger service and 34 such locomotives have been pressed in service.

Tourist Arrivals from Different Regions Increase

An analysis of the data available of the tourist arrivals in India for January-June, 1997 shows that highest number of tourists 3,90,073 came from Western European countries. This was followed by South Asia (2,84,639), North America (1,49,925), South East Asia (71,777), East Asia (70,483), West Asia (49,328), Africa (48,814), Australasia (28,250), Eastern Europe (20,425) and Central and South America (8,078).

Growth of Private Sector Steel Plants

Projects worth approximately Rs. 223.92 billion of investment in the steel sector have been approved by the Financial Institutions, while a number of other projects worth Rs. 94.63 billion are under consideration. This was stated by Mr. B.P. Baishya, Union Minister for Steel and Mines while addressing the meeting of the Consultative Committee of Ministry of Steel. He said that a total capacity that is to be added will be 1111 million tonnes and 64.2 per cent of this capacity are for production of flat products made out of Hot Rolled Coils/sheets and Cold Rolled Sheets.

As per the projections of the Working Group by 2001-02 India is expected to have excess capacity for long products like bars and rods and structurals to the tune of around 0.4 mt and an excess demand for flat products 1.1 mt. Of the total production of 10.88 million tonnes(mt) of finished steel in the first 6 months of 1997-98, 6.83 mt (62.8%) was contributed by the private sector.

This trend of increasing contribution from the private sector has been anticipated by the Working Group and is likely to continue. There are presently 184 Electric Arc Furnace (EAF) based steel plants in the country with an aggregate capacity of 10.4 mt per annum. Production from this sector has been increasing steadily mainly due to entry of major EAF based steel producers like ESSAR steels, Lloyds, Jindal Strips. In the period April-September 1997-98, the production from this sector has been 2.07 mt.

INDIA REITERATES OPPOSITION TO NEW ISSUES

The Commerce Minister, Dr. B.B. Ramaiah, has reiterated India's opposition to new issues being raised in the WTO as well as the proposed new round of multilateral trade negotiations without first completing the agenda of the Uruguay Round Agreement.

Inaugurating the two-day International Business Round Table on Uruguay Round Agreements — Implications for International Trade in Technology-Based Products, Dr. Ramaiah, referred to the deliberations of the recent G-15 Trade and Economic Ministers Meeting at Kuala Lumpur which he attended to underline that another round of trade negotiations would be premature at this point of time as the existing WTO Agreements had yet to be fully absorbed by most of the developing countries.

He assured the industry of the government's fullest support and cooperation in gearing up to face the challenges arising out of the Uruguay Round in various sectors, including the upgradation of standards in order to conform to the new regulations and guidelines. At the same time, the Minister also underlined India's commitment to fulfilling its WTO obligations as a signatory to the Agreements, citing reduction in tariff levels as a measure of the country's commitment to the process of trade liberalisation.

Mr. G.V. Ramakrishna, Chairman, Disinvestment Commission, in his special address called upon the industry and the government to take serious note of the implications of the various Uruguay Round Agreements and formulate suitable action plan in this regard. There should be detailed study of the Agreements, including an examination of how other countries — both the developed and developing — were fulfilling their obligations; the adverse effects of the Agreements; and how to avail of the trade opportunities arising from the Agreements, he said. Mr. Ramakrishna further pointed out that the WTO represented not only a new international economic order but also a new "socio-economic contract". Hence, it needs to be understood and explained that dilution of national sovereignty in exchange for trade opportunities was implicit in the Uruguay Round Agreement because of the commitments undertaken not only by India but also all the other signatory countries, he said.

He said that while the Agreements were being discussed by the industry in India now, others were already using these Agreements effectively and quoting their provisions against us. In this context, he stressed the importance of understanding the Agreement on Technical Barriers to Trade and deplored that there was no national accreditation body for testing standards as yet. "WTO is not merely a talking shop, it has real teeth and therefore, we need to prepare adequately....particularly for dispute settlement in order to avoid adverse rulings", he added.

Expansion of Internet Services to Attract Two Million Users

The Government has announced certain major changes in Internet Policy to benefit academic community, scientists, entrepreneurs, students and young people at reasonable prices. The policy places special emphasis on providing opportunities to young technocrats. The objective of the policy is to see 1.5 to 2 million subscribers within a period of 2 to 3 years. The number of subscribers at present are about 40,000. The new policy is a major step in the direction of strengthening access to information at the national and global levels as India has a competitive advantage in the field of information technology.

As a promotional measure, private operators will be permitted to use excess capacity for transmission available with the Railways and the Power Grid Corporation in addition to the facilities provided by the VSNL. They will also have access to multiple gateways for international connectivity, if necessary. Voice monopoly for covering long distance and international calls will continue to remain with DOT/MTNL and VSNL. Care has also been taken to ensure the interest of basic service operators and other value added service providers.

All operational problems and the expeditious implementation of the Government decisions relating to Internet will be overseen by an Inter-Ministerial Implementation Committee set up for the purpose. It will also act as an in-house mechanism to ensure a level playing field for all the Internet Service Providers (ISPs). The Committee is headed by the Secretary, Department of Telecommunications with Secretaries from Department of Electronics, Ministry of Power, representative from the Ministry of Railways and Principal Advisor (C&I), Planning Commission as Members. The salient features of the changes announced in the policy are:

- The exact quantum of the licence fee which the ISPs will have to give as a bank guarantee will be worked out by the Implementation Committee. The quantum of the licence fee that will have to be paid by the ISPs after the fifth year will be indicated after three years on reviewing the situation.
- There will be no limit on the number of ISPs. Port charges and charges for leased lines will be fixed at promotional rates.
- Market forces will be allowed to determine the amounts which the ISPs will be charging from their respective users..
- The Ministry of Railways, the Power Grid Corporation of India Ltd. and the State Electricity Boards would be permitted to lease out their surplus/excess capacity for the use of the ISPs.
- ISPs would have the freedom to use international gateway to VSNL or other gateways, to be leased by VSNL as well as any other gateway as necessary subject to approval and such conditions as may be laid down by the Implementation Committee.
- ISPs may create their own transmission network if authorised by the Implementation Committee.
- Voice on internet would not be permitted and the duopoly for voice services in the circles and monopoly of DOT/VSNL for national and international services will not be affected.
- All licensees of the DOT i.e. basic service providers, pagers, cellular operators etc. can become ISPs on the same terms and conditions generally applicable to ISPs.
- E-Mail licensees will be permitted to become ISPs and the licence fee for the first five years will be waived for them as in other cases.

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cargo berths, warehousing, dry docking and ship repair. The detailed framework for private investment in roads and highways is now in place and 14 Build-Operate-Transfer (BOT) contracts will be awarded shortly. Over the next five years, about 4500 kms of two-lane national highways will be upgraded to four-lane and to world standards. We have announced the policy on tolls and more importantly have extended fiscal incentives to real estate development along highway corridors to make investment in these highways profitable. Many of the laws that underpin economic activity are decades old in India and have outlived their utility. We have amended our arbitration regime to bring it in line with UNCITRAL rules. We have completely rewritten the Companies Act of 1956 and this is now before Parliament. The Foreign Exchange Regulation Act of 1973 has been recast into a Foreign Exchange Management Bill, which will be made public shortly. A new and transparent take-over code for companies has been put in place. We believe that enhanced competition and focused regulation go hand-in-hand in strengthening the financial services industry. Almost all public sector banks, except two, now meet the 8% Basle norm for capital adequacy. There has been bit of a setback on opening of the insurance industry. The debate does not relate to opening up, on which there is majority support in Parliament, but rather to the extent foreign companies should be allowed to operate. I am confident that in the next two months, we will be able to bring insurance reforms back on track. The capital market has witnessed a fundamental change and we are well on our way to a paperless trading system, which will make for a cleaner, quicker and more transparent market.

I have recounted at length some of the more significant initiatives that have been taken over the past few months. The very process of change is expanding the pro-reform constituency. We have had three governments at the Center in the last fifteen months but the basics of the new economic policy, with its thrust on reforms, have not changed at all. Four weeks ago, Prime Minister Gujral met with President Clinton in New York. During the meeting it became clear that both countries desired to engage each other on a wide range of issues, the foremost being trade and investment. *Two-way trade between*

the two countries has doubled between 1991 and 1996. Fully 19% of India's exports are to the United States and 12% of India's non-oil imports are from the US.

The next frontier to be conquered is investment. The US remains the largest new investor in India since 1991. Total FDI approvals from the US have been about \$10 billion; however, the actual flows to date are only about \$1.5 billion. This, of course, does not include investments flowing in through the Mauritius tax haven. If this is added, inflows from US companies would add up to about \$3 billion. During the meeting with President Clinton, we underlined the competitive edge of American companies in areas like power and petroleum and invited them to come to India in a big way. To the list of areas where US investors have a great opportunity, we can add telecommunications, airlines and airports, hotels, food processing and sports and recreational facilities.

I shall readily acknowledge that American companies, when they choose to invest abroad, have a variety of destinations to choose from. Why should they choose India? Allow me to offer four compelling reasons why you must look at India seriously.

First, India remains perhaps the world's pre-eminent development frontier. India is among the handful, which simply have to expand at a furious pace. India is not just an expanding consumer market. It is a place where infrastructure has to be built to meet the needs and aspirations of over a billion people, and that is where there is an unprecedented opportunity for American business and industry.

Second, India is not just a low-wage country. It is a country that produces technicians, scientists, engineers and technical personnel of world-class. A survey of expatriate managers reported in the London Economist had placed India at the very top on the availability of skilled manpower at competitive rates.

Third, India has a preponderance of entrepreneurial skills and entrepreneurs who are taking on multinationals and global brands and compet-

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ing effectively. With the increasing availability of venture capital and the freeing of licensing restrictions, there has been a mushrooming of new small and medium-sized companies, started and managed by professionals. American companies will find them enthusiastic partners.

Fourth, a market economy is founded on a system of honoring contracts, enforcing property rights and respecting legal obligations. India has a well-developed judicial infrastructure that has time and again demonstrated its independence, as in

the Enron case. A number of independent regulatory authorities are also being set up in sectors that are being restructured.

Friends, India, like the United States is a completely open, fully representative and pluralistic democracy. And because we are open, there is a strong tendency to view us more critically and emphasize only the negatives. I am not suggesting that problems do not remain. But India is moving confidently ahead. With the help of our American friends, I am sure we will keep our tryst with destiny before long.

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**PUBLISHED BY
SHIV MUKHERJEE FOR THE
EMBASSY OF INDIA, WASHINGTON, DC**