

ECONOMIC NEWS FROM INDIA

Period: Upto –24th Feb. 03

MACRO ECONOMIC INDICATORS

- The closing **exchange rate** of the rupee ended this week at sixteen month high of 47.71, to the dollar. In cross currency trades, the dollar to the euro, pound and yen was trading at 1.0730, 1.7065 and 118.30, respectively.
- The **inflation rate** for the first time in the current fiscal, inflation touched the **high of 5.04 per cent** during the week ended February 08 compared to 4.86 per cent of last week ended February 1, 2003. The rate of inflation for the corresponding week in 2002 was 1.20 per cent.
- **Foreign exchange reserves** touched a new high of \$75.283 billion for the week ended February 14, 2003 compared to \$74.667 billion in the previous week. The rise in the forex reserves can be attributed to the consistent rise in the foreign currency assets. While the gold reserves remained unchanged at \$3,688 million, the SDR increased to \$9 million from \$7 million last week.

Apr-Nov commodity exports up 18%

India's key commodity exports grew 18 per cent during April-November 2002-03 to \$33.6 billion from \$28.4 billion in the same period a year earlier. According to the Directorate General of Commercial Intelligence and Statistics, the healthy growth in commodity exports was largely due to **a near 30 per cent growth in exports to America, Latin America, Asia and Oceania markets.**

Commodities like rice, wheat, tobacco, engineering goods, textiles, ores and minerals, gems and jewellery, rubber and petroleum products logged a growth of 10 per cent or above. On the other hand, a growth of up to 10 per cent was registered in commodities like agriculture and allied products, spices, fresh fruits and vegetables and sports goods. Meanwhile, export of commodities such as tea, coffee, leather and manufacturers, electronic goods, coal, sugar and molasses, poultry and dairy products, spirit and beverages, nuts and seeds and mica saw a decline.

Prime Minister to visit Russia in May

Prime Minister Atal Bihari Vajpayee is scheduled to visit Russia in May to attend the St Petersburg tercentenary celebrations, said Raghunath Krishnan, Indian ambassador in Russia. This will provide a fresh boost to bilateral relations.

Russia and India have established a strategic partnership. The diplomatic contacts planned this year would give fresh impetus to development of relations between the two countries, Krishnan said. He stressed that both countries attached great importance to the implementation of the New Delhi Declaration made in the past year.

"Both sides attach much importance to the implementation of the arrangements that will broaden cooperation in economy and science and technology that was reached during Russian President Vladimir Putin's visit to India in 2002," Krishnan said.

Software, services exports surge 28% in FY02: ESC

India's computer software and services exports grew 28 per cent in 2001-02 at \$7.65 billion amid negative developments such as the global recession, terrorists strike in the US, according to the report by The Electronics and Software Export Promotion Council (ESC). In rupee terms, the growth was 32.73 per cent at Rs 36,500 crore, according to the ESC statistical year book.

Of the total, IT software and services contributed \$6.12 billion, posting a 21 per cent rise in growth, while IT-enabled services (ITES) sector registered a growth of 64 per cent per cent in the same period at \$1.53 billion. Exported to 103 countries ESC said, **India at present enjoys 20 per cent market share in the global cross-country customised software development market.**

In the software export, offshore revenues provided \$4.28 billion, contributing 56 per cent of the computer software and services exports and registering a growth of 63 per cent, while on-site revenues it contributed 44 per cent of the total of \$3.36 billion. India's share in the world software market is at 1.82 per cent, the report said while adding the global market size is \$550 billion.

During the period, the US and Canada accounted for 64.19 per cent of the total computer software and services exports, while EU countries were the second largest destination at 23.44 per cent. Japan, Korea and other Far East countries contributed 4.16 per cent of the total exports, while Singapore, Hong Kong and South Asian countries accounted for 4.02 per cent. The report states that **the Indian software industry has achieved a remarkable distinction for quality.**

'India will be fastest growing economy in Asia by 2010'

Describing India as the "stealth miracle economy" among the democracies of the world in the last two decades, Mr P.K. Basu, Director & Chief Economist, South East Asia and India, **Credit Suisse First Boston, Singapore,** today predicted that India would emerge as the fastest growing economy in Asia by 2010.

Hailing India's performance in the external sector, especially in manufactured exports, software and other service sectors, he said the country may emerge as a net creditor nation in the none too distant future.

Participating in an interactive session on "West Bengal and China: Is there a similarity," organised by the Confederation of Indian Industry (CII) Eastern Region, he said **there was no other example of such a huge democracy achieving a 5 per cent growth year-on-year during this period.**

Citing the example of Asian success stories such as Taiwan and Korea, he called for a greater degree of relative autonomy for the bureaucracy. On foreign direct investment (FDI), he said while India's approach is driven by the domestic sector, in China almost entirely it is driven by the MNC sector, which in turn also drives the export sector despite FDI's vulnerability to relocation choices of MNCs. Stressing on the need to unite the masses and the classes in giving a boost to the manufacturing sector, just as in China, Mr Basu said the surge in China's manufacturing sector growth could largely be attributed to the employer-friendly labour laws.

GEO-ECONOMIC

BILATERAL

Hyosung Motors may set up sourcing base in India

Hyosung Motors Korea (HMK), with which Kinetic Engineering Ltd (KEL) has entered into a technical collaboration for the GF series of motorbikes, is in talks **to make India the sourcing base for exporting bikes to Hyosung's markets across the world.** KEL will set up two more manufacturing lines at an investment of Rs 200 million each and invest another Rs 100 million to upgrade its existing line. It has also drawn up plans to launch a new bike in every quarter for the next one year. This year the company hopes to sell 75,000 bikes and has already sold around

55,000 till date. KEL's target was to achieve 15 per cent growth in vehicle sales every fiscal. KEL's next launch will be GF165, with engine of 165cc bike. It will go on sale by March. This will be followed by a new 115cc motorcycle, scheduled for launch in the first quarter of the next fiscal.

Indigene to set up \$10m unit at Hyderabad

US-based Indigene Pharmaceuticals has decided to set up a development centre in India involving an initial investment of \$10 million. The company is engaged in the development of **superior plant-based medicines.** The development centre will be located in Hyderabad and will support product development, supply logistics and manufacturing. The centre will start functioning in a couple of months.

Indigene already has a sustainable product development pipeline and is focusing on four therapeutic areas — metabolic disorders, oncology, central nervous system and infections. Under these broad segments, the company is specifically focusing on Parkinson's disease, HIV, diabetes and Hepatitis B. The company has patented a breakthrough rapid drug development process under which multiple molecules can be used for drug development.

ChrysCap to invest \$10 m in BPO firm Ephinay

The \$200 million private equity investment company, ChrysCapital, announced that it would invest \$10 million in Ephinay, a finance and accounting business process outsourcing company. The investment of \$10 million would be spent on technology, acquisitions and sales and marketing and building the company's infrastructure.

Ephinay would offer comprehensive scalable process management solutions designed to manage its client's entire finance and accounting functions and also perform financial transaction processing, senior managing director of ChrysCapital, Ashiah Dhawan, said. ChrysCapital manages two funds in India and has exhausted the first fund completely. The company has also made investments of \$100 million in various Indian companies. The venture capital fund with a focus on IT services, technology and business process outsourcing also operates in the secondary markets.

MULTILATERAL

\$ 13-m ADB aid for Icrisat project

The International Crops Research Institute for the Semi-Arid Tropics (Icrisat) announced that the Asian Development Bank (ADB) would extend \$ 1.3 million to support the second phase of the watershed development project being co-ordinated by it. ADB has taken this decision, following a satisfactory performance of the first phase of the watershed project.

In the first phase, benchmark watersheds were identified and accordingly projects implemented in India, Thailand and Vietnam, an Icrisat press release said here. In the second phase of the project, which began in January this year and would end in 2005, China has been included as a project country.

The project is being implemented by a consortium of stakeholders -- scientific organisations, agricultural universities, non-governmental organisations and farmers.

Under the project, strategic partnerships were formed. HP Singh, the director of the Central Research Institute for Dryland Agriculture (Crida) said: "The effective strategic partnerships created for this project has resulted in its success, since watershed development involves dealing with a complex set of biophysical and socio-economic issues." The ADB-funded project aims at using watershed development for increasing rural incomes and minimising environmental degradation.

Australia keen to work with India on key WTO issues

Australia is looking forward to working closely with India in negotiating and concluding the Doha round of talks. As an influential developing country leader in the WTO, India is well placed to play a key role, the Australian Minister for Trade, Mr Mark Vaile, said.

The Minister added that India and Australia have common interests in a number of areas of negotiation including cutting back on high levels of agricultural subsidies and border protection by developed countries. Mr Vaile added that the two countries share an interest in guarding against the use of legitimate public objectives by some countries or blocs of countries - such as environmental protection - to justify disguised barriers to trade. He said that both the countries could work together in these areas and across the negotiating agenda to help improve understanding and build the momentum for concluding the round.

On the issue of economic reforms in India, the Minister said that Australia has direct interest in the reforms process and specified that Australia hoped that Indian tariffs on wool would be reduced. Such a move, he said, will boost Australian exports to India and in turn improve the condition of Indian wool garment manufacturing and export industry.

CORPORATE SECTOR NEWS

Moser Baer to sell 25% of output to Imation of US

Moser Baer India Ltd (MBIL) is expanding its presence in the US market with the acquisition of a large order for its CD-Recordables (CD-R's) from Imation Corp, a \$1.07 billion company recognised as a leading developer, manufacturer and supplier of magnetic and optical removable data storage media.

While Imation has been a client for some time, the new relationship establishes an entirely new volume dynamic. This deal makes Imation principal customer of MBIL in the US market. It is learnt the two will sign the contract in a few days.

MBIL — promoted by technocrats Deepak Puri and Ratul Puri — is the only company in India that manufactures and exports CD-Rs as well as other formats like digital versatile disc (recordable) or DVDRs. Flexible manufacturing facilities enable the company to shift between different formats based on requirement. **It reportedly caters to a global market estimated to consume over 7.5 billion units of CDRs, anticipated to grow by over 30% a year.**

Europe has historically been MBIL's major market, though of late, the company has been actively eyeing the American marketplace as well. While its recent acquisition of Luxembourg Capco SA has strengthened its position in Europe, it has also set up subsidiary Glyphics Inc in the US to capitalise on the volumes-driven US market.

Another boost for MBIL has been the favourable decision it received in the anti-dumping and anti-subsidy cases from the European Commission recently. The case was filed in November 2001 by the Committee of European Disk Manufacturers (DISKMA), who alleged that Indian CDR manufacturers benefited from government subsidies.

Electrosteel Castings sets up Spanish subsidiary

Electrosteel Castings Ltd, the country's largest ductile iron (DI) pipe makers, has enhanced its presence in the European market through setting up a wholly owned subsidiary in Spain. The Kejriwals-promoted company has set its subsidiary, Electrosteel Spain, in Barcelona to warehouse pipes from the city-based production unit and then resell them in Spain after finishing. The subsidiary would normally hold in its warehouse around 500 tonne of DI pipes, equivalent in value to around Rs 1.50 crore. The warehouse capacity was expected to be doubled in three years. The new subsidiary was aimed at increasing export earning of the company, which was into exporting products to the UK, Gulf and west Asian countries substantially.

Electrosteel had purchased 49 per cent in Lanco Kalahasthi and 51 per cent in Lanco Industries last year for a combined Rs 66.5 crore. The acquisitions were done through straight-way buy out of shares from the promoters of the Lanco group as well as subscription of preferential shares. Electrosteel Castings' stake in Lanco Industries was later scaled up to 52 per cent. Lanco Industries was in the process of being merged with Lanco Kalahasthi Castings. Ernst & Young, the consultancy firm, has been entrusted with the task of recommending swap ratio for the proposed merger.