

ECONOMIC NEWS FROM INDIA

Period: Upto – 5th Jan. 2003

MACRO ECONOMIC INDICATORS

- The closing **exchange rate** of the rupee ended this week at a steady trading of 47.99. Thin demand for dollars, coupled with robust dollar inflows accumulated over the weekend, helped the rupee gain.
- The **inflation rate** for the week ended December 21st, 2002 increased to **3.22 per cent** from 3.15 per cent on December 14. The rate of inflation for the corresponding week in 2001 was 2.08 per cent.
- **Foreign exchange reserves** have risen to a record high of \$70.291 billion for the week ended December 27, 2002 from \$ 69.50 billion in the previous week and \$48.045 billion on December 28, 2001.

Exports post 16% growth in November

The country's exports continue to maintain a buoyant trend, registering a growth rate of 16 per cent in November last at \$4,135.09 million, against \$3,576 million in the corresponding month of 2001. Outpacing export growth, import growth too registered a rise 29 per cent in the month at \$5,361.50 million (\$4,157.88 million).

Overall, the export performance during the first eight months of the current fiscal notched up a robust 16 per cent growth at \$32,865.10 million, against \$28,418.08 million in the comparable period of 2001, kindling hope that the whole year target of 12 per cent could even be overshoot if the initial buoyant trends persist in the lingering four months. Trade deficit during the first eight months of the current fiscal amounted to \$6,247.65 million, which is higher than the deficit of \$5,814.93 million during the corresponding period of 2001. **The country's overall import growth also recorded a higher volume logging a growth rate of 14.25 per cent at \$39,112.75 million, against \$34,233.01 million.**

Oil imports during the period April to November 2002 are estimated at \$11,728.86 million which is 21.09 per cent higher than \$9,686.26 million in the corresponding period of last year. A particularly encouraging trend in import growth was the double-digit rate of non-oil imports, which grew by 12 per cent during the period under review at \$27,383.89 million (\$24,546.75 million).

Vajpayee calls for consensus on economic reforms

In his `Musings from Goa`, prime minister Atal Bihari Vajpayee has called for expansion of the area of consensus on economic and other urgent reforms to `free at last the country of poverty, unemployment, illiteracy and disease. `To me, the true test of reforms is when they beneficially touch the lives of all Indians - especially the poorest and those living in backward regions, the prime minister said.

YEARLY ROUND UP ...

Economic Policies:

Monetary Policy: The mid-term review of the economy and the monetary/credit policy played some role in catalysing economic activity. The stance of the Monetary and Credit Policy is to

“create conditions” for investments along with a bias towards a softer interest rate regime, Reserve Bank of India (RBI) governor Bimal Jalan said. “We have signalled it by reducing the Bank Rate as a cut with a low inflation environment level helps to create conditions for investments”, Dr Jalan told newsmen. The effect could be seen in the housing sector, where the demand has been growing because of falling rates, he said adding creating conducive conditions also imparts flexibility to the interest rate regime.

Export-Import Policy 2002-2007: is the focus on the African market and the intended focus on the former centrally planned economies of Eastern Europe in the coming year. The intention is to draw the attention of Indian exporters to these markets of countries which have traditionally been friends of India. Presumably, the government feels that these markets are not getting the attention they deserve because of a lack of information. It is also possible that the government has non-economic, diplomatic reasons to encourage Indian exporters to pay more attention to these markets. If the former is the reason, then making information available is a good idea and can certainly help exporters discover otherwise neglected but lucrative markets.

Mid-year Review : The Minimum Support Price (MSP) for rice and wheat has distorted a comparative and regional advantage of some crops, thus generating both surpluses and shortages in the food economy. With the country emerging as a surplus producer of a number of exportable agricultural products including foodgrains, the efficient management of the country’s food economy has become a major policy issue in recent years, this was stated in the mid-year review of the ministry of finance and company affairs, economic division.

Kelkar Report: The Kelkar panel’s recommendation of integrating goods and service taxation and raising the existing service tax rate from April 1, 2003, is under debate. The current service tax rate is 5 per cent. The panel has suggested integration of the Central Value Added Tax (Cenvat) credit with service tax credit, and suitable enhancement of the service tax rate to achieve parity with the Cenvat rate (14 per cent proposed by the panel in place of the current 16 per cent) from April this year.

10th Plan: The Planning Commission was able to get the Tenth Five Year Plan (2002-07) finalised by the National Development Council (NDC) in its first year, 2002. The Ninth Plan (1997-2002) was cleared by the NDC only after two years of its commencement.

According to an official release highlighting the achievements of the Plan Panel, The Tenth Plan intends to achieve a growth target of 8 per cent and lays a great deal of emphasis on employment generation, reduction of regional disparities, and improvement of social infrastructure. In 2002, two reports, one on small scale enterprises and the other on employment, were released by Planning Commission deputy chairman KC Pant.

FDI in Print: Foreign Direct Investment in the Indian print media has been allowed and the guidelines have been issued for non-news and non-current affairs, news and current affairs publications have been released. While the guidelines point out that foreign investment will be allowed in technical, scientific and specialty magazines and journals, there is no clear description of specialty magazines. Publication of Indian editions of foreign journals in these areas has also been permitted.

POLICY MEASURES AND PROPOSALS

Government outlines finer aspects of FDI in trading sector

Even as the extant policy of foreign direct investment (FDI) up to 100 per cent is permitted in the trading sector for specified activities, the Government has clarified on additional kinds of trading activities, including provision of after sales service, e-commerce activities and trading of hi-tech items and domestic sourcing of products for exports and test-marketing where 100 per cent FDI is permitted.

The Department of Industrial Policy and Promotion (DIP&P) had in an office memorandum on December 30, 2002, clarified that based on the policy guidelines approved by the Union Cabinet

and specific inputs obtained from the Department of Commerce, the non-fulfilment of test marketing obligation does not make a company ineligible to be considered for other approvals for carrying out trading activity as per the notified policy.

The Department of Commerce is the Administrative Ministry for all trading activities and all proposals in this sector must be considered as per the notified policy. The policy has to be applied uniformly unless the relevant sectoral policy imposes specific restrictions from sectoral angle.

It was further clarified that test marketing permission should be granted only when the item/s proposed to be test marketed are not ordinarily available in the Indian market or even if available, are highly specialised/hi-tech requiring specialised after-sales service. These clarifications were made after several specific representations were made such as where a company holding an approval for manufacture of automobiles also seeks approval to import auto components for after-sales service of automobiles of the same company, including imported completely built units (CBUs).

GEO-ECONOMIC

BILATERAL

Coke, Pepsi among 23 FDI cases cleared

Coca-Cola's proposal to convert Rs 8.05 billion worth of foreign investment, currently lying idle in the advance share capital account of its Indian subsidiary, into preference shares, and Pepsi's proposal to acquire franchise bottling operations, subject to a five-year divestment clause, have been cleared by the government. These two were among 23 proposals, worth Rs 1.07 billion, cleared by the government.

The major FDI proposals are related to sectors like chemicals and petro-chemicals, manufacture of fertilisers and pesticides, petroleum and natural gas, manufacture of bio- mass-based products and software development. Germany-based Bayer Crop Science proposes to convert Aventis Crop Science India, which makes fertilisers and pesticides, into a wholly-owned subsidiary by increasing its shareholding from the present 67.08 per cent to 100 per cent was the largest among the cleared proposal.

French major in jt venture to make UPS

The euro 150-million French power equipment SOCOMEC, known for its high-quality power supplies, industrial switching and protection for low voltage electrical installations, is adding one more feather to its two successful Indian joint ventures by opening a third company to manufacture and market UPS (uninterrupted power supply) systems.

Already, SOCOMEC-HPL two joint ventures are engaged in the manufacture of switchgear comprising on-load changeover switches of a wide variety and range extending up to 3,150 amps, electronic meters - single and three-phase with extraordinary anti-tamper-proof features and DIRIS multi-function energy management.

India Fund picks up 8.42% stake in SB&T

SB&T International is fast becoming a favourite stock of foreign institutions investors (FIIs). The India Fund Inc has acquired about 8.42% stake in the jewellery company through open market operations.

With this acquisition, the FII holding in the company is expected to increase. As on September 30, 2002, FIIs including Deutsche Bank held about 14.81%.

Company officials claimed its custodian has recently informed them that India Fund Inc has acquired about 11.38 lakh shares aggregating at 8.42% of the company's paid-up capital. The officials, however, could not give the changed shareholding pattern as on December 31, 2002, since the numbers have not been compiled till now.

SB&T International's subsidiary Soft Touch Jewellers LLC has recently opened two new retail outlets in the hypermarkets at Carrefour, Bur Dubai and Geant in the west Asian state of Baharain. There, SB&T has presence in about 13 retail outlets spread across west Asia. Its subsidiary company too has about 13 retail outlets, up from two outlets two years ago.

MNCs pump in \$700m to shore up Indian arms

Multinational corporations (MNCs) pumped in up to \$700 million during 2002 as voluntary revenue grants to bail out their loss-making Indian arms. Automobile major Fiat brought in close to \$300 million in the form of grants last year. Personal care major Gillette pumped in \$20 million for financial restructuring.

White goods manufacturer AB Electrolux has also decided to pump Rs 500 million into its loss-making Indian subsidiary Electrolux Kelvinator Ltd in the form of a one-time, voluntary, discretionary revenue grant.

India, however, does not consider revenue grants as part of FDI inflows. But there is a move to include these in the inflow figures from the current year. Foreign firms are finding the voluntary capital grant route a means to support their ailing Indian subsidiaries. Through this, the subsidiaries are saved from the interest burden, while the money is used to retire debt or to suffice working capital requirements. It also protects them from stringent disclosure norms applicable to companies raising money from the Indian public or banks.

Voluntary grants help the subsidiaries from getting over-capitalised, keeping in view the fact that there could be a public float or a divestment in the future. Beverage major Coca-Cola has had to reduce its capital by around Rs 29 billion to close to Rs 4 billion after it was asked by the government to divest 49 per cent stake to resident shareholders. The company said it did not expect investors to show interest in the divestment process since it had huge accumulated losses. Coca-Cola, however, reduced its equity capital base by setting off losses worth Rs 20 billion and by converting money lying in the advance share capital into preference shares.

MULTILATERAL

India plans free-trade pact with South Africa

Moving in line with the global trend of bilateral trade pacts, India has initiated talks with South Africa for a full-fledged free trade agreement. If it materialises, this will be India's first effective trade pact, exchanging duty-free access with another World Trade Organisation (WTO) member. The only free-trade agreement that India has signed so far is with Sri Lanka, considered just an improvement on the Saarc free-trade area (FTA), under which a large number of concessions had already been granted to Colombo.

The South African government has been informed that India would first like to experiment with a preferential trade agreement (PTA) for one year, before taking a final decision on the free-trade pact. Under the PTA plan, each country would accord duty concessions to the other on particular commodities.

India did not have any trade with South Africa till the country continued with its apartheid policy. However, goods from India were reaching the African nation through other routes due to the presence of a large ethnic Indian community in South Africa.

Once official trade relations were established, exports and imports started growing but the current level is far below potential. The proposed agreement with South Africa will be crucial since it set the trend for other such agreements, commerce department officials said. India also plans to ink such pacts with Latin American countries like Brazil.

Indo-German trade to touch 5 bn Euro

Indo-German bilateral trade is expected to touch five billion Euro this calendar year with the growth in India's surplus trade with Germany. With the strengthening of Euro currency against dollar recently, growth rate of India's exports to Germany was one per cent while imports from Germany rose by three per cent, Indo-German Export Promotion Project (IGEP) said.

The expected trade between the two sides of five billion Euro will be a record figure as the growth looked impressive if 20 per cent revaluation of euro vis-a-vis dollar was taken into consideration during the year, it said adding this effect brings the export and imports growth and the whole trade volume between two countries measured in US dollar terms to at least 10 per cent, an IGEP statement said. An estimated 2.5 billion Euro bilateral trade was recorded during first nine months of this year while imports from Germany stood at 2.4 billion Euro, it said.

However, the apex body IGEP said Indian exporters should quote in 'Euro' to get higher returns in future and modify their marketing strategies to sell more to Europe which will lead to Europe turning a stronger market for Indian goods.

CORPORATE SECTOR NEWS

Hyundai to make Chennai facility a 'global hub'

If '02 helped Hyundai Motor India (HMI) to further consolidate its position in the Indian passenger car market, year '03 may well see the company's Irungattukottai plant near Chennai emerging as a 'global hub' for exports. HMI is keen to see cars manufactured at this plant being exported to North America and Western Europe by the end of '03. Starting this year, the Indian plant may also gradually start replacing Hyundai Motor's Seoul plant as the 'small car hub'. Further, the company also hopes to achieve another significant milestone in its Indian operations with its cumulative sales (both domestic and exports) crossing the "half a million mark" by the end of this calendar year.

The Chennai plant is expected to gradually become the 'small car hub' of the company. Small cars manufactured in the Indian plant is sold in the country and its neighborhood as Santro, while it is also exported to Algeria, Morocco and Indonesia, where it is called Kia Visto. On the other, HMC's Seoul plant manufactured small car is sold as 'Hyundai Amica' in the UK and as 'Atoz Prime' in the rest of Europe, wherever it has been launched.

Tech companies bank on big-ticket deals in '03

The large IT deals which have been floating around for the last four months of '02 will fructify into business this year. These deals will make an impact from the quarter beginning January-March and not the October-December quarter, the results of which will start pouring in from the second week of January.

Software services companies such as Infosys, TCS, Wipro, Satyam and Digital are vying for these deals and so are MNC majors such as EDS, IBM Global Services and Cognizant. Most of the companies announcing their results are expected to revise their estimates for the full year upwards beginning with Infosys, which will be announcing its results on January 10, '03. The estimates for the next quarter which will be January-March and for the full year is expected to be revised by all companies.

According to a survey done by Morgan Stanley Dean Witter of 225 CIOs, most companies did not exhaust their limited IT budgets in '02. The survey indicates that controlling costs will remain the dominant trend even going forward with 44% described '03 as "a year of cost containment" and another 16% characterised it as "a year of cost reduction". 21% characterise '03 as "a year of stabilisation in spending after two years of belt tightening", while 19% of respondents indicate that '03 will be "a year of new project investment".

FDDI lab's ISO tag could boost leather exports

To help exporters of leather and leather products in a big way, the international testing centre located at the Noida campus of the Footwear Design and Development Institute (FDDI) has become the first chemical testing centre in Asia to get ISO 17025 accreditation from German Accreditation Council (DAR).

The testing centre was set up with help from German Technical Agency (GTZ) and Indo German Export Promotion Project (IGEP). Various other exporters, like that of garments, would also

benefit from the centre as they can get their testing done at Noida rather than other centres located overseas.

The FDDI testing centre specialises in providing facilities for checking presence of azo-dyes, formaldehyde, pentachlorophenol and other harmful chemicals in leather, textiles, toys and many other export items. Testing for these products is necessary, as the presence of these chemicals has been banned by European countries through its various consumer safety regulations.

Seychelles arm to buy stake in Bharti Tele

Bharti Global, a Seychelles-based company of the Bharti group, is planning to acquire equity of its flagship company Bharti Tele-Ventures to the tune of \$5m from the secondary market. Bharti Tele-Ventures has investments from leading groups like Singapore Telecom, Warburg Pincus, New York Life Insurance, Asian Infrastructure Fund and International Finance Corporation. Bharti Tele-Ventures has in excess of 30m customers, of which a large chunk is mobile customers. Bharti Global is planning to acquire shares from the secondary market, or otherwise, at the market price and is seeking FIPB permission for the same.