

## Weekly Economic Bulletin

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### Contents

- |          |   |           |
|----------|---|-----------|
| <b>1</b> | <b>News Feature</b>   | Page 1-2  |
|          | <ul style="list-style-type: none"><li>• Despite global gloom, India's outlook is good, says US expert</li></ul>   |           |
| <b>2</b> | <b>Overseas Investment</b>  | Page 2-3  |
|          | <ul style="list-style-type: none"><li>• Foreign firms will have to bring forex for equity infusion</li><li>• FDI inflow from NRIs steady despite recession: Ravi</li></ul>  |           |
| <b>3</b> | <b>Trade News</b>   | Page 3-4  |
|          | <ul style="list-style-type: none"><li>• 'Japan keen to strengthen economic ties with India'</li></ul>   |           |
| <b>4</b> | <b>Sectoral News</b>  | Page 4-8  |
|          | <ul style="list-style-type: none"><li>• Spices exports rise 17% in April-Jan 2008-09 period</li><li>• IT infrastructure offshoring likely to touch \$6 bn this year</li><li>• BSNL launches 3G services in 11 cities</li><li>• India surpasses China on engineering goods</li><li>• Tobacco exports rise 39 pc till Jan on record prices</li><li>• Indian tea production and export on a high</li><li>• Soymeal exports cross Rs 3,000 cr in 4 months</li></ul> |           |
| <b>5</b> | <b>News Round-up</b>  | Page 9-10 |
|          | <ul style="list-style-type: none"><li>• India less affected by financial crisis: UBS</li><li>• PE cos bet on India's domestic demand</li></ul>  |           |

## News Feature

### Despite global gloom, India's outlook is good, says US expert

Despite the deeply troubled global economic situation, India is on the path to becoming a global economic player in the years ahead and one of increasing importance to the United States, said Ms Diane Mc Mahon, former Director of the US India Business Council and Vice-President of Stonebridge.

Ms McMahon was speaking at a panel discussion on 'Indo US Business Relations in the changed economic scenario' organised by Inkel Forum of Excellence, Indo-American Chamber of Commerce and Cochin Chamber of Commerce and Industry.

Ms McMahon said that the Indian economy had not been affected severely by the global financial crisis as it is not export-oriented like some other emerging markets. India, in the long term, is poised to maintain growth between 5-6 per cent even after western Europe, Japan and China have greyed, she said.

India could make important contributions to the global economy as leading nations work together to restore growth, improve financing conditions and strengthen the oversight of financial systems through platforms such as G20. The US values India's role and its leadership in addressing the global economic slowdown, she added.

#### *Market reforms*

Stressing the need to continue financial market reforms and liberalisation process, Ms McMahon said that India should initiate steps to facilitate credit and investment flows not only to blunt the negative global financial impact but position the country to its impressive 9 per cent growth trajectory once the global conditions improved.

The recent opening of the corporate bond market to more foreign investment can help support infrastructure development that otherwise could falter during the downturn, she added.

India, however, still requires substantial improvement in agriculture, energy and infrastructure in order to sustain future growth and continue to alleviate poverty. The State-level reforms in agriculture can help raise farmers' incomes and lower their transaction costs.

Ms McMahon said that close coordination between the Centre and State Governments such as Kerala is necessary to improve timely delivery of inputs – including roads and electricity – and also to aid farmers and the innumerable cottage industries in rural India.

The new US administration will look to India for joint cooperation between the two governments as well as the private sector. "We must tap the private sector momentum in the relationship to address the kinds of big problems governments cannot solve alone," Ms McMahon said.

## Overseas Investment

### Foreign firms will have to bring forex for equity infusion

Foreign owned or controlled “investing companies” have to bring in foreign exchange for any fresh equity investment made here, not use profits made in India or borrow from the market, declared the Department of Industrial Policy and Promotion (DIPP).

This was part of a set of clarifications issued by DIPP on the norms to be used to treat downstream investments by Indian companies which have foreign equity, termed Press Note 4.

Investing company means an Indian one holding only investments in other Indian companies. Foreign owned or controlled means either having foreign ownership in excess of 50 per cent or non-residents having powers to appoint a majority of board members.

However, firms where investing companies have picked up equity are permitted to raise debt in the domestic market.

Another point relates to companies that have neither an operation nor any investment in other firms. Foreign investment in such “shell” companies has to get government approval, irrespective of the amount.

Press Note 4 also defines “operating companies”, classified as firms having operations in various sectors of the Indian economy. “Press Note 4 means that the norms followed in direct foreign investments will also have to be followed by indirect foreign investments,” said Akash Gupt, executive director, PricewaterhouseCoopers

The Note envisages four situations in this regard. These are operating company, operating cum investing company, investing company and companies, which do not come under these categories.

Downstream investment by a foreign owned and controlled Indian company in an “operating company” will have to follow the sectoral guidelines, as well as caps associated with various sectors, the Press Note says. Similar conditions will apply to an “operating cum investing company”. In addition, downstream investments by companies in this category will also have to conform to sectoral norms for FDI.

Apart from operating companies, the other three categories will have to inform the government of its downstream investments within 30 days, even if equity shares have not been allotted.

Pricing, transfer and valuation of shares will have to be in accordance with Sebi and RBI guidelines.

<http://www.business-standard.com/india/news/foreign-firms-will-have-to-bring-forex-for-equity-infusion/15/06/350343/>

### **FDI inflow from NRIs steady despite recession: Ravi**

Global recession had no impact on Foreign Direct Investments (FDI) from Indians abroad as it has registered a rise in the current fiscal, the Lok Sabha was informed.

Highlighting investment figures from the states, Minister for Overseas Indian Affairs Vayalar Ravi said: "There has been no decline in investment due to global recession during 2008 as compared to 2007."

NRIs, Persons of Indian Origin (PIO) and Overseas Corporate Bodies (OCB) accounted for FDIs and Foreign Technology Cases (FTC) worth Rs 70 crore during January to September 2008 in comparison to Rs 65.8 crore for the period January to December 2007, Ravi told the Lok Sabha.

Goa and West Bengal figured as the highest investment attracting states with the former receiving Rs 30 crore and the latter Rs 20.3 crore in FDIs.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/FDI-inflow-from-NRIs-steady-despite-recession-Ravi/articleshow/4190271.cms>

## **Trade News**

### **'Japan keen to strengthen economic ties with India'**

With the global meltdown lengthening its dark shadows on the capital market and financial institutions showing diffidence to lend, the Government should take innovative investment strategy to keep the investment flow steady until economies recover. This would help developing countries overcome bottlenecks to raise capital to fund their crucial projects, particularly in the infrastructure sector, said a senior executive of the Japan External Trade Organisation (JETRO).

#### *Investment mechanism*

A viable investment mechanism that helped in overcoming short-term debacles without disturbing the role of private sector should be evolved, said Mr Tomaharu Washio, Special Advisor, Strategic Research, JETRO.

The process of development should not be allowed to be stunted by such short-term hurdles, particularly when the free flow of private capital was difficult to get, he said.

Mr Washio, who is here in connection with the 18th International Engineering & Technology Fair organised by Confederation of Indian Industry, said Japan was keen to strengthen its economic ties with India.

Japan, which is going through growth pangs due to recessionary pressures following its structural reforms and the impact of deceleration of US economy, was keen to seek investment opportunities in India. He said India's resilience in withstanding the global economic shock caused by the US financial sector collapse encouraged Japan to rely on its market.

<http://www.thehindubusinessline.com/2009/02/26/stories/2009022650991900.htm>

## **Sectoral News**

### **Spices exports rise 17% in April-Jan 2008-09 period**

Indian spices have managed to increase their presence in the global trade during the first ten months of the current fiscal (2008-09) despite a general slowdown in the global economy. Compared to the same period of last fiscal (2007-08), exports have shown an increase of 17% in value and 5% in volume. In dollar terms, the increase is 6%. Exports of pepper and garlic have declined in terms of both volume and value during the period, while chilli, ginger and mint products have declined in volume.

During April-January 2008-09, India exported 3,72,125 tonne of spices and products valued at Rs 4,275.11 crore (\$956.75 million) as against 3,54,875 tonne valued at Rs 3,645.32 crore (\$904.11 million) in the corresponding period of 2007-08. The export of pepper was at 21,600 tonne valued at Rs 356.10 crore as against 29,700 tonne valued at Rs 433.76 crore exported last year. Volume and value have fallen by 27% and 18% respectively for the period.

The unit value of pepper exported has gone up from Rs 146.05 per kg in 2007-08 to Rs 164.86 per kg in 2008-09 due to a global shortage of the commodity. Low inventories in the major international markets due to the economic recession is reported to be a major reason for the decline in exports.

During the same period, chilli exports fell in volume by 3%, while managing a value increase of 3%. India exported 1,56,500 tonne of chilli and chilli products valued at Rs 891.54 crore as against 1,60,930 tonne valued at Rs 864.40 crore last year. Traditional buyers of Indian chilli like Malaysia, Indonesia and Sri Lanka are active in the market. It is expected that exports will pick up in the coming months as the new crop comes to the market.

Seed spices like coriander and cumin have recorded a considerable jump in exports due to the failure of crop in other regions. Export of value-added products like curry powder, oleoresins and oils have also increased during the period. Curry powder and pastes managed an increase in export volume by 21% and gained a value increase of 52%.

<http://www.financialexpress.com/news/spices-exports-rise-17-in-apriljan-200809-period/427659/>

## **IT infrastructure offshoring likely to touch \$6 bn this year**

Even as top outsourcing customers are tightening their information technology budgets, they continue to outsource the management of their computer servers and desktops, according to experts tracking the industry.

Remote Infrastructure Management Outsourcing (RIMO) has emerged as the growth engine for many Indian tech firms. According to Everest Research Institute, the RIMO market is expected to touch \$5.9-billion in 2009 and \$8.6-billion in 2010.

“Infrastructure services do not fall under the discretionary spend category and the current growth projection is unlikely to be impacted by the economic recession,” said Everest Group associate principal Vikash Jain.

While IT infrastructure outsourcing is almost 5-year-old industry, remote management of computer infrastructure has given an opportunity to Indian tech firms to compete with established rivals such as IBM and HP-EDS.

According to Everest, the offshore suppliers (India-based companies) grew at a 70% compound annual growth rate (CAGR) between 2004 and 2007.

Anand Lavi of Tholons, an offshore advisory firm, said that there are still many segments of IT infrastructure that can be offshored.

Indian tech firms have been building their capability in this space over past few years. Wipro’s acquisition of Infocrossing for \$600 million gave it a strong foothold in the infrastructure services space with direct presence in the US market.

Mr Jain added that RIMO deals are typically of a longer duration giving the much-needed stability to the Indian companies.

<http://economictimes.indiatimes.com/Infotech/ITeS/IT-infrastructure-offshoring-likely-to-touch-6-bn-this-year/articleshow/4198122.cms>

## **BSNL launches 3G services in 11 cities**

State-owned telecom operator Bharat Sanchar Nigam (BSNL) commercially launched its third generation (3G) mobile services simultaneously from 11 cities, namely, Agra, Ambala, Jalandhar, Jaipur, Dehradun, Shimla, Lucknow, Ranchi, Durgapur, Haldia, Patna and soft launch in Jammu.

BSNL also announced tariff plans for 3G mobile services under pre-paid and post-paid voice, video and data plans. The voice call will be available for as low as 10 paise per minute under full value 1,000 plan and local SMS is at Rs 10 paise per SMS under super 1,350 plan. Video calls starting with Re 1 under unlimited 2,500 plan and Rs 2 for STD video calls.

Earlier, BSNL had launched its 3G services in Chennai. The 3G services will bring high quality voice services along with high-speed data and video services. The data speed is expected to go up to 2 Mbps or higher. Applications like, video telephony, mobile, broadband, mobile television and video on demand shall be offered to the consumer with immediate effect. It is expected that services like music downloads, video tones, instant messaging, on line gaming, bill payment among others will be offered shortly.

BSNL has invested Rs 2,700 crore to make 3G services available to the consumers of this country. BSNL has planned to cover all district headquarters and important commercial towns in its first phase.

Subsequently, other cities and towns will be covered as per the experience of its first phase.

Last month, another state-owned unit, Mahanagar Telephone Nigam (MTNL) was the first company to launch 3G services in the country. MTNL now offers 3G services in Delhi, and is expected to launch services in Mumbai and other operational areas soon.

<http://www.businessstandard.com/india/news/bsnl-launches-3g-services-in-11-cities/18/47/55858/on>

### **India surpasses China on engineering goods**

The African and Asean countries are shifting their focus from China to India for meeting major supply requirements of engineering goods and equipment.

Speaking on the sidelines of the concluding day of the Reverse Buyer Seller Meet (RBSM) organised by EEPC India, R P Sehgal, chairman of EEPC India, eastern region (ER) said, "Though these countries predominantly buy engineering goods from China, but last year they faced some difficulties, so now they want India to be developed as a major second supplier. India is not a small player in the global market." Sehgal claimed that China could not deliver goods on time and prices had shot up radically, thus dissatisfying the countries.

Earlier, if these countries were buying 80 per cent goods from China and 10 per cent from India, now they wanted to keep China at 60 per cent and the rest could shift to India, which was a significant move, he added.

India could use its potential in engineering goods, in the areas of valves, water distribution, forging, food processing, power distribution and chemical industry, as highlighted in the previous RBSMs in the other cities, claimed Sehgal. Another key advantage for India was that almost 80 per cent of its units engaged in engineering goods were small and medium enterprises (SMEs), so small quantity orders were not a problem, as opposed to China, which handled only bulk orders, informed Sehgal.

"This downturn is actually an opportunity for India, which we should encash upon," he further asserted. Globally India does 1.4 per cent trade of major engineering goods. In

2007-08, India's total engineering exports was \$33.3 billion. During the first five months of the current fiscal (2008-09) exports stood at \$22 billion.

India's engineering exports to the Asean region rose from \$12.6 billion in 2006-07 to \$15.7 billion in 2007-08, whereas to Africa it has grown from \$3 billion in 2006-07 to \$3.9 billion in 2007-08. The reverse buyer seller meet, a five day event, had been organised in six major cities starting with Delhi, Chennai, Bangalore and Ahmedabad including Kolkata, with the aim of promoting overall trade and investment of the country.

<http://www.businessstandard.com/india/news/india-surpasses-chinaengineering-goods/07/00/350545/>

### **Tobacco exports rise 39 pc till Jan on record prices**

Tobacco exports surged by about 39 per cent to reach Rs 2,561 crore in the first ten months of this fiscal on a sharp rise in price realisation and a weakening rupee.

In volume terms, tobacco exports, comprising raw tobacco and its products, rose 12 per cent to 1,83,605 tonnes between April 2008 and January 2009 from 1,64,117 tonnes in the year-ago period, a senior Tobacco Board official said.

"India exported tobacco worth Rs 2,560.71 crore between April and January against Rs 1,573.93 crore in the same period last year," he said.

The export of tobacco in January was down marginally in volume terms to 10,121 tonnes from 10,126 tonnes a year before but record prices have more than compensated for the decline in volume. In value terms, the shipment more than doubled to Rs 132.06 crore, compared with 65.42 crore in January 2008, the official said.

"Record prices for the Indian tobacco have contributed significantly to the cause of exporters this year. That apart, the weakening of the domestic currency against the dollar added to their benefit," he said.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Tobacco-exports-rise-39-pc-till-Jan-on-record-prices/articleshow/4190540.cms>

### **Indian tea production and export on a high**

As Indian tea production inches closer to the magical figure of 1000 million kg, the exports have fallen short of 200 million kg for the year 2008.

The tea production in the country touched 981 million kg compared with 945 million kg in 2007. At present only China produces over 1000 million kg. The rise has mostly come from the south Indian plantations.

As per the tea board figures, the north Indian production went up by 9 million kg to 734 million kg, the tea output in south India rose by nearly 27 million kg to 247 million kg. The total production is expected to cross 1000 million kg this year.

On the export front, 196 million kg of tea went from India, which was higher than 179 million kg of the previous year. Here too exports from south India recorded better growth of 12 million kg against about 5 million kg by north India. According to Tea Board chairman Basudeb Banerjee, rising consumption of tea in times of slowdown augurs well for Indian tea.

The prospects look bright for Indian tea with the India set to start a tea centre in Cairo. Egypt along with Iraq and Iran is the markets India is focusing apart from the traditional markets of Russia. "We expect the tea imports from India to go up to 20 million kg in 2009 against 12 million kg last year," said Mr Shawky Olama, the head of the delegation from Egypt, which is visiting Indian tea plantations after attending India International Tea Convention.

According to him, Egypt is buying more from India with a shortfall in production in Kenya, its regular supplier. "The reduction in customs duty in Egypt to 2 % has increased Indian export of tea to Egypt," he said. Pakistan also had turned to India for tea with decline in Kenyan crop. However, after the Mumbai terrorist incident, the tea exports to Pakistan have slowed down.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Indian-tea-production-and-export-on-a-high/articleshow/4190794.cms>

### **Soymeal exports cross Rs 3,000 cr in 4 months**

India's soymeal exports, the largest in Asia, have breached the Rs 3,000-crore mark till January even as the global economic crisis threatens to dent demand for the key animal feed, according to an industry estimate.

"The export of soymeal between October and January 2009 touched Rs 3,066.33 crore while, in volume terms, the shipment reached 1.97 million tonnes during the period," according to the data available with Indore-based Soybean Processors Association of India (SOPA). India exported 4.88 million tonnes of the animal feed worth Rs 7,332 crore in 2007-08.

An industry official said though the economic meltdown has impacted demand, India was able to turn the tide in its favour in the beginning of the season, starting October, to some extent due to its proximity with certain importing countries. However, with the global crisis deepening further, India's soymeal exports in January declined by 23 per cent to 555,000 tonnes.

<http://www.business-standard.com/india/news/soymeal-exports-cross-rs-3000-cr-in-4-months/14/57/349998/>

## News Round – Up

### India less affected by financial crisis: UBS

UBS has upgraded India from moderate underweight to overweight as it feels that valuations have improved substantially and that the Indian economy is less affected by the global financial crisis than most other markets. The foreign financial major, however, does expect further weakness in the coming quarters.

Among Asia's leading economies, China remains UBS' largest overweight, followed by India, Hong Kong, and Singapore. It advises caution on Korea, Malaysia and the Philippines.

"Earnings growth has been declining sharply and we expect further weakness in the coming quarters," says UBS in a recent report. However, we maintain that Indian earnings in 2009 are less at risk than those of the other Asian markets, it adds.

Incidentally, it expects growth to contract in Singapore, Hong Kong, South Korea, Taiwan, and Malaysia. The relative strength of the economy, together with the improved valuation, makes us confident that India is one of the more attractive places in Asia, in the current environment, explains UBS.

UBS is also more positive on the Indian economy than on those of most other Asian countries because India, with an export-to-GDP ratio of 13%, remains an overwhelmingly domestic-oriented economy.

The larger economies, China and India, should fare better in a global downturn as they are more domestic-oriented and, in the case of China, have substantial room for fiscal stimulus, it explains. Nonetheless, it expects growth to decelerate further in China and India in 2009. "Overall, we expect the region to grow by 4% in 2009, rebounding only moderately to 6.0% in 2010," it adds.

Meanwhile, with declining inflation, says UBS, the Reserve Bank of India (RBI) has substantial room for further interest rate cuts in the coming months. "Relative valuations, which were unattractive in the past have, improve considerably and India does no longer stick out as an expensive market," it says.

<http://economictimes.indiatimes.com/Market-News/India-less-affected-by-crisis-UBS/articleshow/4206438.cms>

### PE cos bet on India's domestic demand

Though the overall economic situation has dampened investor enthusiasm, the economy's strong fundamentals, coupled with a consumption-driven economy, will provide comfort to long-term investing in India, according to a survey by Deloitte.

The survey on private equity investments in the past six months has showed that sectors driven by domestic consumption and infrastructure are likely to see maximum deal activity.

The number of participants who expect that valuations would fall in coming months has increased from 66% in the first half of 2008, to 75% in the second half, the survey found out.

“We have observed two key points, the competitive environment for investment opportunities for PE houses is expected to ease during 2009, as smaller PE firms and hedge funds exit the market. Second, the volume of PE deals in the market will be dependent on how quickly promoters are willing to accept lower valuations,” Sandeep Gill, managing director of Deloitte corporate finance, says.

The survey shows that despite global economic crisis, the average respondent's confidence level for the long-term prospects for growth fell only marginally from 8.5 out of 10, in the first half, to 8 in the second half.

3I Asia head Anil Ahuja says, “The overall scenario for private equity hasn't improved as there is still a disconnect between valuations expected in a private market compared to the existing valuations in a public market.” Till the disconnect narrows, PE activity won't build up, he adds. Also, managing existing portfolios for most PE firms is becoming difficult as there are growing instances of differences between PE firms and managements.

The Deloitte survey, which covers 40 of India's top PEs and venture capital investors, predicts that while PE investments will continue to be dominated by growth capital, buyout or control transition is expected to rise.

<http://economictimes.indiatimes.com/Finance/PE-cos-bet-on-domestic-demand/articleshow/4185480.cms>