

## Weekly Economic Bulletin

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## News Feature

### PE deals in Q1 leap 50% to \$2.8 bn

Private equity (PE) investments clocked \$2.8 billion in the first quarter of the current financial year, an increase of 50% compared to the corresponding period in 2007-08. This is even as the PE deal activity in terms of number of deals have gone up only marginally.

The biggest investment this year has been made by Aditya Birla Telecom, a subsidiary of mobile telephone services provider Idea Cellular, which raised \$640 million from Providence Equity Partners.

The first three months of FY'09 has registered 77 deals as against last year when 74 deals worth \$1.9 billion were signed during the first quarter, according to Venture Intelligence which tracks private equity and venture capital sector in India.

Telecom, infrastructure, power and healthcare sectors have seen the most number of deals last quarter besides attracting the big-ticket investments. These sectors attracted large number of deals at a time when funds have been wary of investing as the global economy is expected to slow down and there is a sharp correction in corporate valuations across sectors.

This could be linked to the nature of these sectors all of which have a significant domestic consumption and growth story and are not dependent on the export market. "The fundamental of Indian economy has been very strong and the outlook is very positive. Sectors which cater to the domestic market have seen major investments," said Venture Intelligence CEO Arun Natarajan.

Domestic sectors such as infrastructure and power among others have witnessed almost 30% growth in terms of deal size this year with the average deal being pegged at \$36 million compared to \$28 million during the same period last year. However, analysts said there will be a marginal slowdown in overall PE investment activity during the second half of the year.

[http://economictimes.indiatimes.com/News/News\\_By\\_Industry/Banking\\_Finance\\_/PE\\_deals\\_in\\_Q1\\_leap\\_50\\_to\\_28\\_bn/articleshow/3216361.cms](http://economictimes.indiatimes.com/News/News_By_Industry/Banking_Finance_/PE_deals_in_Q1_leap_50_to_28_bn/articleshow/3216361.cms)

### Capital inflow almost triples in FY' 08: NCAER report

Foreign investments in India almost tripled in FY' 08 than the capital it received during the same period in last fiscal, the National Council of Applied Economic Research (NCAER) said in a recent report.

"In the first nine months of 2007-08, the net capital flows rose to USD 83 billion from USD 30 billion the country received during the corresponding period of the previous year," the report said.

The country maintained the trend of attracting funds that also boosted its forex reserves, it added.

"Access to global capital has helped India's macro- economy to see a rapid and steady rise in its forex reserves, post-1991 period," the NCAER report said.

These capital inflows have become a significant force behind total investment spending, the report said.

The flow of funds, in terms of foreign direct investment (FDI) or external commercial borrowing, has also complemented portfolio funds, the report said, adding that between FY' 04 and FY' 08, the reserves rose by more than USD 150 billion.

Foreign funds during the period rose enough to finance the current account deficit, it said.

Besides India, a similar trend has been noticed in all emerging economies, the report said.

"The overall capital flow to these economies has gone up from USD 168 billion in 2003 to USD 605 billion in 2007," the report said.

[http://economictimes.indiatimes.com/News/Economy/Foreign\\_Trade/Capital\\_inflow\\_almost\\_triples\\_in\\_FY\\_08\\_NCAER\\_report/articleshow/3210565.cms](http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Capital_inflow_almost_triples_in_FY_08_NCAER_report/articleshow/3210565.cms)

## **Overseas Investment**

### **DIPP favours raising FDI cap in defence**

This will enable global defence majors to set up ventures in India without having to wait for government clearances in cases where the foreign investment component goes beyond 26%. The move could attract top international defence suppliers like Lockheed Martin and Bombardier to set up joint ventures here.

The department of industrial policy and promotion (DIPP) is of the view that an FDI hike would attract more investment in the sector, which has hardly seen any major investment since it was opened up in 2001. "The current ceiling of 26% is holding back foreign players from investing in India. This ceiling needs to be hiked to 49% as it would help procurement of latest technologies," a DIPP source said.

According to sources, the defence ministry wants FDI hike in phases so that Indian players in the sector equip themselves with latest technology to take on the competition from international players in long run. Defence minister A K Antony is of the view that allowing more FDI in defence sector would enable public and private sectors to play a greater role in modernising Indian armed forces.

The increase in FDI would be subject to guidelines for licensing production of arms & ammunitions under Press Note 2 of 2002. There would be a three-year lock-in period for transfer of equity from one foreign investor to another foreign investor (including NRIs &

OCBs with 60% or more NRI stake) and such transfer would be subject to prior approval of the FIPB.

The government has, however, been relaxing the cap on case-to-case basis to enable transfer of technology and manufacture of world-class equipment. For instance, it favoured the recent proposal of increasing the cap to facilitate co-development of multi-role transport aircraft by Hindustan Aeronautics in cooperation with Russian firm Rosoboron export. The Russian firm wanted at least 50% stake in the joint venture, but the current FDI ceiling came in the way of such a tie-up.

Mahindra Defence Systems and BAE Systems have also applied to the FIPB to set up a joint venture, in which BAE would hold 49% stake. The government's move to allow 49% FDI would rule out the need to approach the Cabinet in every case. Of late, countries such as the US and the UK have intensified demands to increase FDI cap in defence production.

The government has, however, been very reluctant in allowing foreign companies to take more than 26% in any JV for defence production. Aircraft manufacturers such as Boeing Company, Bombardier and EADS have recently shown interest to set up their production facilities in the country in partnership with Indian firms.

[http://economictimes.indiatimes.com/News/Economy/Policy/Dipp\\_favours\\_raising\\_FDI\\_cap\\_in\\_defence/articleshow/3229536.cms](http://economictimes.indiatimes.com/News/Economy/Policy/Dipp_favours_raising_FDI_cap_in_defence/articleshow/3229536.cms)

### **India's forex earnings from tourism \$735 mn in June**

India's foreign exchange earnings from tourism during June stood at \$735 million, an increase of 3.5 per cent from year ago. However, this compares poorly with the 25.9 per cent jump in forex earnings in June 2007 to \$710 million from the corresponding month in 2006.

In rupee terms, the forex earnings from tourism stood at Rs 3,147 crore, a growth of 7.5 per cent compared with 14.1 per cent in 2007 over 2006.

Tourist arrivals into India during the month were 344,526, up 11.1 per cent from 310,104 in June 2007. On this front, the growth is only marginally lower from 11.4 per cent in June 2007 over 2006.

[http://economictimes.indiatimes.com/News/Economy/Indicators/Indias\\_forex\\_earnings\\_from\\_tourism\\_735\\_mn\\_in\\_June/articleshow/3213901.cms](http://economictimes.indiatimes.com/News/Economy/Indicators/Indias_forex_earnings_from_tourism_735_mn_in_June/articleshow/3213901.cms)

## **Trade News**

### **India, Sri Lanka to expand free trade pact: diplomats**

India and Sri Lanka will expand their free trade agreement with a new pact to be signed on the sidelines of a South Asian summit in Colombo, diplomats said on Thursday.

The two countries entered a free trade deal in 1998 limiting tariff concessions to goods, but the new Comprehensive Economic Partnership Agreement (CEPA) covers services such as banking and also allows greater cooperation between customs administrations.

They will conclude the pact during the two-day South Asian Association for Regional Cooperation (SAARC) summit starting on August 1, a diplomat said.

Sri Lanka's exports to India increased from 49 million dollars in 1999 to 516 million last year while Indian exports rose to 2.7 billion dollars last year, up from 549 million dollars in 1999.

[http://economictimes.indiatimes.com/News/Economy/Foreign\\_Trade/India\\_Sri\\_Lanka\\_to\\_expand\\_free\\_trade\\_pact\\_diplomats/articleshow/3216938.cms](http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/India_Sri_Lanka_to_expand_free_trade_pact_diplomats/articleshow/3216938.cms)

### **Trade ties with Myanmar in for boost**

Minister for Commerce of Myanmar, Brigadier General Tin Naing Thein, would pay a three-day visit to India beginning July 16 to carry forward the dialogue of bilateral cooperation and intensify economic engagement between the two countries.

Mr Thein, visiting India at the invitation of the Minister of State for Commerce, Mr Jairam Ramesh, would meet the Union Agriculture Minister, Mr Sharad Pawar, the Minister of Panchayati Raj and North Eastern States, Mr Mani Shankar Aiyar, and the Union Commerce & Industry Minister, Mr Kamal Nath, besides taking part in the India International Garment Fair in Gurgaon, Haryana, official sources told.

<http://www.blonnet.com/2008/07/15/stories/2008071552481000.htm>

### **'HK exports to India close to \$4 b'**

Hong Kong's export to India was close to \$4 billion, while imports from India stood at about \$6 billion in 2007-08, according to Ms Vivian Wong, Economist at the Hong Kong Trade Development Council (HKTDC). Gems and jewellery contributed a major chunk of the exports from Hong Kong, followed by electronics, machinery and watches, while it imported leather and textile raw materials from India, Ms Vivian said, on the sidelines of a programme organised by the Bharat Chamber of Commerce. Ms Wong is on a visit to India to study the potential of establishing and fostering partnerships between India and Hong Kong-based companies.

<http://www.blonnet.com/2008/07/13/stories/2008071350550500.htm>

### **India, US on way to formal pact on investments**

India and the US have decided to launch formal negotiations for a bilateral investment agreement.

Both sides have held two rounds of exploratory talks and are keen to start work on a formal framework. India has bilateral investment promotion agreements (Bipa) with most of its key trading partners, including Australia, the UK, France, Germany and Russia. US is the only key partner with which it does not have an agreement.

New Delhi has a standard model for a Bipa which is slightly conservative. The US bilateral investment treaty, on the other hand, is very ambitious under which US investors get national treatment or most-favoured-nation treatment when they initiate investment, and throughout the life of the investment.

Government sources said New Delhi would be willing to upgrade the investment agreement and incorporate certain provisions the US agreements seeks to put in a treaty.

US, on its part, is ready to pare its ambition to certain extent and would indicate the dates for formal talks on the treaty. New Delhi, however, may not agree to inclusion of labour or environment standards in the agreement that it has been vehemently opposing at the global trade negotiations.

[http://economictimes.indiatimes.com/News/Economy/Foreign\\_Trade/India\\_US\\_on\\_way\\_to\\_formal\\_pact\\_on\\_investments/articleshow/3212410.cms](http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/India_US_on_way_to_formal_pact_on_investments/articleshow/3212410.cms)

## **Sectoral News**

### **Notebook sales double**

India's total PC sales – desktops and notebooks combine – rose 16 per cent during 2007-08 fiscal to 7.34 million units, propelled by a significant 114 per cent growth in notebook consumption.

Even as the sales to large enterprises was less-than-expected, the consumption was led by telecom, banking and financial services sector, education and BPO services and e-governance initiatives, as well as SMEs and households - all of which helped the IT sector maintain its growth targets set at the beginning of last fiscal.

The total PC sales are expected to be 8.5 million units this financial year, which translates into a growth rate of 16 per cent (the growth rate being the same as last year).

The desktop sales are likely to be almost flat at 5.5 million units, while the notebook sales are estimated to grow 65 per cent at three million units this fiscal, as consumers seem to be preferring notebooks over desktops.

Announcing the industry performance review for 2007-08, hardware association Manufacturers Association for Information Technology (MAIT) said while the desktop sales in unit terms grew one per cent, the notebooks stole the sectoral limelight with sales jumping 114 per cent. However, with drop in prices of both desktops and notebooks, in

value terms the notebook space posted 90 per cent growth in FY08, while for desktops it was a two per cent drop.

<http://www.thehindubusinessline.com/2008/07/09/stories/2008070951400400.htm>

### **Oilmeal export up 70% in Q1**

India exported 1.40 million tonne of oilmeal in the first three months of the current financial year, up 70% from the same period last year, the Solvent Extractors' Association said.

The sharp jump in oilmeal exports is mainly due to increase in soyameal exports, the largest oilmeal exported out of India.

In June, the country exported around 284,238 tonnes of oilmeal, up from around 156,696 tonnes exported during the same period last year.

India mainly exports soyameal, mustard meal and groundnut meal. Experts said oilmeal exports have risen because of sharp spike in soybean and groundnut production in the current marketing year that ends October.

As per official data, the country is expected to produce around 9.43 million tonnes of soybean in 2007-08, up from around 8.85 million tonnes a year-earlier.

Groundnut production is expected to almost double to around 8.87 million tonnes, up from 4.86 million a year-earlier. "With such huge production of oilseeds, oilmeal exports were bound to go up more so in a year when Indian oilmeal commanded a huge discount over oilmeals exported by South American nations," a trader-based in Indore said.

<http://www.financialexpress.com/news/Oilmeal-export-up-70-in-Q1/333196/>

### **'Textile exports likely to gain 20%'**

With the rupee losing value against the dollar, textiles and apparel exports are likely to gain 20 per cent in the financial year, said Dr J.N. Singh, Textile Commissioner and Joint Secretary for Ministry of Textiles.

India's apparels and textiles exports increased to \$20.8 billion in FY '08 against \$18.5 billion in 2006-07 an increase of 15 per cent.

Inaugurating the 49th National Garment Fair organised by the Clothing Manufacturers Association of India (CMAI), Mr Singh said the Technology Upgradation Fund (TUF) scheme is extended up to terminal year of the 11th Five-Year Plan. Under this scheme, the Government has released Rs 1,100 crore and has cleared dues up to September 2007. "Now, we have asked Planning Commission for an additional sum of Rs. 1,900 crore under this scheme," he said.

The Government has scrapped import duty on raw cotton besides withdrawing one per cent duty drawback on export of raw cotton. It is considering applying quantitative restrictions on export of raw cotton, he said.

In 2008-09 cotton season, the cotton output is expected to be about five per cent more than the previous season's 315 lakh bales. Mr Rahul Mehta, President, CMAI and Vice-President of Asian Apparel Federation, welcomed the steps to restrict export of raw cotton. This will bring stability in cotton prices, he said.

<http://www.thehindubusinessline.com/2008/07/10/stories/2008071052601000.htm>

### **Soyameal exports likely to surge 45 pc this season**

Country's soyameal exports are likely to breach the 50-lakh-tonne mark this season, surging by 45 per cent on the back of strong demands from overseas markets, according to an industry official.

Soyameal exports stood at 35.26 lakh tons in the 2006-07 season, which runs from October to September.

"We are very happy with the progress of soyameal exports in the current season. We feel that the initial target of 47 lakh tons will be easily achieved. In fact, we have set a new target of 51 lakh tons," Indore-based Soyabean Processors Association of India Coordinator Rajesh Agarwal said.

Soyameal exports during October 2007 to June 2008 have already touched 43.22 lakh tons, against 31.79 lakh tons in the corresponding period of the last season.

"During July-September period, we expect exports of about 2.5 lakh tons per month," he said, adding demand for Indian soyameal continues to be robust in overseas markets such as China, Japan and Indonesia.

The exports are currently being contracted at about 495 dollars per tonne, Agarwal said.

In value terms, he said the exports would be around Rs 7,000 crore this season. |

Till May, the country has exported Rs 5,917 crore worth soyameal against Rs 3,619 crore in the entire 2006-07 season.

Record output of soyabean has helped achieve higher exports of soyameal.

According to the government's fourth advance estimate, soyabean production in the country stood at record 99.9 lakh tons in the 2007-08 season against 88.5 lakh tons in the previous one.

[http://economictimes.indiatimes.com/News/Economy/Foreign\\_Trade/Soyameal\\_exports\\_likely\\_to\\_surge\\_45\\_pc\\_this\\_season/articleshow/3228514.cms](http://economictimes.indiatimes.com/News/Economy/Foreign_Trade/Soyameal_exports_likely_to_surge_45_pc_this_season/articleshow/3228514.cms)

### **Spices export up 28% in April-May**

Spices exports were up 28 per cent to Rs 885 crore (Rs 690 crore) during the first two months of the current fiscal. While export volumes grew by 20 per cent to 98,570 tonnes, foreign exchange realisation was up 29 per cent to \$215 million, a press release said.

Items such as pepper, chilli, coriander, cumin, celery and other miscellaneous seeds, vanilla, curry powder, mint products, spice oils and oleoresins exports have seen higher volumes and value realisation as compared to last year.

Spice oils and oleoresins, including mint oil, contributed to the most significant component of the export earnings at 35 per cent, followed by chilli which contributed 27 per cent, pepper 11 per cent, cumin 7 per cent and turmeric 4 per cent. However, export of spices such as large cardamom, ginger and fennel have shown a decline in both quantity and value during the period. In the case of small cardamom, turmeric and garlic the export earnings have grown despite a fall in quantity, the press release said.

During April-May 2008 pepper exports was up at 5,750 tonnes valued Rs 94.28 crore (Rs 68.77 crore), chilli exports at 50,000 tonnes valued Rs 240.88 crore (Rs 232.21 crore). Coriander exports were up sharply at 6,750 tonnes valued Rs 41.39 crore (Rs 16.12 crore). Cumin seeds also witnessed a sharp upward surge to 6,500 tonnes valued Rs 63.83 crore (Rs 22.04 crore). Curry powder exports grew by almost 50 per cent to 2,375 tonnes valued Rs 23.77 crore (Rs 15.06 crore). Spice oils and oleoresins exports also grew to 1,500 tonnes valued Rs 139.61 crore (Rs 86.93 crore).

Against the export target of 425,000 tonnes valued Rs 4,350.00 crore set for the current year, the achievement of 98,570 tonnes valued Rs 885.04 crore up to May 2008 is 23 per cent higher in quantity and 21 per cent higher in value realisation over last year.

<http://www.blonnet.com/2008/07/09/stories/2008070950781100.htm>

### **Tea exporters earn Rs 32 cr more during Jan-April**

Tea exporters have earned Rs 32 crore more in the first four months of the current calendar over last year, an analysis of the latest information available with the Tea Board reveals.

The increasing trend in earnings witnessed in March continued in April.

Even as the exporters claimed a higher price averaging Rs 101.14 a kg, against Rs 100.72 in April 2007, importers picked up a higher volume of 11.9 million kg against 8.9 million kg last April.

Consequently, exporters earned Rs 120 crore, as much as Rs 30 crore more than April 2007.

In the four months, exporters claimed an average price of Rs 97.76 a kg against Rs 95.02 in 2007.

<http://www.blonnet.com/2008/07/08/stories/2008070850211100.htm>

### **Silk exports post 25% growth despite strong rupee**

Despite rupee appreciation throughout last fiscal, the country's silk exports comprising mainly natural silk, fabrics, made-ups, readymade garments, silk carpets and silk waste held the ground well as such exports registered a 25 per cent growth at \$ 897.01 million in 2007-08, against \$ 716.45 million in 2006-07.

Official sources told that even as the country's single largest item in the overall textile exports, viz., cotton readymade garments including accessories posted a growth of 34.49 per cent at \$9,074.10 million last fiscal (\$6747.11 million in 2006-07), the readymade garment silk segment within overall silk exports logged a robust 46 per cent growth at \$ 375.08 million (\$ 257.22 million in 2006-07).

<http://www.blonnet.com/2008/07/13/stories/2008071351270300.htm>

## **News Round – Up**

### **Innovation: Asia's edge over others**

In recent years, developing countries like Vietnam, India and China have risen to global attention with their strong contribution to the software segment.

With relatively low barriers of entry into the software industry, the balance of power in the global arena is leveling out for those who choose to develop code rather than delve into heavy manufacturing.

The ability to constantly innovate is essential to Asia's sustained competitiveness in high technology fields such as software and IT. Innovation comes about through a mixture of environmental factors influenced by government policies, and the quality and drive of the talents in each country.

While no country has exclusive claims to high-calibre talent, it is possible through strategy and policy to cultivate an environment that is conducive to producing good innovation.

A report on Asia Innovation Policy Study conducted by the INSEAD international business school and sponsored by the Business Software Alliance sheds some insight on such strategies.

One of the findings is that there is a role for the government in the digital economy, but it is not the traditional one of an economic regulator. Governments play the role of a facilitator and orchestrator of innovative activities, and should refrain from the practice of 'picking winners', be it in terms of specific players in the market, or types of technology.

After an initial period of facilitation, it is equally important for governments to know when to disengage and let the private sector and market forces take over.

The study also notes that the healthy development of domestic technology sectors requires that governments recognise and balance their dual roles as policy-makers and customers. As customers, governments should give consideration to interoperability and make choices based on specific functional needs.

Governments should avoid adopting a one-size-fits-all approach to interoperability that could prevent the procurement of the best solution at optimal prices. As policy-makers, governments should support innovation by promoting competitiveness, encouraging interoperable technologies and competing products to develop, and allowing market forces to choose in individual cases.

[http://economictimes.indiatimes.com/Features/Special\\_Pages/Innovation\\_Asiatic\\_edge\\_over\\_others/articleshow/3220458.cms](http://economictimes.indiatimes.com/Features/Special_Pages/Innovation_Asiatic_edge_over_others/articleshow/3220458.cms)

### **Happy Indian CEOs say Govt is business friendly**

India is one of the top three nations globally, where the company's chief executives believe the government is business friendly and are taking adequate steps to reduce regulatory burden on firms, a report says.

"It appears that only in India and China is there overall a balance of CEOs who believe their government is both business-friendly and reducing the regulatory burden," PricewaterhouseCoopers Annual Global CEO Survey said.

Around 34 per cent of corporate honchos in India believe that the government here, where their company is headquartered, is creating a business friendly environment and 20 per cent said the country has reduced the regulatory burden on corporations, the report said.

In both the cases India has been ranked ahead of China. In China only 10 per cent believe their government has created a business friendly environment and 8 per cent think their regulatory burdens have been reduced.

In France, CEOs believe the government to be business friendly but not reducing the burden on corporations, while in contrast, Japan is the only other country where government is seen to be taking step to cut down regulatory hurdles, although it is not perceived to be very friendly.

Governments of other countries, including the UK, US, Italy, Spain and Russia, meanwhile feels that their governments have not done much to improve the regulatory system and business friendly environment, the report pointed out.

The priorities that figured in the CEOs' list for government action include labour laws, tax regime, education, law and enforcement, environmental legislation, healthcare, product safety regulation among others.

About taxation, which figures a one of the most import issue of CEOs, the report said, while chief executives in Brazil, Canada, Italy and Russia regard reformation of tax rules as particularly important, Indian and Dutch CEOs see it as a pressing concern.

Indian, Italian and Russian CEOs lead the world in calling for changes in law and order, as they place it second in the order of their priority.

The survey titled 'Regulate and collaborate: Government and the Global CEO' examines the evolving relationship between government and business in a connected world. Over 1,150 company leaders from 50 countries shared their views at survey, besides thoughts of government officials were also taken note of.

According to the report the top five concerns for CEOs include -- downturn in major economies, over regulation, low cost competition, energy security and scarcity of natural resources.

<http://www.financialexpress.com/news/Happy-Indian-CEOs-say-Govt-is-business-friendly/333934/>