**Monthly Economic Analysis**
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## Recent Trends in Indian Economy

### Industrial Growth

The Indian industry continues to remain in a state of distress due to demand drying up in the national and international markets. The last quarter of 2008 has been particularly bad as the performance of the industry slipped significantly. Although the year 2009 began on somber note with industrial growth in 2009 (Jan) slipping again to (-) 0.5%. There are some initial signs that indicate some improvement.

Manufacturing sector weighing about 80% of the total industrial output contracted again in January 2008, as a result of ongoing gloom in the markets.

Of the seventeen industry sectors 7 industry sectors posted negative growth during the April- January period of 2008-09. These industry sectors were food products, cotton textiles, wool, silk and manmade textiles, jute, wood, leather and rubber.

### Core Infrastructure Industries

Industry sectors falling in the core infrastructure category were also observed to slowdown. The overall six core infrastructure industries during April - January period of 2008-09 recorded a low growth rate of 3.2% as against the growth of 5.7% posted a year ago. The sectors that managed to remain unaffected were coal and cement.

### Trends In Inflation

The recent drop in fuel prices aided in cooling WPI based inflation in January 2009 compared to the inflation recorded in the previous month of the same fiscal. Although the overall inflation is softening the prices of food articles continue to rise.

### Monetary Indicators

Growth in total money supply (M3) slowed marginally in January 2009 (12.7%) compared to the growth in M3 in the previous year (14.7%) ( percentage change calculated is of January 2009 over March 2008). Increased borrowings in January 2009 were reported by both the government and commercial sector compared to that previous year.

However, in January 2009 the growth in aggregate deposits slowed as against the growth in the previous year. Lack of high growth in investments in the government and

approved securities was found during the period up to January 2009 as compared to the increase in the corresponding period of previous year.

## Stock Market Trends

Weakness in the stock market continues with both BSE Sensex and NSE Nifty remaining below 10K and 3K points. Since the stock market conditions are linked to the economic progress improvement in equity markets will come only with the growth in the principal indicators for industrial growth

## Fiscal Management

Lesser corporate earnings due reversal in demand trends and follow up counter fiscal stimulus measures by the government have impacted this year's tax collection up to January. The growth in gross tax collected was recorded at 7.2% up to January 2008-09 as compared to 26.1% recorded up to same month of previous fiscal

## Foreign Trade

For the period April- January 2008-09 merchandise trade growth numbers stood at 13.2% as against 20% plus growth in the same period of previous year. The detailed monthly numbers show negative growth trend in the past four months of 2008-09. Imports too were seen to have taken a hit, recording 18.2% increase in January 2009 as compared to the rise of 63% in the corresponding month of previous year.

## Capital Inflows

Total foreign investment up to January 2009 slid to USD 15.5 billion contrasting from a high USD 57 billion recorded up to January 2008. However, the foreign direct investment within is long term by nature recorded up to January 2009 USD 27 billion, USD 10 billion more than the FDI received up to January of previous fiscal.

## Foreign Exchange Reserves

Forex reserves stood at USD 248 billion in January 2009, however the concern over falling import cover may rise, which is presently for10 months.

## Trends In Exchange Rates

In January 2009 Rupee breached the $50 mark. Movements in the exchange rate of the kind seen in 2008-09 from Rs 40 to Rs 50 per USD raise difficulties for the trading community. Indian Rupee traded from Rs 40/ $ in April 2008 to Rs 45/$ in September 2008 to Rs 50/$ in January 2009.

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## Lead Stories of the Month

### Nov industrial output up 2.4 per cent

After turning negative for the first time in 15 years in October 2008, industrial growth turned positive again, clocking 2.4 per cent in November, despite the continuing global crisis, prompting analysts to say that "the worst is over" on the industrial front.

Industrial production, however, lagged behind the 4.9 per cent recorded in the same month last year, but was encouraging in the context of poor infrastructure growth and the dismal performance of exports and the auto sector in November.

Manufacturing, having a weight of around 80 per cent in the Index of Industrial Production (IIP), grew by 2.4 per cent in November against 4.7 per cent a year ago.

Industrial production figures were revised up to (-)0.3 per cent for October from (-)0.4 per cent estimated earlier. Industrial production had contracted in October, for the first time in 15 years.

Commenting on the industrial growth numbers, the Prime Minister's Economic Advisory Council Chairman, Suresh Tendulkar, said, "The numbers are above my expectations and in the coming days, I expect (them) to improve more."

He said a bulk of the rural market has not been affected by the global crisis and it was only the urban population that was not spending.

For the first eight months of this fiscal, industrial production grew by 3.9 per cent against 9.2 per cent in the year-ago period.

Industrial production numbers were quite substantial as six infrastructure industries, which comprise more than one-fourth of the industrial data, could manage to grow only by 2.2 per cent in November from 3.4 per cent in October.

The November data did not factor in the stimulus packages of December and January, and industrial production is expected to show improvement from December onwards.

"After the easing of monetary and fiscal policy, I expect urban consumers to spend more and industrial activities to improve," Tendulkar said.

However, the base effect came into play in pushing up industrial production. The base effect reflects industrial numbers in the previous fiscal's corresponding period.

**Exports put up a better show in December**

The Indian exports sector may not have ended year 2008 on such a bad note after all, with sectors such as pharmaceuticals, engineering products and agricultural commodities registering robust growth in December, according to initial estimates by the government.

The growth rate for the month may still be in the negative, but a modest 1.6% as against 12.1% for October, and 9.9% for November, according to estimates by the commerce ministry that incorporated data from most sectors. The ministry is expected to release the final figures for December by the end of this month.

“While overall export figures have improved, there are some sectors which continue to suffer. We have to keep monitoring these sectors to see if government intervention is required,” a ministry told.

The official said even if export performance continued to improve in the next quarter, it would be difficult to reach the $200 billion target set for 2008-09.

“We are now looking at an export figure of around $170-175 billion for the fiscal,” the official said. Exports for the nine months to December are estimated at $130.6 billion.

The increase in exports of a number of engineering goods, pharmaceuticals and agriculture products such as tobacco and spices have been in the range of 19%-25% in December, the official said.

The slowing pace of export decline, together with the slackening in import growth — thanks to falling oil prices, could help India contain its trade deficit. However, on the export front, sectors including textiles, gems & jewellery, handloom and chemicals continued to perform abysmally in December.

**Indian economy tops optimism list**

India has regained top slot in optimism among privately held businesses for 2009. While optimism amongst privately held businesses (PHBs) around the world slumped by 56% over the last 12 months, pushing the Grant Thornton International optimism/pessimism barometer to a record negative balance of -16% compared to +40%, this time last year.

Despite raging pessimism, the survey found that PHBs from 11 countries remained optimistic about the outlook for their economies, with India leading this group (+83%), and Botswana (+81%) with Brazil (+50%) also emerging on the top. Japan (-85%) and Spain (-65%) were the most pessimistic.

It is the first time that pessimists have outweighed optimists about the outlook for their economy since the research began in the current form in 2003 but this year's International Business Report, which surveyed senior executives from over 7,000 PHBs across 36 economies, also shows an overwhelming consensus that falling consumer demand is the biggest threat to PHB businesses.

There are also some startling differences in attitude towards the economic crisis between the mature and emerging economies. Of the four largest trading nations, PHBs in the United States and mainland China, who together contribute over 32% of global GDP1, scored their optimism at -34% in the United States and +30% in Mainland China.

Similarly, Japan and India (collectively contributing over 11% of global GDP) scored their optimism at -85% and +83% respectively.

"These polarised results suggest that despite the current slowdown, there are still pockets of hope in the global marketplace for PHBs," explained Vishesh Chandiok, National Managing Partner – Grant Thornton India.

"Their macro view of the world economic stage explains the overall slump in optimism but there are still signs of optimism in some economies and also clear signs that PHBs, while preparing for the downturn, are also seeking to leverage on opportunities this could bring," Mr Chandiok added.

When asked to identify the most significant factors causing most concern for their business, PHBs in 33 out of the 36 economies cited a fall in consumer demand, while citing a shortage of business credit as a secondary concern.

**India Inc improves capital productivity by 36%**

India Inc improved capital productivity by 36% between 2001-02 and 2007-08. Capital productivity captures revenue generated per unit of capital employed and indicates the productivity churned out of the fixed assets of a company. The rise in capital productivity coincided with the six-year period of high economic and corporate growth in the country.

Capital productivity of industrial sector rose from 1.13 in FY02 to 1.54 in FY08. This basically means that the revenue generated by companies for every Rs 1 crore worth of their fixed assets rose from Rs 1.13 crore in 2001-02 to Rs 1.54 crore in 2007-08. This was due to better sales growth compared to increase in capital (machinery, funds etc).

While aggregate sales of 2,000 companies in the study, grew at compounded annual growth rate (CAGR) of 18% during the six year period, their fixed assets grew at CAGR of 12%.

The ratio, which stood at 1.20 in FY01 declined in FY02 but has seen a consistent improvement thereafter. But, the increase was marginal last year when it moved from 1.52 in FY07 to 1.54 in FY08. This could be due to modest performance by the core-manufacturing sector, accounting for 87% of sales and 70% of fixed asset base. Core manufacturing sectors saw a marginal decline in capital productivity from 1.96 to 1.94 between FY07 and FY08.

It must be noted that higher ratio for certain sectors is partly due to higher realisation per unit of sale and does not necessarily imply improvement in production.

Companies which have seen maximum improvement in capital productivity over the last six years include Rajesh Exports, Mangalore Refinery & Petrochemicals, Sterlite Industries, Haldia Petrochemicals, Jindal Saw, L&T, Siemens, Hindalco and NMDC.

Most of these companies represent sectors such as oil, mineral, metals, and jewellery which have witnessed sharp increase in prices during the period backed by high global economic growth. This helped them generate more revenue out of the same assets. For engineering companies such as L&T and Siemens, this is an indication of better asset utilisation as there has been no sharp run in their product prices.

Another important feature of the analysis is the performance of the top 100 Indian companies by revenues. These top firms had a capital productivity ratio of 1.13 in FY02 around the same levels s that of all companies put together.

But these firms have managed better utilisation of capital resources, leading to productivity ratio of 1.62 against 1.54 for aggregate set, translating into productivity growth of 43% as against 36% for all companies put together.

The top 50 companies have even better ratio of 1.83, up from 1.22 in FY02 i.e., a capital productivity growth of 50% for the six-year period.

**India Inc made PE deals worth over $10 bn in 2008: Thornton**

Fall in the capital market mirrored itself in the corporate India's private equity transactions, which registered a 23 per cent decline during the year 2008 at $10.59 billion, thanks to the effects of the recent economic downturn, a latest report says.

There were 312 deals in 2008 with a total announced value of $10.59 billion compared with 405 deals with an announced value of $19.03 billion in the year 2007, according to Grant Thornton's latest annual issue.

Though there has been a decline in PE deals but still India Inc braved the downtrend and managed to attract decent number of such deals.

"Over the year, India Inc has shown its resilience by not only being an important destination for International Private Equity funding and inbound M&As but also by being highly active in acquiring international companies," the latest issue of Deal Tracker said.

The report further said that the average PE deal value fluctuated from $46.99 million in 2007 to $33.93 million during 2008. Besides, high value deals saw less activity in 2008. There were 28 deals of over $100 million in 2008, while in the year 2007 there were as many as 53 such deals.

Some of the large PE deals in 2008 included Providence Equity Partner's acquisition of 20 per cent stake in Aditya Birla Telecom (ABTL), a subsidiary of Idea Cellular for $640 million in May 2008 and Symphony Capital's investment in DLF Assets (Property fund of DLF) for $450 million.

The decline in PE transactions was mainly because there was less activity in the second half of the year 2008 on account of global financial crisis.

"While the value of PE deals during the first half of 2008 was $7.1 billion, the second half was $3.5 billion," Grant Thornton said.

**FICCI suggests 5-point package to govt to grow food industry**

Industry body FICCI has suggested a five-point package to the government to grow the Indian food industry to Rs 13,20,000 crore by 2015 from Rs 8,80,000 crore in 2006-07.

The suggested measures include setting up an Inter-Ministerial Working Group (IMWG) under the leaderhsip of Ministry of Food Processing with FICCI as a knowledge partner, addressing agri business from the entire food chain perspective, restructuring the tax system to reduce the impact of multiple levies and reduction in final price of products, creating an enabling enviroment for modern food retailing, implementing the amended APMC Act and the FSSA Act in letter and spirit.

The major push, says FICCI, will come from retail industry that is likely to grow by 30 per cent in the next five years and become Rs 110 billion industry by 2010. According to FICCI, fruits and vegetables, dairy products, marine and fish, meat and poultry, edible oils, staples, alcoholic and non alcoholic beverages, breads and bakery, confectionary and packaged foods are the key industry segments which offer tremendous growth potential and investment opportunities.

Further, Indian wine is gaining a lot of recognition across the globe; the domestic wine market has grown at a compounded annual growth rate of more than 25 per cent and Ready-to-Eat (RTE) foods growing almost at 40 per cent per year.

**Agri cos record biggest profit gains in first half**

One out of every five listed companies in India declared higher profits in the first half of fiscal 2008-09, an analysis shows.

The farm inputs and farm machinery companies were the biggest gainers, while TTK Healthcare, NIIT, Whirlpool, Punjab Alkalies and Bannari Amman saw their profits rising by more than 500% during the period.

List of outperformers includes 750 companies belonging to various sectors, including consumer durables, metal & mining, banks, IT, sugar, oil & gas, infrastructure construction and pharmaceuticals.

In the farm inputs and machinery sector, Coromandel Fertiliser, RCF, Excel Industries, Punjab Tractors, Excel Crop Care, Liberty Phosphate, Swaraj Engines, Nagarjuna Agrichem and VST Tillers Tractors reported higher profit growth in the first half of the fiscal year.

Two-thirds of the profitable companies in the first half of the fiscal year are small in size. But the sales of 53 companies, including ONGC, Sail, HDFC Bank, Hero Honda Motors, Satyam Computers, Nalco, MTNL, Titan Industries, Sesa Goa, Gammon India, Whirlpool India and Hindalco, exceeded Rs 1,000 crore.

Tata Steel, Sterlite, Punj Lloyd, Aditya Birla Nuvo, Dr Reddys Lab and Piramal Healthcare reported better net profit growth as stand-alone entities. The consolidated profits of some companies rose last year in the wake of overseas acquisitions. For instance, the UK-based steel maker Corus became a Tata Steel subsidiary and therefore witnessed a four-fold jump in its consolidated numbers compared to H1 of 2006-07.

Companies that more-than-doubled their net profits included Coromandel Fertiliser, PTC India, RCF, Sesa Goa, Titan, Gujarat NRE Coke, Matrix Labs, Punjab Tractors, Aban Offshore, ICI India, 3i Infotech, Ciba India, Tata Coffee, Punjab Chemicals and Nocil.

Many firms became profitable in the first half of this financial year. Eveready Industries, Deepak Nitrite, Sharp India and UTV Software made profits this year after reporting stand-alone net losses in the first half of last year.

Besides the 750 companies that boosted their profits in the half year ended September, another 200 improved their bottomlines by stemming the decline in profits. For instance, two-wheeler maker TVS Motor reported a 10% drop in net profit for the first half of this year vis-a-vis a 58% decline in the corresponding period of the

previous fiscal. The 750 firms reported net profits of Rs 50,510 crore for H1 of 2008-09, up 42%, against a rise of 8.3% in H1 of 2007-08.

These companies also saw significant topline growth, with aggregate net sales rising by 38.6% to Rs 3.32 lakh crore, compared to a rise of 12.3% in H1 of FY08. The study excluded one-time items such as extraordinary income and loss.

Sectors other than banks and oil & gas registered even better performance, with profits jumping by more than 50% compared to the 1.9% growth seen in H12007-08. This shows that high crude oil prices and interest rates were not the only contributors to profitability.

**Indian paper industry fastest growing in the world**

India has emerged as the fastest growing paper market in the world, registering a growth of 10% in per capita consumption of paper over the last one year. Per capita paper consumption increased to 8.3 kg as of December 2008 as compared to 7.5 kg during 2007-08, as per estimates of Indian Paper Manufacturers Association (IPMA). The Indian paper industry accounts for about 1.6% of the world's production of paper and paperboard. The estimated turnover of the industry is Rs 25,000 crore.

"The pulp and paper industry will grow at an estimated CAGR of 7-8% over the next decade. The installed capacity in the country is also slated to grow to 11.2 million tonne per annum by 2010 from the current level of 9 million tonne," said outgoing IPMA president Pradeep Dhobale. He was speaking at the annual general meeting of IPMA.

Orient Paper & Industries' MD, M L Pachisia has taken over as the new president, while of Star Paper's MD, Madhukar Mishra, will be the new vice president of IPMA.

Mr Dhobale added that the industry is targeting a capital expenditure of over Rs 13,000 crore in the next 2-3 years, towards capacity expansion, modernisation and enhancement of efficiencies

**Luxury cars log double-digit growth last year**

Hit by economic slowdown, the global automotive industry may have seen their worst in 2008, but luxury cars have literally bucked the trend and have registered high double digit growth in India last year.

Mercedes-Benz India, the largest luxury car manufacturer in the country, registered a growth of 46% at 3,625 units in the passenger car industry in 2008 as against 2,483 units in the preceding year. Even BMW India sold over 2,500 units last year as against an estimated 2,000 units for the whole year. Likewise Audi India, the relatively new entrant into the Indian automobile industry, posted a growth of 201% at 1,050 units in 2008 as compared to 349 units in 2007.

"Despite a slump in the automobile industry because of high interest rates and liquidity crunch, luxury cars managed to post a healthy growth primarily because a huge part of the sales is via cash. Moreover, because of huge margins in these cars, companies and financiers together offered lower rate of interest to woo customers," says an industry analyst.

**Gems, jewellery exports up 9 per cent during April-Dec'08**

The country's gems and jewellery exports rose nine per cent to Rs 66,249.73 crore during April-December 2008 as compared with Rs 60,779.15 crore in the same period last year, according Gem and Jewellery Export Promotion Council.

Gems and jewellery exports in dollar terms rose marginally by 0.59 per cent at $ 15,087 million from $ 14,999 million, a data released by GJEPC said.

Net exports of gems and jewellery, excluding export of rough diamonds, jumped by 7.41 per cent at Rs 63,572 crore in April-December 2008 as against Rs 59,184 crore a year ago.

Exports of cut and polished diamonds grew by 10.91 per cent at Rs 45,153 crore in the same period from Rs 40,711 crore. However, quantity in carats decreased by 1.35 per cent to 308.02-lakh carats from 312.23-lakh carats.

Exports of rough diamonds also shot up by 67.94 per cent at Rs 2,677 crore from Rs 1,594 crore in the same period last year. Quantity too increased from 185.93-lakh carats to 248.56-lakh carats, GJEPC said.

**Telecom space buzzes on; 113 m users added in 2008**

India's growth story in the telecom space shows no signs of slowdown. The country added 113.26 mn new customers in 2008, the largest globally. To put this growth into perspective, the country's cellular base witnessed close to 50% growth in 2008, with an average 9.5-mn customers added every month.

As per industry data, the country had 346.89 mobile phone users as of December 2008-end compared to 233 mn in the corresponding period a year ago.

As per sector regulator Trai, the total number of telephone connections (mobile and fixed) has touched 385 million as of December-end, taking the telecom penetration to over 33%. This implies, one out of every three Indian has a telephone connection.

On the other hand, fixed-line numbers continued to tumble. The landline customer base was down by 3% in 2008 to 37.90 mn. Mobile customers now out-number landline users by around 9 times. Despite registering close to 75% growth in its broadband subscriber base, the penetration of high-speed internet connections remains dismally low. A mere 5.5 mn users have a broadband internet connection.

The growth in 2008 was led by Bharti Airtel, the country's largest communications provider. Bharti had 85.6 million customers as of December-end, when compared to 61.3 million of Reliance Communications and about 61 million of Vodafone Essar.

In fact, Bharti has more customers than the state-owned BSNL's mobile and landline users combined. The PSU finished 2008 with 46.2-million mobile subscribers and 29.5-million landline customers.

Telecom companies estimate growth in 2009 to be higher: "We are extremely bullish that the growth will continue in 2009. This year, the number of additions will be in excess of 130 million.

While, currently, we are adding about 10 million plus customers per month, this figure will go up to 12 million in the second half of 2009," explained Cellular Operators Association of India's director general TV Ramachandran. COAI is the industry body that represents all GSM players in India.

**Iron ore exports jumped 39% to 13.6 million tonne in December**

On the back of rising demand from China, the country's iron ore exports jumped 39% to 13.6 million tonne in December, 2008 against 9.8 million tonne in the same month a year ago.

This was brought out by a study conducted jointly by Minerals & Metals Trading Corporation, Goa Mineral Ore Exporters Association and Kudremukh Iron Ore Company.

But for the first nine months of the financial year exports are lower. Total exports during April-December, 2008 dipped 5.4% to 64.4 million tonne against 68.1 million tonne in the corresponding period last financial year.
India's annual iron ore production, a key input in steel making, is more than 200 million tonne, of which about 50% is exported. Globally, demand for steel has grown marginally in the last few weeks.

Some of the Chinese steel mills that had shut down as a result of low demand have now increased their production levels. This has in turn pushed up demand for the Indian ore, said Federation of Indian Mineral Industries president Rahul Baldota.

Besides, the government s move to reduce export duty on iron ore lumps from 15% to 5% has also boosted exports, Mr Baldota said adding that reduction in railway freight has also helped the domestic iron ore miners in a big way.

**Spices export rises in April-Dec**

Spices exports during the first nine months of the current fiscal increased 15 per cent in terms of rupee value and three per cent in quantity from that of the corresponding period in 2007.

Total shipments in April-December 2008 is estimated at 3,34,150 tonnes valued at Rs 3,810.95 crore ($860.40 million) as against 3,25,320 tonnes valued Rs 3,320.00 crore ($821.45 million) in the same period of the last financial year.

*Quantity, value up*

Spice oils and oleoresins including mint products contributed 42 per cent of the total export earnings. Chilli contributed 21 per cent followed by pepper eight per cent, cumin eight per cent and turmeric five per cent.

Exports of most of the major spices have shown an increasing trend both in terms of quantity and value compared with the same period of last year. However, exports of pepper and chilli have declined both in terms of quantity and value compared to last year, according to a Spices Board release. Exports of ginger and mint products have declined in quantity only, while that of pepper have dropped both in terms of quantity and value during April- December 2008 to 19,100 tonnes valued at Rs 317.77 crore from 27,580 tonnes valued at Rs 400.20 crore of last year. The average export price of pepper has gone up from Rs 145.11 a kg in 2007 to Rs 166.37 a kg in 2008. The low inventory in the major international markets due to the economic recession is reported to be the major reason for the decline in exports.

Exports of chilli and chilli products declined to 1,41,000 lakh valued at Rs 793.18 crore from 1,49,755 tonnes valued at Rs 807.03 crore in April-December 2007. The traditional buyers of Indian chilli viz. Malaysia, Indonesia and Sri Lanka continued their buying this year also. It is expected that the export will pick up in the coming months as the new crop comes to market, it said.

The export of cumin has shown an increase of 51 per cent in quantity and 49 per cent in value compared to last year. The reported crop failure in other major producing countries viz. Syria, Turkey and Iran has helped India to achieve this substantial increase in its shipments.

*Value-added products*

The export of value-added products such as curry powder and spice oils and oleoresins have also shown substantial increase both in terms of quantity and value compared to last year.

Against the export target of 4,25,000 tonnes valued at Rs 4,350.00 crore ($1,025 million) for the current fiscal, the achievement of 3,34,150 tonnes valued at Rs 3,810.95 crore ($860.40 million) up to December 2008 is 79 per cent in quantity, 88 per cent in rupee value and 84 per cent in dollar terms of value. The export of spices such as cumin, fenugreek, nutmeg and mace, vanilla and other seeds have already achieved the respective targets fixed for the year 2008-09.

**Tobacco exports jump 13% on global demand**

Tobacco shipment from India, the third-largest exporter in the world, surged by 61% to Rs 2,428 crore till December 2008 on better price realisation and weakening rupee against the dollar.

In volume terms, tobacco exports, comprising raw tobacco and its products, rose 13% to 173,484 tonne between April and December 2008 from 153,991 tonnes in the year-ago period, a senior Tobacco Board official said. “India exported tobacco worth Rs 2,428.65 crore between April and December against Rs 1,508.51 crore in the same period last year,” he said.

Raw tobacco exports soared to Rs 1,978.93 crore in April-December from Rs 1,121.07 crore in the same period of the previous year. In volume, the shipments rose to 153,064 tonnes during the period from 133,941 tonnes a year ago, he said.

“High prices in global markets have boosted prospects of shipments. That apart, the depreciation of the rupee against the dollar also benefited the exporters,” he said. Indian tobacco prices hit records due to a shortfall in output in some of the major producing countries, including China, last year.

Prices of tobacco skyrocketed to a record average of Rs 84.85 per kg during auctions in Andhra Pradesh in 2008 against Rs 47.47 the previous year. Similarly, prices of the highest quality tobacco in Andhra Pradesh spiralled to a record Rs 141 a kg, as against Rs 65 in 2007.

The depreciation of the rupee boosted the profitability of the exporters, the official said. The Indian currency depreciated by over 21% to Rs 48.58 against the dollar between April 1 and December 31, 2008. Tobacco Board Chairman J Suresh Babu had said that India’s tobacco exports may increase to $700 million (close to Rs 3,500 crore) in this financial year, though shipments in volume terms may not rise significantly.

India exported around 2.1 lakh tonnes of tobacco worth $503 million in 2007-08. Belgium and Russia accounted for bulk of India’s tobacco exports in 2007-08 and the Philippines, Germany and South Korea were other major markets.

**Spanish investment in India increases by 500%**

Spain, which has a strong industrial base in the automotive and infrastructure sectors has witnessed a five-fold increase in its investments in India in 2008 calender year.

"Spanish investment in India in the first three quarters of 2008 calender year was USD 158 million (or 114 million euros). This had increased by 500 per cent from the previous year," Chief Executive Officer of Interes 'Invest in Spain', Javier Sanz told.

"Our companies have been investing in India in the automotive and infrastructure segment. One of our firms, Caf (Construcciones y Auxiliar de Ferrocarriles SA), is working with Reliance on the Delhi metro project from the railway station to the airport," Embassy of Spain, Economic & Commercial Counsellor, Teresa Solbes, said.

She added that the cost of the 22-kilometre project cost was about 670 million euros. Spanish fashion retail giant Zara too has shown keenness in investing in India, she added.

'Invest in Spain', a government agency for promotion and attraction of foreign investment in the European country, today met with 14 well-known Indian entrepreneurs to explore business opportunities between the two countries.

Infosys, Tata Consultancy Services, ICICI Bank, Essar Group, Navneet Publications, X L Telecom & Energy, Tata Motors, Kingfisher Airlines, Kalapuma Steel, Jupiter Infra Trade, Telcon, Wanbury Pharmaceuticals, Roha Dyechem, and ITNL IL&FS were part of the meet today.

Spain, which is seeking Indian investment in ICT, renewable energy, biotechnology, aerospace and logistics sectors, says Indian foreign investment in Spain has been fairly insignificant at 10.3 million euros.

Although India is not facing the slowdown as much as elsewhere, it has great potential for investment in Spain, Solbes said. "India has a special potential. The slowdown is less felt over here," Solbes said.

"With an astonishing economic growth rate of 9 per cent and IMF growth forecast at 6.7 per cent, India is a key market for us," Sanz said, adding they want more Companies like TCS to invest in Spain.

**India-Africa trade to grow nine times by 2012: Assocham**

Even as India's exports decline, India-African bilateral trade is projected to grow by over nine times from $26 billion now to $150 billion by 2012, according to an estimate by a leading business chamber.

The Associated Chambers of Commerce and Industry of India (Assocham), in a report on Africa, projects that in the next four years the continent will have greater business significance and drive two-way trade to over $150 billion.

According to Assocham, bilateral trade grew over five times from $5.2 billion to $26 billion from 2002-03 to 2007-08.

"The governments in African continent have also been encouraging industries to intensify their ties with India because it has already announced Duty Free Tariff Preference Scheme for all LCDs (Least Developed Countries) including Africa so that

imports from them become easier and increase by manifold," said Assocham secretary general DS Rawat.

Rawat said the areas which will receive maximum focus in the next four to five years for increased trade include minerals, fuels, gems and jewellery, inorganic chemicals, ores and wood, besides project exports, consultancy, IT, education and healthcare.

**India, UAE non-oil trade grows 24%**

Non-oil trade between India and the United Arab of Emirates rose 24% to $29.02 billion in the last fiscal, making the UAE India's third-largest trading partner after the US and China, latest figures released by the Indian embassy in Abu Dhabi has stated.

India's non-oil exports to the UAE in the last fiscal year went up to $15.47 billion from $13.61 billion a year earlier and its non-oil imports from the UAE during 2007-2008 were valued at $13.56 billion, higher than $9.79 billion in 2006-07 financial year.

The balance in the non-oil trade, despite dropping to $1.91 billion from $3.82 billion the previous year, is still in India's favour although there is competition from China, the US and Japan. India's major exports to the UAE comprise petroleum products, finished precious and semi-precious jewellery, machinery, textiles and apparel and cereals.

India's imports from the UAE are mainly crude oil, petroleum products, raw pearls and precious metals, electrical machinery and equipment and iron and steel.

India is making efforts to boost exports to the UAE and is planning to organise trade delegations and promotional events in the country. The embassy is also planning to organise an exclusive Indian trade fair in Abu Dhabi in December 2009, showcasing India's industrial products and services sector including information technology, health, education and financial services.

**India, Canada agree to strengthen business ties**

India and Canada have decided to strengthen business and trade ties that will open fresh opportunities "for our respective business communities", Commerce and Industry Minister Kamal Nath said on Wednesday after holding talks with Canada's Minister for the Asia-Pacific Gateway Stockwell Day.

The two leaders also agreed to take forward talks for the proposed comprehensive economic partnership agreement.

Both sides have stressed the need to strengthen investment in sectors like infrastructure, agriculture and Industrial goods.
During the talks, Kamal Nath said there has to be greater engagement between small and medium enterprises of the two countries. He said India was committed to taking the economic partnership forward.

"The steps taken today will ensure we move towards opening doors for our respective business communities," the minister said.

On the other hand, Day agreed that it was the right time for both countries to begin talks on the possible parameters of a comprehensive trade agreement.

**'China emerges India's largest trading partner in 2008'**

In 2008, China emerged as India's largest trading partner, surpassing the US, according to Mr Mao Siwei, China's Consul-General in Kolkata. Quoting statistics from China's Customs, Mr Mao said the size of bilateral trade reached a historical level of $51.8 billion in 2008 compared with $38.6 billion in 2007.

Between January and November 2008, the US-India trade amounted to $41.5 billion compared with $41.6 billion in the whole of 2007.

Describing the growth of trade between India and China, "a great achievement", Mr Mao pointed out that 10 years ago, i.e. in 1998, the bilateral trade amounted to less than $2 billion. He was addressing an international steel seminar organised by Steel Scenario, a journal on steel industry, in partnership with Sinosteel India Pvt Ltd.

The steel industry, according to the Chinese Consul General, will take a lead in further development of economic relations between the two countries. This would happen because India's exports of iron ore to China accounted for more than 20 per cent of China's total iron ore import.

At the same time, China accounted for the bulk of two million tonnes of coke imported by India's steel industry. Also, China was poised to meet India's growing demand for steel estimated at 200 million tonnes (mt) by 2020. Currently, India produced 53 mt, while China 500 mt. "China has reached production saturation and to reserve steel production capabilities, the Chinese steel industry needs to go abroad," he added. "The near future will see that the co-operation in the steel industry will benefit each other in a big way."
Dr S.K. Gupta, Director, JSW Steel Ltd, in his keynote address, hinted at the possibility of more protectionist measures by the US, EU and China in view of the present global meltdown. For Indian steel producers, the long-term availability of metallurgical coal, both coking and non-coking, at a reasonable price would continue to be a matter of concern, he said. "If India is to become the second largest producer of steel, our steel producers, besides becoming low-cost producers, must also target to produce high quality products along the value chain," Mr Gupta observed.

**South African cos keen to expand exports**

Taking advantage of a weaker rand against the rupee, South African companies, especially capital equipment manufacturers, are scouting for export opportunities in India.

The focus areas for exports include capital equipment, especially those required in mining and mineral processing industries.

More than 80 South African companies would showcase their products in the forthcoming edition of the Indian Engineering Trade Fair (IETF) to be held in Bangalore from February 23-26, according to Mr Iqbal Meer Sharma, Deputy Director General, Trade and Investment South Africa. The companies that are likely to showcase products include Bateman and Multotec.

South Africa will be the partner country for IETF 2009, being organised by Confederation of Indian Industry (CII). South Africa was the partner country for IETF 2005, when about 70 companies from that country participated.

"South African exports are twice as affordable now for Indian importers. Since the establishment of diplomatic relations in 1994, the rupee has strengthened significantly against the Rand — almost 50 per cent appreciation. We are looking to leverage on the rupee appreciation to expand our exports to India," Mr Sharma told.

Meanwhile, South Africa's annual mining conference—'mining indaba' will be held at Cape Town from February 9-12.

With commodity prices declining, mining opportunities are set to become more attractive. Besides discussing the future of mining, the conference will provide an opportunity for Indian companies to meet people with concessions and those looking for partnerships.

**100% FDI in fax editions of foreign newspapers okayed**

In a move that would allow international media houses to open subsidiaries and market and distribute facsimile editions of their magazine and newspaper in the country, the government allowed 100% FDI in fax editions of magazines and newspapers.

The FDI policy for the facsimile edition of magazines and newspapers needed clarification. While non-news segment already attracts a 100% FDI in the country, foreign investment in news and current affairs segment is restricted to 26%. Facsimile or fax edition of a magazine or newspaper implies a 100% replica of a publication that is originally published outside the country.

**Government may allow 25% FDI in airlines**

Civil Aviation Minister Praful Patel said the government was considering foreign direct investment (FDI) of up to 25 per cent in Indian carriers by foreign airlines.

This means that the foreign carrier will not have the right to block special resolutions in the board, for which an investor requires a 26 per cent shareholding.

“Every airline has a problem and we have to look for extraordinary solutions. It is not formalised yet. It is only a thought process. We are not saying we will give it. We just feel the need,” said Patel.

Airlines, led by full-service carrier Kingfisher, have been lobbying for the government to allow foreign carriers to take stakes in domestic carriers. The Indian airline industry is estimated to lose close to Rs 10,000 crore this fiscal.

Foreign carriers like British Airways, Lufthansa, Emirates, Singapore Airlines and Virgin Atlantic are understood to have shown interest in Indian carriers in the recent past.

“The ability for foreign airlines to invest may provide a much-needed lifeline for an industry that desperately needs cash,” said Kapil Kaul, CEO (Indian sub-continent) of global aviation consultancy firm, Centre for Asia Pacific Aviation (CAPA).

Speaking of the equity and soft loan package to national carrier Air India, Patel said the proposal would be pushed in the cabinet in February.

Patel added that the ministry could allow Delhi and Mumbai to levy airport development fees on passengers for two years to bridge the gap in capital as a result of the poor response to their real estate projects and fall in passenger numbers.

**Easier FDI rules for real estate likely**

To ease the flow of foreign direct investment (FDI) into real estate, the government is mulling a proposal that mixed development projects should be exempt from the minimum capitalisation and area development norms.

The changes, proposed by the ministry of commerce and industry, will be discussed by the committee of secretaries set up for the purpose. A mixed development project can include townships, housing, commercial premises, hotels, multiplexes and recreational facilities.

Current rules allow 100 per cent FDI in such a project, provided it has been capitalised at $10 million (Rs 49 crore) or more ($5 million if it’s a joint venture where funds have to be brought in within six months), has in its possession at least 25 acres and proposes minimum built-up area of 50,000 square feet.

Under the proposed policy, the government is seeking to exempt such projects from the $10 million requirement, reduce the project size to 10 acres and cut the minimum built up area to 10,000 square feet. All FDI brought to these projects will continue to have a lock-in of three years after the date of completion of the project.

However, the developers of these projects will have to keep at least 50 per cent of the total built up area for hotel and tourism related activities and ensure the project is

regulated by the concerned authority and residential buildings are not misused for non-residential purposes.

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## External Sector: Foreign Trade April-June

| Region/Country | Export | | |
|---|---|---|---|
| | US $ million | | % change |
| | 2007-08 | 2008-09 | 2008-09 |
| World | 87865.0 | 108475.0 | 23.46 |
| Africa | 8169.6 | 9336.3 | 14.28 |
| Egypt | 758.1 | 1135.4 | 49.77 |
| Ghana | 555.1 | 373.0 | -32.81 |
| Kenya | 720.9 | 937.9 | 30.11 |
| Mauritius | 634.3 | 823.2 | 29.78 |
| Nigeria | 609.9 | 739.2 | 21.20 |
| South Africa | 1467.9 | 1275.7 | -13.09 |
| America | 15702.1 | 17890.5 | 13.94 |
| Brazil | 1272.6 | 2032.3 | 59.70 |
| Canada | 716.7 | 803.0 | 12.05 |
| USA | 12019.6 | 12766.5 | 6.21 |
| Asia (excl. Middle East) | 25925.8 | 32834.8 | 26.65 |
| Bangladesh | 1242.3 | 1624.5 | 30.77 |
| China | 4721.5 | 4832.6 | 2.35 |
| Hong Kong | 3535.0 | 4157.5 | 17.61 |
| Indonesia | 971.9 | 1646.6 | 69.42 |
| Japan | 1896.7 | 1798.2 | -5.20 |
| Korea DPR (North) | 422.1 | 890.4 | 110.94 |
| Korea Republic (South) | 1363.9 | 2217.8 | 62.61 |
| Malaysia | 1238.2 | 1713.4 | 38.38 |
| Nepal | 753.3 | 978.3 | 29.87 |
| Pakistan | 917.7 | 914.6 | -0.34 |
| Philippines | 342.3 | 458.5 | 33.96 |
| Singapore | 3834.4 | 5753.8 | 50.05 |
| Sri Lanka | 1490.7 | 1681.9 | 12.82 |
| Taiwan (Taipei) | 1006.1 | 1205.8 | 19.85 |
| Thailand | 1015.6 | 1247.1 | 22.80 |
| Viet Nam | 613.6 | 872.9 | 42.26 |
| Middle East | 16128.8 | 21182.3 | 31.33 |
| Iran | 1425.2 | 1571.3 | 10.25 |
| Israel | 925.4 | 999.1 | 7.96 |

| Kuwait | 371.0 | 484.3 | 30.53 |
|---|---|---|---|
| Oman | 520.2 | 488.3 | -6.13 |
| Saudi Arabia | 1967.1 | 3582.7 | 82.13 |
| Syria | 515.3 | 217.9 | -57.71 |
| UAE | 8972.6 | 12147.9 | 35.39 |
| Yemen | 692.9 | 578.8 | -16.47 |
| Europe | 21015.8 | 25761.0 | 22.58 |
| Belgium | 2430.3 | 2996.9 | 23.31 |
| France | 1393.9 | 1687.8 | 21.08 |
| Germany | 2847.2 | 3490.2 | 22.58 |
| Italy | 2206.2 | 2357.5 | 6.86 |
| Netherlands | 2508.3 | 3896.4 | 55.34 |
| Russia | 507.0 | 681.2 | 34.37 |
| Spain | 1211.9 | 1681.3 | 38.73 |
| Turkey | 929.8 | 1011.8 | 8.82 |
| UK | 3797.2 | 3782.8 | -0.38 |
| Oceania | 789.4 | 1036.4 | 31.29 |
| Australia | 674.8 | 811.0 | 20.19 |

| Region/ Country | Import | | |
|---|---|---|---|
| | US $ million | | % change |
| | 2007-08 | 2008-09 | 2008-09 |
| World | 133011.7 | 183888.6 | 38.25 |
| Africa | 12156.3 | 16769.3 | 37.95 |
| Algeria | 650.5 | 1002.9 | 54.18 |
| Angola | 606.6 | 755.9 | 24.62 |
| Egypt | 1137.4 | 1362.2 | 19.77 |
| Libya | 966.6 | 600.8 | -37.85 |
| Nigeria | 4401.3 | 6465.5 | 46.90 |
| South Africa | 2237.2 | 3011.3 | 34.60 |
| America | 12336.2 | 18802.8 | 52.42 |
| Brazil | 608.9 | 743.9 | 22.17 |
| Canada | 1021.9 | 1213.7 | 18.76 |
| Chile | 1134.3 | 1035.2 | -8.73 |
| Mexico | 519.6 | 1012.4 | 94.83 |
| USA | 7844.0 | 10465.3 | 33.42 |
| Asia (excl. Middle East) | 39117.4 | 49752.4 | 27.19 |
| China | 15354.2 | 18982.9 | 23.63 |
| Hong Kong | 1632.2 | 1669.7 | 2.30 |
| Indonesia | 2731.9 | 3951.7 | 44.65 |
| Japan | 3553.5 | 4603.7 | 29.55 |
| Korea Republic (South) | 3266.3 | 5188.0 | 58.83 |
| Malaysia | 3442.2 | 4661.7 | 35.43 |
| Singapore | 4195.6 | 4731.4 | 12.77 |

| | | | |
|---|---|---|---|
| Taiwan (Taipei) | 1477.7 | 1678.0 | 13.56 |
| Thailand | 1392.0 | 1651.8 | 18.66 |
| Middle East | 34001.5 | 55898.9 | 64.40 |
| Iran | 5598.4 | 8779.9 | 56.83 |
| Iraq | 3322.1 | 6104.9 | 83.77 |
| Israel | 889.0 | 1203.7 | 35.39 |
| Kuwait | 3678.6 | 7127.6 | 93.76 |
| Oman | 380.2 | 779.2 | 104.92 |
| Qatar | 1347.1 | 2284.3 | 69.56 |
| Saudi Arabia | 9685.2 | 15159.3 | 56.52 |
| UAE | 7315.0 | 11384.9 | 55.64 |
| Yemen | 1052.0 | 616.7 | -41.37 |
| Europe | 29894.0 | 36140.2 | 20.89 |
| Belgium | 3068.9 | 2894.4 | -5.69 |
| Finland | 521.6 | 496.7 | -4.76 |
| France | 1370.5 | 1636.7 | 19.42 |
| Germany | 5188.9 | 6276.0 | 20.95 |
| Italy | 2078.6 | 2738.9 | 31.77 |
| Netherlands | 925.1 | 1054.7 | 14.00 |
| Norway | 509.1 | 751.6 | 47.62 |
| Russia | 1330.9 | 2784.0 | 109.18 |
| Spain | 539.6 | 616.9 | 14.32 |
| Sweden | 1236.1 | 1124.4 | -9.03 |
| Switzerland | 6859.7 | 7951.8 | 15.92 |
| Turkey | 977.8 | 1085.9 | 11.05 |
| UK | 3002.9 | 3173.3 | 5.67 |
| Oceania | 5355.3 | 6349.1 | 18.56 |
| Australia | 5063.6 | 5944.8 | 17.40 |