

Weekly Economic Bulletin

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Contents

- | | | |
|----------|--|-----------|
| 1 | News Feature | Page 1 |
| | <ul style="list-style-type: none">• Global bank majors optimistic about Indian market | |
| 2 | Overseas Investment | Page 1-4 |
| | <ul style="list-style-type: none">• FII's can invest in IDRs: RBI• Nath hints at FDI cap breather in retail• FDI cap in DTH to go up to 74%• FDI cap hike to prop up multi-system cable TV networks | |
| 3 | Trade News | Page 4-7 |
| | <ul style="list-style-type: none">• India, South Africa hope to move ahead with stronger trade links• India's share in UK's FDI growing• India-EU aim for 100-bn euro trade by '09• India, France sign civil nuclear pact | |
| 4 | Sectoral News | Page 7-10 |
| | <ul style="list-style-type: none">• 'Pharma offshoring market to touch \$2.5 b by 2012'• Auto cos shift gears to comply with new biofuel policy• Indian biotech sector to touch \$5 bn by 2010• Soyabean output to cross 10 MT, rises by 14%• Agro textiles market to grow at 10% annually• India retains major share in global BPO | |
| 5 | News Round-up | Page 11 |
| | <ul style="list-style-type: none">• FM assures markets are sound and attractive for investors | |

News Feature

Global bank majors optimistic about Indian market

Major multinational banks that are facing tough times in western markets, appear to be holding on to their optimism about the Indian market. Banks which have become cautious about expansion in other locations and are even mulling job cuts in Europe and America to cope with the liquidity crunch, are confident about rolling out India plans.

Banking sources say most leading banks like UBS (one of the worst hit European bank in the subprime fiasco) to ANZ, which had relinquished banking licence in India a few years ago, are going ahead with expansion plans in India.

The Swiss banking giant UBS, that had more than \$43 billion as total writedowns, is expected to launch its commercial banking operations within the next few months. The assertion by UBS comes at a time when questions were being raised whether UBS would meet its deadline of launching operations. The bank was given a 12-month timeframe under the licence it was granted, which is set to expire in February 2009.

http://economictimes.indiatimes.com/Global_bank_majors_optimistic_about_Indian_market/articleshow/3563972.cms

Overseas Investment

FII's can invest in IDRs: RBI

IDRs are Indian counterparts of global depository receipts that enable foreign companies to raise money from the Indian markets.

The proposal has been forwarded to the ministry of corporate affairs for clearance before the decision is notified. Sources added that the ministry of corporate affairs would also consider whether to allow Non-Resident Indians (NRIs) to subscribe to IDRs since neither RBI nor the finance ministry has any objection to the proposal, in principle.

In its original form, persons of Indian origin (PIOs) and resident Indians were permitted to invest in IDRs.

The capital market regulator, Securities and Exchange Board of India (Sebi), has set Rs 50 crore as the minimum amount for issuing IDRs and the minimum investment by retail investors has been set at Rs 2 lakh.

NRIs and FII's are required to take RBI's permission before investing in such instruments.

Sources close to the development said, the decision, taken a few weeks ago, could revive interest in IDRs. It is expected to provide an opportunity for foreign companies — with a

good track record in their home countries but unable to bargain for good rates in those competitive, developed market — to raise funds from India.

“These instruments, as and when they come into vogue, could provide leeway for companies to shift their borrowings to currencies other than the dollar-dominant syndication markets and a way of avoiding intense currency fluctuations,” said a corporate treasurer.

IDRs were introduced in 2004 but did not take off following delays in RBI clearances and lack of liquidity in the instrument.

Earlier, RBI had expressed reservations about allowing IDRs to be converted into underlying equity shares listed overseas on the lines of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs).

<http://www.business-standard.com/india/storypage.php?autono=336480>

Nath hints at FDI cap breather in retail

India will ‘certainly’ look at removing the cap of 51% in single-brand retail, industry and commerce minister Kamal Nath said. "If so required, we will certainly look at it," Nath said in his interaction with top French luxury designers under the aegis of Ficci and Comite Colbert. He was asked whether the Indian government will consider allowing 100% FDI in single-brand retail.

President of Louis Vuitton Yves Carcelle, who raised the question of removing the FDI cap, asked, "Why will anybody come unless they allow 100%?"

The commerce minister also said the country cannot remain “insulated” from the turmoil in global banking and financial system and the US bail-out would not be sufficient to solve the problems of the world economy.

Participating in the India-EU Business Summit, which was also addressed by Prime Minister Manmohan Singh, Nath said India would want new rules for the world financial system as the stakes are high not only for the US and other developed countries but also for the developing nations.

He said while the short and medium term fundamentals of the Indian economy were sound, the country “cannot remain insulated in the long term from such a crisis. The crisis which we face today, as president Sarkozy said and was endorsed by Prime Minister Manmohan Singh, has to be addressed by the global community”. With European banks and mortgage firms also getting bruised by the troubles in the Wall Street, the contagion is spreading fast.

<http://www.financialexpress.com/news/nath-hints-at-fdi-cap-breather-in-retail/368331/>

FDI cap in DTH to go up to 74%

The ministry of information and broadcasting (I&B) reiterated that it is working towards raising the FDI cap in the media distribution platforms like direct-to-home (DTH) to 74% from the current 49%. “We are considering the case of raising the FDI ceiling in DTH to 74%” said Uday Verma, additional secretary, at the IDNS conference.

This is consistent with what the former secretary of the ministry, Asha Swarup said earlier this year and was quoted in Fe in March, “The ministry is of the view that the ceiling for total foreign investment limits, inclusive of FII and FDI, both direct and indirect, can be upwardly raised to 74% in the case of infrastructure and platform services like DTH, teleport, HITS and satellite radio “.

While the current foreign investment limit in DTH is at 49% with a FDI cap of 20%, the policy guidelines on HITS and satellite radio is still awaited. Verma also said that while HITS policy framework is being given final touches, the work related to the policy framework regarding mobile TV and satellite radio has reached advanced stages.

Currently according to industry estimates, the DTH service providers cater to around 8 million subscribers in the country, while the cable operators provide services to 78 million households.

The ministry is also working towards rationalizing the licence fee of the DTH players to align it with the telecom players in the backdrop of convergence of technologies between broadcasting sector and telecom sector, Verma said. The ministry is considering whether it should charge the DTH players 6 % of their gross revenue slashing the fee from the existing 10 % of the gross revenue or adopt Trai’s earlier recommendation to charge 8 % of the DTH operators adjusted gross revenue.

<http://www.financialexpress.com/news/fdi-cap-in-dth-to-go-up-to-74/368349/>

FDI cap hike to prop up multi-system cable TV networks

In what could pave the way for further consolidation and faster digitalisation in the Rs 23,000-crore cable industry, the information and broadcasting ministry (I&B) is considering a differential FDI cap within the cable networks for multi-system operators (MSOs) and local cable operators (LCOs). While it may propose an increase in the FDI limit for the MSOs to 74% from the existing 49% to align it with the proposal to raise FDI cap for other distribution medium like DTH, HITS, mobile TV, the FDI ceiling for LCO is most likely to remain unchanged at 49%, according to a ministry official.

The MSOs are distributors who could either deliver TV content directly or route it through the LCOs. The broadcast regulator Telecom Regulatory Authority of India (Trai) had recently recommended that MSOs and LCOs should be brought under licensing regime from the existing registration system. It further said that MSOs and LCOs should be licensed separately.

Although accurate figures are difficult to ascertain in the largely unorganised sector, according to MSOs' own estimation—of the 78 million cable homes around 50 to 60% are catered to by the 6,000 MSOs currently. Over 60,000 to 65,000 LCOs command the rest of the households. However, the three largest MSOs claim of a subscriber base that is equivalent to almost 20% of the total cable homes. According to Jagjit S Kohli, promoter of Digicable Network (India) Pvt Ltd, "Once the proposed move is implemented, it will accelerate the process of digitalisation by attracting more investment into the sector." Last year, the UK-based Ashmore Investment Management Ltd had bought 49% stake in the Digicable Networks for Rs 41 crore.

<http://www.financialexpress.com/news/fdi-cap-hike-to-prop-up-multisystem-cable-tv-networks/368745>

Trade News

India, South Africa hope to move ahead with stronger trade links

With the western markets slowing, Indian and South African companies are preparing to step up their engagement with each other over the next few months. A large number of South African companies, from sectors as varied as banking and financial services to FMCG and retail, plan to establish operations in India, attracted by the immense potential of one of the fastest growing markets.

Likewise, Indian companies, attracted by the world class infrastructure and abundant natural resources and of course the potential to use South Africa as bridgehead to the rest of the African continent , are exploring opportunities to establish their base in parts of that country.

Leading the pack of Indian companies with established presence in that country is the Tata group with interests in automobile, information technology and minerals. Others with a presence include Mahindra and Mahindra, Ranbaxy, Dr Reddy's , ICICI Bank, State Bank of India and NIIT. These companies are said to be executing projects worth \$2 billion in South Africa, according to estimates of Navdeep Suri, Consul General of India in Johannesburg.

At another level, the governments of the two countries are seeking to step up trade relations, which in recent years has been growing at a very robust pace. Trade and diplomatic relations between the two countries were re-established in 1993 after the abolition of the apartheid regime.

"We have set an internal target to grow the bilateral trade between the two countries to \$10 billion by 2010," India's high commissioner to South Africa RK Bhatia told a 'Doing Business with India' summit organised in Johannesburg last week by the Indian consulate and Confederation of Indian Industries (CII). Bilateral trade between the two countries was \$4.7 billion in 2006-07 , up from \$4 billion the previous year.

In the nine months to December 2008, of the last fiscal year, bilateral trade had already grown to \$4.4 billion, with exports from India amounting to \$1.7 billion and imports from South Africa totalling \$2.7 billion.

http://economictimes.indiatimes.com/News/Economy/Policy/India_South_Africa_hope_to_move_ahead_with_stronger_trade_links/articleshow/msid-3554253.curpg-1.cms

India's share in UK's FDI growing

India is becoming the fastest growing contributor to the United Kingdom's foreign direct investment, according to Andrew Cahn, CEO of UK Trade & Investment (UKTI), a British government body that draws UK's overseas investments. Indian companies which prominently figure in the list are those which acquired British firms.

These include Tata Steel, which bought Anglo-Dutch steel maker Corus and Tata Motors, which purchased Jaguar-Land Rover. Others include Amtek, which took over Triplex-Ketlon Group and Bharat Forge which acquired a forging plant in Doncaster.

According to him, Indian entrepreneurs will continue to look at better avenues abroad as India's economy is not very liberalised. "With its business-friendly regulations and open economy, UK is confident of attracting more Indian investors in the future. Hence the country does not feel the need for any special economic zones," he added.

"We have a strong pipeline of investments from India, but they might slow down in the future. However when times are tough, quality business takes place," he said.

Lured by the potential of Indian investments, the trade body has increased its human resources in India by 20%. Incidentally, India is the trade body's second biggest overseas network after America. China is another important market for UKTI.

http://economictimes.indiatimes.com/Economy/Indias_share_in_UKs_FDI_growing/articleshow/3553985.cms

India-EU aim for 100-bn euro trade by '09

India and the European Union (EU) agreed to conclude a broad-based trade and investment agreement by 2009 and double their trade turnover to 100 billion Euros in the next five years, giving a fresh impetus to their strategic partnership.

The decision was taken during the Ninth India-European Union(EU) summit which was attended by Prime Minister Manmohan Singh and French President Nikolas Sarkozy in his capacity as chairman of the rotating presidency of the 27-member EU in this resort town of French Riveira.

Addressing a joint press conference with Sarkozy and European Commission President Manuel Barrosa at the end of the day-long summit, Singh announced that the world's two largest trading partners are expected to wrap up the ambitious Trade and Investment Agreement by 2009.

A joint press communique issued at the end of the summit said EU and India recognised the importance of conclusion of the trade agreement to fulfill the expectations of businesses on both sides and to further strengthen the bilateral economic relationship. Towards this end, the communique said they will endeavour to achieve a balanced and ambitious outcome.

While welcoming the signing of a landmark horizontal civil aviation agreement which will allow more airlines to operate flights between India and EU countries, the communiqué said they are working on a maritime transport agreement that will be mutually beneficial.

Sarkozy at a joint press conference with Singh and European Commission President Barrosa said trade expansion and a new trade agreement will be important pillars to give a new dimension to Indo-EU strategic partnership. Both Singh and Sarkozy pushed for a summit of major economic powers this year-end to coordinate a response to the global financial crisis.

<http://www.financialexpress.com/news/indiaeu-aim-for-100bn-euro-trade-by-09/367460/>

India, France sign civil nuclear pact

Putting an end to its over three decades of isolation in the nuclear energy market, France became the first country to ink a civil nuclear agreement with India.

Prime Minister Manmohan Singh and French President Nicolas Sarkozy, announced a “a new dimension” to their strategic partnership by signing a co-operation agreement on civilian nuclear energy as well as two more pacts in areas ranging from space and counter-terrorism to business and high-end research in Paris.

With this agreement, France became the first country out of the 45-nation Nuclear Suppliers group (NSG) to sign such a pact after they lifted over global restrictions on nuclear trade with India.

The agreement on the development of peaceful uses of nuclear energy will form the basis of wide-ranging bilateral civil nuclear cooperation. It will span the entire gamut from basic and applied research to reactors, nuclear fuel supply, nuclear safety, radiation and environment, protection and nuclear fuel cycle management. The pact was signed by French foreign minister Bernard Kouchner and India's Atomic Energy Commission chief Anil Kakodkar at the Elysee Palace.

The agreement clears the way for French companies like Areva to begin supply nuclear reactors to India. However, the actual nuclear trade may have to wait till India signs the 123 agreement with the US which is awaiting clearance by the Senate.

<http://www.financialexpress.com/news/india-france-sign-civil-nuclear-pact/367884/>

Sectoral News

'Pharma offshoring market to touch \$2.5 b by 2012'

Pharmaceutical offshoring in the country is poised to become a \$2.5-billion (nearly Rs 11,600-crore) opportunity by 2012, according to Zinnov Management Consulting.

A beneficiary segment, the already booming clinical trials industry, looks set to become a \$608-million (nearly Rs 2,825-crore) industry by 2012, at a CAGR of 31 per cent, Zinnov said citing its study called 'Indian pharmaceutical offshoring landscape'.

Rising R&D cost

A key driver of offshoring or outsourcing is the rising cost of R&D, which is forcing majors in the US and Europe to look for low-cost R&D destinations such as India and China.

On the uptrend is the offshoring of processes of the entire drug development value chain. Other areas are clinical trials, discovery research, clinical data management (CDM) and bio-statistics, medical writing, marketing and sales.

<http://www.thehindubusinessline.com/2008/09/30/stories/2008093051680300.htm>

Auto cos shift gears to comply with new biofuel policy

Automotive majors like Tata Motors, Hyundai, Maruti, Nissan and GM are back to their drawing boards to chalk out plans to redesign their engines in line with the new biofuel policy announced this month. The policy mandates compulsory blending of 10% biofuels with petrol by 2012 and increasing it to 20% by 2017. Only E10 and E20 engines can run on such fuels. While Nissan and GM are planning to bring this technology from other existing markets, Maruti, Honda and Tata are planning to launch new variants. Presently, only Honda and GM have E10 compliant cars, while the latter is planning to bring in E20 ones if need be. The policy has, however, left many car manufacturers jittery.

According to a senior official of Maruti Suzuki, presently Maruti cars are not E10 compatible but they would be launched by December this year. "Our present lot is E5 compatible but we are confident of offering E10 to the market soon, since this requires minor changes in the engine," said the official.

http://economictimes.indiatimes.com/News/News_By_Industry/Auto/Auto_cos_shift_gears_to_comply_with_new_biofuel_policy/articleshow/3542922.cms

Indian biotech sector to touch \$5 bn by 2010

Indian biotechnology sector is expected to become a five billion-dollar (around Rs 23,400 crore) industry by 2010, says a report.

"The Indian biotechnology sector has excellent potential and is expected to touch five billion-dollar mark by 2010," a report jointly prepared by industry chamber CII and consultancy firm KPMG said.

"India is ranked among the top 12 biotech destinations in the world and is the third biggest in Asia-Pacific in terms of the number of biotech companies," it added.

Investments in the segment are also growing at the rate of about 38 per cent for the last three years and have touched 560 million dollars in 2006-07.

Biopharma is one of the important segments of the Indian biotechnology sector and it constitutes about 70 per cent of the domestic biotech industry.

Of the total 325 biotechnology companies in India, more than 40 per cent are in the biopharma sector, the report said.

Availability of talent pool in the country is a big advantage for the Indian companies. The sector employs about 20,000 scientists, the report added.

The industry has received significant contribution from leading institutes such as All India Institutes of Medical Sciences (AIIMS) and Centre for cellular and molecular biology (CCMB).

The report pointed out that educational infrastructure need to be upgraded to facilitate further progress in the industry.

"India needs to invest in building a strong capability base in order to leverage large opportunities going forward. There are no shortcuts," report quoted Biocon CEO and MD Kiran Mazumdar Shaw as saying.

<http://www.financialexpress.com/news/indian-biotech-sector-to-touch-5-bn-by-2010/369652/>

Soyabean output to cross 10 MT, rises by 14%

Due to favourable weather conditions along with a wider application of technology and weed management, the country's soyabean production is expected to cross the 10-million

tonne (MT) mark during 2008, a crop survey conducted by a trade body, revealed. According to the Soyabean Processor Association of India (Sopa), major soybean-growing states like Madhya Pradesh, Rajasthan, Maharashtra and Andhra Pradesh are expected to produce 10.8 million tonne of soyabean against 9.4 million tonne harvested during 2007, posting an increase of more than 14%.

However, according to 1st advance estimates of production of foodgrains during 2008-9 released by ministry of agriculture last week, soybean production is expected to be more than 9.9 million tonne. Sopa's estimate is based on the crop survey conducted by the trade body in major soyabean-growing states during September 16 to September 24.

The soyabean production rose by more than 23% to 9.4 million tonne in 2007, from 7.1 million tonne achieved in 2006. Even the yield is expected to go up to 1,124 kg per hectare against 1,070 kg per hectare achieved in 2007.

According to Sopa, Madhya Pradesh is expected to produce the highest — 5.7 million tonne of soyabean as against 4.9 million tonne achieved in 2007. Even the total area under soyabean cultivation during the current year went up to 5.1 million hectare against 4.8 million hectare achieved during 2007. The onset of the monsoon in second week of June enabled timely sowing of soyabean in Maharashtra.

<http://www.financialexpress.com/news/soyabean-output-to-cross-10-mt-rises-by-14/367933/>

Agro textiles market to grow at 10% annually

The agro-textile market is expected to grow at an average of 10% per annum.

In continuation to the consumption of technical textiles worldwide, the importance of agro-textiles and its relevance to developing countries like India is well brought out.

“The current market size for agro textiles is around Rs 577 crore and could grow to Rs 900 crore in 2010. The market for agro textiles is expected to grow at 10% per annum,” according to a concept paper on agro textiles released at a seminar held by Ficci and Sasmira.

Worldwide growth of agro-textiles does not show a significant growth. The agro-textiles market is expected to grow from 16,15,000 tonne (US\$6.5 billion) in 2005 to 19,56,000 tonne (\$8.1 billion) in 2010. This growth is expected to be at the average rate of 3.9% annually.

Agro-textile is one of the significant segments of technical textiles products. The market size and potential of the technical textile industry including component in twelve segments has been estimated at Rs 29,579 crore in 2007-08. The items covered under agro-textiles are fishnets, shade fabrics, mulch mats and woven and non-woven crop covers.

<http://www.financialexpress.com/news/agro-textiles-market-to-grow-at-10-annually/368381/>

India retains major share in global BPO

India, home to six of the world's top eight outsourcing hubs, continues to be a major global IT and BPO outsourcing destination amid a determined bid by the neighbouring China to give it a tough competition in the field, according to a new study. Bangalore, Chennai, Delhi-NCR, Hyderabad, Mumbai and Pune are the six Indian cities in the list of top eight outsourcing cities of the world, according to a study by Global Services, the media platform for global IT outsourcing and BPO industry and Tholons, a global investment advisory firm.

The other two cities are Dublin of Ireland and Matakai city, the Philippines, the survey adds. But China dominates the list of emerging cities for global outsourcing with Shanghai and Beijing leading the list along with Cebu City from The Philippines.

The list of top 50 emerging cities for global outsourcing includes six from China Shanghai (2nd), Beijing (3rd), Shenzhen (10th), Dalian (16th), Guangzhou (23rd) and Chengdu (at 37th) and four from India, Kolkata holding 6th position, Chandigarh at 12th, Coimbatore (17th) and Jaipur at the 31st spot.

Of the top 50 cities, 19 are from Asia and 13 from Central and Eastern Europe. Shenzhen and Shanghai are now also offering services like application development and maintenance and business analytics. Consequently, China has become home to numerous IT and BPO services providers with global providers such as Accenture, Convergys, Infosys, IBM, TCS, Wipro Unisys and many others having their centres across the country.

However, six cities from the 2007 list - Perth (Australia), Baguio City (The Philippines), Leeds (UK), Birmingham (US), Oklahoma City (US), and Juarez (Mexico)—have not made it to the list this year, the study said.

The study further adds that to set up an outsourcing centre the choice of the right city is more important than the choice of the country. Attributes of a city like available resources, quality and type of work force, cost, available infrastructure, and its long-term potential in fulfilling the demand for specific services determine its attractiveness as an outsourcing centre.

<http://www.financialexpress.com/news/india-retains-major-share-in-global-bpo/369776/>

News Round – Up

FM assures markets are sound and attractive for investors

Finance Minister P Chidambaram said the Indian markets are sound and attractive for investors. “We are watching the situation round the clock,” he said outside North Block, a short while after Sebi chairman CB Bhave had said the regulator is closely monitoring markets and has verified with the stock exchanges that there are no settlement issues.

“Yesterday’s settlement went through smoothly and it is expected that the settlement tomorrow also will be smooth. The clearing and settlement mechanism of the stock exchanges is a time tested mechanism which has been tested in times of great volatility,” Bhave said in a statement.

Bhave, economic affairs secretary Ashok Chawla and other officials of the Ministry of Finance were attending a seminar organised by the NIPFP when they left in a rush to attend an impromptu meeting at North Block called by the FM, said official sources.

Immediately after, Bhave briefed reporters saying that at present, the rules regarding short sale are that institutions are allowed to short sell only if they have borrowed the stock on the stock exchanges. “At present, there are no volumes in the borrowing-lending market. Therefore, there is no concern that institutions may be short selling. Short sales by retail are permissible but the stock has to be delivered on a T+2 basis. If any entity delivers short, the position is auctioned,” he said.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=47366>