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News Feature

Economic growth won't be below 7 percent: Government

The government said the overall economic growth this fiscal would not fall below 7 percent.

'RBI has examined forecast of the selected macroeconomic indicators by professional forecasters on this basis has indicated in October 2008 that the real GDP growth rate for 2008-09 is expected to be 7.7 percent,' V. Narayanasamy, minister of state in the ministry of planning and the ministry of parliamentary affairs, said in a statement in the Rajya Sabha.

'The overall growth rate could be lower than that but is unlikely to go below 7 percent,' he added.

The minister said the Central Statistical Organisation (CSO) estimates show the economy grew by 7.8 percent in the first half of the current financial year, as compared to the corresponding period in 2007-08.

However, according to him, two key sectors - agriculture and industry - would not be able to keep pace with the overall economic growth.

'Forecasts made by different agencies indicate that the growth rate of agriculture and allied sector, of which foodgrains is a component, and the industrial sector, of which the manufacturing sector is a component, is likely to remain lower than the average growth rate of the economy,' Narayanasamy said.

He gave a 3 percent and 7 percent growth rate projection for agriculture and industry sectors, respectively.

In the first half this fiscal, agriculture and allied sectors grew 2.9 percent over that registered in the April-September 2007 period, while the industry sector registered a 6.5 percent growth.

Narayanasamy said the government will spend Rs.14,365.59 bn (Rs.1,436,559 crore or about $319 bn) on infrastructure development as part of the 11th Five-Year Plan.

Private infrastructure investment through the public private partnership (PPP) route will be in the region of Rs.6,195.91 bn (Rs.619,591 crore or about $137.7 bn).

http://economictimes.indiatimes.com/News/Economy/Indicators/Economic_growth_wont_be_below_7_percent_Government/articleshow/3858499.cms

ADB pares GDP growth rate to 7%

The Asian Development Bank (ADB) has rationalised the GDP growth rate in its revised update for the financial year 2008-09 to 7%, from 7.4% in the earlier report, and 6.5% (7%)

for 2009-10, as a direct impact of the global meltdown. This is in spite of the Rs 20,000-crore stimulus package announced by the Centre recently.

The major impact for India is to be felt in the banking system, financial markets and trade, especially in the export of manufactured goods.

ADB's 'The Asian Development Outlook 2008 Update' says that "should credit conditions tighten further, thus affecting key economic activities, the growth outlook for Asia could be further damaged.

The impact of a major global downturn is also to be felt through trade channels. The weakening demand for manufactured goods in major industrial countries means a decline in export orders from Asia, also affecting industrial production. Global trade volume is rapidly slowing down and is expected to barely expand in 2009, creating difficulties for those regional economies which rely on exports for growth."

ADB says the 44 developing member countries of the ADB will have to bear the brunt of the global economy downturn in a far greater way than was anticipated earlier. The aggregate GDP growth rate estimate for these countries is reduced to 5.8% from the earlier estimate of 7.2%.

http://www.financialexpress.com/news/adb-pares-gdp-growth-rate-to-7/398801/

Overseas Investment

FX reserves at $250.453 bn on Dec 12

India's foreign exchange reserves rose to $250.453 billion as on Dec. 12 from $245.857 billion a week earlier, the RBI said in its weekly statistical supplement.

Foreign currency assets, expressed in dollar terms, included the effect of appreciation or depreciation of other currencies held in its reserves such as the euro, pound sterling and yen, the central bank said.

http://www.financialexpress.com/news/fx-reserves-at-250.453-bn-on-dec-12/400538/

Govt nod for FDI via warrants likely to go

Overseas firms may not require the government's approval to acquire stake in local companies through warrants, according to a senior industry ministry official.

The only caveat: the Indian company should belong to a sector where foreign investment is allowed freely or under the automatic route. These include mining, wholesale, retail, construction, real estate and oil exploration.

The easing of approval norms will allow foreign firms to speedily conclude their equity deals. A decision in this regard is expected in the next fortnight, the official said.

A warrant is a financial instrument that allows the holder to buy shares of a company at a pre-determined price and within a specified period. Warrants are popular with Indian companies as these can be attached to convertible bonds or preferred stock and carry lower interest rates or dividends.

All foreign investment through warrants currently need the approval of Foreign Investment Promotion Board (FIPB), a procedure that usually takes 20 days to a month.

Companies falling under the ambit of automatic foreign direct investment route are permitted to issue shares to their foreign partners without seeking the FIPB approval. However, the government needs to give the go-ahead for the issue of warrants. This lack of clarity compels foreign companies to seek an FIPB clearance across all sectors.

“There is little need for the government’s approval if the Indian company conforms to the SEBI’s disclosure norms,” says Saroj Jha, a partner with FoxMandal, a Delhi-based law firm. Five companies, including Spice Jet and Essel Shyam Telecom, sought the government’s permission last month to allot warrants to their foreign partners. Earlier in September, the government had allowed drugmaker Ranbaxy to issue warrants to Japan’s Daichi Sanko in a deal worth $4 billion.

http://economictimes.indiatimes.com/News/Economy/Policy/Govt_nod_for_FDI_via_warrants_likely_to_go/articleshow/3843495.cms

FDI, not outsourcing, preferred in knowledge sectors

When a multinational is to set up shop in a country, it will either establish a subsidiary or outsource operations. How will it choose between the two options?

If the enterprise is more knowledge-intensive than capital-intensive, the MNC is likely to set up a subsidiary (FDI route). If it is more capital-intensive, it might outsource its operations.

A recent paper, Physical Capital, Knowledge Capital and the Choice between FDI and Outsourcing, by Yongmin Chen, Ignatius J Horstmann and James Markusen (NBER Working paper 14515) explains why this happens.

Capital control

In a knowledge-intensive industry, control over physical capital will restrict the agent from using the knowledge transferred to him by the manager for his own ends. Hence, the preference for a subsidiary or the FDI option.

Unlike physical capital, it is hard to establish proprietorial rights over knowledge capital. But when “M’s (a manager’s) activity is extremely intensive in physical capital or knowledge capital is easy to protect under a licensing agreement, outsourcing is M’s preferred choice,” the study says. In trying to protect knowledge capital, the principal pays a price: the agent, rather employee, lacks incentive to work the physical capital and improve its yields over time.

However, FDI is preferred in knowledge-intensive industries as "the gain from FDI due to better knowledge capital transfer is more important than the loss due to lower effort by the agent and the saving of spending on the physical capital". The converse holds true for physical-capital intensive industries.

Property protection

The presence of strong intellectual property laws in the region where the agent is situated makes outsourcing more attractive. Its absence — a situation where knowledge-capital transfer cannot easily be contracted — encourages FDI. To cite an example pointed out in the paper, Microsoft does not outsource the writing of its operating systems.

Similarly, "firms with rapidly developing technologies are more likely to choose outsourcing", as the dissipation of knowledge capital is inevitable and cannot be stopped by FDI.

The paper points out that FDI is more likely to be chosen in markets where "skilled labour has a low opportunity cost". In other words, products that require skilled agents, which are in scarce supply in a foreign country, are likely to be outsourced, as the benefits from better protection of knowledge capital are less than the worth of the agents.

FDI markets

FDI is preferred to outsourcing where capital markets are under-developed. Here, the agent is only able to cover a fraction of his costs through the capital markets.

His inability to borrow against future income limits M's ability to extract surplus via the initial licensing agreement.

The principal is forced to bear some of the agent's capital costs, in which case it could make sense for M to use his own physical capital.

"Firms and products that are subject to cycles are likely to use FDI early in a cycle and outsourcing later," the paper observes. This is because the "product lifecycle is often characterised in terms of recently innovated products being relatively intensive in intellectual assets and established products being relatively intensive in physical assets".

Citing an example to drive home the point, the paper says that Sharp produces its latest flat-panel and Plasma TVs for Europe in an owned facility in Eastern Europe. Its standard TVs and older flat-panel models are produced by outsourced manufacturers in Asia.

http://www.blonnet.com/2008/12/21/stories/2008122151250500.htm

Trade News

MoU with Oman and Indonesia approved

The Union Cabinet has approved signing of Memorandum of Understanding (MoU) with Oman and Indonesia.

"The Cabinet approved signing of a MoU in the filed of manpower between the government of India and Sultanate of Oman," Chidambaram told reporters.

The agreement was signed during Prime Minister Dr Manmohan Singh's visit to Muscat in November this year.

Chidambaram also informed regarding approval of MoU with Indonesia, which was signed during President Pratibha Patil's visit to Jakarta last month.

"The Cabinet approved the signing of an MoU between India and Indonesia for cooperation in the field of agriculture and allied sectors," Chidambaram added.

The Cabinet also approved increase in Indian assistance for Bhutan's Tenth Plan (July 2008 - June 2013) by Rs 600 crores and a Standby Credit Facility of US 100 million dollars to Maldives.

http://economictimes.indiatimes.com/News/Economy/Policy/MoU_with_Oman_and_Indonesia_approved/articleshow/3866184.cms

Sectoral News

TRAI moots steps to push rural telephony

In a bid to improve rural telephony, telecom regulator TRAI proposed that all operators who offer communication services in rural India and share their infrastructure with other players be given financial support from the telecom development fund. At present, all telcos pay 5% of their annual revenues towards this fund—Universal Service Obligation Fund (USOF).

As of September 2008, the urban teledensity (number of telephones per 100 persons) was 72.47% against rural teledensity of only around 12.72%. TRAI also pointed out that during the last two decades, though several attempts have been made to extend the benefits of the telecom revolution to rural masses, the gap between urban and rural teledensity has only widened.

The regulator has, therefore, called for several measures to improve rural telephony, and said: "India's rural majority today accounts for more than $100 billion in consumer spending i.e. the largest buyers as a group in the country and contributing significantly to India's GDP. Cellphone makers are eyeing the rural markets to push growth beyond the present 7 to 9 million new mobile connections every month. Broadly, we can say that if a country has a one per cent higher mobile phone subscription rate than another, its GDP per capita will be about $200 higher."

TRAI's proposals come as a large chunk of this money available in the USOF remains unutilised. For instance, as of last year, over Rs 20,000 crore has been collected from telcos towards the USOF, but only a little over Rs 6,700 crore has been utilised for improving rural telephony. TRAI has also called for setting up of separate facility based operator funded by the USOF for providing the fiber connectivity. "The fibre laid should be

given free of cost for next five years to any operator who provides services in the villages," TRAI said.

Currently, telcos shy away from offering bundled handsets at subsidised rates to their customers. This is because the original cost of the handset is included in their annual gross revenues (AGR) and they are subjected to a revenue share in this component also.

http://economictimes.indiatimes.com/Telecom/TRAI_moots_steps_to_push_rural_telephony/articleshow/3848274.cms

Infosys bags multi-million contract from AstraZeneca

Infosys Technologies said AstraZeneca has awarded it a five-year, multi-million dollar global sourcing deal. AstraZeneca, headquartered in London, is one of the world's leading pharmaceutical companies with sales of $29.55 billion.

Under the agreement, Infosys will deliver end-to-end application maintenance services to AstraZeneca's global operations in areas such as manufacturing, supply chain, finance, human resources and other corporate functions.

Infosys is delivering the services through a global shared-services model that offers fixed price for outcome-based deliverables, and flexible, unit pricing for managing changes in the base scope of the engagement.

AstraZeneca is transforming its operations through multiple phases, with the first across the United Kingdom and the Nordics, and the subsequent phases focusing on the United States, Europe, Latin America and Asia.

In addition, as part of the transition, AstraZeneca employees in Sweden and the UK will be rebadged to Infosys, thereby strengthening its global delivery network.

http://www.businessstandard.com/india/news/infosys-bags-multi-million-contractastrazeneca/21/11/51222/on

Agri exports unscathed by meltdown

At a time when the global financial meltdown has drastically impacted India's key exports like textile, gems and jewellery and other related sectors, the agricultural and processed food products export sector is expected to escape 'unhurt'.
However, in case of exports of food products, the real worry is not the global economic slowdown but factors like frequent occurrences of bird flu in the poultry sector and significant appreciation of rupee against the US dollar.

Besides, several importing countries have their own set of quality standards, which poses obstacles in augmenting exports.
Although the latest data on exports are yet to be compiled, a senior official with Agricultural and Processed Food Products Export Development Authority (APEDA) has

indicated that besides sectors like bovine meat and poultry products, there is no “visible impact” of a global slowdown at present.

“We are constantly monitoring the situation, the exports are expected to grow as per our target during the current fiscal,” Asit Tripathy, Chairman, APEDA. He also said that a large chunk of processed food exports is to Gulf countries which have been relatively unaffected by the financial meltdown.

The country, which exported close to Rs 29,000 crore worth of agricultural and processed food items like buffalo meat, fruits and vegetables, pulses, basmati rice, among others during 2007-08, is expected to grow at least around 10% during the current fiscal.

“Being an essential commodities, we do not expect drastic drop in demand of these products,” he said.

According to APEDA data, during April- July 2008, the country has notched up agri exports worth of Rs 12,300 crore.

The exports of agri food products during 2007-08 went to up to Rs 28,906 crore against Rs 21,150 crore achieved during the previous year, a sharp rise of more than 40%.

However India’s, share in the global trade of agri processed products is only about 1.6 %. Only 15 countries including Saudi Arabia, United Arab Emirates, United Kingdom, Bangladesh and South Africa account for more than 63% of the country’s export of fruits, vegetables and other agri products.

http://www.financialexpress.com/news/agri-exports-unscathed-by-meltdown/399827/

Gold up 15% in Oct-Nov, gleam back in investors’ eyes

It may not be all glitter for diamond- and gem-studded jewellery vendors, but the last leg of 2008 has brought a shine to the bullion, bars and pure-gold jewellery with domestic demand for investment in gold growing by as much as 15% in the last two months, according to data compliled by the World Gold Council (WGC).

“With other investment avenues like stocks, mutual funds (MFs) and banks falling, some by even 70% in a year, investment in gold has climbed the demand graph by 14-15% in October and November,” WGC vice-president Shivaram. The total tonnage of demand is said to be 18% higher than that recorded in the previous year. Coincidentally, this is roughly proportionate to the 15% appreciation that investment gold currently offers year-on-year. “The lion’s share of demand came from investment in gold,” Shivaram said. Levels of demand touched $10.7 billion, double the previous year’s levels.

Meanwhile, specialisation in diamond- and gem-studded jewellery and pure-gold jewellery has created a clear divide between north and south Indian gold markets. “For example, while gem and diamond export units in north India are integrated to US and European markets which are most hit by the economic meltdown, in south India there is a ‘buy or invest in gold’ wave,” said Chennai-based jeweller Princeson Jose.

http://www.financialexpress.com/news/gold-up-15-in-octnov-gleam-back-in-investors-eyes/400302/

News Round – Up

'Gen next business model will emerge from India'

The business model for the next generation will emerge out of India, says the author, originator and coach of Next Practices, Mr Mark McGregor.

Delivering the special address on 'Creating Next Practices', at the Manufacturing Summit 2008, organised by Confederation of Indian Industry (CII), Mr McGregor, said India has deep values and cultures and the business model for the next generation for the world could emerge by harnessing the inherent potential of the country, he said.

Since the western business model is fundamentally broken, the new business model carved out of values and culture could benefit the business community across the globe, he said.

Organisations should stop resorting to cost cutting initiatives even in the recessionary trend. Instead it is necessary to focus on removing waste so that they can remain competitive. Generally organisations give problems to be solved to a few teams, but Mr McGregor's prescription is to convert the entire department as one team to deal with the problem. This will yield the best solution as due to fear of failure the solutions from two or more teams will only be better than the others, he said.

Do not dismiss those who committed mistakes as they will not repeat them. There is no guarantee that the new person will not do the same, he said.

Earlier, the, Tamil Nadu Industries Secretary, Mr M.F. Farooqui, said it is necessary to pool in the best brains to propel innovation. Reiterating that there is opportunity in adversity, this is the time to rediscover and plug any lacuna to capitalise the opportunity when the economy revives.

http://www.thehindubusinessline.com/2008/12/19/stories/2008121952470300.htm

Indian entrepreneurs more optimistic about growth: Study

The Indian entrepreneurial community is optimistic about the conduciveness for commencement and growth of their ventures in the country, even as markets are evolving and adjusting to new realities, a latest report says.

"Indian entrepreneurs are confident about their ecosystem. On a scale of 5, where 1 reflected an extreme poor state; 3 an average one and 5 an excellent state, entrepreneurs

have scored India at 3.31,'' according to a perception study released jointly by consultancy firm KPMG and The Indus Entrepreneurs (TiE) titled "Entrepreneurial India''.

The report further added that "the Indian entrepreneur today is optimistic, willing to take risks and is prepared to accept failure. India is on an entrepreneurial growth trajectory. The beginnings are already in place and steps have been taken in the right direction.''

According to the entrepreneurial India state-level confidence index, Andhra Pradesh has the highest confidence score of 4.14 and is much above the national average of 3.31.

The other states that are ranked above the national average of 3.31 include -- Goa, Rajasthan, Maharashtra, Gujarat, Tamil Nadu and Punjab. Meanwhile, Chandigarh, Karnataka, Madhya Pradesh, Uttar Pradesh, Haryana, Kerala, West Bengal and Delhi were rat ed below the national average.

Elaborating further the survey said the perception of various states differed drastically, as entrepreneurs in a mature ecosystem have higher expectations which might lead to low scores on some parameters and vice-versa.

http://www.thehindubusinessline.com/blnus/14161782.htm

India to see knowledge revolution in 25 yrs: Pitroda

The chairman of National Knowledge Commission (NKC), Sam Pitroda stressed on the need to expand educational capacity through innovative delivery models, particularly a strong private-public partnership model to improve the quality of higher education in India.

Speaking at the National Knowledge Commission Education Series, organised by the All India Management Association, Pitroda said that there was a disconnect between vocational training being provided and market requirements in the country at the moment. He said that while in some industries, the number of jobs outweighed the number of trained personnel available, the reverse was true in other industries. "Graduates are not employable immediately and have to be retrained", added Pitroda.

Calling for expansion, execution, equity and access in the higher education, Pitroda said that the commission's proposal to set up a regulatory authority for higher education had been met with great resistance.

http://www.financialexpress.com/news/india-to-see-knowledge-revolution-in-25-yrs-pitroda/398792/