# Govt. opens textile sector to foreign investors

**The Times of India News Service**

NEW DELHI: The Union cabinet on Thursday approved the National Textile Policy, 2000, providing for a slew of deregulation measures such as the freedom for the domestic large industry and foreign investors to enter garment manufacturing.

The policy, accorded cabinet approval in the morning, is designed to keep up the pre-eminent position of textiles sector in the Indian economy, its overall exports and employment. If the policy works, the textile sector—the oldest of the old economy industries which even today is the single largest foreign exchange earner at $11 billion a year— will deliver exports worth $50 billion a year by 2010, a target almost as ambitious as the $50 billion that the new economy IT sector is projected to bring in by 2008.

The cabinet took a few other decisions, including making an improved offer of voluntary separation scheme (VSS) for 3,946 employees of Bharat Goldmine and calling the winter session of Parliament for 33 days from November 20 till December 22.

Railway minister and Trinamul leader Mamata Banerjee told reporters that at the cabinet meeting she had raised her demand for the rollback of oil price hike. But parliamentary affairs minister Pramod Mahajan, briefing reporters on the cabinet meeting, insisted that the "issue was not on the agenda". "Many issues are discussed, formally and informally, in a cabinet meeting, but please do not expect me to give you a running commentary on the two-and-half-hour deliberations," he said.

The new textile policy recasts the 1985 version in the light of changes in the domestic industrial environment and the global trade regime. Textile minister Kashiram Rana termed the cabinet's approval of the policy as a "landmark" decision aimed at promoting a vibrant and dynamic Indian textile sector able to compete internationally and stand pressure of imports into the domestic market.

Mr Rana said the policy provides for a "growth-oriented" excise and customs duty structure and a number of promotional measures covering all segments, including jute, silk, fibre, fabric, garments and handicrafts.

The garment sector will be taken out of small-scale industry (SSI) reservation list, allowing entry of medium and large-scale industries and foreign investment. There will be no limit on investment and the clearance of foreign direct investment (FDI) will be governed by the existing policy. FDI will not involve any export obligation. The government will also review the SSI reservation in the knit-wear sector.

The policy puts accent on modernisation of all segments in the textile sector, especially of those mills where shuttleless looms are targeted to be increased to 50,000 by 2005 from 8,000 now.

# *It's an e-change, and it's going to happen post-haste*

**By Priya Jestin**

MUMBAI: The Indian Postal Service has got itself a pair of e-wings. With huge losses staring it in the face, the Department of Posts (DoP) has realised that unless it hops onto the IT bandwagon it will lose out completely in the communications race. On the anvil is a grand plan which aims to net-enable the one lakh-odd post offices throughout the country, so that e-mail services are available to small towns and villages as well.

That's only for starters. Soon, your friendly neighbourhood postman will deliver not only the *ghar ki chittti* but also the bouquet of flowers or cakes sent from another city. In order to generate much-needed revenue, the DoP has decided to double up as a flowers-and-cake delivery service. And ultimately, all post offices are to be converted into cyber cafes.

Sounds wild? Well, it's on the cards. According to B.B. Dave, director, postal services, Mumbai, using technology to upgrade services is part of a grand plan to shake this sleeping giant into something akin to the U.S. postal service.

Fortune is to be the byword. Or Fortune 500, according to the confident Mr Dave. "The postal department has been a loss-making organisation for too long. Our aim is to make it one of the most profitable companies in India and get onto the Fortune 500 list of successful companies," he says grandly.

They have a long way to go. So far, of the 835 Head Post Offices (HPO) in the country, only 306 are computerised. The DoP aims to get all its HPOs hooked onto its Vast Area Network by March 2001. In Mumbai, only the Mahim HPO is fully computerised, while the ones at Dadar, Chembur, Andheri and Thane will be ready in two months' time. Through these HPOs, customers can access information about the balance in their savings account from any post office in the city.

Now here's the interesting bit. While a homepage—indiapost.org—is already in place, each local postal circle is to have its own website. Aurangabad has already launched its site.

"A large chunk of the additional income will come from these new initiatives," says Mr Dave. Taking a leaf out of the London Royal Mail's book, the DoP also plans to facilitate e-commerce by providing its services and manpower to companies that need them. "We are planning to enter the transport sector," says Mr Dave. "We want manufacturers and wholesalers to use the postal network to transport their goods and use the services available to them."

► Post offices will turn e-kiosks, Page 7

## Hey, Mr Postman

**Part of the makeover is a total 'transmogrification' of the postman. No longer will he be a seasonal phenomenon, one hand holding a bunch of letters and the other extended for baksheesh during Ganpati, Diwali, Dussera..you name it.**

**The Mumbai GPO recently invited tenders to conduct courses for its postmen and front-desk staff on how to conduct themselves in a polite and professional manner. Most of the business institutes in the city have come forward to offer their services to teach the postmen a lesson or two in manners. The GPO is yet to decide which institute will conduct the course.**

**"The Jamnalal Bajaj institute had conducted a four-session course recently. But we felt the need for a more in-depth course," says Mr Dave. In the Bajaj course, postmen were made to swallow the bitter pill that in a market-driven economy, the consumer is king.**

**So, next time, don't be surprised when your postman adds a 'Thank you, ma'am' or an 'At your service' along with your letters.**

TOI Graphic: Geeta Gosavi

THE TIMES OF INDIA

3 NOV 2000

# Govt reduces stake in banks

STATESMAN NEWS SERVICE

NEW DELHI, Nov. 16. — A day after bank employees struck work, the government today signalled its indifference by clearing the proposed legislation to reduce its equity from 51 per cent to 33 in public sector banks.

The Bill to amend the Banking Companies (Acquisition and Transfer of Undertakings) Acts 1970 and 1980 would be introduced in the coming Parliament session that begins on Monday, the parliamentary affairs minister, Mr Pramod Mahajan, said in a briefing after a Cabinet meeting.

Mr Mahajan iterated the government's commitment to retain the public sector character of the 19 nationalised banks, saying the provision would not allow anybody to acquire more than one per cent equity and that the dilution would be made only through public offerings.

Equity will not be sold to any strategic partner and the government will retain the power to appoint chairmen, board of directors and the Parliament's supervisory control.

Mr Mahajan said the government wanted to enable the banks to have market access for raising capital and not to lose control, adding that there would be no private management of banks.

Soon after the briefing, there was panic as an official document related to the proposed amendment carried a clause that indicated private takeover of banks would be permitted. The clause was eventually deleted but it was unclear how it had appeared in an official handout in the first place.

Tight-lipped finance ministry officials refused comment, but it is unlikely that such a gaffe could have occurred if the matter had not been raised in the first place. "Surely, a steno wouldn't have made it up," an official said.

The amendment provides for an increase in the number of whole-time directors in public sector banks from two to four. It also allows setting up of a financial restructuring authority for weak and potentially weak banks and enhancing flexibility and autonomy of the boards.

The government will not lose control, Mr Mahajan said, as banks are statutory bodies and not companies under Clause 10.9 of the Banking Companies Act. Voting rights of shareholders will be restricted to one per cent irrespective of the number of shares held. The restriction on free transferability of shares held by the government and the minimum 25 per cent paid-up capital stipulation will also be removed.

The amendment will delete the present mandatory requirement of nominees from the RBI and financial institutions, and chartered accountants on the board.

SBI, which is governed by a separate Act, does not come under the purview of the proposed amendment.

There are 19 banks in which the government holds the entire or a majority of equity. Till 1994, the paid-up capital was held by the Centre. Law was amended that year to enable the banks to access markets to meet additional capital requirements. But only six of the 19 banks have opted for public issues.

**CABINET DECISIONS**

- Banking Companies (Acquisition and Transfer Undertaking) Act to be amended, slashing govt equity in nationalised banks from 51% to 33%
- Divorce Act, 1869, proposed to be amended to remove discrepancies against Christian women
- Wage board proposal for journalists approved
- Free and compulsory education for children up to 14
- Lok Pal Bill in winter session

THE STATESMAN

17 NOV 2000

# Banking on autonomy

THE UNION Cabinet has decided to bring down the Government stake in public sector banks to 33 per cent just after the bank employees all over the country went on a day's strike against privatisation. This is an indication of its resolve to allow the State-owned banks a somewhat greater degree of functional autonomy so that banking can become a commercial venture even if the banks have to meet social norms. The public sector banks have suffered from political and bureaucratic intervention for so long that it is hoped that the amendments to the Banking Companies (Acquisitions and Transfer of Undertakings) Act are passed in the forthcoming winter session of Parliament without any difficulty. The Government appears to be taking extra precautions in this respect as is evident from its decision to refer the amending legislation for denationalisation to the parliamentary standing committee in case there is a need for a political consensus.

This is not the first time, of course, that a legislative correction is being introduced in keeping with the changing times. In 1994, the Congress Government amended the Act to reduce the Government holdings in public sector banks to 51 per cent, as a consequence of which many such banks sold equity to the general public. The latest amendment, whose objective is to bring down Government holdings to 33 per cent, will remove the remaining restriction on public sector banks not to sell Government stakes and allow them to go public once again. On its part, the Government has given the assurance that no single individual will be allowed to own more than one per cent stake in any public sector bank, as a result of which the banks will remain under Government control. This stipulation rules out the possibility of any investor picking up strategic stakes as in the cases of disinvestment in other public sector units like airlines, oil company, aluminium etc.

The Government's decision to appoint both the chairman and managing director as well as directors on the boards of these banks deserves a cautious welcome as in the past undeserving candidates made their way to the top through political jockeying. It now remains to be seen if after the latest divestment, the public sector banks manage to reduce their non-performing assets and increase profitability. It is also hoped that the bank employees will cooperate and improve customer services instead of obstructing the new policy initiative, which is undoubtedly in the larger public interest.

THE HINDUSTAN
THE HINDUSTAN TIMES
18 NOV 2000

# A LITMUS TEST FOR DISINVESTMENT

THE FIRST STAGE of the disinvestment process in the two national carriers, Air India and Indian Airlines, has ended. A good number of international and domestic bidders have filed their 'Expressions of Interest' for a stake in the two airlines, within the parameters laid down by the Government of India. For commercial reasons, the Centre has decided not to release the full list of bidders at this stage, though many of them have announced their interest. As expected, there are more takers for Air India, which is apparently a potential 'golden goose', with a handful of international airlines also joining the bidding. Many have already floated consortia to bid for the full 40 per cent on offer in Air India (26 per cent for the foreign partner and 14 for the domestic one), while some like the Emirates Air are to identify an Indian partner soon. Going by reports, Indian Airlines has not generated the same kind of interest as AI, though a few bidders have filed for the stake. With the help of the global advisers, Morgan Stanley and ANZ Grindlays, the Disinvestment Ministry and panel will have to proceed with discussions and negotiations with those who have shown interest.

This round will enable the bidders to understand the economics of the two airlines so that they could then come up with an attractive offer. During this period, the Centre will have to brief the interested parties on the terms, conditions and rules of the game. In the case of Air India, the question of fleet replacement and augmentation, the all-important issue of utilising bilateral aviation rights with other countries and the future management of the airline will have to be thrashed out, so that the bidders know the real worth and what they are heading for. Similarly, for Indian Airlines, its market share, social commitments, operations in the northeast and the status of a national carrier which has enabled it to use some of Air India's unutilised seat capacity in regional operations may be the core issues. It is only when the prospective bidders get to know all the intricate details of the valuation, the disinvestment exercise and future management that they will come up with really inviting bids. After they put in the bids, the final phase begins and the Government must be absolutely transparent in finalising the process. Will it be just the highest bidder, or are there going to be other considerations in choosing the 'strategic partner'?

Among those who have shown interest in Air India are some of the leading airlines including British Airways and Singapore Airlines. The surprise entry is the Indian Pilots Guild, which wants to experiment with a cooperative-cum-professional management of the airline. Till a few years ago, Air India was in fact a profitable organisation. With political interference and for lack of professional management, it has slipped badly. Now that it is being divested, the least that the Centre can do is to ensure that it retains the 'old charm of the Maharajah'. While going for the best bargain — financially, professionally and strategically — the Disinvestment panel must ensure transparency in the tender evaluation process. For Indian Airlines, the new partner must turn the airline around and replace its ageing fleet. But IA has a 60 per cent market share already. The two airlines will be the most closely watched public sector undertakings to come under the disinvestment package until now. The credibility and viability of the process will be a real test of the sincerity of the Government's approach to disinvestment.

THE HINDU

22 NOV 2000

# Govt okays Maruti divestment

STATESMAN NEWS SERVICE

NEW DELHI, Nov. 18. — The government today finally gave a green signal to disinvestment in Maruti Udyog Ltd. A committee of secretaries is being constituted to prepare a road map for the purpose.

At a meeting of the Cabinet Committee on Disinvestment here today, it was also decided to start afresh the disinvestment process in Indian Petrochemicals Corporation Ltd and undertake the restructuring and disinvestment of 75 per cent of the holdings in Paradip Phosphates.

The minister of state for disinvestment, Mr Arun Shourie, said the CCD also directed the Cabinet secretary to follow up the progress of previous disinvestment decisions. He said all disinvestment transactions would now be automatically examined by the Comptroller and Auditor General and its report presented to Parliament.

The committee of secretaries on Maruti Udyog will consult Suzuki before submitting its recommendations within a fortnight. The agreement with Suzuki specified that neither partner could dispose of or transfer its shares without the written consent of the other, Mr Shourie said, but added that Suzuki did not have the right of "first refusal" of the shares the government might seek to offload.

While the composition of the committee would be finalised by the PM and the Cabinet secretary, the minister said it would probably include those dealing with heavy industry, expenditure and disinvestment.

Reversing the previous decision on disinvestment in IPCL, the CCD today opted to transfer its naphtha-based plant in Vadodra to Indian Oil and offered its two other units at Nagothane and Bharuch (both gas-based) to a strategic partner. The government will divest itself of 25 per cent equity in those two units.

The original decision had been to disinvest 25 per cent in all three plants. The process was initiated and the choice narrowed down to two potential partners in strategic sale — Reliance and Chatterjee-Soros. The possibility of the route taken today had been discussed with the Ambanis too, Mr Shourie said.

The Vadodara plant is situated adjacent to the IOC refinery and is the major outlet for the naphtha produced at the refinery. If the IPCL unit is transferred to another entity, the refinery could be deprived of a convenient outlet, Mr Shourie said. The price that IOC would pay to acquire the unit would be determined later.

The minister rejected a suggestion that IOC was being "dumped" with an obsolescent unit. There was a view, Mr Shourie said, that had the Vadodra unit been taken over by Reliance, the latter would have a monopoly.

## AIRLINES DEAL WITH HINDUJAS NOT RULED OUT

STATESMAN NEWS SERVICE

NEW DELHI, Nov. 18. — Legality, not morality, said Mr Arun Shourie, would determine whether the government would do business with the Hindujas who have reportedly expressed an interest in acquiring the shares to be disinvested in Indian Airlines and Air-India.

The minister of state for disinvestment declined to confirm if the Hindujas — chargesheeted in the Bofors case — had actually entered the airlines picture, maintaining that the names of the bidders could not be disclosed.

Mr Shourie said he had taken "no personal position" on the Hindujas when asked if he might find it difficult to do business with the group after having been among the crusaders to uncover the Bofors kickbacks.

He said he did not think he might be required to interact with them personally as all negotiations were conducted by officials. "I know all three brothers — I have dealt with them over Bofors," he quipped.

THE STATESMAN

19 NOV 2000

# BANK DISINVESTMENT

## The Case For Functional Autonomy

By JAGDISH SHETTIGAR

WHEN 14 banks were nationalised in 1969, it was with specific social objectives — whatever might have been the political motives behind it. Perhaps, the then Prime Minister Indira Gandhi who was still struggling to establish herself thought that it could be an effective means to expand her social base. She did succeed to a greater extent in projecting herself as a messiah of the poor. Because in the pre-nationalisation era, the poor, especially artisans and farmers, hardly had access to credit facilities. Credit support is an effective tool. As a result of the nationalisation, banking services were extended to rural areas and weaker sections.

At the same time, functional efficiency of nationalised banks deteriorated. One can understand when someone goes to a bank with a request for a loan. But even when he has to withdraw his own deposit, he is often made to feel as if he has gone to beg.

### HARASSMENT

Employees think that banks operate for them, not for customers. Most of the credit schemes for weaker sections may make good public relations for the policy makers. But the experience of the actual target group is one of harassment.

Often loans are disbursed on the basis of a cut for either bank officers or political leaders who matter. No wonder commercial viability is forgotten in the process. The net result is accumulation of huge non-performing assets (NPAs) of over Rs 54,000 crores. Whenever an economic measure like subsidy rationalisation or tax proposal is initiated, critics point to this mind-boggling figure of Rs 54,000 crore. They are perfectly right. This amount needs to be recovered at the earliest.

It is not proper to ask the common man to pay extra for his foodgrains quota from the PDS while the government sits on NPA of such a large volume though the two are not connected. They don't realise that NPAs can accumulate mainly due to political interference.

Therefore, the solution lies in freeing banks from political interference and giving them functional autonomy. This is not possible as long as the government's equity holding is above 51 per cent.

Recently, the Union cabinet approved the proposal to bring down government equity holding up to 33 per cent. This will be done not by divesting government holding of the remaining 18 per cent unlike the route followed in the case of disinvestment of shares in other PSUs. Here the capital base of the existing nationalised banks would be expanded wherein the government will not subscribe to the new issues. The new issues will be subscribed by the public. In the process the government's percentage equity holding will come down from 51 per cent to 33 per cent of the total though in terms of equity investment it will remain the same.

### BASELESS FEAR

Some critics point out that the government is facilitating the shifting of control over the existing public sector banks to private industrialists. It is quite possible some of the private investors may be the ones who are responsible for NPAs. Hence, there may not be any recovery of NPA, they fear. This is a baseless charge. First of all, while the new issues will be open to public, no individual will be allowed to subscribe to more than one per cent of the equity base. In other words, the non-government equity holding will be widely distributed. Hence, there is no question of control getting shifted to private individuals. Moreover, the government will not only have the power but will also be the dominant shareholder.

Then there is fear of the rural sector or weaker sections not having access to credit support. One thing should be clear that we are moving towards a free market or capitalism. Under economic reforms, there is a provision to strike a balance between different interests. The regulatory authority plays this role in a related area. In the case of banking, the Reserve Bank of India plays the regulatory role. Investment criteria will be fully regulated by the RBI. Even if the RBI fails to perform its role effectively, the issue can be raised in Parliament and necessary directions can be given since the government will still be the dominant shareholder.

Some critics think that foreign banks will corner the creamy business and Indian banks will not be able to stand up to competition. This fear again is baseless. As a matter of principle, there is nothing wrong whoever survives through better service. It is also a fact that till recently foreign banks used to attract creamy customers.

### DRAWING TALENT

The nationalised banks should be blamed for the poor service. Today there are other private banks such as ICICI Bank, HDFC Bank and Times Bank. If one goes through data on business expansion or profit margins during the past one year, the performance of the private banks are superior to that of both nationalised and foreign banks. In terms of quality of service, private banks are preferred to even foreign banks. It is the quality of service that matters, not ownership.

It does not mean that the nationalised banks lack talent. In fact, private and foreign banks have drawn talent from the reservoir of the nationalised banks especially with regard to senior processionals. In other words, for anybody to perform to the best of his talent, he requires an appropriate working environment. By reducing the government equity holding from 51 per cent to 33 per cent, this environment will be created. It will ultimately lead to the government getting fatter dividend cheques and people getting better service.

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*The author is member, Prime Minister's Economic Advisory Council and Convenor, BJP Economic Cell.*

## 'RESISTANCE TO REFORMS WILL BE OVERCOME'

# Fruits of globalisation must reach masses: PM

By Sushma Ramachandran

**NEW DELHI, NOV. 26.** Taking heed of the controversy over the impact of economic reforms on the marginalised sections of society and the growing digital divide, the Prime Minister, Mr. Atal Behari Vajpayee, today declared that benefits of globalisation must filter down to the common people. At the same time, he expressed determination to go ahead with the next generation of reforms which entail difficult decisions.

"In implementing them, we will no doubt encounter resistance and transitional difficulties. But we shall overcome them," he said.

Setting an 8 to 9 per cent growth target, he referred obliquely to the rumblings within his own party as well as coalition partners such as the Shiv Sena regarding the reform process. "We believe that the agenda for economic change should not be unduly politicised," he said, while stressing that efforts will be made evolve a national consensus.

Mr. Vajpayee who was addressing leading foreign and Indian industrialists at the India Economic Summit organised by the World Economic Forum and the Confederation of Indian Industry (CII), dwelt largely on the need to ensure that the fruits of development percolated to the grassroots and the obligations of industry in reaching this objective. He took pains to emphasise the importance of industry's social obligations and the need for bringing fruits of change to the masses.

**The Prime Minister, Mr. Atal Behari Vajpayee, with the Managing Director of the World Economic Forum, Mr. Claude Smadja (left), the CII president, Mr. Arun Bharat Ram (second from right), and the Director of World Economic Forum, Mrs. Colette Mathur, at the India Economic Summit 2000 in New Delhi on Sunday.**
— Photo: V Sudershan

The Finance Minister, Mr. Yashwant Sinha, echoed the same theme in his keynote address, emphasising that the aim of reforms was to eliminate poverty. The strategy involved higher growth with employment creation and affirmative action to ensure reverse discrimination to bring weaker sections into the mainstream. He rejected the concept of "jobless growth".

Mr. Sinha stressed that the "palpable effects of growth" had to be in terms of providing basic minimum facilities such as schools, medical services and clean drinking water.

The Prime Minister also made reference to such demonstrations when he asked if globalisation was being perceived to be "elite-driven", conferring benefits on large corporates while bypassing millions of poor and marginalised people. In India alone, he observed, the number of such people is nearly 300 million. A serious analysis of worldwide protests against globalisation would show there were many misgivings cutting across nations; apprehensions were shared across borders.

"If it is so self-evident that globalisation leads to increased opportunities, enhanced growth and real income, why are these not being universally accepted," he wondered, noting that "acceptable, convincing responses" were needed for these questions.

Mr. Vajpayee said globalisation will be pursued to India's advantage. In the process, the fruits of productivity and the gains of growth must bring about a qualitative change in people's lives. Besides, he said the privilege of being a global player must be matched with the responsibility of making globalisation universally beneficial.

THE HINDU

# India Inc criticism of govt policies at WEF in bad taste

Our Delhi Bureau
NEW DELHI 28 NOVEMBER

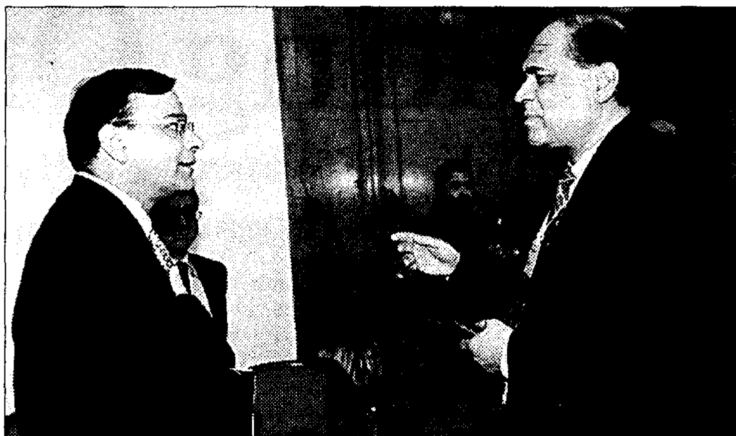
YOU WOULD imagine that the summit was to attract foreign investors. But the way a number of our desi industrialists rubbished government policies and policy-makers, Destination India must have appeared positively unattractive to the overseas money-men.

As the CII-WEF India Economic Summit came to a close tonight after two-and-half days of talk, analysis and a lots of advice on how the country should be run, some CII members were distinctly dissatisfied with the India bashing that took place in the presence of the foreign investor community.

As one such member said: "Mr Rahul Bajaj's criticism was characteristic of his plainspeak. People might have got used to that. But others seemed to have taken a cue from him. For instance, if you attended the session on corruption you would think there is little else but sleaze in India."

As in the past, this year, too, people vied with each other to offer pat solutions to put India on a 8-9 per cent growth track. Do this and do that and, hey presto, you are on a rocket. And on top of this, India Inc said its mouthful to the government and enjoyed, what has been for the most part, an ego-gratifying exercise.

Some CII members told ET about the inappropriateness of washing dirty linen in public and running down one's own country and government in front of foreigners. The attitude of disrespect was apparent on the very first day at the inaugural, when Mr Bajaj addressed the finance minister in an overtly familiar manner.



THE ARGUMENT CONTINUES: **Arun Jaitley & Rahul Bajaj.** — ET Photo

Next morning, Mr Bajaj appeared contrite — he confessed to having been reprimanded by his friends but continued to demonstrate the same attitude. And it turned out to be infectious. At a breakfast session today on "Towards a corruption-free society," the lead speaker is understood to have painted India as a champion in corruption.

Said a CII member: "Some of this might be true. But what was the purpose of this exercise? To highlight the attractiveness of India as an investment destination or to drive the foreign investors away?" Another member felt that there was no point of discussing internal issues like corruption with foreigners. "They are not going to help us clean up — we have to do it ourselves, so why involve them?" he said.

In fact, the foreigners were gentler in their assessment of India. Wrapping-up the summit, Mr Percy Barnevik said India had certainly changed in the last 10 years but so had the rest of the world, and so we needed to accelerate our pace so that we could begin to overtake a few other countries.

Singapore's ambassador-at-large, ministry of foreign affairs, Tommy Koh said he would take back to his country his impression that the reform process in India was irreversible. "I remain optimistic about India's prospects and I believe Singapore will remain engaged with India and take a long-term view when assessing this country," he said.

The Economic Times
29 NOV 2000

# Same old message

AT THE World Economic Forum meetings in New Delhi every year, critiquing India's economic reforms has become mandatory. This year is no exception and the Forum's director Claude Smadja has spared few words in telling the India Economic Summit 2000 that India needs to pull up its socks. As India is still in great need of foreign direct investment for accessing technology and foreign exchange and is worried that FDI inflow has been declining as compared to China, the advice is well taken. But one of the main reasons which is holding India back from rapid growth is the rise in income disparity because reforms have benefited some sections much more than the others. This increase in inequalities is off-putting for foreign investors also. It is responsible for the rising discontent and continuation of subsidies through populist policies by the state Governments. Several states are facing large fiscal deficits and the combined fiscal deficit of the Centre and the states is likely to reach 9 per cent of the GDP which is unsustainable.

The slow percolation of the benefits from globalisation and the opening up of the economy is essentially because millions of people lack financial assets, appropriate education and skills. The Government's own investment in the social sector has not been adequate to bridge the gap rapidly and since its resources are under pressure, Vajpayee is seeking the help of the corporate sector in the development of the social sector. The Government can also cut down the size of the bureaucracy and divert non-essential expenditure towards education, health and job creation. As is clear in the ninth year of the economic reforms, it is only through an improvement in the social and physical infrastructure that the pace of liberalisation can gather momentum.

Otherwise, in a democracy like that of India, the lack of political consensus will remain the main obstacle. It is a fact that economic reforms have been successful only in countries which have some form of authoritarianism. In India, by contrast, successive Governments have had to introduce reforms by stealth which have been followed by strong protests and popular opposition. This has been true of disinvestment in the PSUs where retrenchment is a big issue. Indeed, the process would have been smoother if there had been a social safety net.

THE HINDUSTAN TIMES

29 NOV 2000

# New economy, old pains

HD-12 29 11

**By Harish Khare**

***It is imperative to recognise that globalisation imposes inherent inequalities on a developing country.***

YESTERDAY, THE former Prime Minister, Mr. Vishwanath Pratap Singh, was offering a token protest at the Chennai Port against the import of highly-subsidised agricultural products. No major political party shares Mr. Singh's concern. The lonely furrow that he plows only underlines the structured dishonesty that has crept into our party system. Indeed, an entirely artificial — and politically bogus — distinction is being sought to be invented between the BJP and the Congress on the issue of globalisation and its implications for the domestic economy.

First it was the Congress which, during the Narasimha Rao- Manmohan Singh era, pretended that globalisation/liberalisation was a painless process, that there were no hidden costs for any section of the society, and that it was only "continuity with change". That was the time the BJP developed the propensity to appropriate for itself the nationalist mantle and accuse the Congress and the subsequent Congress-supported United Front regime of selling out on national sovereignty. The last major economic resolution adopted by its National Executive (July 1997) before the BJP got to form the Government at the Centre had talked of "the false slogan of globalisation, the fatal attraction of unrestrained consumerism, the aping of the West, the concern for the comfort of the few at the cost of the vast millions, the lurking dangers to our cultural values and the emerging threat to our sovereignty..."

Now, with the zeal of a new convert, a BJP-led Government has moved into the fast lane to globalisation at breakneck speed. Like its predecessor Governments, the Vajpayee regime also maintains the fiction that globalisation will bring prosperity for one and all, and that no one will have to pay any price. The NDA Government has vigorously committed itself to the second generation of reforms, and even presumably "social justice" men such as Mr. Sharad Yadav and Mr. Ram Vilas Paswan are being enlisted in the task of privatisation. This is not surprising. What is surprising is the entirely futile argument whether the BJP Government was in too much of a hurry to remove quantitative restrictions on imports or whether it was the Congress regime that committed the original sin.

Minus the artificial posturing, there appears to be a compact at the elite level, cutting across the political divide; no political party of any consequence — especially if it is part of a ruling arrangement — has allowed its ideological pretensions and political formulations to come in the way of supporting the "consensus on economic reforms", that endearing euphemism for an unapologetic pursuit of the twin agenda of liberalisation and globalisation. "Compulsions of coalition politics" has become the most convenient mantra to explain away any compromise at the cost of the masses. Only three days ago, the Prime Minister, Mr. Atal Behari Vajpayee, was putting in the mandatory appearance at the most exclusive gathering of the World Economic Forum. Mr. Vajpayee has yet to address a single public meeting where he could preach to the masses about the inevitability of "hard decisions". Nor does any political party or leader summon the courage or the intellectual conviction to spell out what these hard decisions are and at whose expense, and that some people will have to suffer before everyone ends up gaining in a reasonably equitable manner.

**STATECRAFT**

Simply put, globalisation means that the foreigner — trader, businessman, investor, backed by his Government's economic, and diplomatic clout — is insisting on a piece of the domestic action. This foreigner is forever threatening that he will take his dollars elsewhere — China is mentioned most automatically — if the Indians do not open the door wide enough for him. The foreigner is not on a charity mission, he is out to make profits, which he will do naturally at the expense of the local trader and the indigenous consumer. Globalisation is touted as a two-way traffic in which the Indians are challenged to test their competence and products against the best (and subsidised) goods from outside. May be some Indians too are benefiting from this presumably two-way traffic. May be. But if it is working out so wonderfully, why can political voices be not raised in defence of these beneficiaries of globalisation/liberalisation?

On the other hand, it is easy to identify those who are finding the going tough. First, there is that section of corporate India that had bank-rolled Project Vajpayee in 1997-1998 in the hope that a "nationalist" Government in New Delhi would raise the protectionist walls so high around North Block that the *desi* "entrepreneur" would wear down the foreign competitor in the same manner as he short-changed the Indian consumer all these decades. Now the same corporate India groups are getting nervous that the Vajpayee regime too is unable or unwilling to rig the rules of the game in their favour.

Second, there is the lower middle class — the LPG constituency — in urban and semi-rural areas that was just beginning to feel comfortable with illusions of affluence, spiced with delusions of Hindutva; this constituency is now being castigated by the BJP ideologues as "vested interests", who are demanding continuation of subsidies and who are depriving the real poor of the benefits of economic reforms. The economic editors bemoan that a Mamata Banerjee is being mollycoddled on the eve of the Assembly elections so that she can carry on the fiction that "reforms" come without cost.

And, the "loser" third group consists of the agricultural community. The peasant castes which have over the years sought to protect their post-Green Revolution economic prosperity by seeking political alliances with regional outfits such as the Akali Dal, the Haryana Vikas Party and the TDP. Now these very communities find themselves feeling the pinch of the import of agricultural products, as part of the WTO mandate.

These "losers" will naturally and understandably keep making their unhappiness known. They will enlist political parties and leaders in their cause; unless there is a willingness to minister to these new pains with wisdom and honesty, the polity may experience convulsions whose outcome cannot possibly be calibrated by anyone, especially by those who preen themselves as the bedrock of stability. As it is, governmental stability in New Delhi is a somewhat precarious arrangement. Unless our political establishment is willing to address honestly these pains, disorder and chaos may rudely disrupt our collective reverie, triggering a new cycle *of flight of capital, instability, etc. Or,* alternatively, the ruling establishment can try the option of distracting national attention away from economic pains by cranking up spurious political disputes. Kargil today, Kashmir tomorrow; and, if nothing else will work, there is always the old reliable "communal tension" option.

It is imperative, therefore, to recognise that the process of globalisation imposes inherent inequalities on a developing country such as India. Inequalities of information, skills, and above all, of mental toughness. Our decision-makers at the very top have to toughen themselves to fight out this unequal battle to the best of our collective advantage; this is the true test of the much-touted *deshbhakti*. We cannot delude ourselves by putting our faith in the inherent reasonableness and civility of the rest of the world, particularly of the West.

But this battle cannot be won at the elite level alone. Masses will have to be mobilised in this battle if the country has to withstand the WTO-related pressures and unfairness. Just as successive Governments have imaginatively used the domestic opposition to stall concessions on CTBT, it is time to speak honestly to the country about the demands and expectations from abroad in the name of globalisation. The rulers will have to trust the citizens if they want "reforms" and the New Economy to become a collective enterprise.

THE HINDU

29 NOV 2000

# BJP sees virtues in China model

Shekhar Iyer
New Delhi, November 29

CHINA APPEARS to have travelled a long way for the BJP-led Government since the days of "Enemy No. 1" two years ago. Now, it is "Hero No. 1" when it comes to privatisation, worthy of emulation by India.

The Communist giant's success in disinvestment has been cited in a note circulated to the BJP MPs and allies to convince the doubting Thomases about privatisation.

With Parliament set to debate disinvestment next week, the government wants the treasury benches to be fully convinced that it is on the right track to counter the Opposition's barrage of criticism.

**Privatisation**

The underlying message is: If China is far ahead, can India be left behind? (Not if the fraternal ties between the BJP and the Chinese Communist Party are any indication. A visit by a BJP delegation to China is due for reciprocating a trip to India undertaken by a CCP delegation.) Annexing a list of 342 State-run companies privatised by China, the government's note says the private sector in that country has grown at the expense of the State sector but with an enviable result.

Foreign direct investment (FDI) inflows to China amounted to $ 42.3 billion in 1996, after market reforms first started in 1978. By 1995, 1.53 lakh equity joint ventures and 37,080 cooperative joint ventures had been set up in China.

For the unconvinced, the note says, privatisation has been accepted, besides China, in all types of countries, whether big or small, rich or poor — by all kinds of regimes, whether democratic or totalitarian, leftist or rightist. Privatisation is being carried out in respect of all kinds of State-owned enterprises, whether healthy or sick, big or small.

Prepared by the Department of Disinvestment under Minister of State Arun Shourie, the note says the experience of other countries shows that privatisation is an economic necessity. The instrument of public ownership, widely used during post-colonial rule and post war reconstruction period, is no longer the most desirable instrument of development. Further, the signing of WTO has also led to severe global competitive pressure on national industries with the realisation that they will not survive unless they are competitive in world markets. Also, due to the government's inability to raise taxes and reduce expenditure, in all the countries, the use of taxpayers' money in running industries has come under serious criticism. These pressures have led to large-scale privatisation worldwide, the note said.

Compared to China, with the exception of Modern Foods, only minority stakes have been sold in different companies under the earlier policy in India.

"We have now embarked upon strategic sales, as clearly indicated in the 2000-2001 Budget speech (of the Finance Minister)," the note says.

THE HINDUSTAN TIMES

30 NOV 2000

# GoM formed to recommend disposal of excess foodgrains

By Our Special Correspondent

NEW DELHI, OCT. 4. The Cabinet Committee on Economic Affairs (CCEA), chaired by the Prime Minister, Mr. Atal Behari Vajpayee, today decided to form a Group of Ministers (GoM) headed by the Union Home Minister, Mr. L. K. Advani, to come up with recommendations on how to dispose the burgeoning foodgrain stocks which are about 180 lakh tonnes in excess of norms.

The members of the Group are the Food and Consumer Affairs Minister, Mr. Shanta Kumar, the Finance Minister, Mr. Yashwant Sinha, Commerce Minister, Mr. Murasoli Maran, and the Agriculture Minister, Mr. Nitish Kumar.

The GoM was set up in response to a Food Ministry's package of proposals for offloading foodstocks. It is expected to give its recommendations in two weeks' time by when the Prime Minister is expected to return from his knee surgery in Mumbai.

The CCEA also fixed the Statutory Minimum Price of sugarcane payable by factories to farmers for 2000-1 sugar season at Rs. 59.50 per quintal as against Rs. 56.10 per quintal last year linked to a basic recovery of 8.5 per cent. Further, a premium of 0.70 paise for every 0.1 per cent point increase in recovery above 8.5 per cent would be payable.

The CCEA also decided to extend fiscal concessions to nuclear projects in line with those given for mega projects for power generation, including customs duty waiver on import of equipment, income tax holiday for 10 years in any block within the first 15 years, deemed export status for indigenous supply and guaranteed power off-take by Power Trading Corporation. The Power Grid Corporation will set up necessary transmission network to evacuate power from such projects.

Under this scheme, the benefits will go to the units of Tarapur Atomic Power Project which are in the process of being set up and all future nuclear projects including the proposed Koodankulam Atomic Project in Tamil Nadu.

The Committee also decided for mandatory packing of 100 per cent sugar, 100 per cent foodgrains and 20 per cent urea in jute material under Jute Packing Material Compulsory Use in Packing Commodity Act, 1987. Till now 90 per cent sugar, 90 per cent grains and 15 per cent urea had to be packed in jute material.

It gave approval to the Hindustan Petroleum Corporation Limited to execute the Punjab Refinery Project without induction of a joint venture partner, among several other economic decisions.

The CCEA sanctioned the Integrated Dairy development Project for Non-Operation Flood, Hilly and Backward Areas to be implemented in the Ninth Plan with a total outlay of Rs. 125.73 crores. For the Tenth Plan, Rs. 250 crores has been approved in principle.

A national project for cattle and buffalo breeding with a 100 per cent grant-in-aid spread over 10 years was also approved.

The Committee cleared a National Watershed Development Project for rainfed areas for the Ninth Plan with an outlay of Rs. 1030 crores. At the same time, 27 Centrally-sponsored schemes, such as women cooperatives and honey bee keeping, were integrated into one scheme called Macro management of Agriculture-Supplementation/Complementation of State Efforts through Work Plans.

The Committee approved the proposal of Grasim Industries for setting up 1800 MW power plant with an LNG terminal at Ennore in Tamil Nadu at a cost of $ 1426 million.

THE HINDU

5 OCT 2000

# RBI leaves bank rate untouched, reports slowdown in GDP growth

Business Times Bureau

MUMBAI: The Reserve Bank of India (RBI) left the bank rate (BR) and cash reserve ratio (CRR) untouched at eight and 8.5 per cent respectively but introduced new valuation norms on bank investments that could boost bank profitability. This was announced in its mid-term review of monetary and credit policy for October 2000-March 2001 on Tuesday.

RBI governor Bimal Jalan said that interest rates were expected to remain stable for the next six months according to current indications, but the external outlook with regard to crude oil prices (international) and the domestic inflationary scenario were somewhat uncertain. The RBI governor cautioned banks to be prudent enough to make allowances for unforeseen contingencies, including possible changes in monetary measures in their business plans.

On the valuation norms for banks' investment portfolios, the RBI has categorised both the stocks for the statutory liquidity ratio (SLR) as well as the non-SLR stocks into Permanent, Held-to-Maturity and Available for Sale & Held for Trading.

The first category of investments will not be marked-to-market rates unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity. This is seen as a major boost for bank profits this year as the amount for depreciation now stands substantially reduced for the second half of the current fiscal.

On domestic developments, the review said, the distribution of rainfall was more or less satisfactory at the aggregate level. The output of foodgrains during the current year is expected to be at the previous year's level. The total buffer stock of foodgrains stood at 40.8 million tonnes at the end of August 2000, which was higher by 38.3 per cent over the stock level of 29.9 million tonnes at the end of August last year. The stocks of rice at 13.56 million tonnes were higher by 57.5 per cent and those of wheat by 27.9 per cent.

Referring to the industrial outlook, the picture was mixed. The increase in production during the first four months of the current fiscal was lower at 5.4 per cent against the previous year's corresponding level of 5.9 per cent. The manufacturing sector recorded a growth rate of 5.7 per cent up to July 2000 as against 6.7 per cent of the previous year's corresponding period. Basic goods production accelerated at 4.7 per cent as against the previous corresponding level of 3.8 per cent. In the consumer goods sector, production was up at 8.3 per cent versus 2.5 in the previous corresponding period.

The real GDP growth during 2000-01 can be placed between 6.0 and 6.5 per cent as against the projection of 6.5-7.0 per cent, the review said.

The rate of inflation on a point-to-point basis on September 23, 2000 was higher at 6.06 per cent as against the previous year's 3.2 per cent. The average inflation rate was 4.96 per cent.

**MONETARY POLICY**

- **GDP growth revised downward to between 6 and 6.5 per cent**
- **RBI warns of further changes in monetary measures**
- **Fuel prices push up inflation**
- **Bank rate, CRR remain unchanged**

## *Sensex sheds 110 points*

**MUMBAI: Equities retreated further, pushing the Sensex down by over 110 points to close below the 4000-mark on the Bombay Stock Exchange (BSE) on Tuesday as selling pressure increased with operators in no mood to accept the proposed rolling settlement. The market even discounted a strong factor like the announcement of excellent second-quarter working results by IT bellwether Infosys Technologies which reported a 135 per cent jump in net profits over the corresponding period last year.** (PTI)

## *Deora says he will not contest post of MRCC chief*

By S. Balakrishnan

The Times of India News Service

MUMBAI: The city unit of the Congress is in for a major change. President of the Mumbai Regional Congress Committee (MRCC) Murli Deora, who has led that body for two decades, dropped a bombshell on Tuesday by stating that he would not offer himself for presidentship again. The party is currently holding its organisational elections.

Mr Deora told this newspaper, "I have led the party in Mumbai for a very long period and have been an MP for four terms. I now want to make room for a new leader. I will back whichever candidate is supported by the party's central leadership." Former MP Gurudas Kamat is the chief contender for the post to be vacated by Mr Deora.

THE TIMES OF INDIA

11 OCT 2000

# Economic slowdown worrying, says Sinha

- Gloomy Naik predicts Rs 81,000 crore oil bill
- But Mamata says railway fares won't be hiked

FINANCE MINISTER Yashwant Sinha today admitted that the Centre is concerned about the economic slowdown. He blamed the sluggishness on rising inflation, a swelling oil import bill, poor agricultural growth and unrelenting pressure - also caused by higher oil prices - on the balance of payments.

Mr Sinha also expressed concern over the tardy disinvestment process, the failure to downsize government and the drop in foreign investment. He was addressing a conference of economic editors here today.

Mr Sinha said he would introduce three bills in the winter session of Parliament to set the agenda for second generation reforms. The bills would:

- Amend the Bank Nationalisation Act to reduce government equity in banks and financial institutions to 33 per cent.
- Put in place a new competition policy to replace the outdated provisions in the Companies Act.
- Place a statutory cap on government borrowings.

The last, a fiscal responsibility bill, is part of Mr Sinha's medium term strategy to contain expenditure and rein in the fiscal deficit at the projected level of 5.1 per cent during the current fiscal. The interest burden this fiscal year will reach Rs 102,000 crore.

Mr Sinha, however, maintained that all macro-projections such as GDP growth, the fiscal deficit and the two per cent current account deficit would be achieved. He said the good showing in sectors such as communications and services, the steady growth in exports and tax revenues were cause for cheer.

Mr Sinha observed that political pressures tend to unsettle the economic applecart. He also said the negative mindset regarding the WTO, IMF and World Bank had to change.

**HTC, New Delhi**

Mamata Banerjee

Ram Naik

INDIA'S OIL import bill for the current fiscal year is projected to soar - hold your breath! - to Rs 81,000 crore. This represents a 51 per cent increase over the Rs 53,500 crore that was spent on oil imports during the last financial year.

The man who delivered this shocker at Shastri Bhavan here today was petroleum minister Ram Naik. He told the economic editors conference that the oil import bill was projected on the basis of an average price of $ 30 per barrel for the remaining six months of the financial year and the current dollar exchange rate for the rupee.

The minister said that although international prices had gone up (since the Centre hiked domestic oil prices), there is no proposal at the moment to increase domestic prices futher.

Barely an hour before Mr Naik had made public his gloomy oil import bill projection, his Cabinet colleague, railway minister Mamata Banerjee, told the same conference that there will be no increase in rail passenger fares or freight rates. This, despite the extra Rs 275 crore that the Indian Railways will have to pay because of the hike in diesel prices.

Ms Banerjee admitted that the railways faces "a difficult situation" but added, with somewhat specious logic, that if it could absorb the Rs 400 crore "shock" the earlier diesel price hike entailed, it could do the same about the additional bill of Rs 275 crore.

She claimed that hiking freight rates would be counterproductive because the railways would then lose its cutting edge over the roadways in the goods carriage business.

She added that any economic reform ought to pass the "does it benefit the poorest of the poor?" test. She said the Indian Railways would save Rs 865 crore through "austerity measures".

**HTC, New Delhi**

**US Secretary of State Madeleine Albright speaks with US President Bill Clinton at the start of the West Asia Summit in the Egyptian town of Sharm El-Sheikh on Monday.** Photo: AP

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THE HINDUSTAN TIMES
17 OCT 2000

# Whistle in the Dark

If economic growth could be given an impetus simply by 'talking the talk', Finance Minister Yashwant Sinha would deserve more than just a pat on the back for his effort on Monday. If there is one thing he could not have been accused of in his address to the economic editors' conference, it is pessimism. Unfortunately, a charge of realism would be just as misplaced. The data suggests a slowdown in the economy. Mr Sinha responds by simply denying it. The finance minister says he is already in touch with business associations and will soon have corrective measures in place. Problems in agricultural growth will be sorted out by a group of ministers. Inflation, Mr Sinha concedes, is up, but assures us will be controlled once the impact of the oil price hikes has worked its way through the economy. The Reserve Bank of India and the Centre for Monitoring the Indian Economy, we are therefore asked to believe, have been trigger-happy in scaling down estimates of growth. An ostrich would be hard put to beat this performance. Nor is Mr Sinha content with dismissing what he refers to as the "gloom and doom" scenario for economic growth. He has joined issue also with Standard and Poor's, the international credit rating agency which last week expressed disappointment with the pace of the reform effort in India. The finance minister insists that the country will move at its own pace and can afford to do so. It doesn't have to catch the bus; it is so important the bus will wait for it. Again, for sheer attitude, this will take a lot of beating.

Impressive as his sangfroid was, it fell far short of the impact he could have generated by 'walking the walk'. Mr Sinha followed up his disdain for the prophets of gloom with a long list of measures that he characterises as components of the second wave of reforms. Among these are the Fiscal Responsibility Act, a new bankruptcy act, a new competition law and denationalisation of banks to name just a few. If these sound familiar, it is because they have been said before. What the economy needs now is some concrete action along these lines. Unfortunately, there is little in the government's track record to indicate that such action is round the corner. Even as Mr Sinha talks of a second wave of reforms, the first wave is in imminent danger of rolling back (if Mamata Banerjee has her way on oil prices for instance). Another wave breaker has shown up in disinvestment of public sector shares. That Mr Sinha did not bother to spell this out as one of the priorities is as clear an indicator of stalled reforms as any. That explains why the finance minister's bravado is being taken with more than just a pinch of salt. A government that has proved incapable of privatising, say, a Hindustan Zinc, is straining credulity a little when it glibly talks of bringing down the government stake in public sector banks to 33 per cent. When news last came in, the bank unions were among the most powerful in India. So shall we say 10 out of 10 for chutzpah, and considerable room for improvements in the practicals, minister?

# Have Visa, Will Travel

For the second successive year, the US Congress has increased the number of H1B visas to be granted to foreign professionals — from 65,000 to 115,000 last year, and now to 195,000. As many as a half of these are expected to be taken up by IT professionals from India. Germany, France, the UK, Finland and other countries too are laying out the red carpet and handing out green cards to Indian computer engineers. To see all this simply as a continuing "brain drain" from India would be to miss the essence of what is happening. If earlier it was mainly a "push" factor that was behind the phenomenon (the sluggish Indian economy not being able to absorb the large numbers that our higher educational institutions were turning out), now it is the "pull" factor that is predominant — Indian professionals are being actively courted by industries abroad. And it's not only India's IT professionals who are in demand but also middle-level and low-end workers, including nurses, merchant seamen, airline stewardesses, cooks, carpenters and construction workers — not just in the Gulf, but elsewhere. Multinational companies are also finding it expedient to relocate to India their key service-oriented operations in order to take advantage of cheap and efficient Indian manpower.

The point is that we are now in a post-industrial era where manufacturing industries the world over are downsizing, consolidating and automating in order to remain competitive, and it is the explosion in the service sector that is providing all new employment. Even in India, industrial output as a proportion of GDP has flattened out, and economic growth and growth in employment are riding ever more on the expansion of the service sector which now accounts for almost a half of the GDP. All this has been happening without any assistance from our government and policy makers. Pro-active policies can play a great role in leveraging India's unique strengths in this new economic order. First, we need to upgrade our educational and training institutions, sharpen their job-orientation, and increase greatly their numbers so that they can meet our own needs and also cater to international demand. Secondly, at the WTO and other international forums, India should work for freer movement of labour across countries as everyone stands to benefit thereby — just as globalisation through free trade in goods and free movement of capital are now accepted as being beneficial to all. Thirdly, governmental authorities should make sure that manpower export grows along legal channels and that our citizens working abroad get the best consular services that they are entitled to from our embassies. And, finally, while working for labour market integration abroad we cannot neglect reform at home. Our rigid and anachronistic labour laws have condemned our industries to overstaffing, low productivity and sickness, and are largely to be blamed for our economy's potential being unrealised. We should lose no more time in moving towards flexible labour markets — this is the sure way to translate our comparative advantage in labour costs into greater employment and growth.

THE TIMES OF INDIA

18 OCT 2000

WEDNESDAY, OCTOBER 18, 2000

# DRIFT OF ECONOMIC POLICY

THE FINANCE MINISTER and his officials went out of their way to present a positive picture of the economy to the Economic Editors at their conference in Delhi. Inflation is relatively low, and, despite the oil price hike, will soon be lower, said the Finance Minister. Growth prospects are good; indeed, India is today one of the fastest-growing economies. All this may be so, but one nevertheless gets a strong sensation of drift in economic policy. Our successes, such as they are, are perhaps more in spite of such drift than because of any concrete and well-thought-out plans.

Oil imports this year are expected to touch $17 million to $18 billion dollars, up almost 50 per cent. This has made the Government scramble to acquire dollar resources by way of the State Bank of India's 'India Millennium Deposit' (IMD) scheme. Only the other day, the Chairman of the SBI announced that the size of the issue would be only about $2 billion. But at the conference, the Editors were told by the Chief Economic Adviser to the Ministry of Finance that the scheme was to mop up "$3 billion to $4 billion". It is ironic in such circumstances to blame a "herd mentality" for bringing the rupee under pressure. The herd is, in fact, simply following the leader.

To say, as the Finance Minister did, that the increased oil import bill "will not pose a problem since we have about $35 billion in reserve" is simply swagger. The impression this conveys is that the reserves are ours to do with as we please. But this is hardly the case. Most of the reserves are committed reserves; they are already spoken for. On the one hand, in an effort to check the "herd instinct", one finds the RBI taking measures such as insisting on the immediate repatriation of half the balances held in Exchange Earners Foreign Currency (EEFC) accounts, and announcing reductions in entitlement in respect of further accretions. On the other hand, the SBI scheme will actually wind up allowing depositors a needless bonanza. Though deposits under the proposed scheme are technically for a five-year term, it has been announced that the depositors, who are anyway being handsomely rewarded by higher rates of interest than they could have got anywhere else, will be permitted to prematurely encash the deposits in Indian rupees, at the then prevailing rate, "without any penalty, after six months from the effective date of the deposit". Under such circumstances, the fact that the SBI is to bear only one per cent of the exchange risk, must have been a source of considerable satisfaction to its Chairman.

The same sort of drift is to be found in the case of food policy. Procurement prices keep being raised, and raised again; even though the procuring agencies already have more food on hand than they know what to do with at these prices. They are able to sell it neither at home nor anywhere else. In respect of the stock market, it is the same story all over again. A great deal of time and money has been invested in trying to boost the stock market. In respect of the "double taxation of dividends", for instance, and by way of the indexation of long term capital gains. So much so that boosting the market seems often to be one of our primary goals. But the market stubbornly stays where it is, with wildcat fluctuations. It has, in fact, fallen a massive 22 per cent in a single month between mid-September and mid-October. Once again policy seems to be barking up the wrong tree.

THE HINDU

18 OCT 2000

**A Thought for Today**

*A banker is a man who lends you an umbrella when the weather is fair, and takes it away from you when it rains.*

*—ANON*

# Suspense Account

As the Union cabinet is about to clear the long-delayed proposal to privatise the nationalised banks — by enabling dilution of the government's equity holding below 51 per cent, and taking it down to a minimum of 33 per cent — predictably there is an outcry of protests by bank unions. Fears are being expressed that this may facilitate their takeover by private business houses, who are allegedly responsible for a good part of the Rs 58,000 crore load of bad debt that the public sector banks carry; that it would then be a simple matter for them to write off the loans that they owe the banks that they would control. Such fears are a smokescreen. It is precisely the 31 years of public control since the nationalisation of 1969 and the mismanagement of public funds through blatant political interference under this regime (Janardhan Poojary's "loan melas" and the several-thousand-crore Indian Bank scam were only the most egregious manifestations), that have now made it imperative for banks to be taken out of government control, in order to rehabilitate them and to ensure their future growth. The process of the weakening of the public sector banks — through diversion of funds and mismanagement of their assets — and their end-result, have not been different in substance from the "crony capitalism" in Korea, Thailand, Indonesia and Malaysia that led to the East Asian economic crisis and seriously damaged their economies.

'Privatisation' is perhaps an inappropriate term to use in this context; the bank shares are not going to be transferred to large private entities, but will be widely dispersed among the public. And while the control will no doubt go out of government hands, it will pass to professional boards under close regulation by the Reserve Bank of India. Privatisation is actually part of a well worked-out programme of banking reform being overseen by the RBI that will strengthen the capital structure of the banks, hasten loan recoveries and reduce the ratio of their non-performing assets, tighten prudential lending and income recognition norms, and generally bring banking practices in line with the internationally accepted "Basel norms". In the process, the banks will only become stronger and better able to withstand competition from foreign banks and the new private sector banks. If privatisation of banks is thus in the overall public interest, why is there no public enthusiasm for it, and why should bank unions be opposing every step towards reform? The problem again is the government's penchant for reform by stealth, and not to ruffle any feathers in the process. There is a crying need for the prime minister, the finance minister and government leaders down the line to educate the public, and particularly the bank employees that reform is in their interest. That in the newly resurgent Indian economy, banking services are playing an increasingly important role with the introduction of new retail banking products for every level of customer; and in this scenario of growth jobs in banks are not only safe but there is great scope for expansion.

THE TIMES OF INDIA

24 OCT 2000

# Fifty-year fetters taken off insurance

FROM OUR CORRESPONDENT

**New Delhi, Oct. 23: Nearly half a century after the first batch of insurance companies was nationalised, the government today opened up the sector to private entry.**

Licences were issued to three companies and three others were given in-principle clearance by the sector's watchdog, the Insurance Regulatory and Development Authority (IRDA).

"This is truly a momentous day for the Indian insurance sector," said the head of one company that received clearance today after the IRDA came good on its promise of gifting a Diwali bonanza.

Reliance General Insurance, HDFC Standard Life Insurance and Royal Sundaram Alliance Insurance are the companies that were registered today. They will be the first private sector entities to get a foothold in insurance since 1956 when 245 Indian and foreign insurers and provident societies were nationalised. In 1971, the government took over the management of non-life insurance firms followed by nationalisation two years later.

ICICI-Prudential Life Insurance, Max-New York Life Insurance and Iffco-Tokio General Insurance Company are the three which received in-principle approval for registration.

So far, about 10 companies have applied for licence, the Tatas and Birlas among them. Reliance received registration for non-life insurance business and will have to wait for the licence for life insurance. Among the six companies that received clearance in one form or other today, only Reliance is starting business without a foreign tieup.

Reacting to the opening up of the sector, a beaming HDFC chief Deepak Parekh said: "We are very happy. We are delighted to be among the first." It will be some time before the first private insurance policy is sold, and industry watchers see HDFC Standard Life as having warmed up enough to get off the block ahead of others.

Reliance and ICICI Prudential, which has to fulfil some conditions before registration, are expected to start early next year, while HDFC plans a soft launch in December. Most of the private insurance companies have foreign associates with equity participation and these alliances are expected to introduce innovative products in the underexploited Indian market. Only 18 per cent of the population is estimated to have been covered by insurance.

Royal Sundaram managing director Micky Brigg said: "We are eager to share our international expertise and experience." Sundaram's partner, Royal Sun Alliance, operates in over 50 countries.

Banks have been left out of the first lot of registrations. SBI was keen on being the first bank to get a licence, but has not finalised a joint-venture partner.

Years of political debate preceded today's grant of licences, the proposal for dismantling the monopoly of government-owned agencies — Life Insurance Corporation and General Insurance Corporation — having first come up for discussion during Narasimha Rao's regime.

The Bill to grant statutory powers to the regulatory authority had a tortuous journey through Parliament. After two abortive attempts, a fresh Bill was introduced in December 1999 and was passed after amendments — incorporating social sector commitments — to overcome opposition.

■ See Business Telegraph

THE TELEGRAPH

24 OCT 2000

# The NDA & economic reforms

By V. Jayanth

FROM HIS hospital bed at Breach Candy, the Prime Minister, Mr. Atal Behari Vajpayee, sent out a clear warning on the first anniversary of this National Democratic Alliance (NDA) Government. He spoke of hard days and difficult decisions. "The path of reforms is never easy or straight. Sometimes the Government has to take hard decisions in the long-term interests of the nation," he cautioned in the statement.

In the more immediate context, there was a clear reference to the oil crisis and the rising prices. Some read in the statement an advance warning to his ally, Ms. Mamata Banerjee, not to expect a rollback in the prices of petroleum products, though Mr. Vajpayee promised to take a second look at the price hike once he returns to New Delhi after the surgery. Making a specific reference, he said "The unprecedented increase in global oil prices has forced us to pass on some burden to the consumers... The haves must bear a greater share of the burden than the have-nots in the transition period."

But it remains to be seen if the Prime Minister will remain firm on the oil price revision and tell not only his Railway Minister, Ms. Banerjee, but all his allies, that the NDA cannot revert to its old practice of roll-backs. The reforms are irreversible and the 2002 deadline for many of the WTO commitments has to be met. It will be much better to stay the course and push ahead with the liberalisation programme with a parallel effort to cushion the effect of the transition on those below the poverty line.

The Prime Minister's message was followed up within a few days by his Finance Minister, Mr. Yashwant Sinha, in his marathon session with the Economic Editors. Though he buckled under coalition pressure from the Akali Dal Chief Minister of Punjab, Mr. Parkash Singh Badal, to alter the standards and rules of paddy procurement by the Food Corporation of India (FCI), he ventured to convince the media that there would be no let-up in the liberalisation process. He even laid down a roadmap for the second generation of reforms.

It may be too early to take the Finance Minister at his word. Only if he gets the new legislation through Parliament in the coming winter session will his critics believe him. He may be optimistic about the economy, but the NDA's track record does not generate enough optimism about its determination to push ahead with economic reforms, taking the bold, hard decisions right now. Not only the Cabinet, but the NDA as a coalition, seem to be vertically split when it comes to reforms. With some of its constituents gearing for Assembly elections in their States — West Bengal, Punjab and Tamil Nadu to name a few — in early 2001, their leaders will find it difficult to swallow the bitter pill at this stage. Come December, a clearer picture on how committed the Vajpayee administration is to reforms will emerge. Some basic steps are being taken, but the Government must not falter or succumb to pressures.

The roadmap for the reforms may be ready. Mr. Sinha listed the Fiscal Responsibility Act, a new Bankruptcy Act, a competition law, key banking sector reforms, opening up the telecom and insurance sectors and above all a detailed review and revamp of the labour laws for a start. It remains to be seen what shape these measures take when introduced in Parliament. Will the Government be able to guide all these vital Bills through Parliament in November-December?

Given the parliamentary arithmetic, the NDA can muster a majority only in the Lok Sabha. It will have to look to the main Opposition, the Congress, for support to pass any legislation in the Rajya Sabha. But the problem is not so simple, because of internal divisions within the NDA. Some of its constituents such as the Shiv Sena, the Lok Dal (of Mr. Chautala), elements in the Samata Party, the Janata Dal(U) and the Trinamool Congress, and above all the Swadeshi Jagran Manch along with other groups in the Sangh Parivar, are opposed to key features of the reform programme that hurt the consumers or lobbies such as that of farmers. The Vajpayee Government must first clear the roadmap with its allies and then approach the main Opposition party for support to get it through parliament.

Luckily for the NDA, the Congress has completed the process of churning on its economic policy approach. After some dithering, a mega committee set up by Ms. Sonia Gandhi, finally endorsed the Narasimha Rao- Manmohan Singh reforms programme. The party would like to keep the credit for initiating the process of liberalisation without giving it away to the BJP and the NDA. But it will certainly not hesitate to make political capital out of the visible differences within the NDA. The pro-reform members of the Government must first initiate a dialogue within the alliance and then with the Opposition to evolve a political consensus.

**_The pro-reform members of the Government must first initiate a dialogue within the alliance and then with the Opposition to evolve a political consensus._**

Take, for instance, the Fiscal Responsibility Act; it was a prominent feature of the Congress manifesto and could therefore expect that party's support. But when it comes to liberalisation in the banking and insurance sectors, there is bound to be opposition from across the political spectrum. Since most parties run their own trade unions as well, they will come under tremendous pressure to oppose the opening up of these areas. They will also be against disinvestment of key public sector undertakings, when they come under the axe.

Till now, the Government has taken up only the smaller and less controversial undertakings for disinvestment, except for the two airlines — Air India and Indian Airlines. The move to corporatise some of them, notably in the telecommunications sector, may provide some reprieve for the present. But within the next two years, this process has to gain momentum and some of the so-called 'Navaratna' companies will also come in for divestment. That is when the problem will get aggravated.

Industry and the apex chambers of commerce, along with foreign investors, are mounting pressure on the Centre to formulate an exit policy and jettison some of the outdated labour laws. A Labour Commission has been set up to review all existing legislation and recommend measures to amend some and introduce new laws to bring them in line with the present scenario. This could also become a sensitive area which needs consensus building not only among political parties, but among the trade unions.

Simultaneously, the Government has to confront the problem of subsidies. Major subsidies, on food and fertilizers, constitute a significant portion of the Centre's non-plan expenditure. The subsidy on food and sugar alone for 2000-01 was projected at Rs. 8,210 crores, while that on fertilizers was estimated at Rs. 12,651 crores. The deficit in the oil pool account climbed to over Rs. 24,000 crores, with the recent spiral in global prices. The Centre resorted to a three-pronged approach to manage that — by passing a third of the burden to the consumers, raising bonds for another third and getting the Finance Ministry to lower taxes/duties and cough up Rs. 4,000 crores from its additional mobilisation.

The Centre is committed to scrapping the Administered Pricing Mechanism (APM) by 2002 and letting the market determine the oil prices. Though a decision to periodically adjust petroleum prices in tune with the market was taken nearly four years ago, it has not been implemented. The Planning Commission has asked the Centre to stick to its road-map for phasing out the APM and the subsidies as well. The question is whether Mr. Vajpayee will gather the courage to take those hard decisions. More than the people, he has to face his allies and the Opposition. The only way forward is by dialogue and consensus building. The Prime Minister must first set up a pro-reform Cabinet committee which will take on the task of convincing the allies first and then the Opposition parties. This process could entail a degree of compromise, but is the only way out in the present environment. The Government must stop lecturing on reforms and start acting on them to show results.

THE HINDU
26 OCT 2000

# Wrong tack

It would be grossly misguided to expect that financia sops are enough to enable small scale units to gear up fo stiffer import competition while size remains a constraint Yet, that is the essence of the message of the PM's SSI package. There seems to be no understanding of the fac that SSIs need a policy which lifts all ceilings on invest ment, allows tie-ups with bigger units via investmen (including by FDI) and through technology and distribu tion tie-ups. That will work wonders which no financia sop can. Dereservation is also a must if the high proportio (well over 50 per cent) of 'unworked' sectors are to eve get energised and attract investment. It will yield immens net benefits, since the sectors reserved are also mostly i line with the country's comparative advantage(s); gems an jewellery and ready made garments are the two most obvi ous examples. They all have a better than average potentia for yielding much higher net value added with compara tively lower investments. The economy only loses fro reservations.

Stalled de-reservation is like deliberately keeping stunte a number of growing children. The declared pretext — o 'preparing' them for the imminent advent of foreig Goliaths — reads well in fables, but the reality is different Most of these sectors will be unable to grow or compet unless dereserved. Financial sops, meanwhile, are pre scriptions for laxness in financial management and risk taking of the wrong sort. The only ones who stand to profi from the latest SSI policy are bigger corporates — whicl doubtless accounts for their euphoria. They owe hug amounts to SSIs, and any widening of the financial packag only lightens their immediate responsibility. Even the cap ital subsidy for investment, by lowering SSI manufacturin costs in certain technology sectors, gifts the larger units a opportunity to bid down the cost of SSI inputs. The reality though, is utterly unlike the chambers' assessment: thi package neglects the basic cost efficiency arguments lik scale and free entry — the only ones that will determin outcomes after QRs go.

# Gates opened wider for FDI

**HT Correspondent**
New Delhi, August 31

THE VAJPAYEE Government today opened more gates to foreign investors in the New Economy. Internet service providers, e-mail, voice mail and infrastructure providers who lay dark fibre for telecom operators can all have 100 per cent foreign direct investment (FDI) via the automatic route.

Offshore venture capital funds and companies have also been allowed to invest in domestic venture capital funds and other companies through the automatic route. All such investments would come under the scrutiny of the Securities Exchange Board of India (SEBI). Sectoral caps on foreign investment in specific areas would apply to these companies.

Today's decisions are particularly significant because Prime Minister Vajpayee's trip to the US is to begin in a week. Equally significant is that IT czars such as Bill Gates of Microsoft, Michael Dell of Dell Corp and Robert Bishop of SGI are due here over the next three weeks.

The Union Cabinet, with Mr Vajpayee in the chair, also decided allowed 100 per cent foreign investment on automatic route for manufacturing companies set up in Special Economic Zones (SEZs). No sectoral caps on FDI would be applicable to these companies SEZ. Only five areas have been barred for these manufacturing companies which include arms and ammunitions, explosives, defence equipment, aircraft and warships; atomic substances; narcotics and psychotropic substances, hazardous chemicals; distillation of brewing alcoholic drinks; cigarettes, cigars and manufactured tobacco substitutes.

In another move to reverse the decline in FDI inflows, Indian companies are to be allowed to pay royalty on brand names and trade marks of foreign collaborates used in the country and abroad.

The royalty would be payable in all cases where even technology transfer is not involved. On export sales, this royalty has been fixed at two per cent where as one per cent would be payable on domestic sales using these trade marks and brand names.

However, on a case to case basis, higher royalty may also be allowed.

Wholly-owned Indian subsidiaries can hereafter make royalty payments to their off-shore parent companies through the automatic route, without any restriction on duration of such payments.

While allowing 100 per cent FDI in Internet services and other telecom areas, the cap of 49 per cent has been retained in basic, cellular, GMPCS, VSAT, PMRTS, domestic and international long distance services.

The Cabinet has also approved the corporatisation of the telecom services and the telecom operations wings into a new entity Bharat Sanchar Nigam Ltd from tomorrow. BSNL will have a paid up capital of Rs 5,000 crore and an authorised capital of Rs 10,000 crore. The value of each share has been kept at Rs 10.

**HIGHLIGHTS**

- Freezing of the Lok Sabha and Assembly constituencies for the next 25 years at the existing level.
- The number of reserve seats for scheduled castes and scheduled tribes to go up in proportion to the increase in population.
- Proposal approved to set up Bharat Sanchar Nigam Ltd with an authorised capital of rs 10,000 crore.
- Restructuring of central board of direct taxes approved.

THE HINDUSTAN TIMES

THE HINDUSTAN TIMES

2000

# Small minds at work

## There's large scale confusion over the small scale sector

IT'S a hard act to follow. The Vajpayee government's attempts to balance Gandhi with globalisation; an official policy of liberalisation with orders from the Swadeshi Jagran Manch, makes for nothing but confusion. And never is this confusion more manifest than when it comes to the small scale sector. Some time ago, a high-powered committee headed by Home minister L.K. Advani was constituted to decide the items which should come under the small scale industry list and the ones that need to be dereserved. Consensus eluded it completely — with the textiles and commerce ministries arraigned against the ministry of small scale industries. The committee also got itself entangled in knots over whether it was advisable to increase foreign direct investment from the 24 per cent at present to 49 per cent with a view to providing a fillip to technology transfer in the sector. At long last, the committee agreed to bring three sectors — leather, toys and readymade garments — out of the protectionist regime.

These were crucial issues that need to be tackled given India's commitments to the WTO regime. There are, at present, some 800-odd items reserved for the small scale sector, out of which 143 items are protected by quantitative restrictions on imports. But the country has, willy-nilly, to prepare for the final phase of the quantitative restriction phase out over the next few years and political pussyfooting will not work. On Wednesday, at the first-ever national conference on small scale industries, Prime Minister Vajpayee announced a package for the small scale sector that was a curious combination of pragmatic economics and populist politics. The streamlining of the inspector raj that the new policy envisaged made eminent sense. As minister for small scale industries Vasundhara Raje Scindia herself pointed out, even a single-man unit is subjected to a minimum of 37 inspections, 52 laws and 116 forms and registers and it's time to do away with such an anachronistic system. But having said this, the Rs 447 crore that the prime minister announced as a bail-out for the handloom sector smacked of financial profligacy that the country can ill afford. It is not even clear how this relief will provide a fillip to the sector.

All this is not to decry the importance of this sector to the economy. Apart from its crucial contribution to the export profile of the country, it has been long recognised as an important source of employment in semi-urban and semi-rural areas. From all evidence, the rural-urban divide is growing significantly. According to the recent National Sample Survey on Household Consumer Expenditure, there has been a 6.7 per cent decline in rural spending between 1991 and 1998 and rural poverty has actually registered a rise of 3.42 per cent in this period. Given this reality small scale units could, ideally, have acted as localised engines of employment and growth. While the government spent Rs 370 crore during the Eight Five Year Plan on a programme to train rural youth for self-employment, it has not led to a commensurate growth in local small scale units, as it should have. What is required is money spent in providing targeted assistance to this sector, rather than pouring it down a bottomless pit. This is why the proposal to conduct a fresh census of this sector is perhaps the most sensible of all the policy measures announced so far.

# Poverty: beyond headcount ratios

By Jean Dreze

***The overall picture seems to be one of sharply rising economic inequalities in the 1990s, leading to a slowdown in the progress of social indicators in spite of accelerated economic growth.***

POVERTY TRENDS in the 1990s have been a matter of much debate in recent months. The critics of liberalisation have argued that the steady decline of poverty in the 1970s and 1980s came to a halt in the 1990s. The advocates of liberalisation have disputed this claim.

The claim that poverty did not decline in the 1990s is based on estimates of the "headcount ratio" (proportion of the population below the poverty line) derived from the National Sample Survey (NSS). All-India estimates of the headcount ratio have been available on an annual basis since 1987-88, and indeed they fail to show any significant decline in poverty in the 1990s.

The main counter-argument is that the poverty estimates may not be valid. The advocates of liberalisation have suddenly discovered all kinds of flaws in the NSS-based headcount ratios: there is a growing discrepancy between the NSS data and national accounts, price indices are out of date, the "thin samples" on which annual poverty estimates are based may not be representative, and so on. One wonders whether the NSS data would have been the object of such a chorus of criticism from the same quarters had they shown a continuing decline of poverty in the 1990s. But some of the criticisms are important. For instance, as Angus Deaton and Alessandro Tarozzi have shown, there is a strong possibility that the price indices used to update the poverty line over time overstate true increases in the cost of living. Correspondingly, available estimates may understate the pace of poverty decline. Another serious issue is the large and growing discrepancy between the NSS and CSO estimates of per capita consumption.

As things stand, the jury is still out on these issues. Hopefully, the results of the 1999-2000 "quinquennial" round of the NSS, which involves a much larger sample than the annual rounds do entail, will clarify the picture. Meanwhile, there is a case for evaluating changes in living standards in the 1990s in a broader perspective, going beyond the current fixation with headcount ratios.

Indeed, poverty comparisons based on per capita expenditure data raise major conceptual and practical difficulties, even within the standard framework of consumer theory. The challenges include recall biases in household surveys, valuation of home production, estimation of equivalence scales, the possibility of economies of scale in household consumption and the choice of price indices for inter-regional and inter-temporal comparisons. Even studies which address most of these problems in a similar way (so that the methodological differences between them are relatively narrow) tend to produce very different poverty estimates. At least four independent series of poverty estimates are available for 1993-34, all based on NSS data and a common "poverty line". While there is some congruence among the different series (e.g. all of them find low levels of poverty in Punjab and high levels in Bihar), there are also major discrepancies. For instance, two of the four series suggest that West Bengal is a high poverty State (with the fourth highest headcount ratio among major States) but the other two, on the contrary, find that it is a *low*-poverty State (fourth lowest headcount ratio among major States). Similarly, Rajasthan's rank among major States, in terms of the rural headcount ratio, varies from the third lowest to third highest, depending on the estimates one uses. Clearly, headcount ratios have serious limitations as a basis for evaluating living standards.

What, then, does the larger picture of economic and social indicators in the 1990s tell us? As far as the overall growth of the economy is concerned, there was a marginal acceleration. For instance, the annual growth rate of per capita GDP rose from about 3 per cent per year in the 1980s to 4 per cent or so in the 1990s. In international perspective, this is a significant achievement. Looking beyond this aggregate measure of economic performance, however, there are several reasons for concern about development patterns in the 1990s.

First, the sectoral composition of GDP growth has not been favourable to poverty reduction. Specifically, there was virtually no growth in per capita agricultural production in the 1990s, despite an unusual run of good monsoons. Even the growth of industrial production was no higher in the 1990s than in the 1980s. The acceleration of aggregate GDP growth is due to a rapid expansion of the "services" sector, the social significance of which is not entirely clear. Just to give one illustration, the massive increase in military expenditure in recent years consists in part of "services" but the contribution of these services to the quality of life is questionable. Insofar as increased military expenditure fuels regional tensions and contributes to heightened *insecurity*, it represents a regression rather than improvement in the quality of life.

Second, the 1990s also saw a major increase in regional disparities. Growth rates were relatively high in much of the southern and western regions, which started off with higher living standards. On the other hand, there was little growth of per capita income in several of the poorer States including Bihar, Orissa and Uttar Pradesh. Considering that these States account for a large proportion of all households living below the poverty line, it is not surprising that the all-India decline of poverty in the 1990s was slow.

Third, there are also signs of increasing inequality in the personal distribution of income. The NSS data, for instance, indicate a marked increase in the national Gini coefficient of per capita expenditure in the 1990s, partly due to rising rural-urban disparities.

Fourth, the growth of real agricultural wages was slower in the 1990s than in the 1980s. The wage series published in the latest *Economic Survey* suggest that real agricultural wages grew at 2.5 to 3 per cent per year in the 1990s. This figure, if anything, is higher than what one might have expected in the light of the fact that there was little growth in per capita agricultural production during this period. Nevertheless, it is much lower than in the 1980s, when real agricultural wages were growing at a healthy 4 to 4.5 per cent per year.

Fifth, there was a marked slowdown in mortality decline in the 1990s compared with the 1980s. The rate of decline of the infant mortality rate, for instance, was less than half as high in the 1990s as in the 1980s.

Finally, the evidence on headcount ratios should not be dismissed altogether. While there are good reasons to think that available NSS-based poverty estimates for the late 1990s are biased upwards, even fairly radical corrections of these estimates are unlikely to overturn the basic conclusion that poverty decline in the 1990s was relatively slow.

These sobering trends contrast with the unprecedented rise in living standards among privileged classes in recent years. The overall picture seems to be one of sharply rising economic inequalities in the 1990s, leading to a slowdown in the progress of social indicators in spite of accelerated economic growth. The silver lining is that the 1990s were also a period of comparatively rapid progress in literacy and school participation. According to the second round of the National Family Health Survey (1998-99), 80 per cent of all boys aged 11-14 and 67 per cent of all girls in the same age group are going to school. We are still a long way from the constitutional objective of universal education till the age of 14; nevertheless, the rising tide of school participation is a welcome development. The fact that girls are rapidly catching up with boys is particularly encouraging. In due course, hopefully, the children of the underprivileged will become self-confident citizens and demand more equitable development patterns.

*(The writer is Honorary Professor at the Delhi School of Economics.)*

THE HINDU

9 SEP 2001

THE GEEK GOD IS HERE TO SELL .NET, THE LATEST OFFERING FROM MICROSOFT

# The travel show: After Bill C, it's Bill G

Our Delhi Bureau

NEW DELHI 13 SEPTEMBER

AS YOU read this, the richest man in the world will be finishing breakfast at New Delhi's Maurya Sheraton Hotel. Bill Gates, whose personal net worth hit $50.5 billion at market close on Tuesday, landed in India on Wednesday night. And the first thing he has done is to host a dinner with Corporate India's top bosses.

From Friday morning, Billji will begin a gruelling schedule of meetings — pumping the flesh of partner companies, politicians and chief ministers of various Indian states. In the afternoon, he will host a luncheon for mediapersons and field questions on future alliances and investment plans.

**Bill: Gateway to India**

He will then meet CEOs and CIOs of our top IT companies, before walking on to the podium at the Technology Summit, co-hosted by ET. But hold it. Don't let this busy social calendar mislead you. Billji is here on a jihad: To spread the gospel of .NET among believers and sceptics with damnation to all mixed metaphors.

The fabulously wealthy Mr Gates, who co-founded the $23-billion Microsoft in 1975 with Paul Allen, is focused on the success of his new project Microsoft.NET, whose contours were mapped out in a four-hour presentation by the chief software architect himself and CEO, Steve Ballmer, in Redmond, Seattle in June. Three months later, Microsoft.NET is a reality.

Bits and pieces about this new technology have appeared in the media, but hold your horses. The full, fleshed-out details of Microsoft.NET will be laid bare at the ET-Microsoft Technology Summit at the Maurya on Thursday evening. By BillG in person. And if you've not got the invitation already, well we're really, really sorry but we're booked up for the evening.

The Economic Times

14 SEP 2000

# CMs scramble to grab a piece of Gates action

FROM OUR SPECIAL CORRESPONDENT

**New Delhi, Sept. 14:** It was one huge power-packed lunch. Some 10 chief ministers, one Governor, a Central minister and a deputy chief minister had showed up for what could best be billed as a luncheon homage to Bill Gates, emperor of the New Economy.

From Net-savvy Chandrababu Naidu to nattily turned-out S.M. Krishna to rustic Om Prakash Chautala, all chief ministers had come primed to impress Gates how good their states were as e-investment destinations. Presiding over them in a swank suite at the Maurya Sheraton was, apart from Gates himself, infotech minister Pramod Mahajan.

The race among the states — including IT-wannabes like Delhi, Gujarat, Madhya Pradesh, Kerala, Punjab and Rajasthan — to catch Gates' eye and win his favour had touched white heat. Nasscom chief Dewang Mehta, an insider to the meeting, said as much: "All chief ministers were trying to hardsell their states."

But the Microsoft boss steered clear of controversy. When reporters asked him to rate the states in order of IT-readiness, he said: "Oh no, I have been warned of the intense competition among them. I will say nothing on this."

From prime real estate to virgin markets to promotion of Microsoft products, anything that Gates could ask for was on offer. Gujarat signed an MoU to promote Windows products in the state. Chautala rattled off a litany on what made Haryana the ideal infotech destination: "Proximity to the national capital, freedom from pollution, including political pollution, excellent law and order."

**Best dressed:** S.M. Krishna; white Chinese collar silk full-sleeved shirt buttoned at the neck; black blazer and matching black trousers.
**Worst dressed:** Pramod Mahajan; white safari suit, black boots, black Ray-Bans, matching with dyed hair and moustache.
**Best self-advertisement:** Chandrababu Naidu; "In India I am the only politician actively promoting IT."
**Best cliche:** "*Dil maange more*" — Dewang Mehta, Nasscom chief, [illegible] quoting.
**Last word:** Vilasrao Deshmukh; "Whatever you might talk of — e-commerce, commerce, banking, finance, software, hardware — nobody can ignore Mumbai."

But Gates refused to bite the bait. He stuck to the plan his team had already drawn up for India: $50 million for add-on investments to existing facilities.

At the end of the two-hour meet, however, the software guru said he was impressed. "These chief ministers are all doing something exciting — developing e-governance, Net education, e-commerce. I wish some states in the US would wake up to all this."

Exciting or otherwise, each chief minister had an agenda to sell. Naidu wanted Microsoft to team up with Andhra to develop an e-governance and Net education model. Uttar Pradesh chief minister R.P. Gupta wanted to set up an IT centre of excellence in Lucknow, the Prime Minister's constituency. As if that were not enough, he suggested that Gates work on developing software in the *rashtra bhasha*.

Maharashtra's Vilas Rao Deshmukh and deputy Chhagan Bhujbal picked up the cue from there. They urged Gates that Windows should be developed in regional languages to "take IT to the masses". Marxist Kerala's education minister P.J. Joseph tried to hard-sell a plan to make his state fully computer-literate through a virtual university.

Chief ministers of the other Marxist states, West Bengal and Tripura, skipped the meet. Amit Kiron Deb, principal secretary to Jyoti Basu, represented Bengal, but maintained a very low profile. The northeastern states went entirely unrepresented. Bihar's Rabri Devi, Orissa's Naveen Patnaik and Tamil Nadu's M. Karunanidhi stayed away.

With those who kept the date with Gates, the Dum Pukht lunch spread was a great hit: biryani, assorted rotis, cottage cheese and chicken and mutton curries. At the end of it, the Haryana strongman wasn't too sure who he had been talking to: "*Bill Clinton se meeting bahut barhiya raha... IT se marg darshan hota to hain* (The meeting with Bill Clinton was good... IT does give us a philosophical approach)."

■ **See P 6, Business Telegraph**

THE TELEGRAPH

# DISINVESTMENT PLAN

## Reckless Sale Of National Assets

By **GURUDAS DASGUPTA**

EARLIER, mobilisation of resources for investment, crucial for promoting growth and development for human welfare, was a national priority. With the advent of the New Economic Policy, disinvestment tops the national agenda. Disinvestment as done today is nothing short of downright sale of national assets raised over decades by successive generations. It is most recklessly resorted to raise funds to meet the growing fiscal imbalance. Federal finance is mismanaged and national jewels sold to meet the contingent liability. Moreover privatisation is routed through disinvestment.

In 1991, Dr Manmohan Singh, outlining the policy of disinvestment, proposed disinvesting of government equity up to 20 per cent in the public sector to mutual funds, financial institutions and investment companies, including banks, to enable the government to raise funds to tide over the economic crisis. Encouraging wider public participation and promoting greater accountability were considered important factors. In 1996, the United Front government set up a disinvestment commission to formulate a transparent policy and draw up the modalities. The government declared that the proceeds of disinvestment would be set apart for public health and education, particularly for the poor.

### SUICIDAL DEALS

Of late the process of disinvestment has assumed a different dimension. The commission on disinvestment, while castigating the government, had observed that shares in blue chip companies have been sold in the GDR and the domestic market without any benefit accruing to the public sector or generating additional resources for social gain. Further, the Commission said that this has resulted in reduction of government security even in blue chip companies merely to meet the budgetary deficit of the government. The government immediately dissolved the Commission; the remarks were too embarrassing.

The Union Cabinet decided recently to sell off four standalone refineries to Indian Oil Corporation and Bharat Petroleum for about Rs 1,800 crores. When Mr Ram Naik, the Petroleum Minister, was asked to clarify if the revenue would be used to generate capital assets by promoting oil activities or bridge budget deficits, he preferred to remain silent. This confirms that disinvestment has been turned into a tool for augmenting revenue to tackle the financial crisis.

Moreover, the sale of refineries to IOC has been contrived in order to artificially jack up the price of IOC shares so that its disinvestment fetches a higher yield. The inter-ministerial group has also decided to dispose of Hindusthan Zinc within 160 days. Obviously, the government desperately needs funds.

It is understood that the government will shortly invite bids for Indian Airlines and Air India. It is not a simple case of divesting the government's stake in the national airlines; the move is to dilute the state equity below 49 per cent and hand over the profit-making Indian Airlines to a private corporate having 26 per cent of the equity. In Air India, the government will allow the strategic player to grab 40 per cent of the equity. Foreign trans-nationals are also welcome to acquire a substantial stake. Disinvestment may ultimately lead to foreign takeover of strategic national assets impinging upon country's security.

Reliance Industries, on the other hand, is reported to have staked its claim to be favourably considered in the selection of a strategic partner in the two airlines. Despite the domestic multinational not having any experience in the aviation industry, Mr Arun Shourie, Minister of State for Disinvestment, has reportedly assured Mr Anil Ambani, joint managing director of the giant corporate house, of favourably addressing the issue raised by Mr Ambani while drafting the bid document. Reliance with 40 per cent of the total refining capacity in the country, now wants to grab IPCL and extending its tentacles over 85 per cent of petro-chemical products. The Ambanis are also eyeing the national airlines to consolidate its monopoly in India. It appears the policy of disinvestment instead of promoting fair competition in the Indian market is creating conditions for the growth of monopolies.

There has not been a single dose of disinvestment that has not raised legitimate questions. The essential points are appropriate valuation of government equity, modalities for carrying out transactions and gainful utilisation of the yield for social progress. While shares of Gas Authority of India were traded in Bombay Stock Exchange between Rs 183 Rs 140 per share with the BSE Index striking a new high at 4322, the Government of India refused to disinvest ignoring the advice of the Commission. The offer of Hongkong and Shanghai Banking Corporation at Rs 147 was not accepted. Surprisingly, while BSE Index peaked at 4400 these shares were off-loaded only at Rs 70 per share. The nefarious deal inflicted a heavy loss of not less than Rs 1,200 crores on the state exchequer.

### NEFARIOUS GAME

Again it is widely complained that Modern Foods has been undersold since the value of the immovable assets, particularly land, has not been considered at the ruling market price while carrying out disinvestment. Lack of transparency in the modality of sale of government equity is evident in the way the government sought to manipulate the recommendation of the Commission with regard to disinvestment of its stake in IPCL. The Commission had recommended that care should be taken to ensure that the strategic sale does not lead to market dominance by a single player. The warning was obvious: RIL already controlling more than 50 per cent of the petro-chemical market must not grab IPCL. The present government took the plea that market dominance can be prevented by setting up a price adjustment mechanism. Even Indian Oil was restrained from making a bid alone. This was all done to help the Ambanis.

Shipping Corporation having made profits for more than three consecutive years is legitimately entitled, according to the guidelines of the Department of Public Enterprises, to be granted financial and operational autonomy and classified as Mini Ratna I category PSE. This status, if granted, would have facilitated the growth of the flagship shipping company. While denying Navratna status, the government has decided to dilute its equity below 50 per cent. Considering the present stock market condition, it can be safely assumed that a company worth of Rs 3,000 crores can easily be taken over by a private corporate merely by investing Rs 300 crores. Examples of squandering away of public assets are not few.

It is a paradox that in an era of advancing liberalisation, disinvestment of government equity in public sector is carried out under bureaucratic control supervised by the all powerful committee presided over by the Prime Minister.

### MEETING DEFICIT

Earlier, the policy of disinvestment called for investment in alternative projects of social importance. Today disinvestment is a means of meeting the budgetary deficit. The yield of disinvestment is a part of government's annual revenue. No separate fund has been set up. It also leads to globalisation of national wealth.

Unrestricted entry of foreign institutional investors in the secondary market makes the national industry, including its giants, vulnerable to foreign takeover. In a country haunted by poverty privatisation has become the creed of the government, dismantling of public sector is its immediate objective. The Government's decision to dilute its stake in the nationalised banks, expanding the capital base through new issues, inviting private subscription opens the door for gradual privatisation of the banking system. Poverty is not an issue relating to compassion alone.

Public sector is an important tool for management of human welfare. About terminally sick undertakings, options may be limited but indiscriminate disinvestment, reckless privatisation, random dilution of government equity and large large-scale corporatisation are too dangerous to be ignored in India.

Mr Arun Shourie, Minister of State, while replying to a debate on disinvestment unhesitatingly declared "there has been complete change in the conception of State". According to him, the government that is fighting terrorists should by no means burden itself with economic activities like manufacturing of bicycles. Seen in the present perspective this is a shameful plea for the withdrawal of the state from economic enterprise. In an unguarded liberalised market economy, the quality of human life does not improve automatically.

*The author is former Member of Parliament.*

# ECONOMIC AGENDA

## Need To Focus Production And Infrastructure

By SH VENKATRAMANI

INDIA'S economic agenda continues to look muddled. We are helplessly dragged along by the inexorable wave of globalisation and liberalisation. All political parties across the ideological spectrum seem to agree that the process of liberalisation and economic reforms is irreversible, and it is all for the good that India should open its windows fully on the world.

However, when the turbulent cross-currents of international trade make the Indian rupee nosedive to its nadir, we panic and resort to knee-jerk surgical remedies. The Reserve Bank of India desperately drums up a slew of measures to buoy up the sinking rupee. It even permits corporates to bring back into the country a higher proportion of their dollar earnings kept abroad than was earlier allowed. The nightmare of the collapse of the Mexican peso, the Malaysian ringgitt and the Indonesian baht perhaps loom large in recent memory.

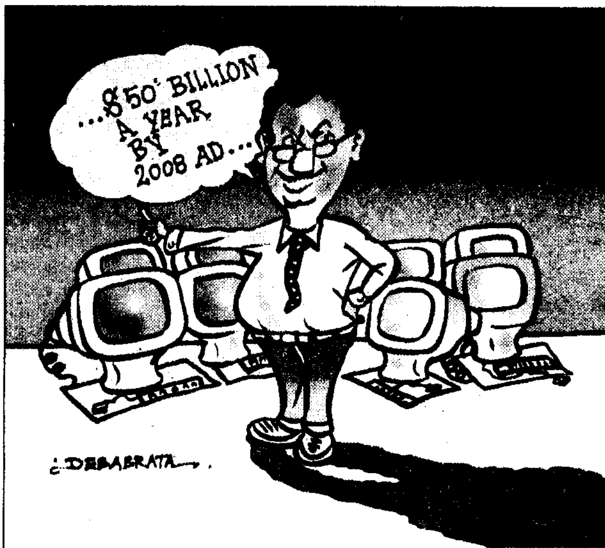
But the collapse of the East Asian economies was brought about not merely by their burgeoning current account deficits, but by the underlying malaise of their critical capital account shortfall. A serious capital account deficit is an Albatross around the neck. Fortunately, India has no such desperate need for oxygen on the capital account. Our foreign currency borrowings on the capital account aren't profligate enough to dangle the Damocles' sword of a serious balance of payments crisis over the head of the country.

### FOREIGN HAND

It is understandable that stock exchanges in an immature economy like ours should track the Nasdaq. But what is inexplicable is that the foreign institutional investors (FIIs), in spite of accounting for a very small part of the total trade in stocks in the Bombay Stock Exchange and the National Stock Exchange, determine the Sensex in tandem with a set of other key players. If the FIIs turn net sellers to the tune of a few hundred millions of dollars during a particular month, the Indian economy raps at the door of the cardiologist. If, on the other hand, the FIIs make major buys on the Indian bourses on a given day, the Indian economy beams in the pink of health. Indian economy and business are thus turning out to be faithful weather-vanes to the way the FII wind is blowing.

Part of the reason for this is perhaps that our domestic financial institutions and banks are not allowed to play the markets as the FIIs can. An FII can, with the investible surplus at its disposal, gobble up all the floating stock of a company on a particular day. It may equally well drop a chunk of a company's stock like a hot brick another day. An FII can afford to take a myopic fly-by-night view of its investments. Our domestic FIs and banks, in contrast, have to necessarily take a long-term and consistent view of a business and a business enterprise.

There is no gainsaying that these FII-induced spasms and counter-spasms are precisely because we hadn't thought through the implications of the liberalisation of norms governing foreign investments in the Indian economy as we began the economic reforms process. In retrospect, there is reason to think that we should perhaps have given greater preference to allowing foreign direct investment in India's infrastructure, which by definition will be long-term, as compared to the intrinsically undependable investments by foreign institutional investors in the bourses.




But yet when, in the first flush of liberalisation, some of the foreign multinationals in the power sector queued up to invest in mega power projects in our country, they were subjected to the humiliation of an inordinately long and uncertain wait. They finally packed their bags and left after failing to get a credible assurance from the Government of India about the implementation of a system of sovereign guarantees.

Why? We had opened up the power sector to foreign direct investment without readying our policy on sovereign guarantees. When we finally cobbled together a semblance of a policy on FDI in power generation, the energy MNCs had, as the poet said, folded their tents like the Arabs and as silently sped away.

### SOFT FOCUS

If the market sentiment in India is too vulnerable to the vagaries of FII cash boxes, we should have bullet-proofed ourselves enough to brace up to foreign investment in insurance and aviation before opening up these hallowed governmental preserves to private and foreign investment. But we aren't yet alive to the ramifications of foreign investment in a sector like life insurance, where our predominant national objective has been that of social welfare. Our striving has always been to make insurance available to those who need it the most, and not to those who can pay the most for it. When we privatise life insurance and open it up to foreign investment, we must reckon that it is not the inspiring vision of reaching insurance to the needy poor that will guide the industry, but the profit motive. Before testing the terrain, however, we have taken the plunge.

Forty per cent of the country subsists below the poverty line. We are, however, euphoric about economic emancipation through e-commerce. But all that software accomplishes is the reduction of time and space barriers in processing and transmitting data, and reduce the chance of error in doing it. In itself, software cannot contribute to our economic betterment.

Given this hard ground reality, India's emergence as one of the largest information technology talent pools in the world, and the prospects for the country's software exports to touch $50 billion a year by 2008 AD, aren't reasons for partying. Manufacturing growth was a low 5.5 per cent during April-June 2000, as compared to the corresponding period last year, according to the Central Statistical Organisation (CSO). The growth in manufacturing was 9.2 per cent during 1999-2000, as against 1998-99. Agricultural production and the GDP are stagnating in spite of the software boom.

To power the engine of the economy, we need to apply software to till the soil and turn the machine. We must take the programmers to the paddy fields and the production facilities.

### NO STRATEGY

Our celebration of the boom in the services sector is misplaced. An explosion in services, without the infrastructure to sustain it and agricultural and industrial production to feed it, will overheat and ulcerate the economy. India's current annual investment in infrastructural projects of around Rs 700 billion needs to double in the next two years. It must touch Rs 2,000 billion by 2005-06.

Agriculture is the backbone of the Indian economy. We are home to an astonishing number of varieties of rice. We also have a staggering wealth of bio-diversity. India has over half a lakh unique varieties of plant species. But even with the imminent advent of the era of the World Trade Organisation (WTO) framework and product patents, we haven't begun to think of ways to protect our invaluable bio-diversity.

We haven't taken a position on whether life forms can and should be patented. The mere thought of developing a strategy to safeguard our priceless intellectual property rights in the new commercial comity of nations has not yet crossed our minds.

*The author is Head of Corporate Communications, ITC. The article contains his personal views.*

THE STATESMAN

Rs. 4,429 CRORES TO BE PAID INTO OIL POOL ACCOUNT

# Help reduce the burden, Naik tells States

By Our Special Correspondent

NEW DELHI, SEPT. 24. The Finance Ministry has agreed to deposit Rs. 4,429 crores into the oil pool account as part of a three-pronged strategy to tackle the situation arising out of the spurt in international crude prices, without imposing much burden on the consumer. The amount was withdrawn by the Government about a decade ago and the Petroleum Ministry has been seeking its return.

The Petroleum Minister, Mr. Ram Naik, said the decision to return the money was taken after discussions between the Petroleum and Finance Ministries on ways to tackle the high crude prices.

Speaking to reporters here this morning, he said it might take some time for the Government to finalise the package of measures to meet the Rs. 23,600-crore deficit in the oil pool account. In any case the decision would be taken before September 30.

The package, he said, would equally divide the burden imposed on the oil pool account among the three measures envisaged — hike in the prices of petroleum products, cut in excise and customs duty on them and floating of oil bonds.

While the Finance Ministry needed some time to work out the exact reduction in the excise and customs duties, the Petroleum Ministry had to first work out the hike in ex-depot prices of products and then the new duties would have to be adjusted for final consumer prices. Hence the delay in finalising the details.

Mr. Naik reiterated that the price hike would be effected, without causing a disproportionate burden on consumers.

Due consideration would be given to the interests of the weaker sections. The Minister also announced that he would write to all Chief Ministers to help the Centre reduce the burden on the common man by cutting down the sales tax on petroleum products by five per cent.

The States had had a windfall due to the upsurge in global crude prices for the past one and a half years and they must also share the burden, like the Centre, which was forsaking a substantial quantum of revenue by cutting down on excise and customs duty, he added.

Asked whether he proposed to take the Opposition parties into confidence on the price hike to avoid any outcry or calls for a roll-back later, Mr. Naik said, "I have consulted the Cabinet and the National Democratic Alliance (yesterday). I will consider the suggestion of talking to parties."

# India for global group on oil prices

By C. Rammanohar Reddy

PRAGUE, SEPT. 24. The Union Finance Minister, Mr. Yashwant Sinha, in his speech to the International Monetary and Financial Committee of the IMF called for the establishment of a joint consultative group with representatives drawn from industrial as well as developing countries which would periodically review oil prices as well as the demand and supply situation.

Mr. Sinha's statement on the oil prices, which was not in the prepared text distributed to correspondents here, also said the forum could provide a more stable environment of oil prices, which was crucial for sustained growth. The Finance Minister said the IMFC and the Development Committee (the latter a forum of the World Bank) could play a constructive role through a exchange of views on the oil situation.

In their first reaction to this proposal, analysts of the global oil market expressed doubts about what such a body could contribute to price stability.

**Oil producers' pledge: Page 13**

THE HINDU

# The rocky road to restructuring

*As the Government tries to wind down the public sector, it will have to go hand-in-hand with the unions.* **SUSHMA RAMACHANDRAN** *on the disinvestment moves and the problems.*

DOES PUBLIC sector disinvestment hurt or help the workers? This is the question being debated by trade unions and the public sector management, that is, the Government. Trade unions are putting forward the argument that sale of public sector undertakings (PSUs) will harm workers who will then be exposed to the vagaries of the private sector and lose the traditional benefit of a secure job for life. On the other hand, the Government claims disinvestment will actually benefit workers in terms of better salary and perquisites and insists retrenchment does not have to be part of the process.

The disinvestment, or rather privatisation, worrying the unions mainly involves sick PSUs which have been limping along at the taxpayers' expense. But profit-making companies such as Indian Airlines are also being privatised to ensure that they can take on the challenge of globalisation and increased competition in the long term. The trade unions, however, have complained that sale of blue chip PSUs is not essential since these perform efficiently and provide an assured source of revenue to the exchequer. Besides, selling these companies will harm workers who may have to face job losses. The argument continues that it would be preferable to infuse more funds into these companies and restructure them into profitable units.

Officials involved in the disinvestment process, on the other hand, maintain these arguments are not tenable in the present global economic scenario. With companies all over the world going into a frenzy of mergers and acquisitions, they say corporates are trying to focus on core competencies to meet the increased competition. Simultaneously, the advent of the World Trade Organisation (WTO) and the breaking down of tariff barriers has made all countries vulnerable to competitive pressures from the rest of the world. India is also a member of the WTO and like others will have to gradually open up the economy. In such a scenario, it will be difficult, if not impossible, for the public sector in its present form to face the competition.

Even the oil and power sectors which provide the bulk of public sector revenues can do so primarily because of the prevailing monopoly control of the market. The question is, what will happen when the multinational oil majors enter the lucrative area of marketing petroleum products, currently being controlled by public sector oil companies. The case of the gigantic Steel Authority of India Limited (SAIL) is cited as it was always a highly profitable company till it faced competition. The SAIL now requires desperate bailout packages from the Government. This could be the fate of many other so-called blue chip companies, goes the argument. The VSNL and the MTNL are already running into problems with the opening up of the telecom sector to private service providers.

According to the Disinvestment Secretary, Mr. Pradeep Baijal, the views of the trade union leadership do not always coincide with those of the workers on the shopfloor. The experience of privatisation has shown that workers have been supporting the shift since it brings higher pay scales and better corporate performance. For instance, he pointed out, in Modern Foods Limited workers had been deprived of interim relief for years as it was not allowed for loss-making units. Workers ended up getting better salaries under the new owners, Hindustan Lever Limited (HLL), while the unit's turnover rose by 40 per cent. Besides, the agreement between the Government and the HLL stipulated that workers would not be retrenched.

In a much earlier case of privatisation in the power sector, he recalled that workers supported the strategic sale of the company, ACC Babcock Limited (ABL). The ABL case considered by the Bureau for Industrial and Financial Reconstruction (BIFR) had to be approved by all unions of the units in Karnataka and West Bengal. Surprisingly, there was unanimity on the issue with all eight unions approving the BIFR decision to sell the company.

The Department of Disinvestment (DoD) is also confident that workers in Air India are eager for privatisation since it would mean an upturn in the company's fortunes and a better deal for them. Currently, the DoD estimates that the ratio of employees per aircraft is 800, extremely high by world standards. The induction of another 25 aircraft into the fleet by a strategic buyer would halve this ratio, bringing it in line with international norms. There would then be no need to cut back on the company's staff strength. The DoD points out that only a large foreign entity would have the resources needed for Air India's fleet expansion. It maintains that even most of AI's trade unions recognise this reality and do not have any substantive objections to privatisation.

Yet, there is a feeling in the Government that the trade union leadership is in favour of continuing with the mono-

THE HINDU

20 AUG 2000

# Cong joins CPM attack on disinvestment

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 10. — Making a u-turn on the disinvestment of public sector undertakings, the Congress joined by the CPI-M today attacked the government for selling the PSUs for a song. "It is a loot of national treasury in the name of disinvestment," Mr Mani Shanker Aiyar (Congress) said while participating in a discussion on disinvestment in the Lok Sabha.

He demanded a White Paper on the subject, raising objections to the government going in for the disinvestment programme without having any policy on the subject. The Congress never advocated selling off PSUs as the word "disinvestment" does not appear in the Congress election manifesto of 1999, Mr Aiyar said, while defending himself and his party in attacking the Centre on its disinvestment policy.

Mr Basudev Acharia (CPI-M) who initiated the discussion asked the government to come forward and tell the House if it had any separate policy of disinvestment of loss-making units and another policy for the profit-earning undertakings. He sought to know the rationale behind selling even profit- making units at a discount to some leading industrial houses. "The IPCL is going to be sold at a discount to the Reliance group of industries," Mr Acharia alleged.

Earlier during Zero Hour, the Lok Sabha witnessed noisy scenes over the failure of the government to bring the Women's Reservation Bill for passage in the House. Raising the issue, Prof AK Premajam (CPI-M) asked the government to get the Women's Bill passed urgently. She was joined by Congress, TDP and AIADMK members.

The RJD, SP, Muslim League, BSP and JD-S members opposed the Bill in its present form asking the government to make a separate quota within the 33 per cent limit for women belonging to the weaker sections and the minorities.

Intervening in the debate, Mr Pramod Mahajan said the government was not able to include the Women's Bill for passage during the ongoing monsoon session of the Lok Sabha because of lack of consensus among the political parties. Not satisfied with the minister's reply, the Congress, CPI-M, TDP and AIADMK members walked out of the House in protest.

## WOMEN'S BILL

NEW DELHI, Aug 10. — The government "is ready to go for a special majority" to try and get the Women's Reservations Bill approved by Parliament if it does not succeed in its efforts to evolve a consensus, Mr Atal Behari Vajpayee told the Rajya Sabha today.

He, however, did not spell out a time-frame.

Women members said if the Bill is passed soon the reservations could become effective before the Assembly polls in some states.

— SNS

THE STATESMAN

11 AUG 2000

## Disinvesting PSUs is a must if the government is serious about reform

# Selling the family silver

BHASKAR DUTTA

There is no apparent connection between the troubles in Kashmir and the Central government's struggle to implement economic reforms. But recent events seem to indicate that the pattern of progress (or more accurately the lack of it) in both contexts is remarkably similar. For instance, the peace progress in Kashmir often seems to proceed along a "one step forward, two steps back" path. This has also been the story of implementing economic reforms in the country. The current government seemed very enthusiastic about accelerating the process of reforms, and announced a number of measures which brought hope to the pro-reform school. But, recently the Ram Vilas Paswans seem to have gained the upper hand — free telephones and other goodies to government employees may be the most revolutionary steps undertaken by the government!

Perhaps the best example of the "one step forward, two steps back" path is the government's experience with the disinvestment exercise. Throughout the last decade, the disinvestment of government holdings in public sector enterprises with the eventual goal of privatization has always been a top priority of successive governments. The current government has been no exception. It took bold steps to sell off Modern Foods. The state-owned airlines were also prime targets of the disinvestment programme, and there are hopes that Air India may soon be partially privatized.

The budget for the current fiscal year has set a target of Rs 10,000 crore, a figure which suggests that the government does mean business. Newspapers have also been full of stories that the Central government has been contemplating selling off part of its holdings in public sector banks. The target level of disinvestment is said to be as high as 74 per cent in the stronger public sector banks.

These have been positive steps. However, the pace of progress was too good to be true. Several ministers in the Union cabinet have been less than enthusiastic about the disinvestment programme. They have received staunch support from the leftist parties and the employees of the public sector undertakings threatened with privatization. Of course, the latter group's opposition is easily understood. After all, they have cushy jobs in the public sector, and many of them may lose their positions under private management.

Unfortunately, the pressure may be proving too much for the government. The prime minister has just finished a meeting with the committee of public sector trade unions. The committee has decided to defer the proposed three-day nationwide strike by central public sector workers, ostensibly in response to an appeal from the prime minister. However, newspapers suggest that Atal Behari Vajpayee may also have made some conciliatory statements. He is supposed to have offered reassurances that the government is against the "indiscriminate" privatization and closure of public sector units. One newspaper even suggested that there was some sort of assurance that profitable PSUs would not be sold off.

The public sector employees will certainly lose out if the public sector is gradually shut down. Voluntary retirement schemes, retraining and redeployment will take care of the interests of the vast majority of employees. In any case, why should public money be tied up in protecting the interests of a section of workers in the organized sector when other workers do not have similar protection? So, the case for the survival of the public sector has to hinge on whether it continues to bring any benefits to the national economy

The public sector is often credited with having built up the heavy industrial base of the Indian economy. The argument runs along the lines that private entrepreneurs would simply not have shouldered the huge risks associated with setting up heavy industries. The initial size of the small domestic market would have acted as a deterrent since the private sector would necessarily take uncoordinated decisions. In contrast the public sector could take coordinated decisions so that the steel industry would demand the products of the capital goods industry while the capital goods industry would demand the output of the steel industry. In other words, the simultaneous creation of several giant firms would circumvent the problem of small markets because each small firm would demand the products of the other firms.

> The best price for the airline's equity would have been paid by some foreign airline

This is no longer a justification for the survival of the public sector enterprises. These have outlived their usefulness. For instance, what does the country lose if Air India is privatized? Or if the Indian Tourism Development Corporation hotels are run by the Oberois or Taj Group?

As far as units in the service sector are concerned, what matters is whether the consumer gets decent service at reasonable prices. Air India offers lousy service. And on many occasions, it is Air India which has asked the government to intervene when foreign airlines offer heavily discounted fares!

Even a cursory look at the balance sheets of these enterprises suggests that they produce paltry returns on the capital invested in them — most of them are not commercially viable. Most of these units are now in sunset industries or operate with rundown machinery and obsolete technology. Only massive infusions of capital can possibly restore their viability. No private venture capitalist is likely to take the risk of lending money to these enterprises unless it is at exorbitant rates of interest. On the other hand, the government itself faces severe financial constraints, and so simply cannot infuse fresh capital into these enterprises.

So, it is time that the government shed its ambivalent attitude, and pressed on resolutely with the disinvestment exercise. The government can rake in a lot of money from the disinvestment exercise. This is also the appropriate point to emphasize that only convoluted thinking can come up with the argument that profitable public sector enterprises should not be sold. The more profitable the firm, the higher the price at which it can be sold. That is, the government loses nothing by selling off a profitable enterprise provided it can extract an appropriate price from the buyer.

It must also discard old prejudices. It is shooting at its own feet by imposing unnecessary restrictions. For instance, there is no reason why any government should continue to own 26 per cent of a company making bread or 49 per cent of a domestic airline. Surely, it cannot believe that it will have to act as a watchdog on these companies in order to protect the country's interests. In that case, it should appoint watchdogs on all companies operating in India! Equally absurd is the decision of the government to debar foreign airlines from owning equity in Indian Airlines. It is obvious that the best price for the airline's equity would have been paid by some foreign airline which could have come in as a strategic partner.

It is important that the government use this money wisely. Perhaps, the best option is for it to retire debt. A major problem for the government is the inordinately high level of interest payments — this is perhaps the single most important reason for its failure to keep the fiscal deficit to reasonable levels. The retirement of debt with the proceeds from disinvestment will serve two purposes. It will help in the eventual control of the fiscal deficit by reducing its debt service burden. More important, this will also enable the government to ward off allegations that it is "selling the family silver" to pay for its current profligacy. After all, the government would simply be selling some of its assets to reduce its overall indebtedness.

**The author is an economist at the Indian Statistical Institute, New Delhi**

THE TELEGRAPH

22 AUG 2000

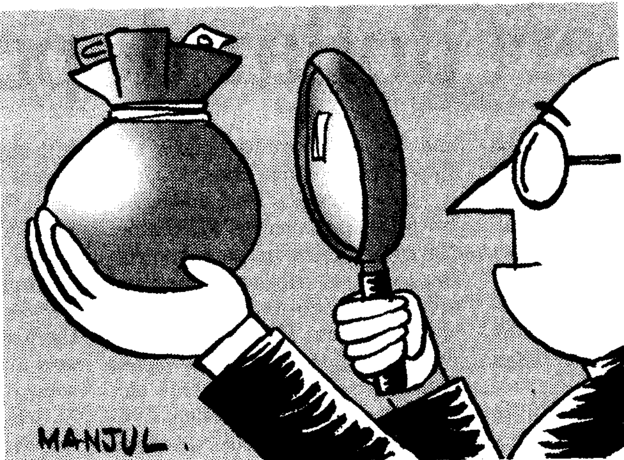
# EFC report: Some conceptual issues

*The Eleventh Finance Commission has erred by bringing non-tax revenues into federal fiscal discussions, says* **B P R Vithal**

Consistent with the tradition of finance commissions, the eleventh commission (EFC) has given a excellent report. I shall deal here only with two conceptual issues.

In a note appended to the report, Dr Amaresh Bagchi has dwelt with the need to strengthen the equalisation role of fiscal transfers. He feels that, 'the room for equalisation through grants-in-aid to meet non-plan revenue deficits has become quite narrow' because of the inflexibility of the share of the states in total tax proceeds and devolution constituting 90 per cent of statutory transfers. This apprehension is based on an initial assumption that an equalising function cannot be introduced into the process of devolution itself.

Earlier, commissions had assumed that each divisible tax can have only a single formula for its distribution among the states. The principle of having two formulae for the distribution of the same tax was, however, first adopted by the eighth commission when it allocated 5 percentage points for distribution among states having a revenue deficit. Till then it was assumed that a revenue deficit was the end result of the process of devolution and that it had then to be rectified through grants-in-aid. When there were two distinct taxes that were shareable, one mandatorily and the other discretionally, there could have been some substance to the argument that each of these must have a unique formula for its distribution. But, in the new dispensation, no tax, as such, is shareable. A percentage of the total tax proceeds of the Union are 'assigned' to the states and this amount 'shall be distributed among the states in such manner as many be prescribed'. The total amount assigned has no identifiable parts to it. There is no constitutional requirement, either here or under Article 280, that the total amount assigned be distributed by a single method or formula. Conversely, there is no requirement that grants-in-aid under Article 275, be given only for covering deficits. The 'need of assistance' in Article 275 has not been equated to a revenue deficit. That is why grants have been given for upgradation by the EFC, as by some other earlier commissions, even to states with revenue surpluses. Therefore, the share assigned to the states and grants-in-aid under Article 275 can all be considered as one pool which a Commission can distribute among the states according to any principles evolved by it.




The EFC has taken the view that, the practice 'brought in vogue' by the eighth commission and continued by the ninth and tenth commissions, 'implied a conversion of a part of the share of taxes into grants-in-aid. It also masks the extent of deficits in the recipient states. In the interest of transparency we have decided to discontinue this practice.' There is no need for this process to lack transparency or 'mask' any deficits. The deficits can be clearly shown in two stages, one, after general devolution and two, after special devolution for covering deficits. The EFC is right in saying that this practice 'implied a conversion of a part of the share of taxes into grants-in-aid'. This was done by three commissions prior to the EFC and was entirely within the bounds permitted by the Constitution. This contains the solution to the dilemma of Dr Bagchi. Share in taxes can be converted into the nature of a grant-in-aid and can thus partake of the nature of equalisation grants which Dr Bagchi wants. Dr Bagchi's problems do not arise from the Constitution, even after its amendment. Three previous Commissions had created a valid constitutional opportunity for converting a portion of devolved taxes into the nature of grants-in-aid. It is the EFC which, in its wisdom aid not avail of that opportunity and thus created concerns for Dr Bagchi.

The EFC has introduced a new concept of 'Potential Fiscal Transfers' while prescribing a limit of 'around 37.5 per cent of gross revenue receipts of the central government' for total transfers from the Centre to the states. This entity of 'gross revenue receipts' has been brought into the domain of federal fiscal relations for the first time. All earlier demands made by the chief ministers, which had gone to the extent of 50 per cent asked for by Andhra Pradesh, Assam and Maharashtra, pertained only to total tax receipts of the Centre. There is a fallacy involved in linking transfers to gross revenue receipts. The logical basis for the sharing of tax proceeds between different levels of government is that all tax proceeds are ultimately derived from the people and should be redirected to them through the different functions of government at different levels.

The people are the same for the Centre and the states and, for the sake of argument we may assume that services are provided for the people by both the Centre and the states. Therefore, the tax proceeds are shared between these two levels in accordance with the quantum of services provided by them. Revenue receipts are the sum of tax proceeds and non-tax revenues. Non-tax revenues are derived on the basis of previous expenditures. They are essentially in the nature of returns on past expenditures. They cannot, by their very nature, be shareable.

The EFC has erred by bringing non-tax revenues into federal fiscal discussions. We are not concerned here with the quantum of transfers. 37.5 per cent of revenue receipts comes to a little less than 50 per cent of tax proceeds. Even as good public relations the EFC could have prescribed a limit of 50 per cent of tax proceeds as a limit for total transfers. It would have meant accepting the maximum demand of any state as the indicative limit for all transfers and it would not have brought into discussion the concept of total revenue receipts. The Tenth Commission had recommended 29 per cent of total tax proceeds as the limit for transfers. The states started bargaining for 50 per cent of this. It is this creeping bargaining that the Tenth Commission wanted to stop by fixing these percentages for 15 years. This has not been accepted and now the rhetoric of every commission's report will open fresh Pandora's boxes. The Tenth Commission's recommendation was, in fact, obiter dicta. So is the present recommendation of an overall limit by the EFC. These obiter dicta should not become obituary dicta.

**The author was member, Tenth Finance Commission**

INDIAN EXPRESS

# Sonia demands formation of standing panel on divestment

Our Political Bureau

NEW DELHI 21 AUGUST

OPPOSITION LEADER Sonia Gandhi on Monday demanded the formation of a standing committee on disinvestment, alleging the absence of a clear-cut policy of the ruling National Democratic Alliance's towards this critical issue.

Congress party insiders argued Ms Gandhi's demand was not unreasonable as there already exists a separate department of disinvestment with an independent minister in charge.

The divestment issue falls under the jurisdiction of the parliamentary standing committee of finance.

However, individual disinvestment cases pertaining to various ministries are being dealt separately by the respective standing committees. For instance, the parliamentary standing committee on transport and tourism has just finished giving its final touches to its report on disinvestment in Air India.

Accusing the government of not reacting positively to the Opposition demand for a white paper on disinvestment Ms Gandhi, in a letter to Lok Sabha speaker GMC Balayogi, maintained that the government could not be allowed to proceed ahead with the current approach.

"As a principled opposition party, the Congress cannot and will not support the dangerous course upon which the Vajpayee government is set to take us economically," she wrote in her letter.

Congress spokesperson Margaret Alva too sought to dispel any impressions of the BJP-led government following disinvestment policies enunciated by the Congress, which she said some ministers in the present government had been contending.

Arguing that the Congress had never supported outright the sale of PSUs, Ms Alva referred to Dr Manmohan Singh's budget speech as finance minister in 1991 in Parliament as the benchmark for the party's policy on disinvestment.

The then government decided to disinvest up to 20 per cent of its equity in select PSUs with the objective of broadbasing equity, improving management and enhancing availibility of resources in these PSUs, she said.

"We reiterate the stand that sale of PSUs clearly marks a departure from the nationally accepted policy of partial disinvestment. The way in which Air India, IPCL and Modern Bakeries have been sold or put up for sale, does not do the country proud," she said.

She maintained that the debate on disinvestment in both houses in parliament last week had revealed a wide divergence of views over direction, speed and content of the government's disinvestment programme. The demand for a standing committee on disinvestment was hence justified, she said.

The Economic Times

22 AUG 2000

SECOND REPORT OF EFC BY MONTH-END

# Vajpayee assures relook at resource allocation

By Our Special Correspondent

NEW DELHI, AUG. 21. The day-long deliberations by seven Chief Ministers and representatives of two State Governments over the "discriminatory" recommendations of the Eleventh Finance Commission (EFC) ended with an assurance from the Prime Minister, Mr. A.B. Vajpayee, that the points raised would be considered in the second report of the Commission, expected by the month-end.

The argument of the Chief Ministers, who attended the conclave, was that the EFC recommendations favoured "non-performing" States, and that those who had performed better were being discriminated against in terms of lower allocation of resources.

The Andhra Pradesh Chief Minister, Mr. N. Chandrababu Naidu, moving spirit behind the conclave, later told presspersons that it was conveyed to the Centre that many of the States had already launched the second generation of reforms and if at this stage they were to be "punished" for better performance, their economies would be crippled and the reforms derailed. The better-performing States were not against more funds being awarded to backward States, but this should not be at their cost.

The delegation also had separate meetings with the Union Finance Minister, Mr. Yashwant Sinha, and the EFC Chairman, Prof. A.M. Khusro, before meeting the Prime Minister. Mr. Sinha is understood to have told the delegation that the Government would try to address the points raised by them within the parameters of financial viability of the Centre and the States.

Prof. Khusro, on his part, told the Chief Ministers that the Commission recognised the need for rewarding efficiency and as it formulated its recommendations linking fiscal performance to devolution of funds, the efficiency factor would be duly considered.

The Prime Minister, Mr. A. B. Vajpayee, going through a memorandum on the Eleventh Finance Commission report presented at his residence in New Delhi by the Andhra Pradesh Chief Minister, Mr. N. Chandrababu Naidu (second from right). Looking on (from left) are the Kerala and Punjab Chief Ministers, Mr. E. K. Nayanar and Mr. Parkash Singh Badal, the Tamil Nadu Law Minister, Mr. Aladi Aruna, and the Deputy Chief Minister of Maharashtra, Mr. Chhagan Bhujbal. — Photo: Shanker Chakravarty

Mr. Naidu clarified that the Chief Ministers had not set any deadline for the Centre to respond, but said they would wait for the second report before deciding on their course of action. On a special session of the Inter-State Council, he said a decision would be taken after the second report was released.

The Chief Ministers of Kerala, Punjab, Haryana, Assam and Manipur — Mr. E.K. Nayanar, Mr. Parkash Singh Badal, Mr. Om Prakash Chautala, Mr. Prafulla Mahanta and Mr. Nipamacha Singh respectively — took part in the meeting.

The Goa Chief Minister, Mr. Francisco Sardinha, joined them in the evening. Maharashtra was represented by its Deputy Chief Minister, Mr. Chagan Bhujbal, and Tamil Nadu by its Law Minister, Mr. Aladi Aruna.

Although the meeting had attracted speculation since three NDA Chief Ministers were participating along with their counterparts from Opposition parties, Mr. Naidu made it clear that the meeting dealt only with economic matters and there was nothing political about it.

The BJP general secretary, Mr. M. Venkaiah Naidu, played down any political implication of the conclave and asserted that the party had not put any pressure on its Chief Ministers to stay away.

**Plea for Inter-State Council meet: Page 15**

# PUBLIC SECTOR

## Disinvestment And Vested Interests

BY JAGDISH SHETTIGAR

OF late, two streams of thought have emerged with regard to disinvestment of public sector units. Ironically, both are disturbed though for different reasons. If one is concerned about slow progress, the other is disturbed about the allegedly rapid rate of disinvestment.

Critics of the the present disinvestment process are divided into two opposite camps. They are neither interested in solving the economic problems nor committed to any particular ideology. They represent basically vested interests. They have an ulterior motive in criticising the government's decision in one way or the other. According to one set of people, the government lacks political courage and is going slow in disinvestment. They are also disturbed at not finding blue chip companies among PSU units listed for disinvestment.

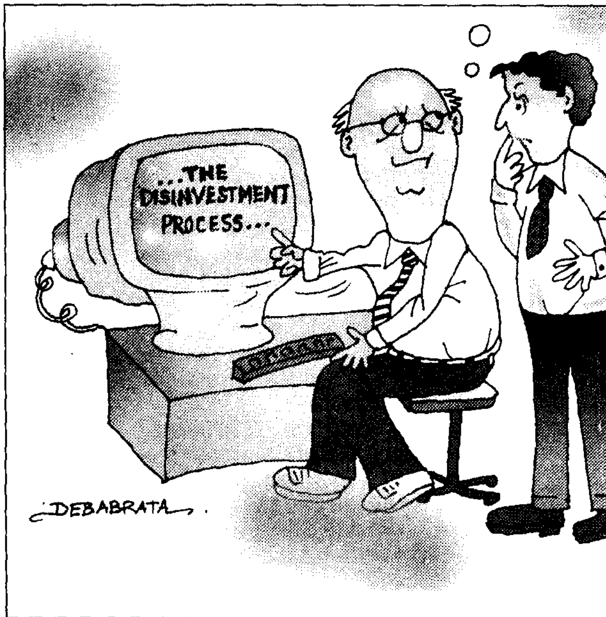
### SUPPLY

These people don't have patience. Basically they are merchant bankers and brokers interested in being associated with the disinvestment process. Their criticism is no better than that of a trader who complains about inadequate supply of goods during a busy business season.

The other set of critics fears that its very base will be eroded. Hence the fight for survival. But they are clever enough to give an ideological colour to their fight. They even try to make it look like a fight between haves and have-nots. They behave as if they are the messiah of poor and supporters of disinvestment are anti-poor.

Basically these critics are the trade unions or, rather, trade union leaders. There is a hidden agenda behind this move. Except for BMS, the rest of the trade unions are directly affiliated to one or other political parties. Left parties control a large number of trade unions though not a large number of workers. All this time, Left parties were sure of their known support base, namely West Bengal and Jawaharlal Nehru University. In Kerala it has always been once in and then out next time. With the emergence of Trinamul Congress, the Left bastion in West Bengal is about to crumble. It is only a matter of time Mamata occupies Writers' Buildings in Calcutta.

Therefore, the only hope for the Left parties is to maintain their control on working class somehow. Here also, they have started facing a threat. With




the rise in consumerism, the requirements of every family including that of working class has gone up. Today an average family is not content just with minimum requirements such as food, clothing and shelter. Thanks to aggressive campaigns through the media, people have become aware of various gadgets. People have also realised the potential power of good education. Now workers know that increased aspirations of their families cannot be fulfilled with minimum bonus and salary which trade unions can bargain for them.

### EARNING

They have realised now that in a free atmosphere where there is no presence of trade unions between them and the employers, the scope for earning is already better. They recognise now that productivity-linked returns actually improve living standards — unlike in the past. The guarantee for meeting the aspirations of their families is performance; not the agreement they sign through the trade unions. No wonder flags which used to flutter outside factories in Mumbai have almost disappeared unlike in the seventies.

That leaves only the public sector undertakings as the last hope for the trade unions. If these units also get corporatised and start running purely on commercial principles where should the trade unions go? Where should the political parties relying solely on trade unions to maintain their support base go? Disinvestment is actually a threat to trade unions. Unfortunately, a section of the working class is being taken for a ride.

That is why trade unions and political parties depending on them give all this an ideological colour. In this game even the BMS has become a party. Though it is not directly controlled by any political party, this large trade union is nearer to the thinking of Deen Dayal Upadhyaya, who was not a votary of the presence of public sector units in non-strategic areas. In fact, his economic philosophy revolved around individual human beings and decentralisation. The commanding heights of public sector is against his philosophy.

In this game of competitive misleading of workers, the BMS also preferred not to be different form the rest. What these trade unions don't realise is that only eight per cent of the total labour force is under their control — that too under so many brands.

### LABOUR

Outside the trade unions, 92 per cent of the labour force are unfortunately not organised and articulate. The day this section becomes assertive the so-called working class under the organised trade unions will simply be washed away.

Then there are political opponents. They started realising that things move in the right direction. At least there is a ray of hope of containing the fiscal deficit and debt burden in the near future. Moreover, the drain on the exchequer becomes minimum once PSU units get corporatised and start running on a professional basis.

On the other hand, there may be fat dividend cheques. That may be good for the economy and the country. But it is bad news for political parties hoping to come back. Hence, the attempt to suspect motives behind disinvestment — may be in the name of share value, strategic partner and, if not anything, at least say "why this particular unit now?"

Of course, in a democracy one has to cope with this kind of criticism. It may slow down the reform process a little bit. It may further delay an improvement in the quality of life of the underprivileged which is actually the objective behind the second generation reforms. After all, one cannot enjoy the luxury of democracy without paying the price for it.

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*The author is member, Prime Minister's Economic Advisory Council and Convenor, BJP Economic Cell.*

# Cabinet okays divestment of four more PSUs

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 29. — The Cabinet Committee on Disinvestment today put off a decision on MMTC and STC. It, however, finalised the disinvestment of four more PSUs, taking the number of units whose proposals have been cleared to 23.

The four PSUs are Sponge Iron India Limited, Mineral Exploration Corporation, Hindustan Zinc and Hindustan Insecticides Limited, the Union Disinvestment Minister, Mr Arun Shourie, told reporters after the meeting. The Prime Minister chaired the meeting.

The CCD had accorded in-principle clearance for divestment of these PSUs last month. The cases of MMTC and STC could not be taken up as the Union Minister for Commerce and Industry was unable to attend the meeting.

While three were cleared for strategic sale, the committee decided that Mineral Exploration Corporation would apply for mineral prospecting licences to increase its value. Disinvestment of this unit will be taken up after two years, the Secretary, Department of Disinvestment, Mr Pradip Baijal, said.

In the case of Hindustan Zinc Limited, the committee decided to transfer 26 per cent of its 75 per cent equity to a strategic partner.

A second phase of divestment in the market has been planned for the unit to bring down government stake still further, to 26 per cent.

It was decided to sell majority stake in Sponge Iron India Limited to a strategic partner. It currently holds 97 per cent equity in the PSU, the rest being held by the Andhra government.

For Hindustan Insecticides Limited, it was decided to bring the government equity level to below 50 per cent by a strategic sale. The government holds 100 per cent equity in the PSU at the moment.

THE STATESMAN

30 AUG 2000

THE HINDU

1 JUL 2001

# Foreign direct investment in India — II

**By Nirupam Bajpai and Jeffrey D. Sachs**

ALL OVER the world, FDI is seen as an important source of non-debt inflows and is increasingly being sought as a vehicle for technology flows and as a means of building inter-firm linkages in a world in which multinational corporations (MNCs) are primarily operating on the basis of a network of global interconnections. India can achieve very dynamic growth based on labour-intensive manufacturing that combines the vast domestic workforce, including skilled managerial and engineering labour, with foreign capital; technology, and markets. On this basis, the East Asian economies achieved growth rates consistently above 6 per cent a year, and China managed growth in excess of 10 per cent a year in the 1990s. Malaysia, to cite another example, shifted from being a raw-material exporter in the 1970s (with commodities accounting for 80 per cent of exports) to a manufacturing exporter (with manufactures, mainly electronics, accounting for 70 per cent of exports) and with GDP growth of 8 per cent a year now. MNCs offer the capital, international market access and technology that India lacks, and are therefore vital to remoulding India as a strong and rapidly growing economy.

In addition to India's poor performance in terms of competitiveness, quality of infrastructure, and skills and productivity of labour, there are several other factors that make it a far less attractive ground for direct investment than the potential it has. Given that India has a huge and fast-growing domestic market, there is every reason to believe that with continued reforms that improve institutions and economic policies, and thereby create an environment conducive for private investment and economic growth, substantially large volumes of FDI will flow in. We list some of the major deterrents below:

Corporate tax rates in East Asia are generally in the range of 15-30 per cent, compared with a rate of 48 per cent for foreign companies in India. This is definitely a major disincentive to foreign corporate investment. With respect to tax evasion, India is ranked 48th in the Global Competitiveness Report (GCR) 1999. India's tariff rates are still among the highest in the world, and continue to block its attractiveness as an export platform for labour-intensive manufacturing production. On tariffs and quotas, India is ranked 52nd in the 1999 GCR, and on average tariff rate, India is ranked last out of 59 countries. Much greater openness is required which would include further reductions of tariff rates to averages in East Asia (between 0 and 20 per cent). Most importantly, imported capital goods used for export, and imported inputs into export production should be duty free, as has been true for decades in the successful exporting countries of East Asia.

***Further deregulation of FDI in industry and simplification of FDI procedures in infrastructure are called for.***

The FDI regime in India is still quite restrictive. As a consequence, with regard to cross-border ventures, India ranks 57th in the GCR 1999. Foreign ownership of between 51 and 100 per cent of equity still requires a long procedure of Governmental approval. There does not seem to be any justification for continuing with this rule which should be scrapped in favour of automatic approval for 100-per cent foreign ownership except on a small list of sectors that may continue to require Government authorisation. The banking sector, for example, would be an area where India would like to negotiate reciprocal investment rights. The Government also needs to ease the restrictions on FDI outflows for non-financial Indian enterprises to allow them to enter into joint ventures and FDI arrangements in other countries. Further deregulation of FDI in industry and simplification of FDI procedures in infrastructure are called for.

While the reforms implemented so far have helped remove the entry barriers, liberalisation of exit barriers has yet to take place. This is a major deterrent to large volumes of FDI flowing to India. An exit policy that helps firms to enter and exit freely from the market is needed. While it would be incorrect to ignore the need for and potential merit of certain safeguards, it is also important to recognise that these, if wrongly designed and/ or poorly enforced, could turn into barriers. The regulatory framework, which is in place, does not allow the firms to undertake restructuring.

Stringent labour laws are seen as another deterrent. Large firms in India are not allowed to retrench or layoff any workers, or close down the unit without the permission of the State Government. While the law was enacted to monitor unfair retrenchment and layoff, in effect it has turned out to be a provision for job security in large private firms. This is very much in line with the job security provided to public sector employees. Most importantly, the continuing barrier to the dismissal of unwanted workers in Indian establishments with 100 or more employees paralyses firms in hiring new workers. With regard to labour regulations and hiring and firing practices, India is ranked 55th and 56th respectively in the GCR 1999. Labour-intensive manufacturing exports require competitive and flexible enterprises that can vary their employment according to changes in market demand and changes in technology, so India remains an unattractive base for such production in part because of the obstacles to flexible management of the labour force.

Archaic Land Laws are also a problem. The Urban Land (Ceiling and Regulation) Act of 1976 prevents enterprises from selling surplus land in major cities without the permission of the State Government. It further undermines the rational use of land by specifying an upper limit on the size of landed property that an individual, a group of people, or a company can own. These arbitrary limits, and effective confiscation of property, hinder property development.

The very modest contributions of India's export processing zones to attracting FDI and overall export development call for a revision of policy. These zones have lacked dynamism because of their relatively limited scale; the Government's general ambivalence about attracting FDI; the unclear and changing incentive packages; and the power of the Central Government in the regulation of the zones, in comparison with the major responsibility of local and provincial government in China. Ironically, while India established its first EPZ in 1965 at Kandla, none of its zones seems to take off — either in attracting investment or in promoting exports. The setting up of Special Economic Zones (SEZs) in India as per the Exim Policy for 2000/01 will help rectify this deterrent to a large extent.

Lack of decision-making authority with the State Governments is also a hurdle. The reform process so far has mainly concentrated at the Central level. India has yet to free up its State Governments sufficiently so that they can add much greater dynamism to the reforms. In most key infrastructure areas, the Central Government remains in control, or at least with veto over State actions. Greater freedom to the States will help foster greater competition among them. The State Governments need to be viewed as potential agents of rapid and salutary change. The idea of involving the States in the country's export efforts as per the Exim Policy for 2000/01 is a step in the right direction.

Another deterrent is a lack of clearcut and transparent sectoral policies for FDI. Expeditious translation of approved FDI into actual investment would require more transparent sectoral policies, and a drastic reduction in time-consuming red-tapism.

*(Concluded)*

# India takes patent war to space

BANGALORE, JULY 5. India, which has been opposing patents on neem, turmeric and basmati rice, has now taken the patent war to space literally.

The Department of Space (DoS) here has fought and successfully won a patent case against an American company, Ico One Ip. Llc. The company had filed for an Indian patent on the concept of using equatorial and polar orbiting satellites as relays for a satellite-based communication system.

"Had the patent been granted, India could never use this method of satellite communication in future without paying huge royalties," Mr. N. Sampath, executive director of Antrix Corporation, DoS' commercial department, told PTI.

The patent was simply for the "concept" of using satellites orbiting in different planes for communication which is nothing new, according to Mr. Sampath, who said "Antrix opposed this with substantial documentary evidence to counter the novelty claims by the U.S. company."

While the U.S. company subsequently withdrew its patent application, the problem is not over for Antrix, which is fighting two more patents in the area of space applications, Mr. Sampath said.

One patent that Antrix is opposing is again on a different system of satellite communication filed by the same U.S. company, and the other one is for a system of communicating data from a satellite to several remote units filed by Donald L. Schilling, another U.S. company.

## Hill top caves in at Tehri dam

TEHRI GARHWAL, JULY 5. A major portion of a hill top on the left bank of the Tehri dam caved in by 25 metres and affected the construction of the main power house, officials said here today.

A concrete mixer vehicle was buried in the debris yesterday and efforts were on to retrieve it, they said. — PTI

THE HINDU

- 6 JUL 2000

# *Pranab to head Cong economic panel*

**HT Correspondent**
New Delhi, July 7

FORMER FINANCE Minister Pranab Mukherjee is to head a 45-member group constituted by Congress president Sonia Gandhi to determine whether a "course correction" was required in the party's economic policy to give the weaker sections benefits of the reforms.

Barring Dr Manmohan Singh, the architect of the economic reforms initiated by the Narasimha Rao Government in 1991, the group includes front-ranking Congress leaders, economic experts and Chief Ministers of States where the party is in power.

Dr Singh was approached to head the panel but he reportedly betrayed reluctance to be associated with the proposed exercise in its initial stages.

"He has been instrumental in the implementation of the policy. He wants a dispassionate study of the subject and will join (the exercise) after the group submits its report," AICC general secretary Oscar Fernandes told newspersons while announcing the economic panel here.

He attributed the jumbo-sized character of the group to the need to enhance participation of "people who matter in the (economic) field."

Mr Fernandes did not elaborate. But the political objective behind undertaking a review -- without describing it as such in deference to Dr Singh's sensitivities -- is to distinguish the Congress' version of reforms from the BJP's brand of liberalisation.

In recent weeks, the party has come into conflict with the Government on the latter's disinvestment policy and withdrawal of subsidies on PDS food grain and merit goods such as urea which, it in its view, might impact the country's food security. Apart from identifying areas where a course correction was required, the group would furnish reasons behind its proposals besides explaining how the proposed changes would yield the desired results.

Interestingly, the party's in-house economic experts such as N D Tiwari, Jairam Ramesh, Murli Deora, D P Yadav, Prithviraj Chauhan and Vayalar Ravi dominate the panel. The only two experts who aren't formally aligned with the Congress but have been co-opted are Dr Arjun Sengupta and Dr Satish C Jha.

Senior leaders who have often locked horns with pro-reform hard-liners within the party -- seeking a more pronounced human face to the economic line -- have found adequate representation on the panel.

The group includes A K Antony, who headed the Congress' introspective committee, which identified popular misconceptions about the party's economic policy among the reasons behind its 1999 Lok Sabha defeat.

THE HINDUSTAN TIME

8 JUL 2000

## REVERSAL OF GOVT. POLICY RULED OUT

# BJP to counter RSS tirade

By Neena Vyas

NEW DELHI, JULY 8. A draft document which will meet head-on the RSS criticism of the Government's economic policy has been prepared by the Bharatiya Janata Party and sent to the Union Finance Minister, Mr. Yashwant Sinha for a fine-tuning.

The document is to be published in the form of a booklet for distribution, especially among the cadre, "to prevent our workers from getting confused by the RSS criticism", party sources indicated. It seems that this task has acquired an urgency, especially after the Swadeshi Jagran Manch, an RSS front organisation, adopted four resolutions at a meeting in Agra late last month criticising the Government policies as being "against the nation's interest." The resolutions were "approved" a week ago at the RSS national executive meeting in Gandhinagar, where a green signal was given for the SJM agitational plan.

The RSS chief, Mr. K. S. Sudershan, has attacked the economic policies and called for a "second war of independence". He has suggested that the Government's policies are taking the country away from 'swadeshi' or self-sufficiency and they will make it entirely dependent on foreign investment and multinationals.

Within the next 10 days, a party meeting chaired by the BJP president, Mr. Kushabhau Thakre, is to be convened for approving the document before it is finalised, Mr. Jagdish Shettigar, convener of the economic cell, confirmed today. The document would meet the criticism not only of the RSS and its organisations such as the SJM, but also of the Opposition, he said.

The booklet would cover in detail criticisms of the Government's policy on subsidy cuts, 100 per cent foreign direct investment in the power and petroleum sectors, disinvestment in PSUs and reforms in the insurance and banking sectors, and deal with the allegation that the Government's policy is "anti- farmer" and "anti-poor."

Party sources said "there was no question of going back on the Government policy," or even of "meeting RSS criticism halfway." The party had an open mind and criticism was welcome, but unless a viable and better alternative was offered there would be no way of the Government retreating in the face of RSS criticism.

"Who is accountable to the electorate? It is the party which is accountable, not others. It is the Government which has to deliver the goods," Mr. Shettigar said. For example, the RSS was opposed to 100 per cent FDI in the power sector. Its view was that additional power could be generated from the existing under-utilised capacity and by stopping power theft. But over the next two years an investment of Rs. 2,00,000 crores to generate an additional 40,000 MW would be needed. "This is not possible without foreign investment." As for under utilisation of capacity, the country had to work within the existing conditions, it was suggested.

The BJP's booklet is planning to rubbish the SJM and RSS war cry that the Government is on its way to selling the country to multinationals under WTO and "American pressure."

# Vajpayee unfazed

By Our Special Correspondent

NEW DELHI, JULY 8. The Prime Minister and his advisers appear to have taken in their stride the criticism voiced by the RSS chief, Mr. K.S. Sudershan of the Vajpayee Government's economic and domestic policies. It is perhaps a measure of self-assurance felt at the Prime Minister's Office that no body is going to lose sleep over Mr. Sudershan's stridency.

Earlier an idea was mooted that there should be a dialogue between the Prime Minister and the RSS brass to sort out differences; that idea has been allowed to fade as neither side was sure that the dialogue would produce any meeting of minds. At best, the Finance Minister, Mr. Yashwant Sinha, could be asked to meet the RSS leaders and explain the rationale and compulsions of the economic polices being pursued by the Government.

For now, comfort is being derived from the fact that the RSS boss has apparently argued that while the Government is free to proceed as it deemed best the Sangh Parivar is equally free to keep on expressing itself on various issues. This two- track formulation suits the Prime Minister's establishment fine.

The assumption is that the RSS is not in a position to make any demand on the Vajpayee Government; after all, it is argued, the Nagpur bosses could not be unaware of its precarious political strength. Beyond a point, the RSS would not be in a position to insist that the Government follow the BJP agenda to the letter. Even on Kashmir and other issues like the minorities, the Government is not likely to yield to the demands of the Sangh Parivar.

In fact, it is being suggested that it would still be the politically clever thing to do for the Government to pursue its "moderate" line and the RSS to continue to keep talking in "hawkish" terms, thereby keeping the hard-core of the Hindutva constituency from defecting. Periodic fulminations from the Nagpur establishment would not hurt anyone, while Mr. Vajpayee can continue to play the "moderate" card.

In any case, there is a conviction in the sarkari parivar that the RSS is overrated, both in terms of its spread and ideology; perhaps there is an exasperation that the opposition parties continue to give so much importance to the RSS and its presumed influence.

THE HINDU

9 JUL 2000

# Advisors' selection lacks transparency: Cong

HT Correspondent
New Delhi, July 11

ACCUSING THE Government of lack of transparency in the appointment of global advisors for disinvestment in various public sector units, the Congress today asked the Vajpayee regime to explain the criteria for their selection.

Talking to reporters, AICC spokesperson Ajit Jogi said the nation should be taken into confidence about the terms on which the advisers have been appointed.

Meanwhile, a meeting of the Congress Working Committee is likely to be held soon to discuss crucial issues. "The main agenda of the meeting would be CTBT and the Kashmir autonomy issue," informed the party spokesperson. The party's specially constituted groups on these issues have reportedly finalised their recommendations that will be placed before the CWC.

The first meeting of the party's 45-member economic group will be held on July 14.

All Pradesh Congress presidents and Congress Legislature Party leaders will also meet on July 13 at the AICC to take stock of the current political situation.

## Disinvestment of PSUs

Earlier, commenting on the tussle between the BJP and the RSS on economic reforms, Mr Jogi warned that these conflicting signals were detrimental to the nation's interests.

In view of these contradictions, he asked those BJP Cabinet Ministers, who till recently swore by swadeshi, to clarify their stand on economic reforms. "Union Ministers such as Dr Murli Manohar Joshi, who were earlier highly critical of certain aspects of the ongoing reforms should explain whether they agree with the RSS's views," he said.

The party also criticised the recent announcement of Andhra Pradesh Chief Minister Chandrababu Naidu to set up a force (sena) of political volunteers in the State.

Terming the proposal as unfortunate, Mr Jogi said: "This is an attempt to organise a private militia which will only demoralise the police and aggravate violence. It also indicates that the CM has admitted to his failure in checking the law and order situation."

THE HINDUSTAN TIMES

Mamata has her way with PM

# Reprieve for HFCL sick units

STATESMAN NEWS SERVICE

NEW DELHI, July 11. — The Vajpayee government today deferred its plan to shut down the three units of Hindustan Fertilizer Corporation Limited in deference to the wishes of Miss Mamata Banerjee. Two of the units are in West Bengal, at Durgapur and Haldia. The other one is at Barauni, Bihar.

The decision comes close on the heels of the Trinamul's stunning performance in the civic polls and the Prime Minister's visit to the Trinamul chief's home in Calcutta. It was said to be taken after Mr Vajpayee asked the Union Minister of Chemicals and Fertilizers, Mr Suresh Prabhu, to withdraw the issue from the Cabinet's agenda in today's meeting, where it was listed as the No. 1 item.

It was taken off even before the meeting began. Mr Prabhu did not attend the meeting.

However, there are doubts how long the government can keep the proposal in abeyance. A jubilant Miss Banerjee welcomed the move and said she would try to get a revival package cleared for the three units. A similar package has been cleared for the Namrup unit.

The Trinamul leader worked hard to keep the issue off the meeting. Arguing against closure, she called up Mr Prabhu and requested him to defer the proposal.

Today she said she had asked Mr Prabhu to give the matter a thought and allow the government time to chalk out a revival package.

Sources said she had even threatened that if Mr Prabhu did not accept her demand, she would ask Communications Minister Mr Ram Vilas Paswan to argue against closing down the Barauni plant. Mr Prabhu agreed to take the proposal off the Cabinet's agenda after speaking to the PM.

Miss Banerjee also handed a letter to Mr Vajpayee in Calcutta against the closure move. The PM has forwarded the letter to Finance Minister Mr Yashwant Sinha, asking him to reconsider the move.

A Union minister, however, confided that a revival was impossible. The parliamentary standing committee on chemicals and fertilizers had in its April report observed that the three units could not be revived and the issue had been referred to the BIFR, he said.

The committee estimated a combined loss of Rs 574.05 crore in 1999-2000 from the HFCL's four units. The government told the committee that the magnitude of the required investment and the complexity of statutory provisions would not allow any revival of the three units.

The committee also observed that the Haldia unit was never put into production while production at the Durgapur and Barauni units was suspended from June 1997 to January 1999.

THE STATESMAN

12 JUL 2000

# Cabinet deals a blow to jute industry

STATESMAN NEWS SERVICE

NEW DELHI, July 18. — The Union Cabinet today decided to allow foodgrain and urea to be packed in non-jute packaging material, bringing more sufferings for the jute producers and manufacturers in West Bengal.

The notification to this effect is to come within a week.

The government also decided to raise the quantum of sugar export during the current financial year from 25,000 tonnes to 10 lakh tonnes given a confident Indian market and favourable international market. The government hopes that non-jute packaging will boost exports, and take care of consumer interests at the same time.

Upto 10 per cent of foodgrain and sugar can now have non-jute packaging, instead of the earlier 100 per cent compulsory jute packaging. In urea, the compulsory limit has been decreased from 20 to 15 per cent.

However, only 50 kg packages of foodgrain and sugar will fall under the purview of the new packaging formula.

The decision questions the very purpose of the Jute Packaging Material (compulsory use in packing commodities) Act of May 1987. The Act made jute packaging material compulsory in the supply and distribution of certain commodities. By this, it hoped to protect the interests of raw jute and jute packaging material producers and of those engaged in making jute products.

The Act had taken off the pressure on jute industries, troubled by the cement industry's switch to synthetic material.

The Cabinet, however, gave small relief to the state by extending additional budgetary support of Rs 2.38 crore as non-Plan loan to the Calcutta-based National Instruments Limited. The loan is for a revival scheme.

To be financed by the BIFR, it is to take care of the NIL's liabilities towards wages and salaries till 31 March 2000 or realisation of sale proceeds of the identified surplus land.

## CABLE NETWORK ACT

NEW DELHI, July 18. — The Union Cabinet today decided to amend the Cable Network Act to make it mandatory for all satellite channels to adhere to the government's programme and advertisement codes to stop obscenity on TV.

The amended Act would empower the government to ban channels flouting the codes, earlier mandatory only for Doordarshan. — SNS

THE STATESMAN

19 JUL 2000

# 'Key role for States in reform'

By Our Special Correspondent

BANGALORE, JUNE 5. The Union Finance Minister, Mr. Yashwant Sinha, today said all States in the country had important roles to play in the second generation reforms to be launched by the National Democratic Alliance Government soon.

The Minister was addressing the gathering after inaugurating the "Global Investors' Meet," organised by the Karnataka Government and the Confederation of Indian Industry and expected to bring the State a foreign investment of $ five billion over a period of four years.

Speaking on the occasion, the Chief Minister, Mr. S. M. Krishna, assured the large number of investors present that his Government would clear all the projects proposed at the meet within June 30.

Mr. Sinha, pointing out that States such as Karnataka would be full and equal partners in the reform process to be launched by the Centre, said the State had forward-looking Chief Minister in Mr. Krishna.

The Finance Minister said that while India was opening up its economy, the developed countries were raising tariff barriers. The Government had already raised the issue on international fora. The European Union, which was importing only one per cent of its needs from India, was subjecting the country to 30 per cent of its anti-dumping action.

The Union Minister for Culture and Tourism, Mr. Ananth Kumar, said Bangalore, which he represented in Parliament, was an ideal place for investment.

Mr. Rahul Bajaj, former president of the Confederation of Indian Industry, in his keynote address said that though the Indian economy was more open than China, that country received foreign investment worth $ 40 billion a year while India got a mere 10 per cent of that. The Government was allowing 100 per cent foreign investment in some sectors, he said and pointed to the need for a consensus among the political parties on issues concerning industrial growth and foreign investment.

Mr. Philip Yeo, Chairman, Economic Development Board of Singapore, said he was heartened by Karnataka's attitude towards investors and its plans for the development of an IT corridor.

The Minister for Major and Medium Industries, Mr. R. V. Deshpande, said Singapore was the first country to realise Bangalore's potential.

The Chief Minister said that the number of foreign companies which had invested in the State indicated its investor-friendly atmosphere. The U.S.-based Texas Instruments, which came here in 1987, was one of the first IT industries to set up a base. The Chief Minister said that centres such as Mysore, Hubli-Dharwad, Mangalore, Davangere, Gulbarga and Belgaum beckoned and were as attractive to investors as Bangalore.

THE HINDU

6 JUN 2000

# Curbs lifted on profit repatriation by MNCs

STATESMAN NEWS SERVICE

NEW DELHI, June 12. — The Union Cabinet this morning gave a major push to the second generation of economic reforms by further relaxing FDI provisions and taking other bold decisions to remove bottlenecks in the way of foreign exchange inflow.

"FDI is a lesser evil than imports," the Union minister, Mr Pramod Mahajan, told reporters, justifying the decisions.

The government removed the dividend balancing scheme on 22 consumer items to allow easier repatriation, removed the cap of Rs 1,500 crore on foreign equity participation in power generation, and allowed 100 per cent [illegible] merce and refin[illegible]

Earlier, forei[illegible] als wishing to repatriate their earnings from India were supposed to earn a matching amount for the government through exports. After today's decision the same companies would be able to repatriate their earnings without any [illegible] applies only to a select 22 consumer items like food and dairy products, sugar, salt, oil, tea-processing, tobacco and soft drinks. The government plans to extend the facility to another hundred items, said a minister.

The government's confidence [illegible] from stable foreign [illegible] feels can allow for repatriation. The earlier export clause provision had been aimed to shoring up the country's dwindling foreign exchange reserves, Mr Mahajan said.

The real reason, however, seems to be pressure from MNCs which wanted the clause removed. Mr Mahajan accepted there would be an outflow of foreign exchange, but said it would be negligible. Foreign investors had perceived the earlier provision "to be very restrictive", he said.

The minister argued it was better to have FDI and create employment and infrastructure in India through foreign money, rather than waste the country's resources in imports that helped create employment and infrastructure elsewhere.

■ See MNC: page 6

## NO FOREIGN EQUITY CAP IN TEA, COFFEE

NEW DELHI, June 12. — The government is set to allow 100 per cent foreign equity participation in tea and coffee plantations, a Union minister said. The pattern would be same as that of e-commerce where foreign companies would have to divest 26 per cent equity to Indians over five years.

The item was listed for today's meeting but could not be taken up as the commerce minister was not present. The decision is likely to have far-reaching consequences in the North-east and the South. — SNS

■ More reports on page 12

# MNC: 'choice FDI or imports'

(Continued from page 1)

"The choice is clear — FDI or imports. The FDI alternative is better than imports." Public opinion is sensitive to FDI, but not to imports, he said. "The country will have to allow FDI in more items to enable them to become competitive or we will need to import the items after five years."

Before today's decisions, a foreign MNC in power generation was allowed automatic route in 100 per cent equity participation, but its limit was capped at Rs 1,500 crore.

The cap has been removed now. There will be no upper limit in respect of proposals related to generation, transmission and distribution of power, Mr Mahajan said. However, he clarified that this would not be applicable to atomic power plants, which comes under the strategic sector.

In e-commerce, the foreign equity cap has been raised from 49 per cent to 100 per cent with a provision that such MNCs would divest 26 per cent of their equity in favour of the Indian public in five years. If these MNCs were listed in other countries, they were allowed a 74 per cent equity participation provided they had an Indian component of 26 per cent from the start.

Mr Mahajan said this prevented MNCs from coming into e-commerce as they found it difficult to find suitable Indian partners. Under the new provision, they can straightaway get into business and look for Indian equity later.

To divest through the market was a much easier option, he said.

However, the government has not accepted the proposal to allow these companies to enter the retail business.

THE STATESMAN

13 JUN 2000

THURSDAY, JUNE 15, 2000

# MORE LIBERALISATION

THE FRESH CHANGES that the Government has announced in the rules for foreign direct investment (FDI) in specific sectors are not going to result in a dramatic increase in new outlays in these areas. What has so far held back FDI inflows in, for example, the power and petroleum sectors is not the presence of ceilings on foreign investment but the absence of prior reform in the domestic market. In the one piece of substantive deregulation that has been announced — the abolition of the rules on dividend balancing — there is sufficient reason to ask if this liberalisation was truly necessary at this stage.

In the past few years, the economy has been witness to a declining inflow of FDI even as external capital receipts as a whole have been increasing. New FDI in the previous financial year was just over half of the peak reached in 1998-99, even as actual inflows as a proportion of the value of approvals remained less than 40 per cent. To reverse this trend the Government has been carrying out many changes in the FDI policy regime. Earlier this year, it expanded the scope of the automatic approval route through the RBI and thereby all but abolished the need for prospective investors in most sectors to clear their proposals with the Foreign Investment Promotion Board. And now the Union Cabinet has made further changes in the FDI rules. The focus is on accelerating FDI in the infrastructure sector, specifically power and petroleum refining. However, the power sector, where the Government initially wooed the foreign investor, has had a sorry experience with the "fast track" process which will soon be almost a decade old. If there is a lesson to be drawn from the record of the limited FDI that has taken place in the power sector it is that a local revamp must precede foreign entry. Since reform of the electricity sector is far from complete it is difficult to see how the removal of a ceiling of Rs. 1,500 crores on 100 per cent foreign investment will make a difference to capacity additions in electricity generation, transmission and distribution. A similar outcome awaits the removal of the 49 per cent ceiling on FDI in petroleum refining and marketing. With the presence of a moderate surplus in domestic refining capacity and a continuation of the administrative price mechanism in the retail sale of petroleum products, no dramatic entries can be expected from the multinational oil companies, a quarter of a century after they were forced to exit from this sector. The only true liberalisation in new FDI that has been decided upon is the permission for establishment of wholly-owned Internet ventures that will engage in business-to-business (B2B) sales.

In the first flush of deregulation in 1991, the Government of the time had imposed a requirement on foreign ventures in 22 consumer goods industries that dividend repatriation had to be balanced by exports/additional inflows. The intention was to contain outflows from "non-essential" projects, since it was known that few of these ventures would take exports seriously. The Government has now abolished the rule on balancing dividends. It is a fact that this regulation was in violation of the WTO agreement on trade-related investment measures (TRIMs) which was to come into force last January. But India and other developing countries had asked for an extension in the implementation period of the TRIMs agreement, an issue which was left unresolved amidst the wreckage at Seattle last year. Since there is now a tacit agreement among the members of the WTO not to immediately push for strict adherence to the TRIMs agreement, there was really no need for the Government to immediately address the complaints of foreign investors, especially if the dividend outflows are a small amount every year. The rule served, albeit imperfectly, as a mechanism to indirectly push FDI away from the domestic market and towards exports.

THE HINDU

15 JUN 2000

# INTERESTING LINKAGES

THE FINANCE MINISTER'S concern over the recent sharp depreciation of the rupee against the dollar and his earlier direction to government-owned banks to reduce their level of non-performing assets in a time-bound manner are not to be viewed as narrow sector-specific problems. They ought to be seen from the larger macro-perspective of an economy whose different constituents are fast getting interlinked with one another and where, as a consequence, the signals from one sector get transmitted across the system. The latter approach alone will ensure a meaningful understanding of specific issues and provide realistic solutions.

It follows that official policy will have to address several economic issues simultaneously. It would be unwise, for instance, to ignore the happenings on the interest rate front. A combination of factors is set to push up the rates, thereby reversing the trend that set in a few years ago. The forecast of a higher interest regime might be particularly disappointing to many because as recently as in April this year the goal of achieving an internationally competitive regime appeared tantalisingly close. At that time the RBI lowered the bank rate and sent other signals to the market. But not all banks responded, with the majority hedging their bets. Clearly, previously controlled economic variables such as the interest rate and the exchange rate now take their cues from the market-place rather than from official proddings.

The causes underpinning the interest rate are noteworthy also because they explain the other economic concerns. Inflation, after a period of decline, is back in the reckoning, almost entirely because of an increase in the administered prices. The forecast of yet another good monsoon might minimise the supply-side inflationary sentiment but from a monetary perspective major dilemmas remain. The stance of the RBI's monetary policy has always been to maintain price stability while ensuring that the genuine needs of the industrial sector are met. All available data point to a mismatch between the expected demand for and supply of funds. The ongoing industrial recovery will make large demands on banks, by as much as Rs. 11,000 crores more than last year's credit utilisation of Rs. 69,000 crores. The Government is also expected to borrow at least Rs. 31,000 crores more than it did last year. As Mr. Yashwant Sinha has cautioned yet again, fiscal reform including a cap on government spending and borrowing is a vital necessity over the medium-term. However for now the prospects of public borrowing aggravating the already tight liquidity conditions look very real. Interest rates can only go up. The connection with exchange rate stability is obvious in that scenario. To check the rupee's further decline, the RBI, which has already clamped a stiff surcharge on importers and penalised exporters who delay their remittance, might intervene more overtly by selling dollars. Domestic liquidity will be further strained. Besides, in a fast globalising scenario there has to be an interest parity among nations. Interest rates in the U.S. are on the upswing and the expected global flight of funds into dollars cannot be ignored by the RBI. Equally obvious is the connection between interest rates and the cleaning up of bank balance sheets. The high level of non-performing assets has been a major obstacle in the way of a flexible interest rate regime. Interest rate tidings explain many concerns of the day.

THE HINDU

19 JUN 2000

# Differences persist with RSS, says FM

New Delhi
18 JUNE

FINANCE MINISTER Yashwant Sinha on Sunday said there are differences between the government and RSS on the issue of economic reforms though efforts are being made to understand each other's views.

However, Sinha asserted that the government would not follow the liberalisation and globalisation policies recklessly.

"Differences are not new. It was there when we were not in the government and it is not necessary also to have similar views on every issue," Sinha told Zee News in an interview.

"But we have a mechanism of communication between us (government and RSS) and we have tried to understand respective points of view," Sinha said when asked about the differences between the government and the RSS and Swadeshi lobby on the issue of economic reforms.

"It is a question of approach and thinking. I am in the government and have certain responsibilities to carry out for which decisions we deem best for certain situation are taken," he said adding if there are differences of approach "my effort would be to understand one another."

Sinha

Sinha said he is bound by the compulsions of being in the government and has pursued policies which he considers as just and needful for the country, said a press release.

"The best guarantee for swadeshi is sound health of the country for which the government is committed," he added.

Stating that government would not follow the economic reforms in a reckless manner, Sinha said: "We have seen the disastrous consequences for those who have walked like lion and so India will continue to tread like an elephant."

"Since the country has entered the second generation reform phase, increased opposition and tussle here and there is not out of place, which the government also recognises," he said. Sinha, said the fiscal responsibility bill will be tabled in the monsoon session. — PTI

*The Economic Tim...*

19 JUN 2000

## There is no rationale behind Indian distrust of foreign capital

# Fiscal xenophobia

BHASKAR DUTTA

All coalition governments suffer from a lack of purpose and cohesiveness. The larger the number in the coalition and the greater the ideological differences amongst the parties, the more likely are they to fight amongst each other. After all, each party in the ruling coalition has its own vote banks and hence its own political compulsions. It is also tempting to argue that the smaller parties have shorter time horizons because they are easily dispensable, and so are likely to remain in power for a smaller period of time.

So, any political patronage has to be distributed quickly. In other words, these are the parties that are more likely to indulge in populism. In contrast, the bigger parties dig themselves in for the long haul, and are more likely to initiate policies which will bear fruit only in the long run.

This characterization certainly seems borne out by the NDA government. For several months now, there has been an open tussle between the leading and overwhelmingly largest party — the Bharatiya Janata Party — and its other smaller allies. Despite some opposition from within its own party, the BJP ministers have more or less tried to push through reforms. A striking contrast is provided by its smaller allies which have bitterly opposed measures such as increases in administered prices.

The contradictions within the present government were very evident in some of the recent actions undertaken by the Central government. Despite staunch opposition from the finance ministry, the populist faction won the first round when one of its leaders, Ram Vilas Paswan, succeeded in implementing his crazy plan of handing out free telephones to telecom employees. There are conflicting reports about how much this bonanza is going to cost the taxpayer.

However, no one in his right mind can defend this measure even if its cost is small, simply because it is not going to bring any benefit at all. Unfortunately, the smaller allies of the BJP may be practising some sort of implicit collusion (to keep Big Brother at bay?), and so hardly anyone from the smaller parties has criticized Paswan for his blatant populism.

Big Brother stormed back a few days later with a significant liberalization and relaxation of rules related to foreign direct investment. The stage for this initiative was set during the recent visit of the finance minister to the United States. He spoke of the government's determination to speed up the reform process, and in particular open up more sectors to foreign investment.

He pointed out that despite being the second largest producer of fruits and vegetables and the largest producer of milk in the world, the food-processing and dairy industries are insignificantly small. The absence of these industries means that Indian farmers are often denied lucrative prices for their products. There is also a huge scope for infusion of foreign capital into infrastructure sectors. Yashwant Sinha himself mentioned the government's intention of building national highways, greenfield airports, upgrading existing airports and developing the power sector.

The list is endless. Nevertheless, Sinha and other reformers will not have an easy time. They may have won the first skirmish, but may still be ambushed by their allies. The entry of foreign capital into the Indian economy has always been a contentious issue, and friends and foes may combine to defeat the pro-reformers.

Despite the intensity of the opposition, it is difficult to find a rational explanation for this distrust to inflows of foreign capital. The popular argument that increased capital inflows would enable foreigners to hold the economy to ransom simply does not hang together. The sheer size of the Indian economy makes it virtually impossible for foreign capitalists to come over and capture the commanding heights of the economy.

Given the deep distrust of foreign direct investment amongst Indians, it is not surprising that India has not been a particularly popular destination in so far as FDI is concerned. Despite the huge absolute size of the Indian economy, we rank only 11th among developing countries in terms of FDI inflows.

> No amount of economizing will enable the government to finance even a fraction of the necessary infrastructure investment

There was actually a significant increase in the volume of inflows during the early and mid-Nineties, as some of the barriers erected during the Nehruvian years were slowly dismantled. However, the gradual but marked deceleration in the pace of reforms, the political uncertainty, the Pokhran blast and subsequent hostility of Western governments were all instrumental in slowing down the inflow of foreign capital in the last couple of years.

One can only hope that the latest set of measures will facilitate an increase in FDI in the Indian economy because there is scarcely any rationale for the widespread distrust of foreign capital, especially when the domestic economy is starved of capital. Certainly, there is no possibility of domestic entrepreneurs being able to garner enough resources to make the necessary investments.

The government is an even less likely candidate since it is even unable to make ends meet at existing levels of expenditure. It is important for the government to practise economy (which probably implies asking the Ram Vilas Paswans to go home). But no amount of government economy will enable it to save enough money to finance even a fraction of the infrastructure investments necessary today.

This inevitably means that we have to look for funds abroad. During an earlier generation, some of our foreign capital requirements were obtained from friendly governments and multilateral aid agencies. However, these sources have more or less dried up as far as the Indian economy is concerned, partly because the richer European countries now prefer to divert aid flows to Eastern Europe. There is also an increase in the number of developing countries seeking aid from the multilateral agencies. More claimants for the same cake mean a smaller share for everyone.

So, we have only two options. We can either go in for higher levels of foreign debt or seek greater volumes of foreign direct investment. Contrary to popular perception, our overall level of foreign debt is well within the levels of prudence. Foreign debt servicing does not constitute a threat to our overall balance of payments.

Nevertheless, foreign debt remains an inferior source of capital compared to FDI. Perhaps the most important reason for this is that the interest outflow on foreign debts is a commitment that has to be met, irrespective of whether the project in which the foreign debt is utilized makes a profit or not. In other words, none of the risk associated with the project is borne by the foreign lender. In contrast, there is an outflow of foreign exchange in the form of dividends only if the FDI is in projects which earn profits. So, there is some sharing of risk.

Opponents of FDI claim that average dividends are higher than the rate of interest on foreign debt, so that there is a greater outflow of foreign exchange associated with FDI. However, this is an empirical issue which is yet to be rigorously proved.

There is also the fact that FDI is often associated with projects whose products are partially exported, so that the export earnings partly compensate for the dividend outflow. Given these considerations, one hopes that the recent initiatives to relax the constraints on FDI will translate into higher flows. Perhaps Paswan will be too busy doling out telephones to intervene in this matter.

**The author is an economist at the Indian Statistical Institute, New Delhi**

# Centre clears insurance scheme for the poor

STATESMAN NEWS SERVICE

NEW DELHI, June 20. — The government today announced a group insurance scheme for those below the poverty line and a scheme of securitisation of outstanding dues to PSUs.

The insurance scheme, Janashree Bima Yojana, will cover people below the poverty line in the 18-60 age group, said the Parliamentary Affairs Minister, Mr Pramod Mahajan, after a Cabinet meeting.

Groups consisting 25 or more people will be eligible for the scheme which is likely to cost about Rs 150 crore in the first year. The premium payable to insurance companies will be Rs 200 per annum, of which the Centre will foot Rs 100. The cost will be met from the Social Security Fund of the LIC.

The states are free to come forward and contribute to the premium to reduce the burden on the beneficiaries, which will be a little over Rs 8 per month after the Centre's contribution. The scheme will provide insurance cover of Rs 20,000 for natural deaths, Rs 25,000 for partial permanent disability from accidents, and Rs 50,000 for death or total permanent disability in accidents. Details of the scheme are being worked out.

The Cabinet also cleared the much-awaited proposal on securitisation of dues of state electricity boards to Central power and coal utilities. The SEBs owing money to the Central utilities will issue bonds to them to cover the principal amount due till 31 December 1999. The bonds will be backed by state government guarantees.

The proposal is meant to tackle outstanding dues of nearly Rs 10,000 crore. States will make specific allocations in their budgets for servicing the bonds in case the SEBs fail to do so.

"Further comfort will be provided to the bondholders by the Centre, which will use existing authorisation to deduct up to 15 per cent of the Plan allocation if a state does not honour its guarantee obligations," Mr Mahajan said. The tax-free bonds will carry an interest of about 10 per cent.

The Cabinet Committee on Economic Affairs also approved equity participation of US telecom giant AT&T to the tune of Rs 1604.75 crore in the enhanced paid up capital of Rs 3,275 crore of Birla-AT&T.

The CCEA decided to approve the policy for upgradation and modernisation of infrastructure for storing, handling and transporting foodgrains.

Among other Cabinet decision was the approval of the International Convention for Suppression of Financing of Terrorism. It decided to repeal the Auroville Emergency Provisions Act, 1980, and the Indian Universities Act, 1904.

The Cabinet also cleared the contribution of Rs 1.5 crore to the Indian centres of the American Institute of Indian Studies, an autonomous consortium of over 60 institutions in the USA.

THE STATESMAN

# Sinha tells chief ministers to cut deficit, take tough decisions

The Times of India News Service & agencies

NEW DELHI: Finance minister Yashwant Sinha on Thursday asked state chief ministers to reduce deficit by raising capital expenditure and containing non-plan expenditure. He also told them not to hesitate in taking tough decisions to restore overall stability.

"Difficult decisions will have to be taken by all of us so that we may successfully face the challenges of the new millennium," Mr Sinha told the chief minister's conference, adding "considerable spadework is required for speeding up reforms".

Mr Sinha also called on the states to meet the deadline of implementing value added tax (VAT) system on April 1, 2001 through passing of VAT legislations and framing of rules and regulations.

The meeting, convened to discuss tax reforms and introduction of VAT, will also debate on the issue relating to service tax as a measure for broadening of the tax base.

"We are well aware that services contribute about 40 per cent of our GDP and in the finance act 2000 I had announced setting up an expert group to study and advise the government about the coverage and structure of service-tax related matters," he said.

Mr Sinha congratulated the state governments for implementing decisions taken at the previous conference in November last year and said this had enabled them to broaden the tax base and formulate rational and simple tax laws.

He said minimising the distortionary effects of the old tax had enabled augmenting of revenue which was a step in the right direction.

On the implementation of uniform floor rates of sales tax, Mr Sinha said though it was laudable and a matter of great satisfaction, "there are still some deviations in certain states". Stating that only total compliance would preclude any occasion for rate-war amongst states, he said it had been noticed that a large number of rate slabs continued to exist.

"It would be ideal to have convergence of rates as it will facilitate introduction of VAT," he said.

On the problems of states relating to the identity of the listed item—the items listed in the state sales tax laws—Mr Sinha said the Centre proposed to entrust the task of undertaking harmonised classification and coding of commodities to the centre of taxation studies, Kerala.

He said once the report was ready, it would be circulated to the states for their concurrence.

THE TIMES OF INDIA

23 JUN 2000

# Mamata, LF cross swords over PSU closure move

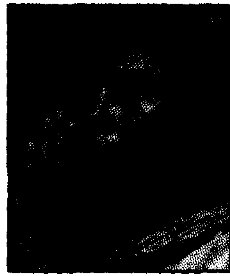
HT Correspondent
Calcutta, June 22

THE LEFT Front Government has received no official communication from Delhi saying that the decision to close down four public sector units in the State had been deferred. Yesterday, Railway Minister Mamata Banerjee had claimed that she had received a call from the Prime Minister's Office (PMO) informing her that the closure move had been put on hold.

Chief Minister Jyoti Basu today spoke to Finance Minister Asim Dasgupta, now in Delhi. Dasgupta told him that the decision on the sick PSUs had not been withdrawn. Basu is now waiting for a reply to his letter from the Prime Minister.

Dasgupta today met Prime Minister Atal Behari Vajpayee to convey to him the Chief Minister's request. Even then, Vajpayee did not drop any hint of reconsidering the Cabinet decision. Neither the Chief Minister's secretariat nor the State Public Undertakings Department is aware of the postponement. "The Prime Minister's Office and officials in the ministry of heavy industries are ignorant of any such departure from the decision," a State Government official said.

The Trinamool Congress chief, however, stuck to her contention and said last night Sudheendra Kulkarni, attached to the PMO, conveyed to her the decision to keep the Cabinet move in abeyance. "He has promised to give a sympathetic hearing to the case."



Jyoti Basu and Mamata Banerjee

Mamata's claim has sparked a war of words between her, CPI(M) State Secretary Anil Biswas and PCC working president Priya Ranjan Das Munshi. The Trinamool supremo claimed that her success in making the Prime Minister reconsider the closure move was her victory. Her detractors termed the episode a political gimmick.

Irked by the Left and Congress sniping, she said both parties were on a sticky wicket in the Calcutta Municipal Corporation elections and were trying to go one up by making patently false statements against her.

"Whatever I do for my State, my opponents try to belittle. I never lie to my people. No wonder, they are trying to hardsell my efforts as political gimmick. I will go to Delhi and see under what circumstances the Cabinet decided to close down the units. I will take expert opinion. Nothing will be done to harm the employees. This I promise," she told *The Hindustan Times*.

But both Biswas and Das Munshi claimed that Mamata was only playing to the galleries before the civic polls. She is trying to project herself as Bengal's saviour. This is nothing but political "drama".

Confronted with the allegations, Mamata said: "...I do not fool my people, which my adversaries have been doing for the past two decades. I promised the people of Panskura a train service. On June 30, I will keep my word by flagging off a train between Midnapore and Kharagpur."

THE HINDUSTAN TIMES

## Maruti, telecom twins off this year's list

# 33 on the block in selloff flurry

FROM OUR CORRESPONDENT

**New Delhi, June 23: Unveiling its most ambitious divestment programme, the government has announced it would sell its holdings in 33 companies this year.**

The Cabinet committee on divestment today cleared for selloff 14 PSUs, including IBP, Container Corporation and State Trading Corporation. The decision on the 19 others had been taken earlier.

Serious differences in the Cabinet, however, stalled big-ticket divestments in Maruti Udyog and telecom twins Videsh Sanchar Nigam and Mahanagar Telephone Nigam.

The committee also sought early completion of disinvestment in Indian Airlines, Air-India, Balco and IPCL.

"The government had set a target of Rs 10,000 crore, this has not been changed," minister for disinvestment Arun Jaitley said.

The decision to divest 10 per cent in Indian Oil and 2 per cent in Container Corporation of India Ltd through public offerings was taken a long time ago but never implemented. Today's meeting merely revived the sale. IOC's shares will be put on the market after about a month, when a restructuring exercise is completed.

| COMPANY | % SELLOFF |
|---|---|
| Hind Zinc | 26 |
| Shipping Corp | 40 |
| Hind Organic | 33 |
| Hind Insect | 51 |
| Indian Oil | 10 |
| Concor | 2 |
| MMTC | Full |
| STC | Full |
| MSTC | Full |
| Sponge Iron | Full |
| Ranchi Ashok | Full |
| Utkal Ashok | Full |
| IBP | Undecided |
| MECL-I | Undecided |

Apex chambers of commerce like Ficci and CII were pleased that the government was now more serious about full-scale privatisation and had jettisoned its earlier plan to sell small stakes to raise revenue.

The talking point after the much-hyped meeting was the back-room politics that stalled the selloff of national icons like Maruti and VSNL.

Jaitley wanted to sell the government's 50 per cent stake in Maruti for an estimated Rs 3,000 crore, 27 per cent in VSNL for about Rs 1,500-3,500 crore, and approximately 30 per cent in MTNL. But, unfortunately for the disinvestment minister, the heavy industry ministry has been objecting to the Maruti sell-off arguing that it should not be rushed through till the automobile policy is finalised. Maruti workers today threatened strike over any selloff.

Similarly, the communications ministry wanted more time before the stake sale in MTNL and VSNL was taken up.

The ministers representing these two departments — Manohar Joshi and Ram Vilas Paswan — were present at today's meet. Petroleum minister Ram Naik was successful in delaying a selloff decision in any oil PSU other than IBP.

Disinvestment secretary Pradip Baijal, however, claimed MTNL, VSNL and Maruti did not come up for discussion at all. He added that a three-year disinvestment plan would be taken up at the next Cabinet committee meeting, likely in mid-July.

The 19 companies earlier cleared for divestment include IPCL, Indian Airlines, Air-India, Hindustan Copper, ITDC, Madras Fertilisers, National Fertilisers, Engineers (Project) India, Hindustan Cable and Jessop and Co.

THE TELEGRAPH

24 JUN 2000

# PMO silent on Mamata's PSU fax claim

STATESMAN NEWS SERVICE

NEW DELHI/CALCUTTA, June 23. – The Prime Minister's Office was caught in a fix today over Miss Mamata Banerjee's claim that Mr AB Vajpayee sent her a fax assuring her that the Centre would hold its decision to close down the six PSUs. The PMO neither confirmed nor denied the move, choosing silence as its way out.

The Trinamul Congress chief's claim reportedly caught the Prime Minister by surprise. But the PMO is understood to have given her a temporary reprieve, so the minister doesn't suffer a loss of face.

Earlier, Trinamul spokesman Mr Pankaj Banerjee, said in Calcutta that the PMO's fax received today was a fitting reply to Mr Jyoti Basu's "banter" that the railway minister had made a false claim on the PMO's assurance.

"It also proves that Miss Banerjee can intervene in crucial Central matters without going to Delhi. Mr Priya Ranjan Das Munshi suggested that Miss Banerjee cancel her campaign programmes and rush to Delhi to stall the decision on the PSUs. He need not advise her as to how she should deal with Cabinet matters," Mr Banerjee said.

Reliable sources said the government was unlikely to bow to political pressure and reconsider its decision to close down the PSUs.

But, the decision would not be implemented soon. It takes months to implement a policy decision, the source said.

The decision would have been taken earlier, but for Miss Banerjee who wanted to hold it till after the civic polls in West Bengal. Sources said the Trinamul chief's real objections were on the timing. She feared the move could affect her party's electoral chances.

Mr Vajpayee is likely to take up the issue with her after returning from his week-long foreign tour beginning Sunday.

The CPI-M state secretary, Mr Anil Biswas, said the "a mere assurance to discuss the issue does not make any sense". It was not clear if the government was in any mood to rescind the decision, he said.

The Prime Minister reportedly did not take Mr Jyoti Basu's letter seriously, considering his opposition as a routine CPI-M matter.

The state finance minister, who handed over the chief minister's letter to Mr Vajpayee, was told clearly that the decision would not be reconsidered.

At the chief ministers' meeting, the Union finance minister refuted Mr Asim Dasgupta's argument that the Centre did not consult the states before taking the decision.

Mr Yashwant Sinha's claim was supported by two Congress chief ministers, Mr Digvijay Singh and Mr Ashok Gehlot. Mr Vajpayee reportedly took this as sign of the Congress's support on reform, including closure of sick PSUs.

THE STATESMAN

2 4 JUN [illegible]

# Bluechip PSUs not to be up for divestment

HT Correspondent
New Delhi, June 23

THE CABINET Committee on Disinvestment after a stormy three-hour meeting today decided not to clear the proposal for divesting the shares of bluechip public sector companies, including, MTNL, VSNL, Maruti Udyog Ltd, BHEL and Hindustan Petroleum Corporation Ltd.

However, "in principle" clearance was given for disinvestment in 11 public sector enterprises including IBP, MMTC, STC and SCI. The percentage of shares to be divested in the petroleum marketing company IBP has not been decided as yet and various options will be drawn up for the next meeting.

Disinvestment Minister Jaitley making a point to Fertilisers Minister Suresh Prabhu after the meeting on Friday. Photo: Arvind Yadav.

Disinvestment Minister Arun Jaitley told reporters that the Cabinet committee had decided to complete the disinvestment process in Indian Airlines, Air India, ITDC, BALCO and IPCL within the current financial year.

He said that in principle approval for disinvestment has been given for 11 public sector undertakings apart from the 19 PSUs for which clearance had been given earlier.

The other PSUs for which in principle approval has been give include Hindustan Zinc, Hindustan Organic Chemicals, Hindustan Insecticides, Sponge Iron India, MECL, Hotel Ranchi Ashok and Hotel Utkal Ashok. The performance of all these undertakings has been very poor.

The move of the Department of Disinvestment for privatising the bluechip PSUs came up against stiff opposition from Minister for Heavy Industries Manohar Joshi, Petroleum Minister Ram Naik and Telecommunications Minister Ram Vilas Paswan. Both Naik and Joshi had already made clear their stand against the privatisation of these cash-rich companies. Naik is of the view that the Government share in the oil companies should not fall below 51 per cent.

Sources say that the three-year disinvestment plan prepared by the Department of Disinvestment was not cleared and it was decided to stick to the earlier schedule for the current year.

Disinvestment Department Secretary, Pradeep Baijal said the cabinet committee's approval for MMTC and STC was for the sale of 51 to 100 per cent stake, while in the case of Utkal and Ranchi Ashok it would be 50 per cent or more. In SCI the percentage sale would be 40 per cent.

He said disinvestment in the new cases would be largely based on the disinvestment commission's recommendations. Other PSUs, where the government has already taken a decision on disinvestment are Madras Fertilisers, National Fertilisers, Engineering Projects, Instrumentation Ltd, Hindustan Cables and Jessop Ltd.

THE HINDUSTAN TIMES

OIL, TELECOM SECTORS UNTOUCHED

# 14 more PSUs cleared for disinvestment

By Sushma Ramachandran

**NEW DELHI, JUNE 23.** The Government today finalised a road map for public sector disinvestment during the current financial year, but stopped short of taking any decision on "big ticket" privatisation.

The Cabinet Committee for Disinvestment (CCD) gave clearance in-principle for disinvestment of equity in 14 Public Sector Undertakings (PSUs), including the State Trading Corporation, (STC), MMTC, Shipping Corporation of India (SCI) and IBP. Other major PSUs in the oil and telecom sector as well as the joint venture Maruti Udyog Limited have been kept out of the exercise for the time being.

The CCD decided to empower the Department of Disinvestment (DoD) to appoint global advisors to accelerate the privatisation process. This is likely to expedite the disinvestment of Air India and Indian Airlines where the appointment of these advisors has not yet taken place.

Briefing newspersons after the meeting, the Disinvestment Minister, Mr. Arun Jaitley, said his Ministry has been asked to prepare proposals for the 14 PSUs which would be considered at the next meeting on July 10. The Ministry's proposal for a three-year road map for public sector disinvestment would also be taken up.

Regarding the oil sector, it was decided to defer disinvestment till restructuring was completed. The Indian Oil Corporation has been listed for 10 per cent disinvestment this year but this would have to be after oil sector restructuring. The sale of Government equity in IBP has been cleared. A decision was not taken on the issue of considering the oil sector "strategic", a proposal submitted by the Petroleum Minister, Mr. Ram Naik, who has been quite candid about his views on the issue. Similarly, the Heavy Industry Minister, Mr. Manohar Joshi, has made it evident that he is keen to ensure that the Government stake was retained in MUL.

Among the 14 PSUs which have been given "in- principle" clearance are Hindustan Zinc Limited, Hotels Ranchi Ashok and Utkal Ashok, Hindustan Organic Chemicals, Hindustan Insecticides Limited (HIL), Sponge Iron India and MECL.

Mr. Jaitley said it has been decided to complete the disinvestment process this year for PSUs which have already been given the green signal. These include Indian Airlines, Air India, ITDC, BALCO and IPCL. Apart from the 14 PSUs which have been approved in-principle, he said 19 PSUs have already been cleared for disinvestment.

The Disinvestment Secretary, Mr. Pradip Baijal, said that out of the 19 existing cases, global advisors have already been appointed for 10 companies. These are BALCO, IPCL, Scooters India Limited (SIL), Bharat Leader Corporation, NEPA, Hindustan Teleprinters Limited, RBL, Bharat Brakes, Hindustan Latex and Hindustan Copper. Other PSUs where decisions have already been taken are Madras Fertilisers Limited, National Fertilisers, Engineering Projects India Limited (EPIL), Instrumentation Limited (IL), Hindustan Cables Limited (HCL) and Jessop Limited.

He said the CCD has decided allow disinvestment in STC and MMTC from 51 to 100 per cent. In the case of Hotels Ranchi and Utkal Ashok, it would be 50 per cent or more. He said the new cases would be largely based on the Disinvestment Commission's recommendations.

Asked about the big ticket privatisation, Mr. Baijal said it did not come up for discussion. The Department had gone with an annual plan which had been approved, he said.

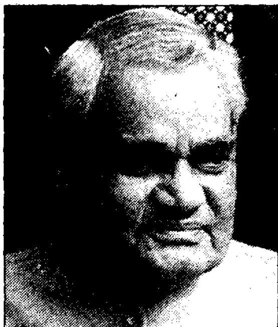
**Left reaction: Page 13**

THE HINDU

'Disinvestment department will present paper within four to six weeks'

# PM seeks PSU sell-off policy

PRESS TRUST OF INDIA


Atal Behari Vajpayee

NEW DELHI, June 25. — Alarmed by the sharp inter-ministerial differences over the sale of government equity in public sector units (PSUs), the Prime Minister, Mr Atal Behari Vajpayee, is believed to have asked the disinvestment ministry to come up with a policy paper dealing with the contentious telecom and oil sectors.

The directive came during last Friday's meeting of the Cabinet committee on disinvestment (CCD). The department of disinvestment (DoD) would present the paper within four to six weeks, highly placed government sources said.

Even though the ministries of telecom and petroleum maintained that matter of disinvestment in PSUs under them did not come for discussion at CCD, sources said: "The issue is not dead yet... This will continue to be debated at various forums."

Sources said that DoD would take up the draft paper with the committee of secretaries, likely to meet next week, and enlist its reasons for privatisation of major companies like Videsh Sanchar Nigam Ltd (VSNL), Mahanagar Telephone Nigam Ltd (MTNL), Maruti Udyog Ltd (MUL), Bharat Heavy Electricals Ltd (Bhel) and some of the national oil companies.

Finalisation of the three-year road map for divestment, which included these blue chip companies, as proposed by DoD could not be considered at the CCD meeting mainly due to difference among ministries, sources said, adding this led to the directive to DoD for preparing a status paper to justify privatisation of these companies.

The Prime Minister's directive assumes importance in the wake of concerns expressed by the disinvestment ministry that target of Rs 10,000 crore would not be achieved during current financial year unless the government cleared more PSUs, particularly big ones, for divestment and privatisation.

When contacted, communication minister, Mr Ram Vilas Paswan, said: "Disinvestment of MTNL and VSNL did not come up for discussion during the Friday meeting."

Likewise, officials in the petroleum ministry said that nothing pertaining to them was discussed and therefore, it would not be appropriate to say that these issues were deferred.

Amidst reports that the DoD was seeking privatisation of MTNL, VSNL, MUL, Bhel and at least two oil psus during the current fiscal as part of efforts to create a few success stories of sell-off process, petroleum minister, Mr Ram Naik and heavy industry minister, Mr Manohar Joshi had expressed their reservations about inclusion of PSUs under their ministries.

The DoD is likely to take up ministry-specific PSUs and give the rationale for privatisation by quoting the trends worldwide, sources said, adding that the status paper would respond to petroleum minister's logic for strategic status for oil PSUs by saying oil industry globally is in private hands.

THE STATESMAN

26 JUN 2000

# MEEK SURRENDER

## No real appetite for disinvestment

THE outcome of the meeting of the Cabinet committee on disinvestment belied hopes of a big push for the second generation of reforms. The right signals would have been sent had the Maruti and Telecom disinvestment programmes been approved. But that has seemingly been put in cold storage. There has been some rehashing — finalisation of the old divestment packages for Air India, Indian Airlines, ITDC. The rest of the package is toothless — a signal that government is not yet prepared to grasp the nettle. What is more disturbing is the news that significant differences cropped up during the CCD meeting. Ministers defending lucrative turfs show poor commitment to policy and a common enough tendency to hold on to what they think they have for purposes that have nothing to do with principles and everything to do with their power to abuse. Witness Ram Vilas Paswan's opposition to disinvestment in the telecom sector and Ram Naik's anxiety not to part with the petroleum sector. Apart from this tendency to regard public property as intended for personal fulfillment it is also a problem of mindset. As long as key ministries remain in the hands of people like Paswan who have cut their teeth on old "socialist" dogmas, opposition to reform will continue to haunt liberalisation. Arun Jaitley, the minister for disinvestment, is a man with fresh ideas and unanswerable arguments. But to break down entrenched resistance is quite another matter. Cabinet heavyweights have to combine to batter down ancient prejudices and the propensity to feed on antiquated ideas.

Jaitley's view, that the CCD meet in full to reach a consensus before taking the divestment process further, makes every sense. But he is under attack from within his party and allies frightened of their own shadow. The swadeshi lobby and the "socialists" are a horrendous combination. Jaitley, in other words, needs political support, so that the "consensus" points ahead rather than backwards. For the moment, going by the outcome of the CCD meeting, the outlook is depressing. First, major areas for disinvestment have been ignored. Next, the CCD has drawn up a roadmap for only a year, where the expectation was that it would present a plan and programme for three years. What is on offer is compromise where the need was for flags flying and drums beating to herald the second generation of reforms. There is still hostility to the idea that the public sector be downsized fast. Fortunately, the realisation is dawning that this white elephant cannot be nurtured any longer. This must be followed up energetically. The process is still caught up in red tape. There is a need for established procedures, which will cut out file-pushing and make the process more transparent. We get the feeling that the bureaucrats long sustained on a diet of abuse of power are engaged in Operation Scuttle in league with relics of the past. For the moment, at least, an opportunity has been squandered — government have exposed a weakness around the knees.

THE STATESMAN

26 JUN 2000

# RSS, BJP leaders to discuss Govt's economic policy

**Shekhar Iyer**
New Delhi, June 28

A FRESH dialogue between the Bharatiya Janta Party and the RSS on the economic policy is on the cards after the Sangh formulates its objections at the six-day annual conference at Ahmdabad.

The BJP leaders view the RSS conference as an important one since the Sangh has been quite unhappy with the government's decisions, particularly those allowing 100 per cent foreign direct investment in several areas.

Significantly, BJP president Kushabhau Thakre and party general secretary K.N. Govindacharya will attend the RSS central executive meet when it sits on July 1 and 2 to articulate its views on several aspects of governance. While the BJP leaders maintain that they do not expect the RSS to interfere, the Sangh leadership is expected to broadly endorse the stand taken by its affiliate, the Swadeshi Jagran Manch (SJM).

The tone of the SJM's resolutions adopted at its meet in Agra two days ago has been interpreted as reflective of the RSS' own assessment, which is not appreciative of the government.

The SJM has accused the government of taking economic decisions under foreign pressure and announced a campaign to "expose" plans that it says allow the multi-national companies to gain a major foothold in the country under the garb of adherence to WTO regulations.

According to BJP sources, the RSS and the BJP leaders, including the Prime Minister, are likely to engage in a informal dialogue regarding the economic policies to appreciate mutual concerns before Parliament's monsoon session from July 24.

The RSS finds itself in a tight spot because it does not wish to disturb the functioning of the Vajpayee Government but at the same time cannot endorse policies that are counter to its line of approach.

However, the RSS leaders say they have to keep the cause afloat and the cadres pleased. They will have to show that foreign investment in key areas is unwelcome while reforms are not per se if they benefit the rural poor.

BJP critics dub this as nothing but a tacit agreement between the government leaders, the RSS and the swadeshi lobby to let one another carry on with their respective agenda.

THE HINDUSTAN TIMES

29 JUN 2000

# Foreign direct investment in India — I

By Nirupam Bajpai and Jeffrey D. Sachs

ECONOMIC POLICY reforms have played a critical role in the performance of the Indian economy since 1991. Among other things, the reforms have involved opening up the economy, making it more competitive, getting the Government out of the huge morass of regulation, empowering the States to take more responsibility for economic management and thereby creating a kind of competition among them for foreign investment. The positive trends being seen in most sectors had the capability to more than neutralise the debilitating effects of two general elections in two years, the crisis in East Asia, Kargil, the nuclear explosions, and the U.S. sanctions that followed.

In the backdrop of the East Asian crisis, growth did slow down, but India has kept growing and has avoided the worst of the crisis. From the narrow financial point of view, two things that India did were quite helpful. One, it did keep some limit on the short-term capital inflows and did not go overboard in borrowing short term from abroad. This helped India avoid the financial reverses of some of its neighbours. Second, it kept the rupee flexible and the depreciation definitely helped keep the economy more competitive and kept growth going.

In the context of the East Asian crisis, certain kinds of money fled while other kinds did not. The hottest money was short-term loans from international banks. Indeed, the reversal of short-term bank lending constituted a very large proportion of the overall $105 billion reversal in capital flows. The banks put in $56 billion in net lending in 1996, and then withdrew an estimated $21 billion in net loans in 1997, for a swing of $77 billion (or 73 per cent of the overall reversal). Portfolio equity investors (e.g. country equity funds) also reversed gear, to the extent of $24 billion. Foreign direct investors, by contrast, were very stable. Net Foreign Direct Investment (FDI) remained roughly unchanged between 1996 and 1997, at around $7 billion in net flows each year.

Significantly, India went through a near disaster in 1991 that was, among others causes, based on short-term borrowing. Of course, at that time it was short-term borrowing from non-resident Indians (NRIs), but it was the same kind of phenomenon — lots of short-term capital had come in and lots had moved out and created a severe payments crisis. In terms of foreign investment, it is the direct investment that should be actively sought. For, FDI brings huge advantages (new capital, technology, managerial expertise, and access to foreign markets) with little or no downside.

There are lots of international investors who would flock to India, especially now that they see that India has a lot of safety for them compared to China, for example. But, they are put off as they cannot get reliable power and the road system is so dreadful that even if they are producing effectively, they will not be able to get the goods to the market or back to the port for exports. Continuing fiscal difficulties that are often linked to the chronic infrastructure difficulties remain a major challenge for India. The Government has set an ambitious target of achieving $10 billion in actual FDI inflows a year. For this target to be met, it is essential to undertake some hard reform steps. Should the Government decide to implement some of the most critical reform actions necessary for making India an attractive investment destination, then India may not only be able to meet the target, but in fact do much better than that. Of course, additionally, availability of infrastructure services such as uninterrupted power, good roads, and adequate port and telecom facilities are essential.

***Foreign direct investment brings huge advantages (new capital, technology, managerial expertise, and access to foreign markets) with little or no downside.***

To achieve the Government's goal, it is crucial to raise the FDI approvals to actual ratio. Actual FDI as a proportion of FDI approved was only 21.7 per cent. The same ratio is much higher in China, Indonesia, Korea, Malaysia, Philippines, and Thailand.

A few of the States have been more reform-oriented, such as Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Tamil Nadu, but Haryana, Kerala, Orissa, Madhya Pradesh, Punjab, Rajasthan and West Bengal have a lot of catching up to do. Of course, Bihar and Uttar Pradesh are even further behind. States that are ahead in the reform efforts right now are going to find that if they move against the populist policies and set up regular markets for services such as power and water they are going to move further forward.

There are rather significant differences in reform interest and economic performance between a large part of northern India and southern India where Karnataka, Tamil Nadu and Andhra Pradesh are quite dynamic now in trying to get the infrastructure, and the policy regime right to attract FDI. In Bihar and Uttar Pradesh, one does not see the same kind of reform dynamism and the results are therefore poor in terms of economic growth. These differences will be noticed politically sooner rather than later, (as inequalities will become glaring) and the States that are ahead will be rewarded with better performance and those that are behind will face a demand to catch up. That will spur a kind of competition among the States and make the reform process go much faster.

State-wise data on FDI approvals (aggregate FDI approvals between 1991-97) suggest that the relatively fast moving reformers have tended to attract higher investments, both from foreign and domestic investors. From the long-term development point of view, India has tremendous growth prospects through export-led growth which involves a broad range of sectors, both traditional and new. The most of the new sectors is software and information technology in which India is becoming one of the most important global players. It is also the fastest-growing foreign exchange earner for India. Export-led growth in services is one of the most interesting developments, and export- led growth in manufactures, the more traditional textiles and apparel, in electronics and other labour-intensive operations remains an area where India could do a lot more than in the past.

China has achieved a lot more in manufactured export production than India and for no particular reason. India has the resource base, it has the entrepreneurship, has the access to the sea, a vast labour force, it has everything that coastal China has had except the interest of the Government which even today underemphasises the role of industrial facilities, of infrastructure, of land area, of effective port facilities. But it is a place where one could find tens of millions of jobs over the next few years in real, significant foreign exchange earning private sector activity. This would require a change of attitude, a real promotion of these sectors both at the State and Central Government levels.

India's neighbours that are relying heavily on FDI, such as China, Indonesia, Malaysia, and Thailand, have been pulling far ahead in economic growth, income levels, and productivity, while also increasing their security and geopolitical influence.

India's continuing ambivalence on FDI, as a result, exacts a heavy toll on the economy. Undoubtedly, India is ceding billions of dollars of FDI to its neighbours each year. While China achieved actual FDI inflows of around $45.3 billion in 1997, India settled for a mere $3.2 billion!

Why is it that India, which provides the largest market after China in the developing world is unable to attract substantial volume of FDI? Further, when it comes to comparing China and India, why can India not match or even outpace China in attracting FDI given India's superior conditions regarding the rule of law, democracy, and the widely-spoken English language?

*(The writers are respectively Director, Harvard India Program, Center for International Development, Kennedy School of Government, and Director, Center for International Development, Department of Economics, Harvard University.)*

THE HINDU
THE HINDU
30 JUN 2000

# FM announces wide-ranging tax concessions

## IT, housing, pharma sectors to get boost

**HT Correspondent**
New Delhi, May 3

FINANCE MINISTER Yashwant Sinha today announced a series of measures to give relief to the domestic industry and pep up the capital markets which witnessed volatility in the last two days.

Initiating the debate on the Finance Bill in Lok Sabha today, Sinha hiked the import duty on tea and coffee from 15 to 35 per cent and gave tax sops by raising the exemption limit from Rs 2,500 to 5,000 on non-bank deposits and discontinuing the TDS on compulsory acquisition of farmers' lands.

Sinha also increased the deduction limit on interest payable on housing loans to Rs 1 lakh, exemption of employees' stocks from income tax levy and hiked limit on non-bank deposits to Rs 5,000 from earlier proposal of Rs 2,500.

The Vajpayee Government made several changes in both direct and indirect tax proposals, providing further concessions and tax holiday for both pharma, biotech and infotech companies.

The proposal to exempt income of venture capital funds (VCFs) from tax levy, extension of tax holiday and other concessions for ten years to export-oriented units, free trade zone units, special economic zones, and software technology parks is bound to be music to the corporates' ears.

However, Mr Sinha did not give any hint on the possible roll back in the hike of food grain prices sold through PDS, cut in fertiliser subsidy or any revision in prices of LPG, kerosene or diesel.

Among other major proposals, the Finance Minister proposed the discontinuation of tax deduction at source on compulsory acquisition of farmers' lands.

He exempted silicon, E-mal and intravenous fluids, tapioca starch and asafoetida (heeng) from levy of 16 per cent Central Value Added Tax (Cenvat).

The Centre has also reduced the excise levy on biscuits being sold at Rs 5 per packet. These biscuits weighing less than 100 gm would attract 50 per cent of Cenvat. Duty-free clearance of paper made from bagasse and waste has been increased to 3500 tonnes in a year.

While artemisinin import has been exempted from customs duty levy, duty on DBM, fused magnesia and seawater magnesia has been slashed to 25 per cent from earlier proposal of 35 per cent. Imported tiles are expected to be costlier as the additional duty of customs (CVD) on marble slabs and tiles has been raised from Rs 30 per sq. metre to 16 per cent.

The Finance Minister also announced increase in customs duty on non-coking coal to 25 per cent from earlier 15 per cent.

While VCFs have been allowed complete pass through on distributed or undistributed income of the funds, these incomes would be taxed in the hands of investors.

In a bid to encourage basic R&D in knowledge-based industries like pharmaceuticals and biotech, the Centre has announced a 10-year tax holiday and set up a Rs 150 crore fund for promotion of R&D. Weighted deduction for tax purposes, expenses up to 150 per cent would be considered.

### HIGHLIGHTS

- Basic customs duty on tea and coffee hiked from 15 % to 35%
- Limit of deduction of interest payable in acquiring self occupied properties raised from Rs.75,000 to Rs. 1 lakh.
- TDS on compulsory acquisition of farmer's land discontinued.
- Exemption limit of tax at source on non-bank deposits raised from Rs. 2,500 to Rs. 5,000.
- Shares received by the employees under employees stock option plan to be taxed only as capital gains at the time of sale.
- Charitable companies set up with no profit motive exempted from the operation of minimum alternate tax.
- No tax on distributed or undistributed income of venture capital funds.

4 MAY 2000

## FINANCE BILL PASSED IN LS

# Sinha won't yield on rollback

By Alok Mukherjee

**NEW DELHI, MAY 4.** Despite intense pressure from the alliance partners and the Opposition parties, the Vajpayee Government today stuck to its guns and refused to relent on the fertilizer and food price increases. The Government's response came from the Union Finance Minister, Mr. Yashwant Sinha, in his reply to the debate on the Finance Bill 2000, which the House passed subsequently. With this, the 2000-2001 budget received the sanction of the Lok Sabha.

While Mr. Sinha refused to respond to the Opposition demands that the Government make clear the position on rollback of the price increases, he did get up in response to a query from Mr. Yerran Naidu of the Telugu Desam Party to say that the Expenditure Commission set up recently had been asked to submit a "quick report" on the issue and suggest ways to target them better.

To the Congress (I) member, Mr. Madhavrao Scindia, Mr. Sinha said "I can understand every other section of the House expressing concern about increases in fertilizer and PDS prices, but not the Congress. I am astounded as to how the Congress can raise this question." The Congress (I) Government had raised the fertilizer and PDS prices four times between 1985 and 1989 and four times again during 1991 and 1996.

Dissatisfied at the lack of response from Mr. Sinha, the Congress (I) members and the rest of the Opposition walked out of the House, shouting slogans against the Government. Earlier, responding to the points raised by the members in the debate, Mr. Sinha countered most of the points of criticism. Picking up the Congress (I) charge about the "crushing burden of prices" on the weaker sections, Mr. Sinha quoted figures to say that the average rate of inflation under the Congress (I) regime between 1992 and 1996 was 8.2 per cent whereas it was 6.1 per cent under the United Front regime and the average worked out to 4.5 during the two years of the National Democratic Alliance Government. On the charge that growth had slipped during the NDA regime, the Minister again quoted figures to show that the average growth between 1992-93 and 1995-96 was 6.5 per cent whereas it was 6.3 per cent under the United Front regime and 6.4 per cent under the NDA Government.

On external debt, the Minister said the proportion of short-term debt in the total external debt had been brought down to 4.4 per cent from 5.3 per cent earlier and, therefore, "there is nothing to worry on that front."

However, he said concern should be expressed about internal debt and the precarious situation of the State finances. In this context, Mr. Sinha pointed out that the salaries bill of the Central Government had gone up from Rs. 37,400 crores in 1996-97 to Rs. 73,646 crores in 2000-01 because of the Fifth Pay Commission award. "This had a devastating impact on the State finances as they had to follow suit," the Minister pointed out.

**Allies feel ignored: Page 13**

THE HINDU

5 MAY 2000

# Sinha showcases India's potential

By P. S. Suryanarayana

**CHANG MAI (THAILAND), MAY 6.** Inviting foreign investors to India as an independent destination, the Finance Minister, Mr. Yashwant Sinha, said here today that the country was moving towards the status of "a highly-developed nation based on strong social, cultural and economic foundations and (sitting) at the cutting edge in science and technology."

Recounting a whole series of steps taken by India in recent months to liberalise the economy, Mr. Sinha said that the Government was aware that its "efforts to combat disease, poverty and illiteracy will need to be further augmented."

"The most important constraint to rapid economic growth in India today is the inadequacy of our infrastructure," Mr. Sinha told the assembled foreign investors on the sidelines of the annual meeting of the ADB. In this context, India would go ahead with plans of "corporatisation of public sector service providers in the areas of telecommunications, ports and airports," he said and drew attention to a new Department of Disinvestment.

Expressing satisfaction that the latest Indian budget, seen in many quarters as a far-reaching one, had been passed by Parliament a few days ago, Mr. Sinha drew attention to the approval accorded to certain reductions in subsidies. He explained later that he was not gloating over such a measure which had acquired controversial overtones. The passage of subsidy cutbacks was no negative message either to the Indians or to the international investors, he maintained.

On the question of the relative places of India and China in the calculations of international investors, Mr. Sinha said that they were not competing destinations for FDI.

The ADB president, Mr. Tadao Chino, delivering the traditional address, outlining the bank's priorities and performance, said that the vision of the ADB had been translated into action through the implementation of a poverty reduction strategy, private sector development, promotion of social growth indicators such as education and through the promotion of good governance.

The other key areas of the ADB's focus were cited, covering the challenges of globalisation, application of new technologies, environmental protection and productivity upgradation.

## Protests mark meet

PTI reports:

About 2,000 demonstrators pushed over crowd-control barriers and confronted riot police today in protest against the ADB, outside the Chiang Mai University venue.

The protesters, chanting slogans such as "ADB go to hell," sat on both ends of the road outside the venue and vowed to stay there and block the delegates from leaving, though they left a small rear access road clear.

Hundreds of riot police with clubs and shields kept a tense eye on the protesters, mostly from non-governmental organisations or people whose land or livelihood had been lost by ADB-funded projects, from behind other ranks of crowd-control barriers.

A smaller group of student demonstrators pushed the lines of riot police, who pushed back. About 100 students managed to scale a wall around the conference centre, but were quickly surrounded and staged a sit-in.

# MANAGING THE EXTERNAL ECONOMY

THE FALL OF the rupee against the dollar to below the forty-four level on Wednesday ought to be viewed in its correct perspective. All indications are that the sharp decline of about 35 paise was caused by a sudden and unexpected commercial demand for dollars, leading to a wrong market perception that the rupee would move down even more steeply in the next few days. The result was a classic panic reaction especially among importers, who rushed in to cover. Additionally, the fact that the dollar has been faring well against the euro and other major currencies in the international markets has naturally mattered in India too. Important as these causative factors are, it is imperative that a distinction is made between short-term and medium-term influences that affect not just exchange rate stability but the external sector management as a whole.

For a long time since end-August 1998, the Indian currency has enjoyed, by the standards of today's foreign exchange markets, a period of reasonable stability. The Reserve Bank's strategy involving a combination of a tough posturing against speculative elements along with correcting temporary imbalances in both demand and supply has paid off. Since the day-to-day movements of the exchange rates are market determined, the RBI's claim of having enforced orderly conditions cannot be disputed even when the rupee lurches below a psychological barrier of Rs. 44 to the dollar. Given the fact that a gradual depreciation of the rupee has always been on the cards, there is apparently no reason to be especially concerned even over Wednesday's sharp drop. In its recent annual monetary and credit policy statement, the RBI has reiterated that it will continue to closely monitor the financial markets and take all appropriate measures to achieve certain stated objectives.

Those objectives will have to inevitably mesh with the much broader goals of external sector management and of macroeconomic policy. The growing linkages among the different sectors of the economy and among the several financial markets prove that sector-specific measures have become passe. The sudden weakening of the rupee might just be a perception that was proved wrong by subsequent developments but then the original anxiety arose from the recent stock market gyrations. Foreign institutional investors, who have suddenly turned net sellers of stocks, were reportedly repatriating the proceeds abroad. There could be further threats to the forex market's composure, if inflationary pressures are to be countered through monetary means.

Further areas of concern relate to the balance of payments and the management of reserves. During the last financial year the sharp increases in the prices of crude oil and petroleum products caused the oil import bill to go up substantially. Even though it was absorbed without causing undue strain on the current account deficit, there is obviously no room for complacency. In fact current thinking on reserves management would factor in contingencies such as an unexpected commodity or asset price increase. Another fascinating external economy debate centres on debunking age-old assumptions regarding the adequacy of forex reserves at a given level. Thus while there has been a satisfactory accretion in the country's reserves during fiscal 1999-2000, experts say that in emerging economies a number of parameters besides the quantum of merchandise imports or the size of the current account deficit should be used to determine the adequacy of reserves. Since capital flows have become volatile, their composition obviously matters in determining the adequacy of reserves. The overall approach to the management of the country's foreign exchange reserves and therefore of exchange rate policy is all encompassing and includes both identifiable factors and contingencies. There would be some more salutary gains if Wednesday's drop in the rupee spawns further discussions in that genre.

16 MAY 2000

# In Manmohanomics, BJP sees ray of Congress endorsement

**HT Correspondent**
New Delhi, May 16

ON A day when Mrs Sonia Gandhi led the Congress marchers to the PM's residence to demand the return of subsidies cut in this year's Budget, former Finance Minister Manmohan Singh's act of questioning in the Rajya Sabha the continuance of "non-merit" subsidies delighted the BJP to propose consensus on economic issues to the Congress.

Saying that Dr Singh's speech could form the basis for working out the consensus, BJP spokesperson M Venkaiah Naidu said the Congress should stop bluffing the people all the time and realise that it was about time "good economics makes good politics".

The BJP could not hide its glee at the fact that when Mr Vajpayee had Consumer Affairs Minister Shanta Kumar to explain to the Congress delegation led by Mrs Gandhi the reasons for the Government's action, Dr Singh had stumped his own party and supported the Government's line with his statement that the present path of continuing with "non-merit" subsidies was simply unsustainable.

The BJP's big welcome for Dr Singh's speech was matched by Prime Minister A B Vajpayee's call to BJP members of Parliament to stop worrying about the impact of this year's Budget and instead go to their people to explain the "hard decisions" because "the mood is in our favour and there is no scope for change in the future."

Mr Vajpayee had been upset by his own party MPs' reservation over the cut in subsidies and could not help saying that "in the beginning, the people said the Government would be cornered

## Economic Issues

on the issue of subsidies and that we would not be able to withstand the Opposition's onslaught." However, the Prime Minister said, the Opposition's attack was more political.

Mr Vajpayee, who received a memorandum from Mrs Gandhi charging the Government with dismantling the PDS, told the BJP Parliamentary Party that the Congress's opposition was born out of an agitational approach than on merits. Therefore, the BJP members should convey to the people the benefits that would accrue from the Budget's proposals.

Mr Vajpayee said the Opposition would have to accept the reality that the Government would complete its full five-year-term and asked partymen to properly "propagate" the reasons for the hard decisions. The Prime Minister expressed satisfaction over the outcome of the Budget session.

Mr Naidu said, "We welcome Dr Singh's speech in the Rajya Sabha and hope that it is in tune with the Congress' policy on economic issues." He also referred to Dr Singh's first Budget speech of 1991 to justify the Government's decision to reduce the level of subsidy for fertiliser and compensate the farmers by increasing the support price for their produce. "If the past decisions were correct during the Congress and the United Front regimes, how can they (the Opposition) find fault with the present decision when it proposed increase in the price of urea." He dismissed the Congress's agitation against the rise in the price of essential commodities and urea following the cut in subsidies, saying that "they can go on agitating and we will go on educating them".

**Manmohan's speech in RS: Page 9**

THE HINDUSTAN TIMES

17 MAY 2000

# 'Political consensus needed on subsidies'

## Govt wants to initiate national debate on fiscal deficit: Sinha

HT Correspondent
New Delhi, May 16

UNSUSTAINABLE AND unmerited subsidies make up for 16 per cent of the country's Gross Domestic Product (GDP), and if these are withdrawn through political consensus, the problem of finding funds for the literacy mission and improving the living conditions of people below the poverty line can be solved, Dr Manmohan Singh, leader of the Opposition in the Rajya Sabha, said today.

Participating in a debate on the 89th Amendment Bill, brought to effect devolution of 29 per cent Central taxes to States as suggested by the 10th Finance Commission, the former Finance Minister said subsidies need to be reviewed urgently. The total subsidy bill now exceeds Rs 1,30,000 crore which needs to be viewed by all parties as a national problem.

Unless the country's finances are put to order, the eventual aim of bringing down interest rates will lead to zero investment in the infrastructure sector which is so vital for national growth. "We are far away from levels of prudence", he warned.

Talking about States' runaway deficits, Mr Singh pointed out that most of the State PSUs are sick. In many cases their accounts are not audited. There are no returns available for years and appointments are ad hoc or purely on political basis.

The States' total debt is now 20.5 per cent of GDP. If this is not controlled, it hurts the fiscal integrity of the system. The states are unable to pay their dues on coal and power which leads to transfer of their deficit to the Centre.

Dr Singh described as "fraught with danger" the new system of pensions on basis of "pay as you work". The burden of pension exceeds 50 per cent of GDP as cumulative liabilities. This poses an unique fiscal problem , he said. Another problem which has arisen over the past five years is primary deficit. In 1995-96, there was no such thing as primary deficit, but now it is set to cross the Rs 10,000 crore mark.

**Fiscal Responsibility Act:** Replying to the discussion on the Amendment Bill, Finance Minister Yashwant Sinha said Government plans to bring a comprehensive Fiscal Responsibility Bill to tackle the problem of fiscal deficit. He Government would take this bill to the people and initiate a national debate on it before bringing it to Parliament.

He said the current deficit stood at Rs. 111,000 crores of which Rs.40,000 crores was the interest burden. He said India's pride was hurt by being among the delinquent nations with fiscal deficit being to the tune of 9 to 10 per cent of the GDP.

The Bill was passed unanimously by the House with all the 170 Members present voting in favour.

He said besides the mounting interest burden, the Central and State budget had been destroyed by the "adverse impact" of one single act — recommendations of the Fifth Pay Commission, and which would take many years to overcome.

He said the members should not "nurse any suspicion" that by changing the Tenth Finance Commission recommendation that 29 per cent of "gross" proceeds of taxes will go to the states to "net proceeds in the Bill there was an attempt to deprive the states of their share. Mr Sinha stating that there was likely to be a difference of Rs. 2,000 crore if the term 'net' is used instead of 'gross' assured Members that the government will see to it that none of the states lose out of there legitimate share.

THE HINDUSTAN TIMES

17 MAY 2000

# REFORM SPEAK

Ms Sonia Gandhi marched to the prime minister's residence in New Delhi protesting the increased price of products like kerosene. In the Rajya Sabha, the Congress leader, Mr Manmohan Singh, noted that India's distorted subsidy regime is hurting rather than helping the poor. He called for economic reforms and partisan politics to be separated. It should be evident who displayed a greater national vision. Mr Singh did not speak the language of ideology or party politics. He was stating a simple fact. The bulk of India's subsidies do not go to the poor, they are siphoned off by the rich and the criminal. Worse, subsidies eat up so much of the government's finances that there is nothing left for primary healthcare and education — programmes that would benefit the poor far more than even efficient subsidies. Mr Singh correctly argued that the money spent on bad subsidies yearly would release the equivalent of Rs 4000 for each of India's poorest 300 million people. Invested in these people's lives rather than a public distribution system which helps black marketeers, the result would be a social revolution. The poor would benefit more than they will from Ms Gandhi's strident slogans about kerosene prices.

As in so much else, Ms Gandhi is in two minds about further reforms. In November last year she had said the Congress was four square behind liberalization. These days she takes every opportunity to attack divestment proposals and subsidy cuts — both at the heart of the present reform battle. Her confusion is reflected in her handling of regional politics. A principled stand against Mr Laloo Prasad Yadav's casteism became an embrace of his secular credentials. Ms Gandhi's stand on the *mahajot* also shifts with the wind. This would all be understandable if it were part of an overall, pragmatic political strategy. However, the impression is that Ms Gandhi is hostage to contradictory advice from a constellation of advisors who include pro-reformists to unreconstructed Marxists. And there is no consistency in the advice she takes. One result has been a rise in state dissidence where her appointees are the target of attack. Unfortunately, attempts to compensate for all this by embracing mindless populism only underline the Congress's predicament. Ms Gandhi is acting like a marginal political player out for headlines and not the opposition leader.

It is not impossible to seize the initiative. Mr Singh has called for a new national consensus on reforms. The Congress can go beyond that and reclaim its mantle as the originator of liberalization. For example, the Congress could demand that in return for its support of subsidy cuts, the money saved should be used for healthcare and literacy. This would be a perfect pro-reform, pro-poor platform. It could demand that to face off foreign competition, the small scale sector should have its regulatory burden lifted and its input costs lowered. Ms Gandhi needs to break free of those partymen who believe socialist nostalgia is the path to the 21st century. Otherwise, her party will depend on the backing of political groups like public sector employees who are in eclipse. The Congress still has local support — it holds more state assembly seats now than it did in 1980. But its dismal standing in Parliament reflects a failure to have a coherent national vision — except when the likes of Mr Singh speaks his mind.

THE TELEGRAPH

18 MAY 2000

# Centre's economic policy criticised

By Our Special Correspondent

**NEW DELHI, MAY 28.** A day-long meeting today at the plush Bhondsi Ashram residence of former Prime Minister, Mr. Chandra Shekhar, witnessed speaker after speaker criticise the Vajpayee government's economic policy of "reckless globalisation, mindless liberalisation and wholesale disinvestment."

The view that emerged was that unless something was done to change the direction and thrust of the policy, it would spell disaster for the country's economy while adversely impacting the lives of 97 per cent of the population in this country. The reforms process, it was said, was really an effort by the three per cent of the peoplewho control the levers of economic power to further their clout.

From the right to the left, almost the entire political spectrum was represented at the meeting. Four former Prime Ministers — Mr. Chandra Shekhar as host, Mr. Deve Gowda, Mr. V.P.Singh and Mr. Inder Kumar Gujral — were present. Mr. P.V.Narasimha Rao did not attend but more than acknowledged the "initiative" by sending two papers which were circulated at the meeting. Many economists and social activists participated in the deliberations that ended around 7 p.m.

Although the meeting claimed to be non-political and was to have looked at the macro-economic issues dispassionately, there was no escaping the fact that it was part of the political initiative by Mr. Chandra Shekhar to revive the third front. In fact, Mr D Raja, the CPI leader and lone left representative at the meeting said economic policy cannot be seen in isolation from larger socio-political issues.

Many speakers attacked the liberalisation and globalisation process started by the Rao Government, but Mr. Rao himself differentiated between the middle path his Government had chosen and the reckless globalisation being witnessed today. The very title of his paper, Prosperity with Welfare, underlined the need to adopt caution and safeguard the interests of the weakest sections of our society.

Mr. V.P.Singh brought up the issue of cuts in subsidies on food made by the Vajpayee Government recently. He warned that the capitalist road that was being taken favoured free movement of capital while disallowing free movement of labour. And Mr. Gujral stated that the point was not a simple pro-reform or anti-reform stance. There was need to understand that while "opening up" the economy the problem of unemployment and increasing poverty could not be ignored.

Dr. Subramaniam Swamy's charge was that the present Government was selling "public property" for a pittance for "corrupt considerations." The pattern of reforms adopted would lead to "neo-colonialsm."

Mr. Raja made the point that they were the first to raise their voices against the reform process as far back as 1991 when the Rao government had embarked on this path. The collapse of the Mexican miracle and the Asian tigers should have served as a wake-up call and the present policies could only lead to loss of economic sovereignty.

His view was that land reforms held the key to development as witnessed in Kerala and West Bengal. Mr. Raja was also of the view that those who touted the 'swadeshi' slogan should realise that this was not synonymous with the Ambanis, the Birlas and the Modis.

It was a direct reference to the Union Home Minister, Mr L.K. Advani, who had recently stated that the new definition of 'swadeshi' should mean a policy that would allow Indian corporates to become major trans-national giants.

Economist Arun Kumar, social activist Ms. Vandana Shiva and academic Yogendra Yadav were among those present. Mr. Sitaram Yechury of the CPI(M) and Mr.K.N. Govindacharya of the BJP who were invited, were unable to attend. The RSS chief, who was also an invitee, did not attend, but an office-bearer of the Swadeshi Jagran Manch, an RSS affiliate, was present.

29 MAY 2000

SAVINGS DEPOSIT RATES REDUCED

# RBI cuts CRR, bank rate by 1 p.c.

By Our Special Correspondent

**MUMBAI, APRIL 1.** Continuing the policy of bringing down interest rates, the Reserve Bank of India today announced a cut in the Bank Rate from 8 to 7 per cent as at the close of business of April 1. It also reduced the savings deposit rates of scheduled commercial banks from 4.5 to 4 per cent effective from April 1.

The RBI also reduced the Cash Reserve Ratio (CRR) from 9 to 8 per cent, which will augment lendable resources of the banking system by about Rs. 7,200 crores. The CRR cut will be implemented in two stages by 0.5 percentage points each effective from the fortnights beginning April 8 and April 22. The RBI also reduced the repo (Repurchase Options) rate from 6 to 5 per cent, effective from April 3.

The RBI Governor, Dr. Bimal Jalan, said the release of the liquidity into the system was not the primary aim of the new measures but it should help banks reduce interest rates as a continuing Government policy. Asked whether he expected the banks to cut rates, Dr. Jalan said the new measures would help the economy as a whole and ultimately "result in lower interest rate".

"As a consequence of the reduction in the Bank Rate, the interest rates on advances from the RBI by way of several facilities, including the export credit refinance to scheduled commercial banks and primary (urban) co-operative banks would be reduced by one percentage point," a RBI press release said. Other facilities where such a reduction would be affected are: Collateralised Lending Facility (CLF), Additional Collateralised Lending Facility (ACLF), liquidity support to Primary Dealers (PDs), advances to State Financial Corporations and Ways and Means Advances and Overdraft to the Central and State Governments. Reports that a cut in the CRR was likely by the end of this week led to the rise of Government securities prices on Friday. Long-dated securities witnessed a price appreciation of 70 to 80 paise on increased buying from banks. "The market was expecting a cut in the Bank Rate and CRR and Friday's movement in Government securities prices were in anticipation of the change in rates," said Mr. M. R. Ramesh, Managing Director of Discount and Finance House of India (DFHI). The cut in the CRR would ease liquidity in the system and it is quite likely the Government borrowing programme would start next week when the first stage of the CRR cut becomes effective, he said.

"The Government security borrowing programme is expected to begin in the first week of April, exerting further pressure on liquidity," said Mr. M. R. Madhavan of ICICI Securities and Finance Co Ltd. As the borrowing programme of the new fiscal year begins this week, the market was expecting a cut in the CRR. The tight liquidity condition increased the cut-off yield by 37 basis points to 9.95 per cent in the latest auction of 364-Day Treasury Bills conducted on March 22 compared to 9.58 per cent at the March 8 auction. The 0.5 per cent reduction in savings bank interest rate was also anticipated.

## Timely step: Sinha

**Alok Mukherjee** writes from New Delhi.

Reacting to the RBI's decision, the Union Finance Minister, Mr. Yashwant Sinha, said, "I am glad the RBI has moved comprehensively in the matter. The reduction in interest rates and the cut in CRR are both positive developments and will benefit the economy. It is a timely step."

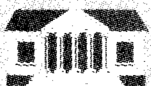
**Reactions on Page 8**

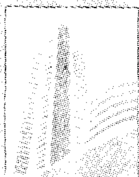
THE HINDU
- 2 APR 2000

# Sinha targets excise duties, corporate taxes

- Taxes to mop up Rs. 6,904 crores
- Fiscal deficit at 5.1%

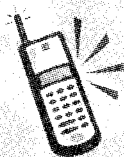
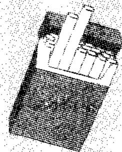
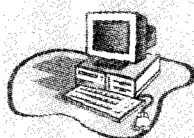
## DIRECT TAXES





- Interest tax on banks and FIs off
- Exemption under Section 54 EA/54EB goes, relief only if capital gains are reinvested in NABARD and NHAI bonds
- Surcharge on income above Rs. 1.50 lakhs hiked to 15%
- Minimum Alternate Tax (MAT) down to 7.5%
- Dividend tax up by 10%
- One-by-six I-T scheme to cover more areas
- Additional rebate of Rs. 5,000 for women tax-payers.

## INDIRECT TAXES

- Excise duty procedure in for overhaul
- Single rate of Central value added tax (CENVAT)
- Three rates of special excise
- Peak customs duty rate down to 35%
- Special Additional Duty (SAD) on customs to cover traders as well
- Hike in excise duty on tobacco
- Big import duty sops for I-T and telecom products
- Cell phones to cost less
- Computers, CD-ROMs, floppy discs, ICs to be cheaper

THE HINDU
- 1 MAR 2000

P. T. O.

- Record hike in defence outlay
- Excise duty regime in for overhaul

***'I propose to put India on a sustained, equitable job-creating growth path of 7-8 per cent per year...'***

## WHAT OTHERS SAY...

Manmohan Singh

P.Chidambaram

H.S. Surjeet

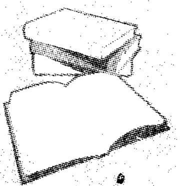
- **P.Chidambaram:** Colourful phrases like 'biting the bullet' were employed freely... but the budget speech has been a great disappointment.
- **H.S. Surjeet:** Has nothing for the common man. Serves the purposes of MNCs, follows the policies of liberalisation and globalisation.
- **Manmohan Singh:** When revenues are overestimated and expenditure underestimated the Government cannot reach the targetted fiscal deficit of five per cent of GDP.
- **Madhavrao Scindia:** It takes us ten steps backwards... a budget of stagnation.
- **A.Y. Tipnis:** All-out efforts need to be made to ensure that funds allocated are optimally and speedily utilised for the modernisation of the armed forces.
- **Rahul Bajaj:** Though the Finance Minister has tried to bite the bullet, he has not been able to bite it hard enough.
- **Madhu Dandavate:** The gains of developmental process will not reach the poor at the State or the Panchayati Raj level.
- **Somnath Chatterjee:** There is no direction in the budget... It starts in one direction and then it gets derailed.
- **Mulayam Singh Yadav:** The allocation for defence is not adequate. It should have been Rs. 82,000 crores.

THE HINDU
1 MAR 2000

P.T.O.

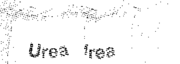
- PDS articles become costlier
- Customs duty on petro goods cut

## OUTLAYS



- Defence outlay up 21 per cent
- Central Plan outlay in 2000-01 at Rs. 1,17,334 crores
- More allocation for health, education and drinking water
- Allocation for Rural Infrastructure Development Fund up by Rs. 1,000 crores
- Rs. 5,000 crores for new Pradhan Mantri Gramodaya Yojana scheme
- Micro finance development fund set up
- Rural housing gets Rs. 1,710 crores

## NEW MEASURES



- Export earnings come under tax net
- Urea prices up by 15%, retention price scheme to be phased out
- Cereal allocation under PDS doubled but poor may have to pay more. PDS prices to be higher for non-poor as well
- PDS sugar out of reach for I-T assessees
- Disinvestment to fetch Rs. 10,000 cr.
- Govt. stake in banks to go down to 33%
- Group insurance for poor
- Easier credit for SSIs
- Ceiling on FII investment in corporates up to 40%
- Interest on General Provident Fund cut

THE HINDU
1 MAR 2000

The Finance Minister hopes to reduce the fiscal and revenue deficits . . .

(Rs. in '000 crs) 40 60 80 100 120 % of GDP

1997-98, 1998-99, 1999-00 BE, 1999-00 RE, 2000-01 BE

Fiscal deficit / Revenue deficit

. . . by slowing the growth of total and Plan capital expenditure

(Rs. in '000 crs) Total plan expenditure / Plan capital expenditure

1997-98, 98-99, 99-00 BE, 99-00 RE, 2000-01 BE

. . . and increasing revenue receipts, reducing subsidies

(Rs. in '000 crs) Revenue receipts / Subsidies

1997-98, 98-99, 99-00 BE, 99-00 RE, 2000-01 BE

. . . but gross market borrowings and interest payments will keep increasing

(Rs. in '000 crs) Gross market borrowings / Interest payments

1997-98, 98-99, 99-00 BE, 99-00 RE, 2000-01 BE

. . . defence outlay will have almost doubled in 4 years

(Rs. in '000 crs)

. . . the States will make up for the decline in 1999-00

(Rs. in '000 crs) Net resources transferred to States

. . . and the government debt stock will keep rising

(Rs. in '000 crs) Total debt stock

876, 1030, 1179

Mar 31, 1999; Mar 31, 2000; Mar 31, 2001

# Approach positive, says Naidu

By Our Special Correspondent

HYDERABAD, FEB. 29. The Andhra Pradesh Chief Minister, Mr. N. Chandrababu Naidu, has termed the budget as 'moderately good and positive in approach.'

In a statement, he said the thrust on rural development, education, health, rural roads, drinking water and housing was welcome, as also the hike in allocation for rural infrastructure development from Rs. 3500 crores to Rs. 4500 crores. He hailed the setting up of Micro Finance Development Fund with Rs. 100 crores and the doubling of the target under self-help groups for the NABARD micro finances. Mr. Naidu felt happy at the Centre declaring 2001 the year of women's empowerment and giving duty exemptions to the IT and telecom sectors.

While appreciating the increase in foodgrain allocation for BPL families, he expressed concern over the impact of increasing the issue price to 50 per cent of economic cost which might place burden on the States with heavy PDS commitments. The surcharge on IT and additional cess on petrol would yield more revenue to the Centre without any share to the States.

The Chief Minister expressed apprehensions over the increase in the prices of urea and the duty hike on other essential items under Cenvat drawal of fertiliser subsidies would not harm farm sector.

Mr. Naidu also condemned the decision to hike the price of fertilizers and rice supplied to fair price shops. He said the increase of Rs. 30 a fertilizer bag would incur a burden of Rs. 120 crores on the State Government and it would have a direct bearing on the farmers.

The increase in price of rice from Rs. 9 to Rs. 12 in the fair price shops would add a burden of Rs. 400 crores on the State exchequer, he added.

# The 'leak' causes a flutter

By Hasan Suroor

NEW DELHI, FEB. 29. They wouldn't have been more excited if they had hit a goldmine; and, for a moment, it did seem that some pretty deadly "live" ammunition had fallen into their hands.

Ten minutes before the Budget was to be presented in the Lok Sabha, Ms. Renuka Chaudhury and Mr. Priya Ranjan Das Munshi—the more easily excitable of the Congress(I) members—burst into the House dramatically waving a wire service copy and a sheaf of papers which, they claimed, contained "leaks" from the Budget.

Soon, it was on every Congress member's lips. "The Budget has been leaked," said Mr. Kamal Nath to the member next to him. "The Budget is leaked," said Mr. Madhavarao Scindia to another colleague. "The Budget is leaked," said Mr. Rajesh Pilot to nobody in particular. And Mr. Munshi, his glance firmly directed at the Press gallery above, declared:"The Budget is leaked. Renuka will present it from the Opposition."

Just then an unsuspecting Mr. Yashwant Sinha walked in and was buttonholed by Ms. Chaudhury with her ubiquitous wire service allegedly containing the Budget "leaks." For a fleeting moment, Mr. Sinha's ear-to-ear smile did begin recede, but a quick look at the "leaks", and the smile was back. "Wait karo" (have patience), Mr. Sinha was heard telling her trying to laugh off the idea that what she was suggesting could be true.

But, clearly, the Congress(I) didn't think it was a laughing matter; and barely had the Speaker Mr. G.M.C.Balayogi called the House to order when Mr. Munshi was on his feet saying his party had "reason to believe" that the Finance Minister's Budget proposals had been leaked. If this turned out to be true Mr. Sinha should resign, he said. But the Parliamentary Affairs Minister, M. Pramod Mahajan, would have none of this, and as the House looked like being on the verge of a slanging match, the Speaker waved the rod. Enough was enough, he said, observing that he was "very sorry" that even the Parliamentary Affairs Minister was beginning to lose his temper.

The Congress(I), however, wasn't finished with it yet; and, after Mr Munshi, it was Mr. Madhavrao Scindia's turn to impress upon the Speaker the gravity of the issue. All that the Speaker was willing to say was that he had received a notice of breach of privilege from the Congress(I) and would examine it. With that he handed the floor to Mr. Sinha who held on to it for almost two hours, ignoring the Opposition jibes—and the endemic post-lunch yawns.

## Bleary eyes, sleepy looks

Two O'clock on an early summer afternoon was clearly not everybody's idea of being lectured on the intricacies of fiscal deficit; and the effort showed as even some of Mr. Sinha's own ministerial colleagues dozed off. The backbenches were, of course, full of bleary eyes, and sleepy looks.

This was Mr. Sinha's third consecutive Budget and, judging from the reaction, the least exciting. Even the "leak" scare did not live up to its promise and there was a touch of the anti-climax in the manner the episode ended. There was no reaction from the Congress(I) after Mr. Sinha finished his presentation with the Congress (I) members even refusing to join issue with a BJP member who taunted them for creating the scare and demanded an apology.

Outside the House, however, Mr. Munshi did point out that Mr. Sinha's tax proposals in certain areas—information technology, farm houses, petroleum sector—were similar to what the wire service had said. Mr. Sinha firmly denied any leak, but made the point that he saw no reason for so much secrecy surrounding the Budget and there was actually a need to demystify it.

For most part, Mr. Sinha's was a lacklustre performance, devoid of even a hint of the sort of sense of humour that has come to characterise budget speeches over the years; and his only foray into poetry—a play on his by now famous "bite- the-bullet" theme—had purists squirming in their seats; a case of poetic deficit, if there ever was one.

# A disappointment: industry

By Our Special Correspondent

NEW DELHI, FEB. 29. The Union Budget has evoked mixed reactions from various chambers of commerce and industry, with the Confederation of Indian Industry (CII) describing it a "disappointment" for industry. In his reaction, the CII chief, Mr. Rahul Bajaj, said though the proposals in the Budget were a blend of positive and negatives, in totality the budget was a disappointment to the industry.

While the situation warranted hard decisions, he said measures like cutting down of subsidies, steps to reduce revenue expenditure, introduction of Fiscal Responsibility Act and the attempt at zero budgeting were welcome, but fell far short of expectations. The proposals, he said, were not hard enough. The Finance Minister had tried to bite the bullet but was unable to bite hard enough. It was also essential to translate these proposals into action and implementation would be difficult.

G. P. Goenka

The FICCI president, Mr. G. P. Goenka, expressed his unhappiness over the continuation of the surcharge on income and corporate tax. This would considerably erode the saving potential of the non-corporate assessees and resource generation of the corporate entities.

The industry was looking forward to abolition of surcharge on the income and corporate tax but the Finance Minister had opted to continue with the surcharge of 18 per cent on corporate and increase the surcharge by 5 per cent in case of non-corporate assesses.

Similarly, the industry was expecting the 'sweat equity' scheme to be streamlined to make it more lucrative for attracting the right talents. The budget seemed to be silent on that, he said. Criticising the proposal relating to doubling the dividend tax to be paid by a company from 10 per cent to 20 per cent, he said this would have a major impact on the capital market. Also the phasing out of the export incentive schemes under the income tax should be well calibrated so that the impact on the exporters was minimal. The Assocham President, Mr. Shekhar Bajaj, welcomed the broad direction provided by the Budget proposals. But, at the same time, lamented that the Finance Minister did not "bite the bullet" as was expected. Mr. Bajaj regretted that the much expected deficit reducing measures have failed to materialise and

Shekhar Bajaj

the provision relating to dividend taxation and the increase in the surcharge on income tax was avoidable. He said it was also worrying that the "ballooning" subsidies has been left untouched and that the Finance Minister had refrained from being specific in announcing more public sector companies that need to be taken up for disinvestment.

The Federation of Hotel and Restaurant Associations of India expressed disappointment over the proposal to phase out income tax benefits on export earnings and said this would adversely affect the industry's expansion plans. Urging the Government to reconsider the proposal, the Association said the WTO guidelines is applicable only for the manufacturing sector and not the service sector like the hotel industry.

# Basic concerns not addressed, says Chidambaram

By Our Special Correspondent

NEW DELHI, FEB. 29. The former Union Finance Minister and Tamil Maanila Congress leader, Mr. P. Chidambaram, has said the Finance Minister, Mr. Yashwant Sinha, has not bothered to address any of the fundamental concerns highlighted in the economic survey.

Reacting to Mr. Sinha's budget proposals, the former Minister said the greatest regret was the derailment of the reform process in the excise duty regime attempted last year. "The worst blow has come in the area of direct taxes. The Finance Minister has not only retained the surcharge of 10 per cent that he promised to abolish this year, but he has increased the surcharge to 15 per cent on the highest bracket".

He said the decision to tamper with export benefits for exporters, increase in distribution tax on dividend from 10 to 20 per cent, hike in tax on income disbursed by debt mutual funds from 10 to 20 per cent and interference with the MAT regime would send wrong signals to income earners and business. Mr. Chidambaram said that as per his calculations, the additional resource mobilisation attempted by the Finance Minister was Rs. 1,824 crores under indirect taxes and Rs. 5080 crores under direct taxes.

# DMK chief welcomes schemes for poor

By Our Special Correspondent

CHENNAI, FEB. 29. The Tamil Nadu Chief Minister and DMK president, Mr. M. Karunanidhi, today said the 15 per cent hike in the maximum retail price of urea announced in the Union Budget will badly hit small farmers, even as he welcomed a host of schemes for the rural poor.

Hailing the Centre for accepting the recommendations of the 11th Finance Commission's interim report, Mr. Karunanidhi in a statement here said Tamil Nadu would stand to benefit considerably due to this additional devolution from the divisible pool of taxes.Reacting to the Finance Minister, Mr. Yashwant Sinha's Budget for 2000-2001, Mr. Karunanidhi also lauded the Centre for earmarking an additional Rs. 1,100 crores for the Annual Plan of various States.

While agreeable to the Centre doubling the allocation of rice from 10 kg to 20 kg for below poverty line families under the PDS, Mr. Karunanidhi, however, regretted the Centre raising the issue price of rice, now distributed at Rs. 3.50 a kg, to an economy price of Rs. 5.89 per kg.

Similarly, raising the PDS price of rice for those above the poverty line will particularly impose a heavy burden on the Tamil Nadu government which had been supplying a maximum of 20 kg of rice per family card irrespective of whether the beneficiaries were below or above the poverty line.On the increased allocation of Rs. 4.86 crores to carry out a detailed feasibility study on the Sethusamudram project was a matter of happiness for the State, he said.

The Chief Minister was further appreciative of several new programmes that would go to improve the lot of the rural poor like allocating Rs. 2,500 crores under the Prime Minister's "Gramodaya " scheme to provide roads to all remote villages and an insurance scheme for the rural poor that required the beneficiary to pay a premium of just Rs. 10 a month.

# A dangerous course, says Nayanar

By Our Staff Reporter

THIRUVANANTHAPURAM, FEB. 29. The Union Budget would weaken the country's economy and increase the hardships of the people, the Kerala Chief Minister, Mr. E. K. Nayanar, said here today.

Reacting to the Budget, he said the Budget was proof of the new and dangerous course being taken in the name of liberalisation.

The proposal to reduce the Government share in public sector banks to 33 per cent and the move to grant autonomy to their governing bodies undermined the very concept of public sector banks. The proposed reduction of Government share in PSUs, excluding a few key ones, to 26 per cent amounted to privatisation.

Mr. Nayanar said the import duties on 700 items had been lifted. These included agriculture products. Consequently, imports would flood the market when domestic agriculture products were struggling for market. This would destroy the farm economy. The reduction in fertilizer subsidies and increase in the price of urea showed that the Government was inimical to farmers. As food production had dropped by 40 million tonnes according to the Economic Survey, these proposals were a threat to food security.

The Leader of the Opposition, Mr. A.K. Antony, has termed the proposal to reduce the Government stake in Public Sector banks from the present 51 per cent to 33 per cent as "anti-people step" as it tantamounted to undermining them in favour of the private banks.

The new policy would usher in total privatisation, besides leading the banking sector to the total control of private monopolies. The hike in excise duty would seriously affect exports of large and small scale industries. Besides, State Governments would not be benefited by the hike in excise duties, though Central revenues would look up.

While welcoming the proposal to increase the ration quota for below the poverty line families, Mr. Antony expressed his apprehensions about its adverse impact on Kerala's public distribution system if the new moves were not accompanied by quantitative increase in the State's quota.

# Corporates express dismay

By Our Special Correspondent

NEW DELHI, FEB. 29. While the IT and telecom industry have welcomed the Budgetary proposals, the reaction from corporates in general was muted if not occasionally hostile. The entire software and telecom industry felt that the Budget will give a major boost to the two segments. But there was slight disappointment among software exporters due to the reduction in concessions. Some other sectors which are rapidly gaining ground, such as the fast moving consumer goods sector, also had reasons to feel disappointed.

The Kinetic Group chief, Mr. Arun Firodia, said though industry had braced itself for a hard blow, "what we got was a number of pinpricks." An increase in dividend would not make investments in company shares attractive and there was no serious effort to curtail Government expenditure. "It looks more like a pre-election year Budget than a post election year budget. If the economy continues to do reasonably well, it would be inspite of and not due to the Budget."

The LG Electronics Vice-President, Mr. Ajay Kapila, felt that the Budget would not be able to accelerate the growth of the consumer electronics and home appliances sectors. Having grown by 15 to 20 per cent last year without any Government support, industry was anticipating a favourable tax structure and equal status with the IT industry.

Laudatory reactions came from Mr. Arun Seth, Managing Director of BT (British Telecom) and Mr. Dilip Modi, Chairman of Modi Telstra. Daewoo's newly appointed Chairman, Mr. S. G. Awasthi, felt that taking the Budget should be viewed in totality, instead of just a taxation exercise.

The DCM Shriram Managing Director, Mr. Ajay Shriram, felt the Budget was unexciting and gave no indication of achieving GDP growth of seven per cent. Differing from Mr. Shriram, the Essar Group Chairman, Mr. Sashi Ruia, said Mr. Sinha had not made any pronouncements which cannot be met and thus the Budget should termed as pragmatic. Mr. Anal Jain of Birlasoft saw direct and indirect benefits to the IT industry due to benefits opposed to venture capitalists, telecom and entertainment sectors, but said the reduction in tax sops to exporters and the 100 per cent increase in dividend tax rate was a bit of a setback.

The Modicorp Chairman, Mr. B. K. Modi, said the Budget was responsible and stable .

The auto component industry was, however, disappointed and lamented that there was no sector specific thrust or focus for this segment. On the whole, the Budget was neutral for the auto component industry and negative for the automotive industry in general, said the Automotive Component Manufacturers' Association (ACMA). But it took solace from the focus on infrastructure development, particularly roads, which would give a fillip to the road transport industry and stimulate the demand for vehicles in the long run.

## Exporters unhappy

By Our Special Correspondent

NEW DELHI, FEB. 29. The reaction from the exporters was hostile with one section calling Budget day as a "black day for exporters". The Apparel Export Promotion Council said the plan to phase out IT exemptions amounted to withdrawing the only attraction and motivation for exporters and warned that there would be a direct effect not only on export performance but also in the area of setting up new factories and upgrading of technology.

The Council appealed for a review so that the export target of touching $ 9 billions by 2004 could be met.

# No mention of development, says Jayalalitha

By Our Special Correspondent

CHENNAI, FEB. 29. The AIADMK general secretary, Ms. Jayalalitha, today said the Union Budget would lead to "strangulation of our people" and open the doors of the economy to the entry of foreign capital. In a statement, she said the Budget, while "waxing eloquent on agriculture and industry", had not mentioned a word about economic development apart from announcing some decisions of an administrative nature.

No new measures had been announced to augment the country's revenue. The BJP rulers, who were flaunting their concern about growth and development, had not paved the way for that.

By reducing the tax on cellphones, the common man would not benefit. For the farmers the budget was a disappointment as the urea prices had been hiked by 15 per cent. While announcing that the nationalised banks would not be closed, the Budget had given no assurance that they would not be privatised. The Government had rolled out a red carpet for products manufactured by foreign companies through the reduction of customs duty.

At the same time, the handloom and leather industries which had been earning a good deal of foreign exchange, had been thrown into a crisis situation by his Budget, she said.

# Taxpayers reconciled to new imposts

CHENNAI, FEB. 29. Mr. S. Rajaratnam, tax consultant, has stated that the Budget 2000 is on the same lines as Budget 1999 with the projected fiscal deficit at 5.1 per cent of GDP as against 5.6 per cent for the current year. It has promises of more committees, some new Acts, more Bills, marginally larger allocations to different activities with marginally increased assistance to States. With usual commitment for disinvestment though there has been a step up of plan expenditure.

The only promise of reduction in public expenditure is reflected in the allocation for VRS schemes. The preparation of the taxpayers for a hard option has probably had the intended effect of reconciling them to additional liability to the extent that will necessarily follow in view of what is described as rationalisation of excise duties and customs and the marginal increases in rate of taxes and phasing out of an important concession for exports over the next five years. It was always felt that the tax laws are unnecessarily complicated with too many exemptions and reliefs and that some reduction in number is called for.

Increase in surcharge from 10 to 15 per cent for personal tax may not be felt for the reason that it is applicable to those with annual income of more than Rs. 1.50 lakhs but it does impose additional liability on companies which are taxed at flat rate. The spurt in rate of tax for distributed income from 10 to 50 per cent will affect corporate investments.

Another area of change in respect of corporate taxation is in respect of Minimum Alternate Tax. One would have thought that the tax itself has no rationale. But the possibility of absorbing tax paid against future liability under Sec. 115JA is sought to be taken away prospectively.

Senior citizens will now get an additional tax relief of Rs. 5,000. Women entrepreneurs will get tax abatement from tax paid by them.

Charities are given larger area of investments of their funds in bonds meant for promoting urban infrastructure. Loan repayment for housing which qualifies for deduction is increased from Rs. 10,000 to 20,000. Shipping will now have 100 per cent exemption subject to condition of creation of reserves. Similarly the present limit of Rs. 25,000 taken by students under Sec. 88B stands raised to Rs. 45,000.

On a par with dividend, interest even from mutual fund will suffer tax at 20 per cent as against the present rate of 10 per cent. One by six rule which is now applicable for 54 cities will get extended to 79 more cities with a population of more than 2 lakhs. Issue of PAN Number is to be decentralised with banks.

# Panel set up to suggest ways to downsize Govt.

NEW DELHI, FEB. 29. Consequent to the Finance Minister's promise in the Budget today to downsize the Government, an Expenditure Commission has been set up to suggest ways to achieve this objective. The Commission headed by the former Finance Secretary, Mr. K. P. Geethakrishnan, will have five members including four part-time members.

The Commission, which is asked to give its final report in one year, would suggest ways to avoid overlapping of functions of various Central Government Ministries and departments and that of the State Governments. — PTI

## Staff decry move

By Our Special Correspondent

NEW DELHI, FEB. 29. Central Government employees' organisations have reacted sharply to the move to downsize the Government machinery and to reduce the interest rate on GPF by one per cent, as proposed by the Finance Minister today.

In a joint press statement immediately after the Budget was presented in Lok Sabha, several organisations of Central Government employees said the two proposals were highly condemnable. The move to downsize the Government machinery was a total reversal of the agreement reached between the employees' organisations and the United Front Government in 1997, they added.

# Rural economy growth...

Continued from Page 10

This has been a difficult year for the budget marked by expenditure over-runs and some deceleration in tax collection. The increase in budgeted tax revenue has been 7 per cent, whereas the shortfall in budgeted tax collection is estimated to be 4 per cent. The non-plan expenditure has increased by Rs. 17,461 crores (8.4 per cent over budget estimate of Rs. 2,06,882 crores) and the Plan expenditure by Rs. 2,395 crores (3.1 per cent over budget estimate of Rs. 77,000 crores). Major increases in non-plan expenditure are on account of pension payments (Rs. 4,173 crores), interest payments (Rs. 3,425 crores), Extended Ways and Means Advances to States (Rs. 3,000 crores), Defence (Rs. 2,810 crores), Interest subsidies (Rs. 1,304 crores), food subsidy (Rs. 1,000 crores), postal deficit (Rs. 848 crores) and assistance to States from the National Calamity Relief Fund (Rs. 1,064 crores). On the Plan side, main increases are on account of National Highway Development (Rs. 1,900 crores), State roads (Rs. 1,000 crores), Railway safety (Rs. 200 crores), special assistance to Jammu and Kashmir and enhanced assistance to the States for externally-aided projects. About Rs. 500 crores are expected to be released for projects/schemes in the North Eastern Region and Sikkim out of the savings from the budget of different Central Ministries.

Net tax revenues for the Centre are estimated at Rs. 1,26,469 crores against Rs. 1,32,365 crores budgeted, reflecting a shortfall of about Rs. 5,900 crores. The shortfall is mainly due to lower customs revenue because of very low growth in the dollar value of non-oil imports and lower excise revenue resulting from low inflation in manufactured products for most of the year. Disinvestment receipts are expected to be Rs. 2,600 crores against Rs. 10,000 crores budgeted.

The fiscal deficit is thus likely to increase to 5.6 per cent of the GDP from the budget target of 4.0 per cent.

## Estimates for 2000-2001

In the budget estimates for 2000-2001, the total expenditure is estimated at Rs. 3,38,487 crores, of which Rs. 88,100 crores is for Plan and Rs. 2,50,387 crores for non-plan.

## Plan expenditure

The budget support for Central, State and UT Plans has been placed at Rs. 88,100 crores, marking an hike of Rs. 8,705 crores over revised estimates 1999-2000. Gross budgetary support for the Central Plan is being enhanced from Rs. 43,661 crores in the revised estimates 1999-2000 to Rs. 51,276 crores. Total Central Plan outlay at Rs. 1,17,334 crores will be more by Rs. 21,024 crores from the last year's level of Rs. 96,310 crores, a hefty 22 per cent increase. The plan for 2000-2001 focuses on basic infrastructure with energy, transport and communications accounting for 60 per cent of the total Central Plan outlay. The outlay for social services marks an increase of 21.5 per cent over 1999-2000 R.E. The Central Plan assistance to the States and Union Territories in 2000-2001 is placed at Rs. 36,824 crores as compared to Rs. 35,735 crores in the revised estimates 1999-2000.

Non-Plan expenditure in 2000-2001 is estimated to be Rs. 2,50,387 crore compared to Rs. 2,24,343 crores in revised estimates for 1999-2000, showing an increase of Rs. 26,044 crores. The increase in non-Plan expenditure is mainly in defence (Rs. 10,083 crores), interest payments (Rs. 9,841 crores) and in grants to States (Rs. 9,392 crore). However, this increase is sought to be partially offset by reduction ins outgo on account of food and fertiliser subsidies.

## Subsidies

Major subsidies, on food and fertilizer, constitute a significant portion of our non-plan expenditure. The rate at which these subsidy payments are growing is not sustainable. We need to target the subsidies to those who are poor and needy, whereas others should pay for what they consume. Indeed, we want to expand the access to subsidised food by Below Poverty Line (BPL) families so that they can meet their basic nutritional needs. Accordingly, from next year, we are doubling the allocation of foodgrains to BPL families, under the Targetted PDS, from 10 kg. to 20 kg. This will result in an enormous gain in food security for our poorest families. The issue price of foodgrains of BPL families is being fixed at 50 per cent of economic cost in line with the decision taken by the Government in December, 1996. The net effect of these measures will be to improve the monetary food budget of BPL families and vastly enhance their food security. This achievement is possible only by simultaneously fixing the PDS issue price for APL families at the economic cost. In respect of sugar, no allocation will be made under PDS for income tax assessees. For others, keeping in view the increase in the levy price of sugar, the issue price under PDS is being fixed at Rs. 13 per kg. As a result of these measures I expect to keep the expenditure on food and sugar subsidy at Rs. 8,210 crores in 2000-2001.

In the case of fertilizer subsidy, Members are aware that our present Retention Price Scheme suffers from many shortcomings. Much of the subsidy goes to producers and not to farmers. To encourage greater efficiency of our fertilizer units, some rationalisation of the Retention Price Scheme, including capping of capital-related charges, will be implemented from next year. The Ministry of Chemicals and Fertilizers will also bring out soon a road map for phasing out the Retention Price Scheme in the medium term. Separately, to take into account the rising cost of inputs, the maximum retail price of urea is being raised by 15 per cent. The rate of concession in the case of decontrolled fertilizer is also being reduced. However, to moderate the impact on prices the MRP of DAP and MOP is being raised only by 7 per cent and 15 per cent respectively. I expect that, because of these changes and some rationalisation of Retention Price Scheme, the expenditure on fertilizer subsidy will be Rs. 12,651 crores in 2000-2001.

The Eleventh Finance Commission has since submitted its interim report for making provisional arrangements of tax devolution and grants to the States for 2000-2001. The Government has accepted the devolution formula and quantum of grants to the States, as recommended by the panel in its interim report. I have made provisions in the budget accordingly.

# Indirect tax structure to be overhauled

The following is the text of Part-B of the Finance Minister's speech giving the tax proposals:

Sir, I now present my tax proposals. I take up indirect taxes first.

Hon'ble Members are aware that both the Centre and the States depend heavily on indirect taxes. While I did carry out a major restructuring of the excise rates last year, the process needs to be taken further. We need to overhaul the rate structure, rationalise and simplify the procedures to reduce the compliance cost for the tax payer. We must ensure that we concentrate on increasing production and absorbing new technologies rather than frittering away our energies on tax disputes.

Sir, my proposals in excise intend to establish a single rate Central Value Added Tax (CENVAT) at the Centre. I am convinced that nothing short of this can provide long-term stability, remove uncertainties in the mind of industry, and eliminate disputes of classification. This will also encourage the States to implement their agreed programme for converting their sales taxes into VAT by 1-4-2001.

The House may recall that in my last budget, I had introduced three ad-valorem rates of basic excise duty, viz., 8%, 16% and 24%. I propose to converge these three ad-valorem rates to a single rate of 16% CENVAT.

The 8% excise rate is therefore being abolished and most of the items at this rate are being moved to 16%. However, certain items, essentially covering medicare and items of use by the common man, are being exempted from the excise duty. These are:

## Medical items

* Medicinal grade oxygen
* Medicinal grade hydrogen peroxide
* Anaesthetics
* Potassium iodate
* Medical and surgical gloves; and

Items of common use —

* Cutlery and knives
* Household glassware, including glassware produced by mouth blown process
* Electric bulbs of MRP up to Rs. 20 per bulb
* Clocks and watches of MRP up to Rs. 500 per piece
* Tooth powder
* Sanitary towels, napkins for babies, etc, and
* Soap for distribution through PDS

I am including roasted chicory in the list of exempted items as coffee itself is free from excise duty.

I have also decided to exempt specified cold chain equipment, which had been provided a low rate of 8% in the last budget, from excise duty in the larger public interest.

Some items, on account of their exceptional nature and sensitivity to price increases, deserve special treatment, at least for the present. These are kerosene, LPG, laundry soap, cotton yarn, including cotton sewing thread, and some other varieties of yarns and diesel engines up to 10 HP. The rate structure for these is, therefore, being so designed that there is no increase in the incidence of excise from the current level of 8%, and thus there will be no price increase on this account.

I have not made any change in the list of items that are currently charged to 16% excise duty.

In addition to the 16% CENVAT rate, I propose to have three rates of special excise of 8%, 16% and 24%. Unlike the CENVAT rate, the special excise duties will not generally be modvatable, that is, users will not be able to avail of MODVAT credit of these duties.

For the items that are mainly in the nature of raw materials or intermediates, the 16% CENVAT rate is appropriate. I, therefore, propose to include items like plastic materials, films and sheets of plastic, tread rubber, cellular rubber, articles of rubber, nylon filament yarn, transmission and conveyor belts of textile materials, and sacks and bags made of synthetic textile materials in the list of 16% CENVAT, from the current level of 24%. I am also including tyres for OE supplies and parts of air-conditioning and refrigerating machinery in the list of 16% CENVAT, without subjecting them to any special excise duty, since they are intermediate goods in the chain of production.

In addition, I am reducing the duty burden on a few other products that are also currently charged to 24% duty. These items are sterile contact lens solution, shikakai powder without additives, and cars for physically handicapped persons. I feel that these items should not be loaded with a duty burden of more than 16% CENVAT.

Ambulances purchased by registered hospitals are currently charged to a concessional rate of excise duty of 16%. I am extending the same treatment to ambulances purchased by Indian Red Cross Society.

The other items that are currently charged to 24% duty shall continue to bear the same incidence, comprising 16% CENVAT and 8% special excise duty.

In my new design of excise duty structure, the items that are now charged to a total duty of 30% would be subjected to a total duty of 32%, composed of 16% CENVAT and 16% special excise duty. This is only a marginal increase of 2%, which, I am sure, the consumers of these commodities can afford to bear.

Items presently charged to a total duty of 40% will now be composed of 16% CENVAT and 24% special excise duty. However, soft drink concentrate supplied to bottlers will be charged to CENVAT at 16% only, being modvatable.

## MODVAT to become CENVAT

Let me now take up the MODVAT scheme and the changes that I plan to bring about. MODVAT scheme shall now be known as CENVAT scheme.

Over the years, disputes between the department and assessees on the interpretation of MODVAT rules and procedures have plagued the system. I propose to put an end to this situation. With effect from 1st April 2000, the plethora of existing rules will be replaced by a small set of simple and transparent rules, which, I am sure, shall reduce disputes to a minimum.

I also propose to expand and rationalise the scope of the MODVAT scheme. All inputs and all capital goods are now included in the eligible list of MODVAT scheme. The only exception will be High Speed Diesel Oil and Petrol. However, I propose that the availability of MODVAT credit on capital goods will be spread over a period of two years, with effect from 1st April 2000.

My proposals include full extension of MODVAT scheme to cigarettes for the first time, which should cheer the industry. However, the good news for the cigarette manufacturers ends here. I propose to enhance the rates of excise duty on all categories of cigarettes by 5%.

At present, MODVAT credit of CVD paid on project imports is restricted to the extent of 75%. This has been an irritant. This credit shall now be available for 100% of the CVD. I have also decided to do away with the condition of installation as a pre-requisite for taking credit on capital goods.

Now I shall deal with some sector-specific proposals. I take up steel first.

Mr. Speaker, Sir, an ad-valorem structure of taxation is largely free from distortions, equitable and automatically buoyant. For the present, I propose to restore ad-valorem excise duty structure on steel produced by re-rollers and also to steel produced by induction furnaces. These goods would be subjected to CENVAT of 16%, with MODVAT benefit, from 1st April 2000. I may add that capacity-based tax applicable to re-rollers and induction furnaces has created more problems than it has solved.

Under the existing law, excise duty on goods sold from the depots is charged on the basis of depot price and not the factory gate price. I have received representations that this has caused distortion in the marketability and distribution of steel. Deliveries of steel by integrated steel plants, whether from the plant or stockyard, will henceforth be assessed to duty at the factory gate price.

Sir, now I turn to the textile industry.

I had introduced a compounded levy scheme for independent textile processors in December 1998. This has not worked as well as expected and has led to leakages and revenue losses; still, I do not wish to disturb the scheme abruptly. However, to rectify the situation, I propose to raise the rates of compounded levy from the existing Rs. 1.5 lakhs per chamber per month to Rs. 2 lakhs per chamber per month and from Rs. 2 lakhs per chamber per month to Rs. 2.5 lakhs per chamber per month. My proposals also include some modifications in the scheme in order to plug the loopholes.

Units engaged in the texturising of duty-paid polyester yarn would henceforth pay specific rate of excise duty. This should reduce the valuation disputes in respect of these units.

Small scale units enjoy duty-free exemption on clearances up to Rs. 50 lakhs a year. I am unable to raise this limit. However, with effect from 1st April 2000, I propose to rationalise the special schemes prevalent for cosmetics and toilet preparations, air-conditioning and refrigerating machinery and their parts, tread rubber and articles of plastics to fall in line with the general scheme of exemption for small scale units.

## Tax system to be streamlined

Sir, I now come to the next part of my proposals which relate to streamlining and simplification of the system. These are aimed at unshackling the excise procedures from the slavery of complexities and rigidities, and making them simple and user-friendly. I may add that like my rate-related proposals, these also go much beyond minor adjustments and mark a fundamental and even a dramatic departure from the current practices.

With effect from 1st July 2000, all statutory records in excise would be dispensed with. Excise Department would rely upon the manufacturer's records. This completes the process initiated by me in my last budget in this regard.

From 1st April 2000, excise assessees would be allowed to pay the excise dues in fortnightly instalments. With this proposal I am putting an end to the age-old practice of day-to-day payment system of excise duties. For the small scale sector, the monthly payment scheme, that I had introduced last year, would continue.

Next, I want to make the valuation mechanism simple, user- friendly and along commercially acceptable lines. From 1st July, 2000, I propose to replace the existing section 4 of Central Excise Act which is based on the concept of "normal price" by a new section based on "transaction value" for assessment. This is a path-breaking departure from the traditional approach. The House is aware that several items are assessed to excise duty on the basis of Maximum Retail Price. This system is largely free from disputes and has been generally welcomed by the industry. I propose to extend MRP-based assessment to about two dozen new items. I also propose to extend this scheme to more items during the course of the year.

## 2

## Duty on medicines to be rationalised

I also propose to rationalise the rates of duties applicable to medicines and toilet preparations under the Medicinal and Toilet Preparations (Excise Duties) Act. The MRP-based assessment provisions are also being extended for assessment under this Act. These measures would considerably simplify the collection of excise duty by the States and improve their revenues from these duties. These changes will come into force from a notified date.

In addition to the above I am rationalising the provisions relating to payment of interest and penalty on default. The details are contained in the Finance Bill.

This completes my package of restructuring and rationalisation on the excise side. Trade and industry should now breathe easy.

## Customs duty proposals

I shall now deal with my proposals relating to customs duties.

I am conscious that in this area, I face serious constraints. We have to maintain a judicious balance between the need for providing adequate protection and growth impulses to the domestic industry and calibrating tariffs to international levels. We also need to carry the reform and rationalisation process further.

Taking all factors into consideration, I propose to reduce the peak rate of basic customs duty from 40% to 35%, thereby reducing the total number of customs duty rates from 5 to 4, i.e. 35%, 25%, 15% and 5%.

The surcharge of 10%, which I am constrained to continue on revenue considerations, will also apply to the new peak rate of 35%. Crude oil and petroleum products, certain WTO-bound items and gold and silver would continue to be exempt.

The House may recall that I had imposed a Special Additional Duty (SAD) of customs in my budget proposals for 1998-99. This had made manufacturer-importers quite sad. But traders were glad because they were exempted. I am correcting the discrimination by withdrawing this exemption. Now all importers would pay this duty. SAD would, however, not apply to petroleum products.

Consequent to our international trade treaty obligations, several hundred items will be placed on the free list for imports effective 1-4-000. Most of these are consumer goods and a number of them are agricultural products. To accord adequate tariff protection for these items, they are being placed at the peak rate (35% plus surcharge), except for a few items like capital goods. A number of agricultural and horticultural products placed on the free list of import in earlier years are also being brought to the peak rate to ensure adequate protection to our farmers.

Furthermore, for a handful of sensitive agricultural products (wheat, rice, sugar and edible oils), in which our experience with supply management has underlined the importance of occasional tariff adjustments, I am making suitable enabling provisions to fix the statutory tariff rates at appropriately high levels. This will give the necessary flexibility for adjusting the applied rates.

Customs is not all about raising revenues. It is also a powerful tool for building our industrial capabilities and improving our international competitiveness. I propose to take several measures in this regard, picking up three sectors for special attention. These are integral parts of the "convergence revolution" which is fast becoming a reality.

First, and foremost, the Information Technology (IT) sector, which leads the current excitement. I propose to reduce the customs duty on several items for the IT sector. These include:

* Mother boards, from 20% to 15%;
* Floppy diskettes, from 20% to 15%;
* Specified capital goods for manufacture of semi conductors and ICs, from 15% to 5%.
* Microprocessor for computers, from 5% to nil;
* Memory storage devices, from 5% to nil;
* CD ROMs, from 5% to nil;
* Integrated circuits and microassemblies from 5% to nil; and
* Data graphic display tubes for colour monitors for computers from 5% to nil.

Telecommunications is equally important. To become an economic superpower we must get connected, domestically and globally. I, therefore, propose to reduce the basic customs duty on specified raw materials for manufacture of optical fibres from 15% to 5%. I also propose to reduce the duty on cellular phones from 25% to 5% to improve their availability through proper channels and to curb the menace of the grey market, and on their battery packs from 40% to 15%. I am extending the concessional rate of 5% basic duty applicable to specified telecom equipment to internet service providers also.

The third is the entertainment industry, which is also an area of great promise. To reduce the cost of cinematography for the film industry and provide access to the latest technology, I propose to reduce duty on cinematographic cameras, and other related equipment from 40% to 25%. I also propose to reduce the basic customs duty on colour positive films in jumbo rolls and colour negative films in rolls of certain sizes from 15% to 5%. They shall also be exempt from CVD.

I would like to cover one more sector in this context.

India can be a world leader in jewellery exports, as it is for gems. I propose to reduce the basic customs duty on platinum and non- industrial diamonds from 40% to 15% in order to encourage production of quality jewellery and to provide a fillip to jewellery exports.

To give effect to our agreements with the European Union and the United States, I propose to adjust the customs duties on fibres, yarns, textile fabrics and garments. As a result, several varieties of fabrics and garments would henceforth be subjected to the higher of ad-valorem or specific rates of duties prescribed for them.

## Duty on crude up

As far as petroleum sector is concerned, the international prices of crude oil and petroleum products prevalent over some time now have been putting considerable strain on our refineries and distorting the oil pool account. This is accentuated by the fact that prices of petroleum products have not been fully decontrolled so far. I, therefore, propose to reduce the basic customs duty on crude oil from 20% to 15% and on petroleum products from 30% to 25%, except on kerosene for parallel marketing, the basic duty on which is being raised to 35%, from 30%.

In several cases the bound rates are to be reduced as part of our international commitment. I do not wish to take the time of the House by going into details. But they do have some revenue implications.

Mr. Speaker Sir, last year, I had proposed the abolition of Finance Minister's discretionary power to grant ad hoc exemptions of customs and excise duties except for goods of strategic nature, or for charitable purposes. I am pleased to inform the House that this self- denying rule has helped the Government save about Rs. 500 crores this year. I shall now mention a few small, but significant, measures for procedural improvements and redressal of the problems of taxpayers. To curtail the so called "show cause notice Raj" in customs and central excise, I have decided that henceforth, show cause notices involving duty amount of more than Rs. 1 crore would be issued only with the approval of the Chief Commissioner of Customs and Central Excise. Other show cause notices would require approval of the Commissioner of Customs and Central Excise.

It cannot be disputed that the tax due from a defaulter should flow to the exchequer at the earliest in public interest. At present, penalty equal to 100% of the duty evaded is payable, and this is mandatory, even if someone makes the payment immediately after the adjudication order is passed. With a view to encouraging payment of tax due, I have now proposed that if the amount of tax evaded is paid along with interest within 30 days of the communication of the order, a penalty equal to only 25% of the duty evaded would be payable. I hope this carrot will be found preferable to the stick, which is bound to follow if tax is not paid in time.

Service tax is emerging as an area of promise as well as problems. Many experts advise me that the best way to deal with this tax is to make it applicable to all services in one go. However, some others have suggested basic changes in the very structure of the service tax. I have decided not to make any changes for the present. I am setting up an Expert Group to go into all aspects of the matter, review the experience so far, and give me its considered advice.

My proposals on the excise side are estimated to result in revenue gain of Rs. 3,252 crores in a year. On the customs side, my proposals are estimated to result in a revenue loss of Rs. 1,428 crores. Copies of the notifications issued to give effect to the changes in excise and customs duties shall be laid on the Table of the House in due course.

I now turn to my Direct Tax proposals.

Mr. Speaker, Sir, my edifice of Direct Tax proposals rests on four pillars of stability, economic growth, rationalisation and simplification.

Our existing rates of personal taxation at 10%, 20% and 30% are only three in number and quite moderate. Although the basic exemption limit is Rs.50,000, the real exemption limit goes much higher when the other exemptions and deductions are taken into account. For example, salaried persons start paying tax only on crossing Rs.75,000 per year because of the standard deduction. If the tax rebates and deductions available for savings are taken into account, the effective limit of exemption gets close to Rs.1 lakh. Thus I feel that the present rates of taxation as well as the exemption limit are reasonable. I, therefore, propose to maintain them at the same levels.

Although the 10% surcharge imposed last year was meant to be temporary, I am constrained to continue with it, in view of the heavy and unexpected expenditure burden, mainly on account of defence requirements and transfer to states mandated by the Finance Commission.

Having restrained myself from imposing any additional taxes during the course of the year when there was much talk of a Kargil tax, I now propose increasing the surcharge moderately from 10% to 15% on non- corporate tax payers having total taxable income above Rs.1,50,000 per year. This will slightly increase their marginal rate from 33% to 34.5%. I trust that these relatively better-off sections of society would bear this additional burden cheerfully.

Lest it is felt that I am being discriminatory in not increasing the surcharge on corporates, let me clarify that they would also get their opportunity to contribute to the national effort in other ways a little later.

## 3

## Tax rebate for senior citizens to be hiked

Despite the financial constraints, I would like to propose some positive measures on personal taxation.

As an expression of our gratitude to the contribution made by senior citizens during their active years and taking into account the possible hardships that they face in the advanced years of their life, I propose to raise the tax rebate available to them from Rs.10,000 to Rs.15,000. At the marginal tax rate of 30%, this translates into an exemption of an additional Rs.15,000 from their gross income, or substitutes the need to save an additional — Rs. 25,000 to avail of a similar exemption under section 88.

I have always maintained that despite all challenges, my job as Finance Minister in making a budget is easier than that of an average housewife struggling to balance the family budget. As a token of appreciation and recognition of women as productive contributors to the economy, I propose an additional rebate of Rs.5,000 for women tax-payers from their tax liability. This would be subject to the overall ceiling of Rs.15,000 if they also happen to be senior citizens.

With a view to acknowledging the services rendered by the members of defence forces and in token of our gratitude for their exceptional courage and valour, I had provided exemption from tax for the pension and family pension of gallantry award winners of these services. I now propose to extend similar benefits to gallantry award winners of para military forces and other forces engaged in national and civil defence.

## New venture capital regime

I now turn to the role of taxation as a facilitator of economic growth. Knowledge-based industries are fast emerging as the front-runners of the Indian economy. To accelerate their growth, and encourage investment in them as mentioned in Part A of my speech, I propose to introduce a new regime for venture capital funds. The highlights of this would be:

* (i) No approval of Venture Capital Funds by tax authorities would be required.
* (ii) The principle of "pass through" would be applied in tax treatment of Venture Capital Funds, whose income would be free of tax, except when not distributed within the period that may be prescribed in the guidelines of SEBI. Income in the hands of its investors, which would otherwise be taxable, would also be kept tax free, and there would only be a one-time payment of tax by the Venture Capital Fund at the rate of 20%, when the Fund distributes its income to the investors. The same rate would apply to undistributed incomes also.

I hope these incentives will facilitate the coming together of Saraswati (i.e. knowledge) and Laxmi (i.e. wealth) to bless entrepreneurs and investors.

Various tax benefits are already available for the infrastructure sector. I propose to extend these benefits to two additional and essential sectors of urban infrastructure, viz. water treatment and solid waste management. I also propose to include investments in public companies providing long term finance for urban infrastructure as approved investments for charitable trusts. This will enable more investment in projects for development of urban infrastructure.

To provide a more focussed incentive for infrastructure development, I propose to delete the existing provisions 54EA and 54EB and replace them with a new provision, whereby tax exemption from capital gains would be available only if investment is made in bonds to be issued by National Bank for Agriculture and Rural Development (NABARD) and the National Highways Authority of India (NHAI). These bonds will have a lock- in period of five years and their proceeds will be used for providing finance to the agricultural sector and for the National Highway Development Project.

I propose to continue the thrust given to the housing sector last year and extend the benefits already available for two more years, i.e. for houses or projects which are completed by 31st March 2003. I hope this will sustain and accelerate house construction activity.

## Rebate for housing loan

To supplement the package of incentives of this sector, I also propose that the 20% rebate of tax under section 88 of the Income-tax Act would now be available for repayment of housing loans up to Rs. 20,000 per year as against Rs. 10,000 earlier.

Presently, the exemption from tax on long-term capital gains is not available if the capital gain from transfer of capital assets is invested in a house, if one house is already owned. I am removing this restriction. Even if they own one house, taxpayers can make an investment in a new house and claim exemption from capital gains tax on sale of capital assets.

Last year I had provided for 100% exemption on export profits to the entertainment industry. However, this benefit was limited to corporate entities only. I propose to extend the benefits available to corporates to non-corporate assessees as well with effect from Financial Year 1999-2000. This will remove the perceived discrimination to the non-corporate film makers, but I do hope that this industry will move towards corporatisation and modernisation rapidly which is possible without in any way curbing individual creativity.

To address a long-standing demand of the entertainment industry and with a view to streamlining the procedures, I also propose to increase the limit of reporting of payments made by a film producer, during production of a film, to the tax authorities to Rs.50, 000 from the present level of Rs. 25,000.

I hope these concessions combined with what I have already done on the indirect tax side, will reassure the entertainment industry that "Hum Saath Saath Hain".

Shipping provides the transportation sinews to our international trade, and has a strategic relevance also. To enable the Indian Shipping Industry, which is facing serious challenges, to generate resources for strengthening and modernising its fleet, I propose to allow deduction of their entire profits, against 50% as at present, if these are kept in a reserve to be used for purchase of new ships. This 100% deduction would be available for five years beginning from the next year. Investment in human resources is an essential precursor for sustainable economic development. To enable meritorious students, especially those from not so affluent backgrounds, to avail of opportunities for higher education, I propose to increase the maximum amount of repayment of loan for higher education from Rs. 25,000 to Rs. 40,000 as an allowable deduction. This would translate into loan amounts exceeding Rs. 3 lakhs, which would help such students to defray the increasing cost of higher education, especially in management and professional courses.

## Vocational training to tackle unemployment

Availability of vocational training can go a long way in mitigating the problem of unemployment. It can also bridge the paradoxical mismatch between wide spread unemployment on the one hand and a shortage of properly trained manpower on the other. In order to remedy the situation I propose to allow 100% deduction of payments made for the establishment and running of institutions for vocational education and training by the private sector in rural areas and small towns.

Barring some significant but scattered achievements, we are not a major force in the international sports arena. Like many other activities, modern sports and athletics need money and infrastructure for their development. While some sports have access to abundant funding, most others suffer for want of adequate support. To rectify this situation, I propose that 100% deduction would be available for donations made by corporate entities to the Indian Olympic Association for the development of infrastructure and for the sponsorship of games and sports. I hope that with this concession, IOC would be better equipped to promote sports in the country. Last year, my proposals on corporate restructuring were widely welcomed by Indian industry. However, there have been persistent demands to clarify and rationalise some of the provisions. I, therefore, propose to remove ambiguities in this regard by making suitable changes in the provisions of the Income-Tax Act. I also propose that resulting companies as a consequence of splitting of statutory bodies like SEBs will enjoy the benefits of demerger if they fulfil the conditions notified by the Central Government.

Last year, I had dispensed with the condition of continuity of the same business for carry forward and set off of loss. I propose to liberalise the provisions relating to carry forward and set off of unabsorbed depreciation on the same lines. The condition of continuity of same business will be dispensed with and unabsorbed depreciation may be carried forward and set-off even if the same business is not continued.

To give greater restructuring flexibility and freedom to the corporates, including PSUs, I propose to make the conditions for tax exemption of voluntary retirement benefits of employees more liberal and to simplify the procedure for tax exemption of benefits given to employees of Public companies and Co-operative Societies. It will not be necessary any longer to obtain the approval of the tax authorities for their voluntary retirement schemes if these are formulated in accordance with the prescribed guidelines.

The various exemptions currently available while calculating Minimum Alternate Tax (MAT) and the credit system has undermined the efficacy of the existing provision and has also led to legal complications. To address these issues, I propose that the Minimum Alternate Tax be now levied at the revised rate of 7.5% of the "book profits" as determined under the Companies Act instead of the existing effective rate of 10.5%. However, this will now be uniformly applied — barring one exception that I will mention later. There will also be no credit for Minimum Alternate Tax paid. This should bring all zero tax companies within the tax-net, which is also the basic purpose of this tax. The new system has the virtue of a lowered rate of tax, a simple method of computation, and an equitable spread.

## Extension of tax holiday

To promote industrialisation in less developed areas, I propose to extend the tax holiday available for new units set up in industrially backward States and industrially backward Districts for another two years. Similarly, I also propose to extend the existing tax benefit for new Small Scale industrial units for another two years, i.e., till 31st March, 2002. To strengthen our capital market, I propose to provide 100% exemption to the income of Investor Protection Funds of Stock Exchanges to give them incentives for setting up of such funds.

At present, no tax is payable in the hands of shareholders on the dividend income received from a domestic company, only the company pays additional income-tax at the rate of 10% on the amount of dividends distributed by them. The large gap in the tax treatment of dividend income and interest income has been widely criticised. To reduce this anomaly, I propose to increase the rate of tax on dividends distributed by domestic companies from 10% to 20%. I would clarify that dividend income in the hands of share holders will continue to remain tax free.

In a similar vein, to reduce the distortions arising out of the differing tax treatment for interest incomes from mutual funds and other instruments, like bank deposits and corporate deposits, I propose to increase the rate of tax on income distributed by debt oriented Mutual Funds and UTI from 10% to 20%. However, I would like to clarify that the income distributed under the US-64 and other open-ended equity oriented schemes of UTI and Mutual Funds will continue to be exempt from this tax, as at present.

## 4

## Interest tax to go

Currently, banks and financial institutions pay an interest tax of 2%, which adds to their cost. To remove this impediment to financial transactions, I propose to abolish this tax. This is a significant measure which will benefit the financial sector, and consequently the depositors and users of the products and services of the banks and financial institutions.

The life insurance sector is now opened up and would no longer remain a public sector monopoly. It is currently taxed at a special rate which is likely to need a revision in the altered scenario. I would like to undertake such revision on the basis of expert advice and in the light of international practice. I propose to constitute an Expert Committee for this and I hope to bring necessary amendments based on its recommendations during the course of the year.

One of the major initiatives towards better tax compliance has been the introduction of the one-by-six scheme. This, along with other measures, has contributed substantially to increasing the number of tax- payers, which had languished at the level of just over a crore till 1996- 1997, but has now crossed the two crore mark, with the biggest boost coming over the last two years. The momentum generated by this and other measures to widen the tax base needs to be sustained. I, therefore, propose to extend the one-by-six scheme from the existing 54 cities to an additional 79 cities in the country. With this, all the cities having a population of two lakh and more on the basis of the 1991 Census would stand covered.

In keeping with international practice, it is proposed to promote a common Business Identification Number to be used by different agencies and departments. In our context, the Permanent Account Number of income-tax would be that instrument. To begin with, the CBEC and DGFT will use PAN for their assessees, importers and exporters. I hope that in near future, the PAN card will replace the ration card as the primary identification document for a sizeable number of people.

With a view to intensifying the drive for PAN allotment, I propose to open special counters in all cities where the one-by-six scheme will be in operation (including 79 cities where the scheme is being extended) to issue PAN cards to the taxpayers within 30 days of their filing the application. This facility will become operational with effect from the 1st of July, 2000.

A large number of farmhouses have come up in the vicinity of metropolitan and big cities. Many of these generate commercial income from being hired out for residential accommodation and for holding functions and events. No tax is paid on this income, which is mis-declared as agricultural. This blatant and visible misuse of an exemption originally intended only for genuine farmers cannot be condoned or allowed to continue. I, therefore, propose to make suitable changes in the law to ensure that the income from farmhouse from anything other than genuine agricultural operations will be brought in the tax net.

## Revamp of tax collection

It is my earnest desire to make the system of tax collection as user friendly and efficient as possible. The tax payer should be able to pay taxes with speed, convenience and dignity. With this in view, I propose to expand and revamp the presently available facilities of tax collection to provide that taxpayers would be able to pay their tax in any branch of nationalised banks where they maintain an account. This facility would be available in all towns and cities covered under the one- by-six scheme with effect from 1st August, 2000. For operational reasons, this facility would initially be offered in computerised branches only, but would be expanded continuously.

I also propose to further streamline the system of refunds. While the present practice of sending the refund cheques to the tax payers under advice to their banks would continue, the Tax Department would also offer the facility of issuing refunds directly on the bank accounts of assessees if the tax payers so desire. For operational reasons, this facility would also initially be started from computerised branches of banks, with continuous expansion as the banks get progressively computerised.

With almost every sector of the economy expecting a special treatment, our Income-tax Act has become a vast compilation of exemptions. Income is income and should be taxed. There should be no permanent exemptions. With this in view, I want to make a beginning towards rationalising the existing system of concessions and exemptions. Export earnings of various kinds presently enjoy exemptions from income-tax ranging from 50% to 100% of income. I have, therefore, decided to phase out these concessions over a period of five years. To begin with, I am withdrawing these concessions by 20% from the financial year 2000-2001, and by 20% each subsequent year till they reach a zero level. I would add that exporters would continue to enjoy exemption from MAT till the full phase out. The revenues garnered from this rationalisation measure will help to finance universalisation of primary education and other investments in human resources.

My rationalisation measures also include the following:

* Trusts running educational institutions and hospitals will not be denied exemption even if their trustees avail medical and educational facilities from them. Such benefit alone will be taxed.
* Investments made in public sector companies will continue to be eligible investments for trusts, for a certain period after the disinvestment by the Government even after these companies stop being public sector companies.
* Interest for delayed payment of dividend tax and tax on distributed profits by mutual funds and UTI will be reduced from 2% per month to 1.5% per month.
* Exemption of allowances received by employees will be raised in conformity with the recommendations of the Fifth Pay Commission.
* Limit of gross receipts for compulsory maintenance of books by professionals will be enhanced from Rs. 60,000 to Rs. 1,50,000.
* Advisory limit for disposal of departmental appeals by Appellate Tribunal will be provided for in law.

Mr. Speaker, Sir, as a result of various proposals made in this budget on the direct taxes, the estimated revenue in 2000-2001 would be Rs. 72,105 crores, including the component of additional resource mobilisation of Rs. 5,080 crores.

Mr. Speaker, Sir, with these proposals I estimate total tax revenue receipts for the Centre at Rs.1,46,209 crores and the fiscal deficit at Rs.1,11,275 crores or 5.1% of GDP. I could have sought a deeper cut in the fiscal deficit, but a substantially higher level of revenue mobilisation would have hurt the industrial recovery under way at present. Thus, in the short-run, I had to carefully balance the need for fiscal consolidation with the need to nurture the recovery phase of a growth cycle. I hope this august House will support the balance I have struck in this budget.

Growth is not just an end in itself. It is the critical vehicle for increasing employment and raising the living standards of our people, especially of the poorest. Sustained, broad-based growth, combined with all our programmes for accelerating rural development, building roads, promoting housing, boosting knowledge-based industries and enhancing the quality of human resources, will impart an impetus to employment expansion. There can be no better cure for the problem of poverty than this in our country.

Sir, the millennium has heralded the arrival of the Indian economy on the global stage. In two short years, we have shown that Indian talent and Indian effort is second to none. In two short years we have ensured that "made in India" is a compliment for any product or service. In two short years we have sent notice to the world that India will be an economic superpower in the 21st century. The world's eyes are now upon us, and we will deliver.

Mr. Speaker, Sir, with these words, I commend the budget to this august House.

## Budget at a glance

(In crore of Rupees)

| | | 1998-99 Actuals | 1999-2000 Budget Estimates | 1999-2000 Revised Estimates | 2000-2001 Budget Estimates |
|---|---|---|---|---|---|
| 1. | **Revenue Receipts** | 149510 | 182840 | 179504 | 203673 |
| | 2. Tax Revenue (net to centre) | 104652 | 132365 | 126469 | 146209 |
| | 3. Non-Tax Revenue | 44858 | 50475 | 53035 | 57464 |
| 4. | **Capital Receipts** (5+6+6.1+7) | 129856 | 101042 | 124234 | 134814 |
| | 5. Recoveries of Loans | 10633 | 11667 | 12736 | 13539 |
| | 6. Other Receipts | 5874 | 10000 | 2600 | 10000 |
| | 6.1 of which disinvestment proceeds committed for redemption of Public Debt | — | — | — | 1000 |
| | 7. Borrowings and other liabilities | 113349 | 79955 | 108898 | 112275 |
| 8. | **Total Receipts (1+4)** | 279366 | 283882 | 303738 | 338487 |
| 9. | **Non-Plan Expenditure** | 212548 | 206882 | 224343 | 250387 |
| | 10. On Revenue Account of which | 176900 | 190331 | 204904 | 228768 |
| | 11. Interest Payments | 77882 | 88000 | 91425 | 101266 |
| | 12. On Capital Account | 35648 | 16551 | 19439 | 21619 |
| 13. | **Plan Expenditure** | 66818 | 77000 | 79395 | 88100 |
| | 14. On Revenue Account | 40519 | 46656 | 48132 | 52330 |
| | 15. On Capital Account | 26299 | 30344 | 31263 | 35770 |
| 16. | **Total Expenditure** (9+13) | 279366 | 283882 | 303738 | 338487 |
| | 17. Revenue Expenditure (10+14) | 217419 | 236987 | 253036 | 281098 |
| | 18. Capital Expenditure (12+15) | 61947 | 46895 | 50702 | 57389 |
| 19. | **Revenue Deficit (1-17)** | 67909 | 54147 | 73532 | 77425 |
| 20. | **Fiscal Deficit** ((1+5+6)-16) =(7-6.1) | 113349 | 79955 | 108898 | 111275 |
| 21. | **Primary Deficit (20-11)** | 35467 | -8045 | 17473 | 10009 |

*Note: Actuals for 1998-99 include loans to States/UTs against small savings collections (Rs. 23,026 crore).*

# Rural economy growth to be sustained

## Steps to banish poverty

The following is the text of Part A of the Union Finance Minister, Mr. Yashwant Sinha's budget speech in the Lok Sabha on Tuesday.

Sir, I rise to present the first budget of this millennium.

This budget for 2000-2001 has some other firsts to its credit also. It is the first budget of the new Government which took office in October 1999 under the visionary leadership of Shri Atal Behari Vajpayee. It is also the first budget of the second half century of our Republic and the first budget of the new century. I hope it will add many more firsts to its credit as time goes by. I thank the Hon'ble Prime Minister for entrusting me with this historic responsibility which I stand here to discharge in all humility.

The year 1999-2000 has been a year of many challenges: the 50- day-war in Kashmir, the supercyclone in Orissa, long months of political uncertainty before the general elections, a somewhat weak monsoon, a near tripling of world oil prices and the continued fragility in world economic recovery. Nevertheless, we have met these challenges resolutely, accomplished a great deal and the nation is stronger as a result.

The economy's performance is described in detail in the Economic Survey I laid before the House yesterday. Let me just touch a few highlights. A broad-based industrial recovery is under way. Despite lower growth of agriculture due to inclement weather, overall economic growth this year is expected to be nearly 6 per cent. The infrastructure sector is performing much better. For the first time in 17 years the inflation rate has stayed below 4 per cent for 42 consecutive weeks. Even more remarkable, the Consumer Price Index (Industrial Workers) in November 1999 showed zero increase over the previous November. This is an enormous boon for the weakest sections of our society. Public food stocks are at record levels. Exports have achieved a remarkable turnaround from negative growth last year to nearly 13 per cent growth in dollar terms in April-December, 1999. Our software exports are also booming. Although surging international oil prices have increased our oil import bill by more than $6 billion, our foreign exchange reserves have nevertheless attained new record levels. With the return of investor confidence our stock markets have also soared to new heights.

In my last two budgets, I have addressed the accumulated shortcomings in our policies and freed our companies to compete globally. We have strengthened our agricultural sector, energised our financial markets and laid the foundations of an exciting new economy. With this, my third budget, I propose to put India on a sustained, equitable and job- creating growth path of 7 to 8 per cent per year in order to banish the scourge of poverty from our land within a decade. The next 10 years will be India's decade of development. To achieve this objective our strategy must encompass the following elements:

* Strengthen the foundations of growth of our rural economy, especially agriculture and allied activities.

* Nurture the revolutionary potential of the new knowledge-based industries such as infotech, biotechnology and pharmaceuticals.

* Strengthen and modernise traditional industries such as textiles, leather, agro processing and the SSI sector.

* Mount a sustained assault on infrastructure bottlenecks in power, roads, ports, telecom, railways and airways.

* Accord the highest priority to human resource development through programmes and policies in education, health and other social services, with special emphasis on the poorest and weakest sections of society.

* Strengthen our role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management.

* Establish a credible framework of fiscal discipline, without which the other elements of our strategy can fail.

In all these areas we must pursue thorough-going economic reforms to unlock the creative energies of our people and thus reap the gains of productivity growth. But our reforms must also be guided by compassion and justice. In his Address to Parliament in October 1999 the President has set out the broad outlines of our programme of second generation reforms. This budget carries forward the process of implementation.

### Fiscal management

Today, we must squarely confront and overcome the critical challenge posed by a weakening fiscal situation. A long history of high fiscal deficits has left us with a legacy of a huge public debt and an ever-growing bill of interest payments. This year we have incurred unanticipated expenditure on national defence, elections and the supercyclone in Orissa. The residual impact of the Fifth Pay Commission and the need for special fiscal assistance to the States have added to our burden. All this, combined with shortfalls in receipts from disinvestment and revenue, has raised our net borrowing requirements (our fiscal deficit) to over Rs. 1,00,000 crores. This will add about Rs. 10,000 crores to our interest bill next year. We must also find additional resources for Plan, Defence and for additional transfers to States under the interim award of the Eleventh Finance Commission. If we do not raise the resources and instead take recourse to even higher borrowing next year, then we will jeopardise our prospects for growth, reignite the flames of inflation, sow the seeds of another balance of payments crisis and place an unfair burden on the next generation.

We must put our fiscal house in order. This means hard decisions and sacrifices. At the same time we must preserve the intrinsic dynamism of our economy, which alone can deliver sustained growth with social justice. For this reason, despite the severe fiscal strain, the budget support to the plan is being increased by Rs. 11,100 crores to a level of Rs. 88,100 crores compared to Rs. 77,000 crores in B.E. 1999-2000.

### Defence preparedness

Similarly, there cannot be any compromise on defence. Our forces have once again demonstrated in Operation Vijay that they are second to none in the world. The Government is committed to enhance the quality of our defence preparedness and to modernise our forces. In this budget, I have made a provision of Rs. 58,587 crores for defence, which is nearly Rs. 13,000 crores more than in B.E. for the current year. This represents the largest ever increase in the defence budget in any single year. More will be provided whenever needed. We shall not shrink from making any sacrifice to guard and protect every inch of our beloved motherland.

### Central Govt. expenditure

Over the years the composition of Central Government expenditure has become highly rigid and prone to large, pre-committed increases. More than half of the annual budget outlays are transfer payments. Interest payments, Defence, Internal Security, Major Subsidies, Salaries, Allowances and Pensions and non-plan grants to States account for about 95 per cent of non-plan expenditure and about 70 per cent of total expenditure. To curb built-in expenditure growth and bring about structural changes in the composition of our expenditure, I am introducing the following initiatives.

* All ongoing schemes will be subjected to rigorous zero based budgeting scrutiny. I had announced this initiative last year and I am glad that this exercise has been completed in eight Departments. As a result, 69 schemes are to be discontinued or merged. This process will be completed in a timebound manner in the remaining Departments.

* The manpower requirements of Government departments will be reassessed by reviewing the norms for creation of posts.

* Fresh recruitment in Government departments and institutions will be limited to minimum essential needs.

* The scheme for redeployment of surplus staff will be made more effective and will provide facilities for retraining. A VRS scheme will also be introduced for staff in the surplus pool.

* All subsidies will be reviewed with a view to bringing in cost-based user charges wherever feasible.

* No new autonomous institutions will be created without approval of Cabinet. Budgetary support to autonomous institutions will be reviewed and they will be encouraged to maximise generation of internal resources.

* In order to align with the overall interest rate structure, the interest rate on General Provident Funds is being reduced by 1 per cent to 11 per cent from 1-4-2000.

* Excessive domestic borrowings to finance current expenditure has resulted in debt service payments approaching unsustainable levels. To reduce expenditure on this account, a portion of the disinvestment proceeds will be earmarked for retiring Government debt. An initial provision of Rs. 1,000 crores has been made in the budget for this purpose.

I will have something more to say on major subsidies a little later.

These measures are necessary and are only a beginning. We shall pursue resolutely the objective of downsizing the Government and prepare a roadmap for the purpose. For medium-term management of the fiscal deficit we also need the support of a strong institutional mechanism embodied in a Fiscal Responsibility Act. This had been suggested in the Agenda for Governance of the National Democratic Alliance. I have set up a committee to examine this issue and make suitable recommendations. I hope to bring the necessary legislative proposals to the House during the course of the year.

The challenge of fiscal management is not confined to the Central Government. The financial position of the State Governments has deteriorated sharply in the last few years. Revenue deficits have widened and borrowings are being increasingly used to meet revenue expenditure. Fiscal reform at the State-level has acquired great urgency. While we have gone out of our way to help State Governments, the determination shown by some States to deal with these issues has also helped enormously. It will be my endeavour to take further collective measures in the next year for promoting fiscal reforms in the States. The final report of the Eleventh Finance Commission will provide valuable inputs for taking policy initiatives in this regard.

## 2

## Agriculture and Rural Development

It is my firm belief that sustained and broad-based growth of agriculture is essential for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services.

We must take all necessary measures to strengthen the rural economy. Credit flow to agriculture through institutional channels of commercial banks, cooperative banks and Regional Rural Banks is estimated at about Rs. 41,800 crores this year. It is expected to increase by over 20 per cent to a level of Rs. 51,500 crores in 2000-2001. In my last two budgets we have launched a wide array of initiatives to promote the flow of rural credit. In this budget I propose to strengthen the earlier programmes and launch further initiatives:

* The Rural Infrastructure Development Fund (RIDF) managed by the NABARD has emerged as a popular and effective scheme for financing rural infrastructure projects. Last year I had announced an enhanced allocation of Rs. 3,500 crores from the banking sector for RIDF V and extended the repayment period of loans to 7 years. The scope of RIDF was also widened to allow lending to Gram Panchayats, Self-Help Groups, NGOs and other eligible organisations for implementing village-level infrastructure projects. This year the corpus of RIDF VI will be increased to Rs. 4,500 crores and the interest charged on this lending will be reduced by half a per cent.

* Micro finance has emerged as an effective tool for alleviating poverty in many countries. In my last budget I had asked the NABARD and the SIDBI to cover 50,000 Self Help Groups to develop micro enterprises. The NABARD by itself is likely to link 50,000 such groups to banks during the current year. The NABARD and the SIDBI will cover an additional one lakh groups during 2000-2001. To give a further boost to this programme, a Micro Finance Development Fund will be created in the NABARD with a start up contribution of Rs. 100 crores from the RBI, the NABARD, banks and others. This fund will provide start up funds to micro-finance institutions and infrastructure support for training and systems management and data building. Special emphasis will be placed on promotion of micro enterprises in rural areas set up by vulnerable sections, including women, Scheduled Castes, Scheduled Tribes and Other Backward Classes.

* The cooperative system is a crucial channel for credit in rural areas. However, over time, problems have developed, mainly because of excessive bureaucratisation and the overlapping jurisdiction of State Governments and the NABARD. Some State Governments have already taken legislative action to promote genuinely cooperative institutions. For rural credit, clear delineation of the supervisory role of the RBI/NABARD on banking matters is also essential. To promote these two prerequisites for a more vibrant rural cooperative credit system I propose to establish a fund in the NABARD. The details will be worked out in the light of the forthcoming recommendations of the Capoor Committee earlier constituted by Government. In the meantime, the RBI is advising banks to accord priority to the credit needs of those cooperatives entirely controlled by user-members and managed by them prudently.

* The programme of Kisan Credit Cards is progressing very well. Cooperative Banks, Regional Rural Banks and Commercial Banks together have so far issued more than 50 lakh cards and card-cum-pass books to the farmers. I am asking the NABARD and Commercial Banks to redouble their promotional efforts so as to issue an additional 75 lakh Kisan Credit Cards by March 2001.

* Due to our efforts at recapitalising RRBs, 158 RRBs are posting operating profits. Out of these, 48 RRBs have been able to wipe out their accumulated losses. In view of the importance of the RRBs in rural financing, we will continue with this programme of strengthening the RRBs.

### Comprehensive agriculture development programme

The Planning Commission and the Ministry of Agriculture have worked out modalities to integrate 28 ongoing separate centrally-sponsored schemes of agricultural development into one comprehensive programme. This will weed out duplication, enhance the productivity of the support programme and accord greater flexibility to State Governments to develop and pursue activities on the basis of regional priorities. This is a major step forward towards the goals of convergence and decentralisation that I had outlined in my budget last year.

There is urgent need to review and coordinate our long-term strategy at the national and the state levels on the pattern of land use in the country, development of agriculture in relation to the agro-climatic conditions in the different regions and preservation of our forest resources. We need to adopt an integrated approach to a number of related subjects such as preservation and development of the forest wealth, optimum utilisation of the wasteland, watershed development, safeguarding bio- diversity etc. In view of the complexity of the issues involved, a National Commission on Land Use Policy comprising of experts in the relevant fields will be set up to examine the aspects and make appropriate recommendations to the Government.

Our Government stands fully committed to ensure that the fruits of economic reforms are shared by all sections of society, especially those living in rural areas and more particularly the Scheduled Castes, Scheduled Tribes and Other Backward Classes. Five elements of social and economic infrastructure are critical to the quality of life specially in rural areas: health, education, drinking water, housing and roads.

### Basic services in rural areas

Even after 52 years of Independence the provision of basic services in rural areas remains very unsatisfactory. Forty per cent of our villages are without proper roads; 1.8 lakh villages do not have a primary school within 1 km; 4.5 lakh villages have drinking water problems; some estimates indicate a shortage of 140 lakh rural dwelling units; rural health infrastructure suffers from large deficiencies. These large gaps in basic services in rural areas are not acceptable and Government is committed to removing them rapidly.

### Elementary education plan allocation hiked

Universalisation of elementary education is one of our key objectives. A new Department of Elementary Education and Literacy has already been created under the Ministry of Human Resources Development to give a new thrust and focus to these efforts. Some new initiatives include a scheme for universalisation of elementary education called "Sarva Shiksha Abhiyan" which would enable all children to enroll by 2003 and expansion of the District Primary Education Programme to cover the remaining districts in Uttar Pradesh, West Bengal, Orissa and Gujarat. On the literacy front, the National Literacy Mission would be revamped so that the literacy rate can be raised to 75 per cent by the year 2005. The Plan allocation for elementary education has been increased from Rs. 2,931 crores to Rs. 3,729 crores next year. A new Department of Drinking Water Supply in the Ministry of Rural Development has been set up to intensify the efforts and accelerate the pace of coverage. Our objective is to provide drinking water facilities in all rural habitations in the next five years. It is proposed to cover around 60,000 habitations and 30,000 schools in the next year. The outlay of the Department is being enhanced to Rs. 2,100 crores from Rs. 1,807 crores this year. The Reproductive and Child Health programme will receive Rs. 1,051 crores as against an allocation of Rs. 695 crores in 1999-2000. For rural housing schemes a provision of Rs. 1,710 crores has been made.

To impart greater momentum to these efforts I am announcing the launching of a new scheme, the "Pradhan Mantri Gramodaya Yojana" with the objective of undertaking time-bound programmes to fulfill these critical needs of the rural people. I am providing a sum of Rs. 5,000 crores separately for this Scheme in the budget. Out of this a sum of Rs. 2,500 crores will be earmarked for launching a nationwide programme of constructing rural roads and improving rural connectivity. Under the Scheme, Central assistance will be provided to States for implementing specific projects in these sectors. The Ministries concerned in the Central Government will lay down the guidelines and monitor the implementation of these programmes. The erstwhile Basic Minimum Services Scheme will be merged with the new scheme.

### Rural housing

"Housing for All" has been identified as a priority area in the Agenda for Governance. For the coming financial year, a goal of providing 25 lakh dwelling units in rural areas has been fixed. Schemes for meeting the needs of different sections of society have been prepared.

(i) Under Indira Awas Yojana, it is proposed to provide over 12 lakh houses for the people below poverty line. For this purpose, an amount of Rs. 1,501 crores is being provided in the budget.

(ii)For families with an annual income of below Rs. 32,000 per annum, assistance will be provided for construction of 1 lakh houses under credit-cum-subsidy Scheme. An amount of Rs. 92 crores is being provided in the budget for this scheme.

(iii)The National Housing Bank will provide refinance to banks and housing finance companies for construction of 1.5 lakh houses under Golden Jubilee Rural Housing Finance Scheme.

(iv)To further improve the availability of housing finance in rural areas, Government have decided to provide equity support of Rs. 350 crores to the HUDCO during the Ninth Plan period. Of this, Rs. 200 crores have already been released and it is proposed to release a further amount of Rs. 100 crores in the next year. With this enhanced equity support, the HUDCO will be able to leverage these funds and raise further resources to facilitate and provide finance for the construction of about 9 lakh houses in the rural areas in the coming financial year.

(v) The cooperative sector and voluntary agencies etc. will support the construction of another 1.5 lakh houses.

## 3

## Social security for the poor

More than one third of our population still lives below the poverty line. There is an imperative need to extend some social security cover to the poorest sections of our society. I have decided to introduce a new scheme of group insurance, "Janashree Bima Yojana", under which beneficiaries will have insurance cover of Rs. 20,000 in case of natural death, Rs. 50,000 in case of accidental death or total permanent disability and Rs. 25,000 for partial permanent disability due to accident. Premia will be fixed on an actuarial basis. Below poverty line participants in this scheme will pay only half the premium, with the remainder being contributed from earnings of LIC's existing Social Security Fund, suitably augmented by Government. On this basis, the monthly premium to be paid by the beneficiary is expected to be Rs. 10 or less. This scheme will lay a firm foundation for insurance cover to the poorest in our country.

There is an urgent need for improving the access of women to national resources and for ensuring their rightful place in the mainstream of economic development. Towards this objective, the Government will set up a Task Force under an eminent person to review all existing legislation and Government schemes pertaining to the role of women in the national economy. This Task Force will help us chalk out specific programmes for observing 2001 as "Women's Empowerment Year".

The Government has recently announced a new National Population Policy the key objective of which is to bring down total fertility rates to replacement levels by 2010. To operationalise this objective, the plan allocation of the Department of Family Welfare has been increased from Rs. 2,920 crores in B.E. 1999-2000 to Rs. 3,520 crores next year.

Recognising the role of the Indian systems of medicine and homeopathy in our health care, the plan allocation for the concerned Department is being doubled. Emphasis will be placed on drug standardisation, quality control, modernising of colleges, drug testing laboratories and formulations. This will also help in boosting exports of herbal formulations.

We must preserve and nurture our forests and environment for future generations. Funds are being provided for regeneration of mangroves and creation of shelterbelts along the coastal line, bamboo regeneration and afforestation programme, encouragement of medicinal plants and eco- tourism. Preservation of the rural environment will raise the living standards of millions belonging to the weakest sections of our society.

### Small Scale Industry

The SSI sector plays a vital role in industrial production, employment generation and exports. In the context of growing domestic and international competition, our strategy is to support this sector through promotional policies of credit and technology. For improving credit flow to SSI units, I propose the following:

* The requirement of providing collateral security is a major bottleneck to the flow of bank credit to very small units. The RBI has recently issued instructions to dispense with the collateral requirement for loans up to Rs. 1 lakh. The limit is being further increased for the tiny sector from Rs. 1 lakh to Rs. 5 lakhs.

* The existing composite loan scheme of SIDBI and banks helps small borrowers by providing working capital and term loans through a single window. To promote credit flow to small borrowers, the composite loan limit is being increased from Rs. 5 lakhs to Rs. 10 lakhs.

* I am asking the public sector banks to accelerate their programme of SSI branches to ensure that every district and SSI clusters within districts are served by at least one specialised SSI bank branch. Furthermore, to improve the quality of banking services, SSI branches are being asked to obtain ISO certification.

* Last year, I had announced that a credit guarantee scheme for SSI will be launched. I am glad to inform the House that a new Central Scheme for this purpose has been formulated and a provision for Rs. 100 crores has been made in the budget. The Scheme will be implemented through SIDBI and will cover loans upto Rs. 10 lakhs from the banking sector. The guaranteed loans will be securitised and will be tradeable in the secondary debt market.

SIDBI operates the National Equity Fund Scheme under which equity support is provided for projects up to Rs. 15 lakhs. To further help SSI entrepreneurs, this limit will be raised from Rs. 15 lakhs to 25 lakhs.

SIDBI is presently administering the Technology Development Modernisation Fund Scheme for assisting technology development and modernisation of SSI units. The Scheme has certain concessional features including interest at prime lending rate for direct assistance and refinancing at 2 per cent below prime rate for indirect finance. The operation of this scheme is being extended by another 3 years.

The Khadi and Village Industries Commission (KVIC) has been playing a very important role as an instrument to generate largescale employment in the rural areas with low per capita investment. The Government will continue to encourage the Khadi and Village Industry Sector so that its products can become more competitive. For intensifying marketing efforts, the KVIC will introduce a common brand name for its products and also set up a professionally managed marketing company for domestic as well as export marketing.

### Industry and capital market

In earlier millennia, India led the world on the basis of knowledge. Today history is repeating itself. Young Indian entrepreneurs are at the forefront of the infotech revolution, whether in Silicon Valley, Bangalore or Hyderabad. They have shown us how ideas, knowledge, entrepreneurship and technology can combine to yield unprecedented growth of incomes, employment and wealth. Companies unknown 5 years ago have become world leaders. We must do everything possible to promote this flowering of knowledge-based enterprise and job creation.

A key ingredient for future success lies in Venture Capital Finance. After a thorough review, I am proposing a major liberalisation of the tax treatment for venture capital funds. I will describe the details later. To simplify the procedures, SEBI will be the single point nodal agency for registration and regulation of both domestic and overseas venture capital funds. Venture activity is not limited to dot.com companies! Ideas and entrepreneurship, which merit venture finance, can be found in all sectors of the economy. The tax laws and SEBI guidelines are being formulated accordingly. I should add that this liberalisation will give a strong boost for Non-Resident Indians in Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in ventures in their motherland.

In recent months, stock markets have been buoyant all over the world, including India. Experience has taught us that there can be hard times as well. It is in such difficult times that institutions like investor protection funds of stock exchanges become really important. I will have something to say on this in Part B of my speech.

Thanks to our prudent macro-economic management and calibrated approach to currency convertibility, we have successfully weathered the East Asian crisis of the past two years. But we must not confuse caution with timidity. We must encourage Indian firms and businesses to grow into strong, India-based multinationals. To promote this trend, it is necessary to accord our firms increasing flexibility to undertake capital account transactions, especially for acquisitions of businesses abroad. Last month, the Government had announced a policy to allow Indian companies to raise funds for investments through issue of ADRs/GDRs without prior Government approval. Up to 50 per cent of these proceeds can be used by them to acquire companies in overseas market. We had also announced on 27th December, 1999, a liberalised mechanism for acquisition of software companies in the overseas market through stock swap options up to US $ 100 millions on an automatic basis. I plan to further liberalise this policy for acquisition of companies abroad to enable Indian corporates, in knowledge-based sectors to grow rapidly and lay the foundation for Indian multinationals in areas where we have comparative economic advantage. For acquisition in other sectors too, I propose to increase the ceiling under the automatic route from existing US $15 millions to US $50 millions for Indian corporates and beyond this, through approval by the Committee on Overseas Investment.

Under existing policy on portfolio investment, Foreign Institutional Investors (FIIs) are permitted to invest in a company, upto an aggregate of 24 per cent of equity shares, which can be increased to 30 per cent subject to approval by the Board of Directors and a Special Resolution of the General Body of the Company. To give our best companies greater access to foreign portfolio investment, I am increasing this limit from 30 per cent to 40 per cent.

### Science and Technology

The sustained growth of our knowledge-based industries will ultimately depend on the quality and extent of scientific and technological progress and training in our society. We must harness our potential in science and technology to realise the dream of modern India envisioned by the Prime Minister in his address to the Indian Science Congress last month. For taking up relevant technology vision projects and for increasing cooperation between our Universities and R&D institutions, I am making an additional provision of Rs. 50 crores in the budget of the Technology Information Forecasting and Assessment Council under the Department of Science and Technology. I am also making a provision of Rs. 50 crores in the budget of the Department of Scientific and Industrial Research for launching a New Millennium Indian Technology Leadership Initiative. It will focus on areas which fulfil national objectives and will be based on partnership between the Government and private sector.

To fully benefit from the new intellectual property rights regime, we need to encourage our scientists and R&D institutions to maximise their patenting efforts. The Government have decided to allow Universities and Research Institutions to retain the revenue generated from intellectual property rights through publicly funded research and also share a part of the revenue with the inventor.

Modernisation of the Patent Office and the Trade Mark Register is long overdue. The Government have sanctioned a modernisation project of Rs. 75 crores for the Patent Office and we will strive to remove all impediments for early implementation of this project.

The recent East Asian crisis has underlined the critical importance of undertaking reforms to strengthen the banking sector. In recent years, the RBI has been prescribing prudential norms for banks broadly consistent with international practice. To meet the minimum capital adequacy norms set by the RBI and to enable the banks to expand their operations, public sector banks will need more capital. With the Government budget under severe strain, such capital has to be raised from the public which will result in reduction in Government shareholding.

## 4

## Banking and finance

To facilitate this process, the Government have decided to accept the recommendations of the Narasimham Committee on Banking Sector Reforms for reducing the requirement of minimum shareholding by the Government in nationalised banks to 33 per cent. This will be done without changing the public sector character of banks and while ensuring that fresh issue of shares is widely held by the public. The Committee had also expressed the view that the Boards of the banks should have sufficient autonomy to take decisions on corporate strategy and all aspects of business management and be responsible to the stakeholders, that is, the shareholders, the customers, the employees and the public at large. In particular, the interests of the employees of the nationalised Banks will be fully safeguarded. It is proposed to bring about necessary changes in the legislative provisions to accord necessary flexibility and autonomy to the Boards of the banks.

As the Honourable Members are aware, the Report of the Working Group on Restructuring Weak Public Sector Banks had suggested the constitution of a Financial Restructuring Authority (FRA). It has been decided to have a modified version of the FRA. Thus, in respect of any bank which is considered to be weak or potentially weak, the statutes governing public sector banks would be amended to provide for supersession of the Board of Directors on the basis of recommendations of the RBI and constitution of a FRA for such a bank, comprising experts and professionals. The amendments would also enable the FRA to exercise special powers including all the powers of the Board of the bank.

The Government will not close down any public sector bank. As responsible owner of the banks, the Government have decided to consider recapitalisation of the weak banks to achieve the prescribed capital adequacy norms, provided a viable restructuring programme acceptable to the Government as the owner and the RBI as the regulator is made available by the concerned banks.

The high level of Non-Performing Assets (NPAs) in our public sector banks is a cause for continued concern. Efficient and effective mechanisms for recovery of bank dues are critically important for reducing NPAs. I am happy to inform the House that comprehensive amendments have been carried out to the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 by issue of Ordinance. Five more Debt Recovery Tribunals (DRT) and four more Debt Recovery Appellate Tribunals have been set up or are in advanced stage of being set up. I further propose to set up four more DRTs at Mumbai and one more DRT each at Calcutta, Delhi and Chennai to facilitate expeditious adjudication and recovery of dues of banks and financial institutions.

The growth of fresh NPAs can also be curbed through better institutional mechanisms for sharing of credit-related information on borrowers and potential borrowers among banks and financial institutions. A Working Group constituted by the RBI to examine modalities for setting up a Credit Information Bureau has recently submitted its report. Based on its recommendation a Credit Information Bureau will soon be established.

In the fast-changing world of modern finance, it has become necessary to accord greater operational flexibility to the RBI for conduct of monetary policy and regulation of the financial system. Accordingly, I intend to bring to Parliament proposals for amending the relevant legislation.

Similarly, to facilitate development of the Government debt market the legislative framework needs to be strengthened and modernised through a Government Securities Act, which I propose to bring to replace the old Public Debt Act, 1944.

The Industrial Investment Bank of India is the only Calcutta- based development financial institution. To enable it to improve its viability and profitability by diversifying and extending its business, the Government will subscribe to the preference capital of the company.

The NBFCs perform a significant role as financial intermediaries and in promoting growth of industry and services. Over the past 3 years, the RBI has taken a number of measures for strengthening the regulation of this sector with a view to ensuring that only financially sound and well- run NBFCs are permitted to accept public deposits. I propose to bring a new bill which will strengthen the hands of depositors in situations of malafide or fraudulent actions of the NBFCs.

### Infrastructure

Infrastructure services remain a key bottleneck to rapid and sustained growth of our economy. We have made substantial progress in encouraging private infrastructure service providers and in establishing independent regulatory frameworks in most infrastructure sectors. We have also sought to give greater operational and commercial autonomy to existing public entities in these sectors. We will be moving ahead with programmes for corporatisation of public sector service providers in the areas of telecommunications, ports and airports during the course of the coming year.

The Prime Minister has announced a major initiative for road development, the National Highways Development Project (NHDP). The cost of the project is estimated at around Rs. 54,000 crores. In my earlier budgets, I had announced the levy of cess of one rupee per litre on petrol and diesel and a substantial part of this is expected to be available for funding the NHDP. To further augment resources, for commercially viable components of this project, I shall have something more to say in Part B of my speech.

### Plan outlay for Central PSUs up

The plan outlay for the Central PSUs in the power sector has been increased from Rs. 7,626 crores to Rs. 9,194 crores. Increased budgetary support has been provided for the Tehri Hydro and the Nathpa Jakhari Hydro projects so that both these projects can be commissioned by March 2002. For commissioning of high priority projects by SEBs/State generating companies, a provision of Rs. 300 crores has also been made for subsidising interest on loans from the Power Finance Corporation.

In order to give a fillip to the reform process in the power sector and for undertaking investments on renovation and modernisation of old and inefficient plants and for strengthening the distribution system, a new scheme for providing assistance to State utilities will be introduced. Under this scheme, additional Central Plan assistance of Rs. 1,000 crores will be provided to State and Union Territory Governments.

The State Electricity Boards have large overdues to the Central Sector Power and Coal utilities. A Scheme for securitisation of these dues with the support of Central Government has been finalised to assist the SEBs to clear these dues. The Central Government support will be linked to reforms in the operation of SEBs.

Hon'ble members are aware that the Sethu Samudram Ship Canal Project has the potential of providing a shorter route between the East and West Coast Ports. I am glad to inform that Government have approved the undertaking of a detailed feasibility study and environmental impact assessment of the project at a total cost of Rs. 4.8 crores. I have made necessary provision for this in the budget.

### Public sector restructuring

The Government's policy towards the public sector is clear and unambiguous. Its main elements are:-

* Restructure and revive potentially viable PSUs;

* Close down PSUs which cannot be revived;

* Bring down the Government equity in all non-strategic PSUs to 26 per cent or lower, if necessary; and

* Fully protect the interests of workers.

In line with this policy during the last two years financial restructuring of 20 PSUs has been approved by the Government. As a result, many PSUs have been able to restructure their operations, improve productivity and achieve a turnaround in performance. Hon'ble members are aware that the Government has recently approved a comprehensive package for restructuring of SAIL, one of our Navaratna PSUs.

There are many PSUs which are sick and not capable of being revived. The only remaining option is to close down these undertakings after providing an acceptable safety-net for the employees and workers. Resources under the National Renewal Fund have not been sufficient to meet the cost of Voluntary Separation Scheme (VSS) for such PSUs. At the same time, these PSUs have assets, which, if unbundled and realised, can be used for funding VSS. The Government will put in place mechanisms to raise resources from the market against the security of these assets and use these funds to provide an adequate safety-net to workers and employees.

The Government has recently established a new Department for Disinvestment to establish a systematic policy approach to disinvestment and privatisation and to give a fresh impetus to this programme, which will emphasise increasingly on strategic sales of identified PSUs. Government equity in all non-strategic PSUs will be reduced to 26 per cent or less and the interests of the workers will be fully protected. The entire receipt from disinvestment and privatisation will be used for meeting expenditure in social sectors, restructuring of PSUs and retiring public debt.

The Government is committed to the speedy economic development of the North-Eastern States and Sikkim. Priority is being given for development of infrastructure, especially airports, railways, power and national highways so as to remove the sense of isolation perceived in many parts of the North-East. To provide more facilities for vocational education, 50 more Industrial Training Institutes and 446 Computer Information Centres would be established in the North- Eastern States within the next two years.

For realising the potential for agricultural and horticultural development in the North-East, schemes for minor irrigation and horticulture will be encouraged. A Technology Mission for horticultural development in the North-Eastern States will also be launched.

### SC/ST literacy

To promote literacy and to improve the education standards of persons belonging to the Scheduled Castes, a new thrust will be given to the Post-Matric Scholarship Scheme. The budgetary provision for this scheme is being increased from Rs. 72 crores to Rs. 130 crores. Emphasis under this scheme will be on female literacy. Our Prime Minister has announced that it will be our national goal to liberate and rehabilitate around 6 lakh scavengers in the country. A new strategy will be devised under which scavengers will be organised into self-help cooperatives and provided assistance from the Government and the Finance Development Corporations concerned. To give a greater focus to the welfare of the Scheduled Tribes, a new Ministry of Tribal Affairs has been set up. The plan allocation of Tribal welfare has been substantially stepped up from Rs. 684 crores to Rs. 810 crores.

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# FM Seeks To Put The Fiscal House In Order

PART

Sir,

I rise to present the first budget of this millennium.

This budget for 2000-2001 has some other firsts to its credit also. It is the first budget of the new Government which took office in October 1999 under the visionary leadership of Shri Atal Bihari Vajpayee. It is also the first budget of the second half century of our Republic and the first budget of the new century. I hope it will add many more firsts to its credit as time goes by. I thank the Hon'ble Prime Minister for entrusting me with this historic responsibility which I stand here to discharge in all humility.

The year 1999-2000 has been a year of many challenges: the 50 day war in Kashmir, the super cyclone in Orissa, long months of political uncertainty before the general elections, a somewhat weak monsoon, a near tripling of world oil prices and the continued fragility in world economic recovery. Nevertheless, we have met these challenges resolutely, accomplished a great deal and the nation is stronger as a result.

The economy's performance is described in detail in the Economic Survey I laid before the House yesterday. Let me just touch a few highlights. A broad-based industrial recovery is under way. Despite lower growth of agriculture due to inclement weather, overall economic growth this year is expected to be nearly 6%. The infrastructure sector is performing much better. For the first time in 17 years the inflation rate has stayed below 4% for 42 consecutive weeks. Even more remarkable, the Consumer Price Index (Industrial Workers) in November 1999 showed zero increase over the previous November. This is an enormous boon for the weakest sections of our society. Public food stocks are at record levels. Exports have achieved a remarkable turn around from negative growth last year to nearly 13% growth in dollar terms in April-December, 1999. Our software exports are also booming. Although surging international oil prices have increased our oil import bill by more than $6 billion, our foreign exchange reserves have nevertheless attained new record levels. With the return of investor confidence our stock markets have also soared to new heights.

In my last two budgets I have addressed the accumulated shortcomings in our policies and freed our companies to compete globally. We have strengthened our agricultural sector, energised our financial markets and laid the foundations of an exciting new economy. With this, my third budget, I propose to put India on a sustained, equitable and high growth path of 7 to 8% per year in order to banish the scourge of poverty from our land within a decade. The next 10 years will be India's decade of development. To achieve this objective our strategy must encompass the following elements:

■ Strengthen the foundations of growth of our rural economy, especially agriculture and allied activities.

■ Nurture the revolutionary potential of the new knowledge-based industries such as infotech, biotechnology and pharmaceuticals.

■ Strengthen and modernise traditional industries such as textiles, leather, agro processing and the SSI sector.

■ Mount a sustained assault on infrastructure bottlenecks in power, roads, ports, telecom, railways and airways.

■ Accord the highest priority to human resource development through programmes and policies in education, health and other social services, with special emphasis on the poorest and weakest sections of society.

■ Strengthen our role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management.

■ Establish a credible framework of fiscal discipline, without which the other elements of our strategy can fail.

In all these areas we must pursue thorough-going economic reforms to unlock the creative energies of our people and thus reap the gains of productivity growth. But our reforms must also be guided by compassion and justice. In his Address to Parliament in October 1999 the President has set out the broad outlines of our programme of second generation reforms. This budget carries forward the process of implementation.

**Fiscal Management**

Today, we must squarely confront and overcome the critical challenge posed by a weakening fiscal situation. A long history of high fiscal deficits has left us with a legacy of a huge public debt and an ever-growing bill of interest payments. This year we have incurred unanticipated expenditure on national defence, elections and the super cyclone in Orissa. The residual impact of the Fifth Pay Commission and the need for special fiscal assistance to the States have added to our burden. All this, combined with shortfalls in receipts from disinvestment and revenue, has raised our net borrowing requirements (our fiscal deficit) to over Rs.1,00,000 crore. This will add about Rs.10,000 crore to our interest bill next year. We must also find additional resources for Plan, Defence and for additional transfers to States under the interim award of the Eleventh Finance Commission. If we do not raise the resources and instead take recourse to even higher borrowing next year, then we will jeopardise our prospects for growth, reignite the flames of inflation, sow the seeds of another balance of payments crisis and place an unfair burden on the next generation.

We must put our fiscal house in order. This means hard decisions and sacrifices. At the same time we must preserve the intrinsic dynamism of our economy, which alone can deliver sustained growth with social justice. For this reason, despite the severe fiscal strain, the budget support to the plan is being increased by Rs.11,100 crore to a level of Rs.88,100 crore compared to Rs.77,000 crore in B.E. 1999-2000.

Similarly, there cannot be any compromise on Defence. Our forces have once again demonstrated in Operation Vijay that they are second to none in the world. Government is committed to enhance the quality of our defence preparedness and to modernise our forces. In this budget I have made a provision of Rs.58,587 crore for defence, which is nearly Rs.13,000 crore more than in B.E. for the current year. This represents the largest ever increase in the defence budget in any single year. More will be provided whenever needed. We shall not shrink from making any sacrifice to guard and protect every inch of our beloved motherland.

Over the years the composition of Central Government expenditure has become highly rigid and prone to large, pre-committed increases. More than half of the annual budget outlays are transfer payments. Interest payments, Defence, Internal Security, Major Subsidies, Salaries, Allowances and Pensions and non-plan grants to States account for about 95% of non-plan expenditure and about 70% of total expenditure. To curb built-in expenditure growth and bring about structural changes in the composition of our expenditure, I am introducing the following initiatives.

■ All ongoing schemes will be subjected to rigorous zero base budgeting scrutiny. I had announced this initiative last year and I am glad that this exercise has been completed in 8 Departments. As a result 69 schemes are to be discontinued or merged. This process will be completed in a timebound manner in the remaining Departments.

■ The manpower requirements of Government departments will be reassessed by reviewing the norms for creation of posts.

■ Fresh recruitment in Government departments and institutions will be limited to minimum essential needs.

■ The scheme for redeployment of surplus staff will be made more effective and will provide facilities for retraining. A VRS scheme will also be introduced for staff in the surplus pool.

■ All subsidies will be reviewed with a view to bringing in cost-based user charges wherever feasible.

■ No new autonomous institutions will be created without approval of Cabinet. Budgetary support to autonomous institutions will be reviewed and they will be encouraged to maximise generation of internal resources.

■ In order to align with the overall interest rate structure, the interest rate on General Provident Funds is being reduced by 1% to 11% from 1.4.2000.

■ Excessive domestic borrowings to finance current expenditure has resulted in debt service payments approaching unsustainable levels. To reduce expenditure on this account, a portion of the disinvestment proceeds will be earmarked for retiring Government debt. An initial provision of Rs.1,000 crore has been made in the budget for this purpose.

I will have something more to say on major subsidies a little later.

These measures are necessary and are only a beginning. We shall pursue resolutely the objective of downsizing Government and prepare a roadmap for the purpose. For medium-term management of the fiscal deficit we also need the support of a strong institutional mechanism embodied in a Fiscal Responsibility Act. This had been suggested in the Agenda for Governance of the National Democratic Alliance. I have set up a committee to examine this issue and make suitable recommendations. I hope to bring the necessary legislative proposals to the House during the course of the year.

The challenge of fiscal management is not confined to the Central Government. The financial position of the State Governments has deteriorated sharply in the last few years. Revenue deficits have widen-ed and borrowings are being increasingly used to meet revenue expenditure. Fiscal reform at the State level has acquired great urgency. While we have gone out of our way to help State Governments, the determination shown by some States to deal with these issues has also helped enormously. It will be my endeavour to take further collective measures in the next year for promoting fiscal reforms in the States. The final report of the Eleventh Finance Commission will provide valuable inputs for taking policy initiatives in this regard.

**Agriculture**

It is my firm belief that sustained and broad-based growth of agriculture is essential for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services.

We must take all necessary measures to strengthen the rural economy. Credit flow to agriculture through institutional channels of commercial banks, cooperative banks and Regional Rural Banks is estimated at about Rs.41,800 crore this year. It is expected to increase by over 20 per cent to a level of Rs.51,500 crore in 2000-2001. In my last two budgets we have launched a wide array of initiatives to promote the flow of rural credit. In this budget I propose to strengthen the earlier programmes and launch further initiatives:

■ The Rural Infrastructure Development Fund (RIDF) managed by NABARD has emerged as a popular and effective scheme for financing rural infrastructure projects. Last year I had announced an enhanced allocation of Rs.3,500 crore from the banking sector for RIDF V and extended the repayment period of loans to 7 years. The scope of RIDF was also widened to allow lending to Gram Panchayats, Self Help Groups, NGOs and other eligible organisations for implementing village level infrastructure projects. This year the corpus of RIDF VI will be increased to Rs.4,500 crore and the interest charged on this lending will be reduced by half a percent.

■ Micro finance has emerged as an effective tool for alleviating poverty in many countries. In my last budget I had asked NABARD and SIDBI to cover 50,000 Self Help Groups to develop micro enterprises. NABARD by itself is likely to link 50,000 such Groups to banks during the current year. NABARD and SIDBI will cover an additional one lakh Groups during 2000-2001. To give a further boost to this programme a Micro Finance Development Fund will be created in NABARD with a start up contribution of Rs.100 crore from RBI, NABARD, banks and others. This Fund will provide start up funds to micro finance institutions and infrastructure support for training and systems management and data building. Special emphasis will be placed on promotion of micro enterprises in rural areas set up by vulnerable sections including women, Scheduled Castes, Scheduled Tribes and Other Backward Classes.

■ The cooperative system is a crucial channel for credit in rural areas. However, over time, problems have developed, mainly because of excessive bureaucratization and the overlapping jurisdiction of State Governments and NABARD. Some State Governments have already taken legislative action to promote genuinely cooperative institutions. For rural credit, clear delineation of the supervisory role of RBI/NABARD on banking matters is also essential. To promote these two prerequisites for a more vibrant rural cooperative credit system I propose to establish a Fund in NABARD. The details will be worked out in the light of the forthcoming recommendations of the Capoor Committee earlier constituted by Government. In the meantime, RBI is advising the banks to accord priority to the credit needs of those cooperatives which are entirely controlled by user-members and managed by them prudently.

■ The programme of Kisan Credit Cards is progressing very well. Cooperative Banks, Regional Rural Banks and Commercial Banks together have so far issued more than 50 lakh cards and card-cum-pass books to the farmers. I am asking NABARD and Commercial Banks to redouble their promotional efforts so as to issue an additional 75 lakh Kisan Credit Cards by March 2001.

■ Due to our efforts at recapitalizing RRBs, 158 RRBs are posting operating profits. Out of these, 48 RRBs have been able to wipe out their accumulated losses. In view of the importance of the RRBs in rural financing, we will continue with this programme of strengthening the RRBs.

The Planning Commission and the Ministry of Agriculture have worked out modalities to integrate 28 ongoing separate Centrally Sponsored Schemes of agricultural development into one comprehensive programme. This will weed out duplication, enhance the productivity of the support programme and accord greater flexibility to State Governments to develop and pursue activities on the basis of regional priorities. This is a major step forward towards the goals of convergence and decentralisation that I had outlined in my budget last year.

There is urgent need to review and coordinate our long-term strategy at the National and the State levels on the pattern of land use in the country, development of agriculture in relation to the agro-climatic conditions in the different regions and preservation of our forest resources. We need to adopt an integrated approach to a number of related subjects such as preservation and development of the forest wealth, optimum utilisation of the wasteland, watershed development, safeguarding bio-diversity etc. In view of the complexity of the issues involved, a National Commission on Land Use Policy comprising of experts in the relevant fields will be set up to examine the various aspects and make appropriate recommendations to Government.

Our Government stands fully committed to ensure that the fruits of economic reforms are shared by all sections of society, especially those living in rural areas and more particularly the Scheduled Castes, Scheduled Tribes and Other Backward Classes. Five elements of social and economic infrastructure are critical to the quality of life specially in rural areas: health, education, drinking water, housing and roads.

Even after 52 years of Independence the provision of basic services in rural areas remains very unsatisfactory. Forty per cent of our villages are without proper roads; 1.8 lakh villages do not have a primary school within 1 km; 4.5 lakh villages have drinking water problems; some estimates indicate a shortage of 140 lakh rural dwelling units; rural health infrastructure suffers from large deficiencies. These large gaps in basic services in rural areas are not acceptable and Government is committed to removing them rapidly.

Universalisation of elementary education is one of our key objectives. A new Department of Elementary Education and Literacy has already been created under the Ministry of Human Resources Development to give a new thrust and focus to these efforts. Some new initiatives include a scheme for universalisation of elementary education called "Sarva Shiksha Abhiyan" which would enable all children to enroll by 2003 and expansion of the District Primary Education Programme to cover the remaining districts in Uttar Pradesh, West Bengal, Orissa and Gujarat. On the literacy front the National Literacy Mission would be revamped so that the literacy rate can be raised to 75% by the year 2005. The plan allocation for elementary education has been increased from Rs.2,931 crore to Rs.3,729 crore next year. A New Department of Drinking Water Supply in the Ministry of Rural Development has been set up to intensify the efforts and accelerate the pace of coverage. Our objective is to provide drinking water facilities in all rural habitations in the next five years. It is proposed to cover around 60,000 habitations and 30,000 schools in the next year. The outlay of the Department is being enhanced to Rs.2,100 crore from Rs.1,807 crore this year. The Reproductive and Child Health programme will receive Rs.1,051 crore as against an allocation of Rs.695 crore in 1999-2000. For rural housing schemes a provision of Rs.1,710 crore has been made.

To impart greater momentum to these efforts I am announcing the launching of a new scheme, the "Pradhan Mantri Gramodaya Yojana" with the objective of undertaking time bound programmes to fulfill these critical needs of the rural people. I am providing a sum of Rs.5,000 crore separately for this Scheme in the budget. Out of this a sum of Rs.2,500 crore will be earmarked for launching a nationwide programme of constructing rural roads and improving rural connectivity. Under the Scheme, Central assistance will be provided to States for implementing specific projects in these sectors. The concerned Ministries in the Central Government will lay down the guidelines and monitor the implementation of these programmes. The erstwhile Basic Minimum Services Scheme will be merged with the new Scheme. Thus the overall provision in the budget for schemes concerning the five basic needs of the rural population is more than Rs.13,000 crore.

**Rural Housing**

Housing for All" has been identified as a priority area in the Agenda for Governance. For the coming financial year, a goal of providing 25 lakh dwelling units in rural areas has been fixed. Schemes for meeting the needs of different sections of society have been prepared.

(i)Under Indira Awas Yojana, it is proposed to provide more than 12 lakh houses for the people below poverty line. For this purpose, an amount of Rs.1,501 crore is being provided in the budget.

(ii)For families with an annual income of below Rs.32,000 per annum, assistance will be provided for construction of 1 lakh houses under credit-cum-subsidy Scheme. An amount of Rs.92 crore is being provided in the budget for this scheme.

(iii)The National Housing Bank will provide refinance to banks and housing finance companies for construction of 1.5 lakh houses under Golden Jubilee Rural Housing Finance Scheme.

(iv)To further improve the availability of housing finance in rural areas, Government have decided to provide equity support of Rs.350 crore to HUDCO during the Ninth Plan period. Of this, Rs.200 crore have already been released and it is proposed to release a further amount of Rs.100 crore in the next year. With this enhanced equity support, HUDCO will be able to leverage these funds and raise further resources to facilitate and provide finance for the construction of about 9 lakh houses in the rural areas in the coming financial year.

(v)The cooperative sector and voluntary agencies etc. will support the construction of another 1.5 lakh houses.

**Social Security for the Poor**

More than one third of our population still lives below the poverty line. There is an imperative need to extend some social security cover to the poorest sections of our society. I have decided to introduce a new scheme of group insurance, "Janashree Bima Yojana", under which beneficiaries will have insurance cover of Rs.20,000 in case of natural death, Rs.50,000 in case of accidental death or total permanent disability and Rs.25,000 for partial permanent disability due to accident. Premia will be fixed on an actuarial basis. Below poverty line participants in this Scheme will pay only half the premium, with the remainder being contributed from earnings of LIC's existing Social Security Fund, suitably augmented by Government. On this basis, the monthly premium to be paid by the beneficiary is expected to be Rs.10 or less. This scheme will lay a firm foundation for insurance cover to the poorest in our country.

Empowerment of Women

There is an urgent need for improving the access of women to national resources and for ensuring their rightful place in the mainstream of economic development. Towards this objective, the Government will set up a Task Force under an eminent person to review all existing legislation and Government schemes pertaining to the role of women in the national economy. This Task Force will help us chalk out specific programmes for observing 2001 as "Women's Empowerment Year".

**Population, Health and Environment**

Government have recently announced a new National Population Policy a key objective of which is to bring down total fertility rates to replacement levels by 2010. To operationalise this objective, the plan allocation of the Department of Family Welfare has been increased from Rs.2,920 crore in B.E. 1999-2000 to Rs.3,520 crore next year.

Recognising the role of the Indian systems of medicine and homeopathy in our health care, the plan allocation for the concerned Department is being doubled. Emphasis will be placed on drug standardisation, quality control, modernising the colleges, drug testing laboratories and formulations. This will also help in boosting exports of herbal formulations.

We must preserve and nurture our forests and environment for future generations. Funds are being provided for regeneration of mangroves and creation of shelterbelts along the coastal line, bamboo regeneration and afforestation programme, encouragement of medicinal plants and eco-tourism. Preservation of the rural environment will raise the living standards of millions belonging to the weakest sections of our society.

**Small Scale Industry**

The SSI sector plays a vital role in industrial production, employment generation and exports. In the context of growing domestic and international competition, our strategy is to support this sector through promotional policies of credit and technology. For improving credit flow to SSI units, I propose the following:

■ The requirement of providing collateral security is a major bottleneck to the flow of bank credit to very small units. RBI has recently issued instructions to dispense with the collateral requirement for loans up to Rs.1 lakh. The limit is being further increased for the tiny sector from Rs.1 lakh to Rs.5 lakh.

■ The existing composite loan scheme of SIDBI and banks helps small borrowers by providing working capital and term loans through a single window. To promote credit flow to small borrowers, the composite loan limit is being increased from Rs.5 lakh to Rs.10 lakh.

■ I am asking the public sector banks to accelerate their programme of SSI branches to ensure that every district and SSI clusters within districts are served by at least one specialised SSI bank branch. Furthermore, to improve the quality of banking services, SSI branches are being asked to obtain ISO certification.

■ Last year, I had announced that a credit guarantee scheme for SSI will be launched. I am glad to inform the House that a new Central Scheme for this purpose has been formulated and a provision for Rs.100 crore has been made in the budget. The Scheme will be implemented through SIDBI and will cover loans upto Rs.10 lakhs from the banking sector. The guaranteed loans will be securitised and will be tradeable in the secondary debt market.

SIDBI operates the National Equity Fund Scheme under which equity support is provided for projects up to Rs.15 lakh. To further help SSI entrepreneurs, this limit will be raised from Rs.15 lakh to 25 lakh.

SIDBI is presently administering the Technology Development Modernisation Fund Scheme for assisting technology development and modernisation of SSI units. The Scheme has certain concessional features including interest at prime lending rate for direct assistance and refinancing at 2% below prime rate for indirect finance. The operation of this scheme is being extended by another 3 years.

The Khadi and Village Industries Commission (KVIC) has been playing a very important role as an instrument to generate large scale employment in the rural areas with low per capita investment. Government will continue to encourage the Khadi and Village Industry Sector so that its products can become more competitive. For intensifying marketing efforts, the KVIC will introduce a common brand name for its products and also set up a professionally managed marketing company for domestic as well as export marketing.

**Industry and Capital Market**

In earlier millennia, India led the world on the basis of knowledge. Today history is repeating itself. Young Indian entrepreneurs are at the forefront of the infotech revolution, whether in Silicon Valley, Bangalore or Hyderabad. They have shown us how ideas, knowledge, entrepreneurship and technology can combine to yield unprecedented growth of incomes, employment and wealth. Companies unknown 5 years ago have become world leaders. We must do everything possible to promote this flowering of knowledge-based enterprise and job creation.

A key ingredient for future success lies in Venture Capital Finance. After a thorough review, I am proposing a major liberalisation of the tax treatment for venture capital funds. I will describe the details later. To simplify the procedures, SEBI will be the single point nodal agency for registration and regulation of both domestic and overseas venture capital funds. Venture activity is not limited to dot.com companies! Ideas and entrepreneurship, which merit venture finance, can be found in all sectors of the economy. The tax laws and SEBI guidelines are being formulated accordingly. I should add that this liberalisation will give a strong boost for Non Resident Indians in Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in ventures in their motherland.

In recent months stock markets have been buoyant all over the world, including India. Experience has taught us that there can be hard times as well. It is in such difficult times that institutions like investor protection funds of stock exchanges become really important. I will have something to say on this in part B of my speech.

Thanks to our prudent macro-economic management and calibrated approach to currency convertibility, we have successfully weathered the East Asian crisis of the past two years. But we must not confuse caution with timidity. We must encourage Indian firms and businesses to grow into strong, India-based multinationals. To promote this trend, it is necessary to accord our firms increasing flexibility to undertake capital account transactions, especially for acquisitions of businesses abroad. Last month, Government had announced a policy to allow Indian companies to raise funds for investments through issue of ADRs/GDRs without prior Government approval. Up to 50% of these proceeds can be used by them to acquire companies in overseas market. We had also announced on 27th December, 1999, a liberalized mechanism for acquisition of software companies in the overseas market through stock swap options up to US$100 million on an automatic basis. I plan to further liberalize this policy for acquisition of companies abroad to enable Indian corporates, in knowledge-based sectors to grow rapidly and lay the foundation for Indian multinationals in areas where we have comparative economic advantage. For acquisition in other sectors too, I propose to increase the ceiling under the automatic route from existing US$15 million to US$50 million for Indian corporates and beyond this, through approval by the Committee on Overseas Investment.

Under existing policy on portfolio investment, Foreign Institutional Investors (FIIs) are permitted to invest in a company, upto an aggregate of 24% of equity shares, which can be increased to 30% subject to approval by the Board of Directors and a Special Resolution of the General Body of the Company. To give our best companies greater access to foreign portfolio investment, I am increasing this limit from 30% to 40%.

**Science and Technology**

Sustained growth of our knowledge-based industries will ultimately depend on the quality and extent of scientific and technological progress and training in our society. We must harness our potential in science and technology to realise the dream of modern India envisioned by the Prime Minister in his address to the Indian Science Congress last month. For taking up relevant technology vision projects and for increasing cooperation between our Universities and R&D institutions, I am making an additional provision of Rs.50 crore in the budget of the Technology Information Forecasting and Assessment Council under the Department of Science and Technology. I am also making a provision of Rs.50 crore in the budget of the Department of Scientific and Industrial Research for launching a New Millennium Indian Technology Leadership Initiative. It will focus on areas which fulfil national objectives and will be based on partnership between the Government and private sector.

To fully benefit from the new intellectual property rights regime, we need to encourage our scientists and R&D institutions to maximise their patenting efforts. Government have decided to allow Universities and Research Institutions to retain the revenue generated from intellectual property rights through publicly funded research and also share a part of the revenue with the inventor.

Modernisation of the Patent Office and the Trade Mark Register is long overdue. Government have sanctioned a modernisation project of Rs.75 crore for the Patent Office and we will strive to remove all impediments for early implementation of this project.

Banking and Finance

The recent East Asian crisis has underlined the critical importance of undertaking reforms to strengthen the banking sector. In recent years, RBI has been prescribing prudential norms for banks broadly consistent with international practice. To meet the minimum capital adequacy norms set by RBI and to enable the banks to expand their operations, public sector banks will need more capital. With the Government budget under severe strain, such capital has to be raised from the public which will result in reduction in Government shareholding. To facilitate this process, Government have decided to accept the recommendations of the Narasimham Committee on Banking Sector Reforms for reducing the requirement of minimum shareholding by Government in nationalised banks to 33%. This will be done without changing the public sector character of banks and while ensuring that fresh issue of shares is widely held by the public. The Committee had also expressed the view that the Boards of the banks should have sufficient autonomy to take decisions on corporate strategy and all aspects of business management and be responsible to the stakeholders, that is, the shareholders, the customers, the employees and the public at large. In particular, the interests of the employees of the nationalised Banks will be fully safeguarded. It is proposed to bring about necessary changes in the legislative provisions to accord necessary flexibility and autonomy to the Boards of the banks.

As Honourable Members are aware, the Report of the Working Group on Restructuring Weak Public Sector Banks had suggested the constitution of a Financial Restructuring Authority (FRA). It has been decided to have a modified version of the FRA. Thus, in respect of any bank which is considered to be weak or potentially weak, the statutes governing public sector banks would be amended to provide for supersession of the Board of Directors on the basis of recommendations of the RBI and constitution of a FRA for such a bank, comprising experts and professionals. The amendments would also enable the FRA to exercise special powers including all the powers of the Board of the bank.

Government will not close down any public sector bank. As responsible owner of the banks, Government have decided to consider recapitalisation of the weak banks to achieve the prescribed capital adequacy norms, provided a viable restructuring programme acceptable to the Government as the owner and the RBI as the regulator is made available by the concerned banks.

The high level of Non-Performing Assets (NPAs) in our public sector banks is a cause for continued concern. Efficient and effective mechanisms for recovery of bank dues are critically important for reducing NPAs. I am happy to inform the House that comprehensive amendments have been carried out to the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 by issue of Ordinance. Five more Debt Recovery Tribunals (DRT) and four more Debt Recovery Appellate Tribunals have been set up or are in advanced stage of being set up. I further propose to set up four more DRTs at Mumbai and one more DRT each at Calcutta, Delhi and Chennai to facilitate expeditious adjudication and recovery of dues of banks and financial institutions.

The growth of fresh NPAs can also be curbed through better institutional mechanisms for sharing of credit related information on borrowers and potential borrowers among banks and financial institutions. A Working Group constituted by RBI to examine modalities for setting up a Credit Information Bureau has recently submitted its report. Based on its recommendation a Credit Information Bureau will soon be established.

In the fast changing world of modern finance it has become necessary to accord greater operational flexibility to the RBI for conduct of monetary policy and regulation of the financial system. Accordingly, I intend to bring to Parliament proposals for amending the relevant legislation.

Similarly, to facilitate development of the Government debt market the legislative framework needs to be strengthened and modernised through a Government Securities Act, which I propose to bring to replace the old Public Debt Act, 1944.

The Industrial Investment Bank of India is the only Calcutta-based development financial institution. To enable it to improve its viability and profitability by diversifying and extending its business, Government will subscribe to the preference capital of the company.

NBFCs perform a significant role as financial intermediaries and in promoting growth of industry and services. Over the past 3 years RBI has taken a number of measures for strengthening the regulation of this sector with a view to ensuring that only financially sound and well run NBFCs are permitted to accept public deposits. I propose to bring a new bill which will strengthen the hands of depositors in situations of malafide or fraudulent actions of NBFCs.

**Infrastructure**

Infrastructure services remain a key bottleneck to rapid and sustained growth of our economy. We have made substantial progress in encouraging private infrastructure service providers and in establishing independent regulatory frameworks in most infrastructure sectors. We have also sought to give greater operational and commercial autonomy to existing public entities in these sectors. We will be moving ahead with programmes for corporatisation of public sector service providers in the areas of telecommunications, ports and airports during the course of the coming year.

The Prime Minister has announced a major initiative for road development, the National Highways Development Project (NHDP). The cost of the project is estimated at around Rs.54,000 crore. In my earlier budgets, I had announced the levy of cess of one rupee per litre on petrol and diesel and a substantial part of this is expected to be available for funding the NHDP. To further augment resources, for commercially viable components of this project, I shall have something more to say in Part B of my speech.

The plan outlay for the Central PSUs in the power sector has been increased from Rs.7,626 crore to Rs.9,194 crore. Increased budgetary support has been provided for the Tehri Hydro and the Nathpa Jakhari Hydro projects so that both these projects can be commissioned by March 2002. For commissioning of high priority projects by SEBs/State generating companies, a provision of Rs.300 crore has also been made for subsidizing interest on loans from Power Finance Corporation.

In order to give a fillip to the reform process in the power sector and for undertaking investments on renovation and modernisation of old and inefficient plants and for strengthening the distribution system, a new scheme for providing assistance to State utilities will be introduced. Under this scheme, additional Central Plan assistance of Rs.1,000 crore will be provided to State and Union Territory Governments.

The State Electricity Boards have large overdues to the Central Sector Power and Coal utilities. A Scheme for securitisation of these dues with the support of Central Government has been finalized to assist the SEBs to clear these dues. Central Government support will be linked to reforms in the operation of SEBs.

Hon'ble members are aware that the Sethu Samudram Ship Canal Project has the potential of providing a shorter route between the East and West Coast Ports. I am glad to inform that Government have approved the undertaking of a detailed feasibility study and environmental impact assessment of the project at a total cost of Rs.4.8 crore. I have made necessary provision for this in the budget.

**Disinvestment/Privatisation/Public Sector Restructuring**

Government's policy towards the public sector is clear and unambiguous. Its main elements are :-Restructure and revive potentialy viable PSUs; close down PSUs which cannot be revived; bring down Government equity in all non-strategic PSUs to 26% or lower, if necessary; and fully protect the interests of workers.

In line with this policy during the last two years financial restructuring of 20 PSUs has been approved by Government. As a result, many PSUs have been able to restructure their operations, improve productivity and achieve a turn around in performance. Hon'ble members are aware that Government have recently approved a comprehensive package for restructuring of SAIL, one of our Navaratna PSUs.

There are many PSUs which are sick and not capable of being revived. The only remaining option is to close down these undertakings after providing an acceptable safety net for the employees and workers. Resources under the National Renewal Fund have not been sufficient to meet the cost of Voluntary Separation Scheme (VSS) for such PSUs. At the same time, these PSUs have assets, which if unbundled and realised, can be used for funding VSS. Government will put in place mechanisms to raise resources from the market against the security of these assets and use these funds to provide an adequate safety-net to workers and employees.

Government have recently established a new Department for Disinvestment to establish a systematic policy approach to disinvestment and privatisation and to give a fresh impetus to this programme, which will emphasize increasingly on strategic sales of identified PSUs. Government equity in all non-strategic PSUs will be reduced to 26% or less and the interests of the workers will be fully protected. The entire receipt from disinvestment and privatisation will

Getting Ready For The B-Day: FinMin's nameplate gets a millennium shine

POST-KARGIL MODERNISATION DRIVE

# Army gets lion's share of funds

By Atul Aneja

NEW DELHI, FEB. 29. The defence Budget in the fiscal 2000-01 has registered a significant hike, signalling that the cycle of modernisation, especially for the Army and the Indian Air Force (IAF) has begun.

At Rs. 58,587 crores, the Budget shows a hike of Rs.10,083 crores over the last year's revised estimates.

Despite the increase, the Budget, according to Government sources is still below three per cent of the Gross Domestic Product (GDP). The defence services in the run-up to the Budget had demanded that military expenditure should be pitched at three per cent of the GDP.

The Army and the IAF are the key beneficiary of the hike, indicating that the process of post-Kargil modernisation has begun selectively. The Navy, which also has a bid shopping list, however, appears to have been left outside the modernisation loop this year. No significant hike for Research and Development and development sector is also visible.

The Navy's marginalisation this year, according to experts may only be temporary. Funding could increase as modernisation drive gathers steam in the coming years.

A large amount of defence allocations, to the tune of Rs. 16,555 crores have been catered to fuel and spares. These allocations are necessary to take care of the rising fuel bill. Since the armed forces depend considerably on weapon imports, defence allocations have also to be discounted against the possible depreciation of the rupee against the dollar. Out of an overall increase of around Rs. 10,000 crores, around half has been allocated for modernisation. Out of this, the lions share has gone to the IAF and the Army. These two forces together have received an additional funding of Rs. 3,885 crores for modernisation this year. By contrast, funding for the Navy's modernisation has been increased by only around Rs.467 crores over the revised estimates of the previous year.

Out of the total defence expenditure, the Army gets around Rs.32,718 crores, which is equivalent to around 56 per cent of the entire spending. The IAF gets Rs. 14,452.61 crores, which is 24.66 per cent of the defence kitty. The Navy has been given Rs. 8,211.78 crores, equivalent to 14 per cent, while Research and Development gets around 5.3 per cent of the overall allocations.

The restricted spending for defence research, indicates the possibility that the indigenisation drive is getting rationalised. Limited funding for Research and Development nevertheless has raised eyebrows here as the Defence Research and Development Organisation (DRDO) is spearheading the missile and nuclear submarine programme, the key to India's acquisition of a credible minimum nuclear deterrent.

The thrust on the modernisation of the Army and the IAF is only natural. The Army, following the Kargil conflict, is keen on acquiring "force multipliers" to beef up its surveillance and night fighting capability. The purchases of this hardware, including advanced listening devices, have also been strongly recommended by the Kargil review committee report. Besides, the Army is looking for upgrading its capability of desert warfare by upgrading its tank fleet. The Army is looking for the purchase of around 300 T-90 tanks form Russia. Besides, it has long demanded the induction of self-propelled guns which usually accompany moving tank columns for depth attacks.

After a long gap, the IAF appears to be catering for the induction of Advanced Jet Trainers (AJTs) for improving the training of its young pilots. The IAF also has to acquire at least 10 more Mirage-2000 planes from France, besides allocating funds for the on-going modernisation of its MiG-21 fighter jets. Russia has also offered TU-22 strategic bombers to India.

**DEFENCE EXPENDITURE**

(Rs crore)

▲20.79%

| Year | Rs crore |
|---|---|
| 1996-97 | 29,505 |
| 1997-98 | |
| 1998-99 | |
| 1999-2000 (RE) | |
| 2000-01 (BE) | 58,587 |

KBK Infographics

## Construction sector gets boost

By Our Special Correspondent

**NEW DELHI, FEB. 29. The Union Budget presented today has several measures to encourage tax payers to invest in house-building activities.**

**A highlight of the proposals is the extension by two more years of the scheme under which interest upto Rs. 75,000 on loan for self-occupied property was exempt from tax. The tax benefit would now, therefore, be available for houses or projects that would be completed by March 31, 2003, instead of upto March 31, 2001, the present limit.**

**Another salient feature is that the 20 per cent on tax under Section 88 of the Income Tax Act would now be available for repayment of housing loans upto Rs. 20,000 as against Rs. 10,000 earlier.**

**The package of incentives also includes a proposal to further liberalise the norms for exemption from tax on long-term capital gains if the capital gain from transfer of capital assets is invested in a home. Until now, the exemption was available only if the tax payer had no other house in their name. Now, they can claim the exemption for a second house.**

**In addition to these direct benefits to the tax payers, the Budget proposed to provide an additional equity of Rs. 280 crores to the public sector HUDCO — Rs. 155 crores for urban housing, Rs. 100 crores for rural housing and Rs. 25 crores for urban infrastructure, and removed the excise duty on pre- fabricated construction material.**

## Farm sector to get less

By Our Special Correspondent

NEW DELHI, FEB. 29. The Finance Minister, Mr. Yashwant Sinha, today focussed on broad-based growth of agriculture and the strengthening of rural infrastructure as central to the achievement of a sustained, equitable and job-creating growth of seven to eight per cent.

Although the Budget Estimates (BE) for 2000-2001 show a cut of 6 per cent in agriculture outlay, 11.13 per cent in allocation for rural development and 1.17 per cent in outlay for public distribution (food) over the BE for 1999-2000, the Minister said in his budget speech that sustained and broad-based growth of agriculture was essential for alleviating poverty, generating income, employment and assuring food security.

The Minister announced the integration of 28 separate, on-going Centrally Sponsored Schemes of agriculture development into one comprehensive programme. He also announced the setting up of a National Commission on Land Use Policy, to formulate a strategy on land use at the national and State level.

The corpus of Rural Infrastructure Development Fund (RIDF), managed by the National Bank for Agriculture and Rural Development (NABARD) was proposed to be increased from Rs. 3,500 crores to Rs. 4,500 crores, with the interest on lending reduced by half a per cent. Last year the scope of RIDF was widened to allow lending to the village panchayats, self-help groups, NGOs and other eligible organisations for implementing village-level infrastructure projects. Mr. Sinha said a Micro Finance Development Fund would be created in NABARD with a start-up contribution of Rs. 100 crores from the RBI, NABARD, banks and others. This would provide funds to micro finance institutions and infrastructure support to training and systems management and data-building. Emphasis would be given to the promotion of micro enterprises in rural areas set up by women, members of the Scheduled Castes, Scheduled Tribes and other backward classes.

A separate fund would be established in NABARD for giving rural credit to those cooperatives which were controlled by user-members and managed "prudently." The details of the fund would be worked out after the recommendations of the Capoor Committee were received. RBI, in the meantime, would direct banks to accord priority to the credit needs of the cooperatives.

# More allocation for para-military forces

By Our Special Correspondent

NEW DELHI, FEB. 29. The Union Budget has substantially stepped up allocations for the Central para-military forces following overshooting of revised estimates for the current fiscal. It also increased the assistance to State Governments for modernisation of police forces.

The allocation for para-military forces and some other heads has been increased by about 16 per cent for 2000-01. Last year, the Budget had proposed approximately Rs. 7,000 crores but the actual expenditure had shot up by over Rs. 500 crores. In view of this increase, the Budget has proposed an allocation of about Rs. 8,000 crores.

With the Central forces participating in counter- insurgency operations both in the Eastern and Western sectors and the internal security situation in naxal-violence affected States as well as in Jammu and Kashmir causing concern, the hike appears to be marginal in some cases and substantial in others.

The allocation to the Border Security Force (BSF) and the Central Reserve Police Force (CRPF) have been together proposed at Rs. 3,745.38 crores by the Finance Minister. The BSF gets Rs. 2,091.83 crores, up by about 10 per cent over the allocation of Rs. 1,800.87 crores in the 1999-2000 Budget. Apart from its normal deployment for keeping vigil along the Line of Control in Jammu and Kashmir, the Indo-Pakistan border in Punjab, Rajasthan and Gujarat, Indo-Bangladesh and Indo-Myanmar borders, the BSF also assists the local administration in the upkeep of the law and order. Last year, the revised estimate of the force had shot up to close to Rs. 2,000 crores.

Similarly, the CRPF which assists State Governments in the maintenance of law and order and performs internal security duties when requisitioned, has been given Rs. 1653.55 crores as against Rs. 1429.09 crores allocated in the last year's Budget.

Under the scheme for modernisation of police force, the Budget has set aside Rs. 200 crores, thus doubling the allocation proposed in the 1999-2000 Budget. Under this scheme, the State Governments are given assistance in the form of 50 per cent grants-in-aid and 50 per cent loan to be utilised for expenditure of non-recurring nature on purchase of vehicles, wireless equipment, computers and other sophisticated equipment.

The allocation for the Central Industrial Security Force (CISF) has gone up to Rs. 703.26 crores as against Rs. 621.10 crores in the last Budget, marking an increase of nearly 15 per cent. The CISF, entrusted with the protection of the properties of Public Sector Undertakings, has recently taken over security of five airports and has plans to make a bid for complete take over of security arrangements in another five airports in the country. It has been facing difficulty in finding gainful employment for its personnel as many PSUs had gone sick and were not in a position to cough up the CISF bill.

The Indo-Tibetan Border Police has got Rs. 400 crores in the 2000-01 Budget as against Rs. 325.35 crores in the previous year, representing a raise of about 25 per cent. The force is engaged in policing the sensitive Indo-Tibetan border in Uttar Pradesh, Himachal Pradesh and Jammu and Kashmir sectors.

Under the head of Indo-Pakistan border works, the Budget has proposed Rs. 62 crores. In the 1999-2000 Budget, Rs. 60.35 crores had been set aside but revised estimates show that only Rs. 38.68 crores were spent under the scheme meant to check inflow of arms and ammunition from across the border.

Assam Rifles, the oldest paramilitary force in the country which has its bulk of operations in the North-East under the operational control of the Army, has been allocated Rs. 607.13 crores, representing a marginal increase over Rs. 551.35 crores given in the 1999-2000 Budget.

Interestingly, the increase in allocation this time has been quite slender in the case of specialised force of the National Security Guard (NSG), raising the allocation from Rs. 81 crores to Rs. 91.64 crores. The NSG was raised in 1984 as a federal force to combat terrorism in all its forms and its "Black Cat" commandos also give security cover to some VVIPs.

Significantly, the elite Special Protection Group which provides proximate security to the Prime Minister, former Prime Ministers and members of their immediate family gets Rs. 77.25 crores. The outfit was earmarked Rs. 80 crores in the 1999- 2000 Budget but according to revised estimates it spent Rs. 6 crores less than expected.

**A Major Tax Collection Drive**

| | Rs. Crores |
|---|---|
| Corpn. tax | 5000 |
| Personal income tax | 1080 |
| Interest tax | -1000 |
| Customs | -1428 |
| Union excise | 3252 |
| Total | 6904 |

- Large increase in tax burden on corporates
- Selective rise in surcharge on personal income
- Excise duty revamp to increase revenue
- Lower customs duties lead to revenue loss

# Major concession for shipping industry

By Our Special Correspondent

NEW DELHI, FEB. 29. The Union Finance Minister, Mr. Yashwant Sinha, has conceded the long-pending demand of the shipping industry by proposing to allow 100 per cent deduction for the entire profit kept aside by a shipping company for modernisation and strengthening of its fleet through new acquisitions.

Noting that shipping provided the transportation sinews to the country's international trade and had a strategic relevance, he announced that the limit on such discount would be raised from the present 50 per cent level to 100 per cent of the profits set apart for new acquisitions.

This, he said, should enable the shipping industry which is facing serious challenges to generate resources for strengthening and modernising its fleet. The enhanced concession would be available for a period of five years from the next financial year.

He also said that a beginning towards implementation of the Sethu Samudram Ship Canal project which has the potential of providing a shorter route between the east and west-coast ports would be made this year. The Government has approved a detailed feasibility study and environmental impact assessment of the project at a total cost of Rs. 4.8 crores for which budgetary provision has been made in the Union Budget for 2000-2001.

### For highways

Dealing with the measures aimed at finding funds for infrastructure development, the Finance Minister proposed changes in the law to offer tax exemption for capital gains for investments in the bonds issued by the National Highways Authority of India. These bonds would have a lock-in period of five years and their proceeds would be used for providing finance for the National Highway Development Project.

He saw these bonds as commercially-viable components for mobilising funds for the project which is estimated to cost around Rs. 54,000 crores. Referring to the major initiative for road development announced by the Prime Minister, he said his earlier budget had resorted to levy of cess of one rupee per litre on petrol and diesel. A substantial part of this cess was for the project.

However, the receipts from this cess fell considerably short of expectations. As against budgetary estimates of Rs. 4,591 crores, the actual inflow was Rs. 3,400 crores which was more than 1,000 crores less than the target. In view of this large shortfall, Mr. Sinha has set his sights lower for the next fiscal by proposing collection of Rs. 3,700 crores.

# Priority for housing

By Our Special Correspondent

NEW DELHI, FEB. 29. Aiming to usher the country into a decade of development, the Union Finance Minister, Mr.Yashwant Sihna, has accorded high priority in the Union Budget to human resource development through programmes and policies in education, health, and other social services with special emphasis on the poor and weakest sections of society.

While a new Department of Drinking Water Supply in the Ministry of Rural Development has been set up to cover every rural habitation in the next five years, a Department of Elementary Education and Literacy has also been created under the Ministry of Human Resource Development to give a new thrust to existing programmes and start new initiatives.

"Housing for all" has been identified as a priority area in the agenda for governance.

The outlay has been increased for many key departments in the social sector. The plan allocation for elementary education has been increased from Rs.2,931 crores this year to Rs.3,729 crores next year and for water supply from Rs.1,807 crores to Rs.2,100 crores.

The Reproductive & Child Health programme will receive Rs.1,051 crores against Rs.695 crores in 1999-2000 while for rural housing schemes, a provision of Rs.1,710 crores has been made.

### Education for all

Among the new schemes announced by Mr.Sinha, "Sarva Shiksha Abhiyaan" is for universalisation of education, enabling all children to enrol by 2003, and expansion of the District Primary Education Programme to cover the remaining districts in Uttar Pradesh, West Bengal, Orissa, West Bengal and Gujarat.

The National Literacy Mission will also be revamped to enhance the literacy rate to 75 per cent by 2005.

Another new scheme is the "Pradhan Mantri Gramodaya Yojana" to undertake time-bound programmes to fulfil the critical needs of rural people with a separate plan allocation of Rs.5,000 crores in the beginning against a requirement of Rs.13,000 crores.

The erstwhile Basic Minimum Services Scheme will merge with the new scheme to improve rural connectivity and monitor implementation of all rural programmes.

### Security cover

The "Janashree Bima Yojana" is a new scheme of group insurance introduced to extend some social security cover to the poorest sections.

Beneficiaries will have an insurance cover of Rs.20,000 in case of natural death, Rs.50,000 in case of accidental death or permanent disability and Rs.25,000 for partial disability due to accident.

Premia will be fixed on actuarial basis and Below Poverty Line participants will be required to pay only half the premium as the remainder will be contributed from earnings of LIC's existing Social Security Fund augmented by the Government.

During the coming financial year, the Government has set itself the task of providing 25 lakh dwelling units in rural areas and under the Indira Awas Yojana, another 12 lakh house. will be provided for people below the poverty line.

A total of 100,000 houses will be built for families with an annual income of below Rs.32,000 per annum under the credit-cum-subsidy scheme.

The National Housing Bank will provide refinance to banks and housing finance companies for construction of 1,50,000 houses under the Golden Jubilee Rural Housing Finance Scheme.

HUDCO will receive equity support of Rs.350 crores during the Ninth Plan period from the Centre to raise further resources and provide finance for construction of 900,000 houses in the rural areas.

Mr.Sinha also announced the setting up of a task force to review legislations and schemes pertaining to the role of women in the national economy.

He also promised to operationalise the recently announced new National Population Policy to bring down total fertility rates to replacement levels by 2010 with an enhanced allocation of Rs.3,250 crores next year.

Mr.Sinha promised greater emphasis on drug standardisation and quality control and improving and preserving the rural environment.

The Government proposes to provide more funds for afforestation, eco-tourism, regeneration of bamboo, mangroves and cleaning of shelterbelts along the coastal line.

**More for Social Sector Programmes**

- Pradhan Mantri Gramodaya Yojana (PMGY) - Rs. 5,000 cr.
- PMGY to be merged with basic minimum services scheme. Total allocation : Rs. 13,000 cr.
- New group insurance scheme for people below poverty line
- Target of 25 lakh houses in rural areas in 2001

## Phone service tax disappoints Sinha

By Our Special Correspondent

**NEW DELHI, FEB. 29. The previous Telecom Regulatory Authority of India's revised phone tariff not only impacted the income of the Department of Telecommunications but also derailed the revenue expectations of the Finance Ministry under service tax.**

**As the DoT could earn Rs. 2,000 crores less than anticipated, the service tax on telephones too was lower by Rs. 300 crores. Since the service tax on phones comprises one-third of collections under the head of 'service tax', the shortfall meant that actual collection was at Rs. 2,000 crores as against this year's estimates of Rs. 2,300 crores. Taking a cue from this, Mr. Yashwant Sinha has estimated the accruals from service tax for the next fiscal at Rs. 2,200 crores which is less than this year's estimates by Rs. 100 crores.**

**The collections from service tax would have been worse but for a better showing from the state-controlled insurance sector which gave Rs. 140 crores more than anticipated to the Central Exchequer. Radio paging companies and the advertising sector too contributed more than the estimates while collections from brokerage and 'others' were considerably less.**

TO HELP INDUSTRY EXPAND GLOBALLY

# New regime for venture capital funds

By Our Special Correspondent

NEW DELHI, FEB. 29. The Finance Minister, Mr. Yashwant Sinha, today unveiled proposals to help industry globalise through easier acquisitions abroad and simultaneously promote investment in knowledge-based industry through the long-awaited new regime for Venture Capital Funds (VCFs).

The Budget proposals for 2000-2001 have also brought cheer to the corporate sector by reducing the Minimum Alternate Tax (MAT) from 10.5 to 7.5 per cent but have increased the burden of dividend tax from 10 to 20 per cent. Similarly, exporters are faced with a phased cut in a plethora of income tax concessions as a measure of rationalisation.

As far as the small-scale sector is concerned, several significant steps have been proposed to ease the flow of credit, including creating a Rs. 100-crore central credit guarantee scheme.

The Budget proposals for corporates focus on the need to allow industry the freedom to expand globally while making it easier for funds to flow into technology and knowledge-based industries. Mr. Sinha pointed out that young Indian entrepreneurs are at the forefront of the info-tech revolution whether in the Silicon Valley in the U.S., Bangalore or Hyderabad.

"We must do everything possible to promote this flowering of knowledge-based enterprises and job creation."

He thus proposed a major liberalisation of tax treatment for Venture Capital Funds (VCFs) since a key ingredient for future success lies in venture capital finance. The highlights of this would be:

a) No approval of Venture Capital Funds by tax authorities would be required.

b) The principle of "pass through" would be applied in tax treatment of Venture Capital Funds, whose income would be free of tax, except when not distributed within the period that may be prescribed in the guidelines of SEBI.

Income in the hands of its investors, which would otherwise be taxable, would also be kept tax-free, and there would only be a one-time payment of tax by the Venture Capital Fund at the rate of 20 percent, when the Fund distributes its income to the investors. The same rate would apply to undistributed incomes also. To simplify the procedures, the SEBI will be the single-point agency for registration and regulation of both domestic and overseas VCFs. The policy on acquisitions abroad is also proposed to be further liberalised to enable Indian corporates in knowledge- based sectors to grow and lay the foundation for Indian multinationals in areas of corporative economic advantage.

For acquisition in other sectors too, it is proposed to increase the ceiling under the automatic route from $ 15 million to $ 50 million for Indian corporates and beyond this, through approval by the Committee on overseas Investment. Foreign Institutional Investors (FIIs) will also be allowed to raise investment in equity shares from 30 to 40 per cent. The move is aimed at giving "our best companies" greater access to foreign portfolios investment.

In an effort to bring all zero tax companies under the tax net, Mr. Sinha has proposed that the Minimum Alternate Tax (MAT) be uniformly applied, barring exporters who would continue to enjoy the exemption. The MAT will now be applied at the revised rate of 7.5 per cent instead of the 10.5 per cent effective existing rate of "book profits". There will also be no credit for MAT. The new system is said to have the virtue of a lowered rate of tax, a simple method of computation and an equitable spread.

The rate of tax on dividends distributed by domestic companies is proposed to be raised from 10 to 20 per cent. Dividend income in the hands of shareholders continues to be tax- free. This measure has been taken, according to the Finance Minister, to reduce the large gap in the tax treatment of dividend income and interest income. For exporters, it is proposed to cut numerous income tax concessions ranging from 50 to 100 per cent in a phased way to simplify the system.

To strengthen the capital markets, the Budget also proposes 100 per cent exception to the income of Investor Protection Funds of stock exchanges to give them incentives for setting up such funds. Besides, the tax holiday for new units set up in industrially backward States and districts is also proposed to be extended for another two years.

In the small-scale sector, the Budget proposes several measures for improving credit flow. Apart from raising the limit for dispensing with collateral requirement from Rs. 1 lakh to Rs. 5 lakhs, the composite loan limit is being increased from Rs. 5 lakhs to Rs.10 lakhs. A new Central guarantee scheme for SSIs has also been formulated and a Rs. 100-crore provision has been made in the Budget. The scheme will be implemented through the SIDBI and will cover loans up to Rs. 10 lakhs from the banking sector. The guaranteed loans will be securitised and will be tradable in the secondary debt market.

**IT: Lower Customs Duties, Higher Corporate Tax Burden**

- Customs duty on IT products lower by 5-10 percentage points
- Import tariff on telecom products also reduced
- Major liberalisation of tax regime for venture capital fund
- Five year phase out of tax exemption for export earnings

# Bill push for alternative devolution

STATESMAN NEWS SERVICE

NEW DELHI, March 9. — A Constitutional Amendment Bill to facilitate the implementation of the alternative scheme of devolution, as recommended by the Tenth Finance Commission, was introduced in the Lok Sabha today by Finance Minister Mr Yashwant Sinha.

The Bill seeks to amend Articles 269, 270 and 272 to bring several central taxes and duties like corporate tax and Customs duties at par with personal income tax as far as their constitutionally mandated sharing with the states is concerned.

At present, the states have no share in corporate and Customs duties, but get a major share of personal income tax and excise duty.

According to the statement of Objects and Reasons attached to the Bill, the Tenth Finance Commission had recommended an alternative scheme of sharing of proceeds of certain Union taxes and duties.

The scheme envisages that 26 per cent of the gross proceeds of Union taxes and duties shall be given to the states in lieu of their existing share in income tax, basic excise duties, special excise duty, and grants in lieu of tax on railway passenger fares.

Besides, an additional three per cent share may be given to states in lieu of other duties on certain commodities like sugar, tobacco and cotton.

The scheme will help in removing a perceived inter-tax bias in the tax mobilisation efforts of the government while maintaining sufficient flexibility to meet the Centre's exclusive needs for keeping cesses and surcharges outside the pool arrangement, the statement said.

A discussion paper brought out by the government was discussed in Parliament and also at the third meeting of Inter-State Council in July 1997.

The then government, on the basis of the discussions, modified the scheme and decided to increase the states' share to 29 per cent of the gross proceeds, with a provision that the percentage would be reviewed by sucessive Finance Commissions, instead of freezing it for fifteen years, as suggested by the Tenth Finance Commission.

Subsequently, the government decided to share the proceeds on net basis, the statement added.

THE STATESMAN
10 MAR 2000

'CONSENSUS ON REFORMS ON THE RETREAT'

# Don't undo the Budget, says Sinha

By Our Special Correspondent

NEW DELHI, MARCH 15. The Union Finance Minister, Mr. Yashwant Sinha, today ruled out withdrawal of taxation proposals and cut in subsidies proposed in the Budget. Expressing concern over the erosion in political consensus for reforms, Mr. Sinha said unless there was a collective will among all social partners to push ahead with the reforms, there would be an imminent danger of the process getting derailed.

"Do not ask for rollback and undo the Budget. Let the proposals remain. As time passes by, you would realise the importance of the proposals," the Minister told industrialists of the Associated Chambers of Commerce and Industry (Assocham). "If your demand for withdrawal of the higher dividend tax and cut in tax concessions on exports is justified, then why not the demand of the political parties to roll back cut in the subsidies?"

Warning industrialists against expecting a withdrawal of the fresh tax proposals, Mr. Sinha said he was prepared to sit with the BJP allies and explain why the cut in subsidies was necessitated. "Political consensus on reforms is on the retreat. Unless we sit down and recreate the consensus, it would be difficult to achieve our aims."

Explaining the rationale behind the proposals, Mr. Sinha said the financial burden of fighting the Kargil war had fallen on the next financial year as "I had to necessarily provide Rs. 13,000 crores as also protect our LoC in an effective manner". Besides, Rs. 11,000 crores had to be transferred to the States for them to comply with the 11th Finance Commission's interim award and an increase of

**TALKING TOUGH: The Finance Minister, Mr. Yashwant Sinha, with the Assocham president, Mr. Shekhar Bajaj (left), at a post-Budget meet in New Delhi on Wednesday.** — PTI

Rs. 11,100 crores was made for financing social and rural development projects. "Given such a massive outgo, how can I be criticised for not reducing the fiscal deficit below the 5.1 per cent mark?"

## Berates industry

Mr. Sinha twice berated the industry for not understanding the compulsions that forced him to frame the Budget. The first time he noted that by demanding a roll back of the proposals aimed at the corporate sector, the industry was making it difficult for him to effect cuts in other sectors. On the second occasion, he felt that the industry was concerned with sectarian interests. "It would have been easy for me to peg fiscal deficit much lower than the proposed figure had I gone in for 'big ticket' disinvestment of PSUs. But I chose to stay closer to reality by proposing disinvestment of Rs. 10,000 crores," he said.

Defending the move to let farm income remain out of the tax net, Mr. Sinha said the Centre could not constitutionally tax agriculture as the activity was a State subject. Yet, the Government was making a concerted effort to look for revenue sources elsewhere. It hoped to increase the number of taxpayers to 25 million by March 31. This would mean a 100 per cent increase over the last three years.

The Chairmen of the Central Board of Direct Taxes and Central Board of Excise and Customs, Mr. Ravi Kant and Mr. S. R. Mohile, also defended the Budget proposals, pointing out that aspects like attempting to provide a hassle-free and less paper- oriented environment had been overlooked.

THE HINDU
16 MAR 2000

# Sinha justifies hikes but gives hope to allies

By Our Special Correspondent

NEW DELHI, MARCH. 16. Despite sustained pressure from allies and the Opposition parties for rolling back the hike in food and fertilizer prices, the Finance Minister, Mr. Yashwant Sinha, did not yield ground during his reply to the Budget debate late last night.

While not conceding a reduction in the PDS and fertilizer prices, the Minister, however, assured the members that he would keep their request in mind. "We shall fully keep in mind the sentiments expressed in this House and do whatever we can." Responding to apprehensions that Parliament would go into recess from March 17 to April 16 and that the new PDS prices would come to effect on April 1, he clarified that the pricing of PDS items or fertilizer prices were not necessarily linked to the Budget. Such prices were administered and could be raised or lowered through an executive order any time.

Not satisfied with the Minister's reply, the members of the Samajwadi Party, the RJD and the CPI(M) staged a walkout. An unmoved Mr. Sinha drove home a political point, emphasising that the Opposition's attempts to drive a wedge among the partners of the National Democratic Alliance would not be successful as it (NDA) was "solid as a rock."

After the Minister's reply, which ended in the early hours today, the House passed the vote on account for a two-month period to enable the Government to carry out normal financial transactions from the Consolidated Fund of India.

This is a normal process, since the demands for grants of various Ministries and the Finance Bill 2000 are expected to be approved by Parliament after the month-long recess. Consequently, Mr. Sinha has sought sanction to cover expenses in the new financial year till the end of May.

After the recess the demand for grants of only seven Ministries would be discussed in some detail, while the rest would be guillotined. In the Lok Sabha, the Ministries of Home, Communications, Human Resource Development and, time permitting, External Affairs would be discussed, while in the Rajya Sabha discussions would take place on Health and Family Welfare, Defence, Agriculture and External Affairs.

### Mahajan meets Opposition leaders

The Parliamentary Affairs Minister, Mr. Pramod Mahajan, called a meeting of leaders of major Opposition parties today where this decision was taken in regard to the Lok Sabha. The Chairman of the Rajya Sabha, Mr. Krishna Kant, did a similar exercise for the Rajya Sabha yesterday.

THE HINDU
17 MAR 2000

# The WTO impact: Why this year's Exim Policy is important

THE ANNUAL revision of the Export-Import Policy, scheduled for March 31, has assumed a lot of importance this year in view of the government's decision — prompted by a ruling of WTO's dispute settlement panel — to phase out most quantitative restrictions (QRs) by April 1, 2001.

Currently 1,429 items are subject to various kinds of import curbs, which will be removed over the next two years. Moreover, schemes to promote exports have to be made compatible with WTO norms.

**What are the current import restrictions?**

The Exim Policy prohibits the import of certain categories of products, provides for conditional import of certain items, while a majority of goods are freely importable. A special regime, called canalisation, exists in the case of certain categories — they can be imported only by designated agencies.

Items that are freely importable are those figuring on the OGL (open general licence) list. The OGL is also called the free list of imports — meaning anybody is allowed to bring in the items listed under this category.

There are various kinds of restrictions on imports. The banned or prohibited list contains sensitive items like explosives, which are banned for security reasons.

Then there are items that are banned for environment and pollution-related reasons. Several items like wildlife products are not permitted to be imported in view of prevailing international agreements. These items can only be imported for a specific purpose, with prior permission.

However, there are a large number of non-sensitive items — mostly consumer goods — the imports of which are currently allowed only if the importer gets a licence. Hotels, for instance, can import certain kinds of liquor after getting a licence from the government.

Then there is yet another category of products, imports of which are permitted against an instrument called SIL (Special Import Licence) which is awarded to exporters on the basis of their turnover.

Exporters sell SIL in the market for a premium to improve their profits. Since items on the SIL list are not freely importable, one has to buy SIL and surrender it to the Directorate General of Foreign Trade (DGFT) to get permission to import these items. On a case-to-case basis, the DGFT also permits imports of items on the negative list against the surrender of SIL to the extent of several times the value of the item which the importer wishes to bring in.

Together, the prohibited list consisting sensitive items, the restricted list and the items on SIL, constitute the negative list of imports. The last two categories have been reduced substantially in the past few years as more items have moved to OGL. After March 31, 2001, the restricted and SIL list could cease to exist, leaving only the prohibited list in the negative category.

The prohibited list after March 31, 2001, will thus consist sensitive items like arms and ammunition, toxic wastes and environmentally sensitive items.

**What is the canalised list?**

A number of items like urea are canalised — meaning that they may imported only by designated agencies like MMTC and STC, the government's trading arms. For example, bulk gold can be imported only by specified banks like SBI and other designated agencies. Earlier, items like sugar, edible oils, wheat and rice used to be imported by the government through canalising agencies to meet domestic demand. But the ongoing liberalisation has led to many of these items becoming freely importable.

**What are the current export promotion schemes?**

The Government had devised a number of schemes to provide incentives to exporters and encourage them to compete in the global market. Essentially, this was done by enabling them to import raw materials free of duty. Advance licence, the export promotion capital goods (EPCG) scheme, SIL and the duty exemption pass book (DEPB) scheme are among the incentive schemes. These schemes were attractive when the customs duty levels were high, but they are losing their sheen in view of the continuous reduction of import duty.

What is the DEPB Scheme?

The DEPB scheme is a modified version of the advance licence plan. With advance licences, exporters could ship their goods and obtain a licence to import the raw materials necessary to manufacture the shipped goods. Import volumes are controlled through input-output norms that specify the import entitlement on the basis of the quantum of exports.

The DEPB Scheme permits an accumulation of entitlement points each time an export shipment is made. The difference with advanced licensing is that the exporter can utilise the entitlement to pay customs duty not only on the inputs used but also for other items. The entitlement can also be sold.

The Economic Times
27 MAR 2000

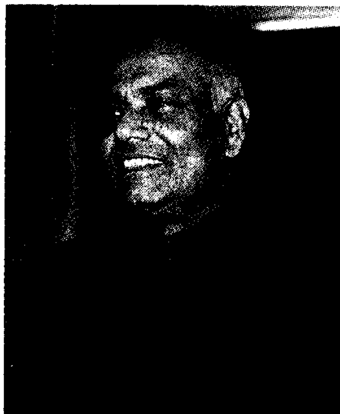
COOPERATION AMONG ASIAN NATIONS SOUGHT

# Sinha sounds caution on globalisation

DAVOS, JAN. 31. India today warned that globalisation could lead to economic destablisation and said world leaders should take steps to ensure equitable growth in developing countries.

"Globalisation should subserve the cause of equitable growth and human development," the Union Finance Minister, Mr. Yashwant Sinha, said cautioning that unless this was achieved "opposition to globalisation would become more vocal".

In an informal gathering of senior political leaders attending the 30th World Economic Forum meeting here, Mr. Sinha said there was therefore a need to pursue the right domestic policies especially in the financial sector besides undertaking prudent debt management projects.



Urging the world leaders to take responsibility of ensuring equity in globalisation, Mr. Sinha said the problem of democracy should be appreciated and fears arising out of globalisation should be allayed so that goals of higher growth and employment were achieved to bring down the level of poverty.

Regarding the new round of multilateral trade negotiations under the World Trade Organisation, Mr. Sinha emphasised that there was a need for more deliberations at the official level to arrive at a consensus.

The Finance Minister also emphasised the need for "more flexibility" among the developed countries to provide market access to developing countries exports.

Mr. Sinha mentioned the South Asian Association for Regional Cooperation (SAARC) agreement on a free trade zone by April 2001 and called for more cooperation among Asian countries in the area of trade.— PTI, UNI

**No wrong signal from Cogentrix pullout: Page 12**

THE HINDU
1 FEB 2000

# Congress to oppose reforms

SUBRATA SEN
STATESMAN NEWS SERVICE

NEW DELHI, Feb. 23. — The Congress will oppose the second phase of economic reforms, which the BJP is pursuing without properly reviewing whether they are actually helping the country.

The Congress will oppose "reckless privatisation" of core sectors and dilution of government shares in blue-chip PSUs, unless the Centre has a very good rationale to back the decisions, party leaders, including Dr Manmohan Singh, told other Opposition leaders today.

(Opposition parties are gearing up to grill the government on the RSS issue too, with several notices served in both Houses of Parliament, demanding adjournment and suspension of question hour.)

Allaying the fears of Left parties, the Congress leaders today said the party would close ranks with other Opposition parties against the government's decision to privatise Indian Airlines and the Airports Authority of India. It will oppose PSU disinvestments of more than 49 per cent.

Congress leaders said Dr Singh had been opposing the government's policies at party forums. He reportedly feels that after the first decade of economic liberalisation, the government should ascertain whether the poor have benefited from the reforms.

Several senior Congress leaders such as Mr Rajesh Pilot, Mr Arjun Singh and Mr Priya Ranjan Das Munshi have welcomed Dr Singh's suggestions and supported his call for a "proper introspection" on economic liberalisation.

Mr Ajit Jogi, Congress spokesman said: "Our policies of economic liberalisation was a result of our commitment to the poor. We had always pursued our policies with a human face. Unfortunately, the poor and the have-nots ... are being neglected ... by the government."

Dr Singh and Mr Pranab Mukherjee today met non-BJP Opposition parties' leaders of Rajya Sabha and explained the Congress's stand.

Those present at the meeting included Mr Biplab Dasgupta (CPI-M), Mr Gurudas Dasgupta (CPI), Mr Ranjan Yadav (RJD), Mr SR Bommai (JD-S) and Mr Abani Roy (RSP).

Mr Mukherjee, Congress chief whip in Rajya Sabha, told **The Statesman:** "We're not interested in knowing whether the government is into the second phase of liberalisation. We'd be questioning the government on an issue-to-issue basis and would like to know whether the policies pursued are beneficial to the country."

■ See CONG: page 8

## CONG:

(Continued from page 1)

The government needs to clarify the links the recent decisions (on privatisation and disinvestment) have with its policies, Mr Mukherjee said. "What do they actually want? What's their trade and investment policies? What's the government stand on opening up of the economy? What are the fiscal considerations of these decisions?"

Certain questions on the government's decision to privatise core sector need to be answered, he said. "The government went for privatisation of power in Orissa with fanfare. But when cyclones hit the state, power supply was not restored."

**RSS issue:** The Rajya Sabha question hour may witness a suspension, with the Congress, Left and other Opposition parties submitting notices for a discussion on the Gujarat government's order lifting the ban on state employees to participate in RSS activities.

In Lok Sabha too, Opposition parties are likely disrupt proceedings on the issue. Several Opposition parties have submitted notices to the Speaker's office, pressing for an adjournment motion.

Though the Congress will "officially" announce its strategy after its parliamentary party meeting scheduled for tomorrow, leaders have begun talking to "like-minded parties". The Congress expects the RJD, Samajwadi Party, BSP and Left parties to close ranks and question the government.

The Congress leader in the Rajya Sabha, Dr Manmohan Singh, held a meeting with Opposition parties to chalk out floor coordination. The Opposition will raise the *Water* issue, the government's opposition to the CVC's order and the Constitution review panels' formation. The Left has welcomed the Congress's efforts to coordinate with other Opposition parties but is surprised by its stand on the government's economic policies.

**Sonia Gandhi:** The Congress reposed faith in Mrs Sonia Gandhi's leadership as several leaders today said that only under the present party president could the party fight the "government's designs of saffronising the administration".

THE STATESMAN
24 FEB 2000

# Survey wants check on fiscal deficit

By Our Special Correspondent

NEW DELHI, FEB. 28. While recounting the positive developments on the economic front during 1999-2000, the Economic Survey for the year has extensively focussed on the soft underbelly of the country's economy which requires urgent attention. The Survey was presented in both the Houses of Parliament today.

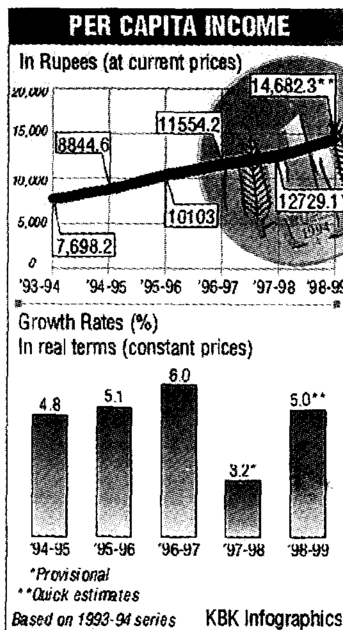
The Survey confirms that the gross domestic product (GDP) is expected to grow by 5.9 per cent this year, that the performance of the infrastructure sectors, manufacturing and construction had improved and the inflation rate had dropped to international levels of two to three per cent. The balance of payments had survived the twin shocks of the East Asian crisis and the Pokhran tests and reserves had increased by $ 2.4 billions till January 2000. Export performance was on a par with better performing economies and the restoration of the confidence in industry was evident in the rise in the stock markets during 1999.

The list of concerns, on the other hand, is headed by the burgeoning fiscal deficit. The Survey points out that the gross fiscal deficit of the Centre and the States had declined from 9.2 per cent of the GDP in 1991 to 6.2 per cent in 1996-97.

However, in recent years it climbed back to 8.5 per cent in 1998-99 and is expected to rise further this year.

While projecting that the foodgrains output could end up at 199.1 million tonnes in the current year, down from 203 million tonnes in 1998-99, the Survey said public investment in agriculture had declined even as real private investment in agriculture was rising.

There was need for a shift in emphasis of public support for agriculture from subsidies to investment in rural and agricultural infrastructure and effective research extension, the Survey suggests.




On the industrial front, the Survey notes that even as the index of industrial production (IIP) showed a firm recovery with 6.2 per cent growth in April-December 1999, there was cause for concern. For instance, while the growth of domestic capital goods production remained reasonably good, it was decelerating (implying fresh investments were slowing down).

Imports of capital goods, on the other hand, had fallen sharply. Also, growth in disbursements by development financial institutions had decelerated, while that by investment institutions had accelerated.

However, growth of sanctions, which also reflect future investment decisions, decelerated in both cases.

The Survey also found that despite the sharp fall in inflation during the calendar year 1999, there was a sharp rise in real interest rates because of the substantial segmentation and rigidities in the markets.

In 1999, the monthly inflation remained below five per cent continuously for 11 months and below four per cent for eight months. Still, continuance of high interest real rates suggests that expectation formation mechanisms based on historical experience have not fully taken account of the structural effects of economic liberalisation on the inflationary process, the Survey says.

On savings and investments, it provides data for 1998-99 when gross domestic savings fell sharply to 22.3 per cent of the GDP.

This 2.4 per cent drop in the savings rate resulted from a 1.4 per cent decline in public savings and a one per cent decline in household savings in physical form (that is, direct investment). Corporate savings also declined to 3.8 per cent of the GDP from 4.3 per cent in 1997-98.

However, the Survey notes that the fall in the savings rate of the Government and households was a counterpart of the higher consumption growth during 1998-99.

For the future, the Survey has called for looking beyond the knowledge-based industries, strengthening the financial sector, encouraging entry of private sector into higher education, downsizing of Government, large-scale legal sector reforms including scrapping of redundant legislation and a faster shift towards ending public sector monopoly in providing infrastructure services.

**Excerpts of report: Page 15**

THE HINDU
29 FEB 2000

# Weak response

The government's decision to raise the average import duties by around 10 percent on a large number of items is a rather weak response to the challenge posed by the removal of quantitative restrictions (QRs). Indeed, any attempt to replace the protection provided by QRs through tariff barriers is bound to be limited in its effectiveness. The bound peak rates agreed upon within the WTO limit the extent to which import duties can be raised. And, in any case, very high import duties go against the liberalisation process at home. A more effective response would be to help various sectors of the Indian economy cope with the changes that will be brought about by the removal of quantitative restrictions. This will require removing a variety of constraints on Indian producers. In some cases these take the form of high excise duties. In others, especially in the rural economy, the constraints lie in the bureaucratic cooperative laws that make it difficult to increase the scale of operations. And in yet other cases, it may be a matter of preventing dumping.

These requirements constitute a large agenda. And the prospects of the government completing the task before QRs are removed are not very bright. With all QRs restrictions to be removed in less than fifteen months from now, the government clearly does not have much time. All the more so since the restrictions on half the items would have to go as early as March this year. What is more, the government's focus on tariffs suggests that such a comprehensive response may not even be on the cards. And even if the government does manage to get its act together on time there are few signs of the economy being geared to meet the challenge. In fact, several sectors of the economy, especially agriculture, may not even be aware that traditional demands like a ban on imports may become obsolete in just a few months time. Any failure to cope with the removal of quantitative restrictions would be a tragedy. And it would be unforgivable if this tragedy is brought about by a lack of awareness.

*The Economic Times*

- 5 JAN 2000

S. VENKITARAMANAN

# Planners in their place

## India should have a planning commission that is not another cog in the wheel of governance

**‘Russia's transition from planned economies to the market is a transition to chaos’**

A recent review in *Newsweek* graphically described the transition to chaos in today's Russia. Entitled "A frozen land of crisis", the piece says: "Ten years after the beginning of reform, injustice is installed as a system and the landscape frozen into chaos, without perspective or illusions. It would be simplistic to talk only about an economic disaster confronting the people we met. For the abstract figures translate into harsh reality. The land is one of violence, abandoned children, tuberculosis, drug addiction, homelessness, prostitution and, of course — now more than ever — alcoholism. What Russia now faces is a deep social, moral and cultural crisis." It is as though a whole century has passed by and Russia is back in the depths of deprivation.

The manner in which the planned economy of the once strong former Soviet Union was dismantled and the market economy ushered in does not redound to the credit of those who managed or mismanaged the transition. It is as if the doctors in charge of a severely ill patient removed all the earlier support systems in order to set him free. The result was total chaos. Whether there was a design to this or the transition was all unplanned, we do not know for sure. What is now certain is that the Western world, particularly the United States, is today deeply concerned about what the transition has unleashed, especially because of the number of nuclear weapons the republics of the Commonwealth of Independent States sit on. Further, chaos in any part of the world can spread to the rest.

I was privileged to chair a session recently, where there was a fascinating lecture on this subject of transition from planned economies to the market. The occasion was a millennium lecture organized by the Industrial Financial Corporation of India. The lecture was by Charles R. Frank Jr, vice-president of the European Bank for Reconstruction and Development.

Frank admitted that it had not been roses all the way, although the transition had been somewhat better managed in those parts of the former Soviet union where there was a lesser commitment to controls and plans and a history of markets. Poland, Hungary, Czechoslovakia, and Slovenia were thus able to restructure and return to steady growth, while Russia and Ukraine are still struggling.

The speaker was particularly careful to stress how the problem arose because the concepts of the market-based economy were totally new to the Russian bureaucracy and political leaders. There was besides too facile an acceptance of the need for reform without understanding the nittygritty. Public sector enterprises with their bloated staff and continuing losses became drags on the economy. The public enterprises became the burden of the fisc.

While I am stating the broad conclusions of a well argued presentation, what struck me was that, speaking as he was on behalf of a multi-lateral development bank, the European Bank for Reconstruction and Development, the speaker tended to look at the problems as solvable, in spite of current difficulties. One of the listeners in the audience raised a pertinent question: "How is it that China has managed the transition more easily than Russia?" Although Frank did not offer a categorical answer, it is true that China has not broken down in the sense in which Russia's once mighty economy has. Perhaps, the answer may lie in the fact that China has not totally given in to market ideologies as yet. It has been experimenting with different models in the various regions of the country — especially the special economic zones. The transition has been more orderly, if less democratic.

Incidentally, the debate on transition brings to the surface the general tendency among reformers to run down the need for planning *per se*. We in India did, at one time, commit the converse error of over-emphasizing the plan. It is equally important now not to throw overboard the plan, especially when we are making the transition. Markets do not by themselves provide all the answers to the problem of shortages, of regional imbalance and of inter-personal equity. Let us remember that after World War I, the fascination for the plan extended to many countries, outside the Iron Curtain, like the US, Japan, France and Britain.

In fact, India's experiments with planning had intrigued experts from all over the world — Western academia, as well as from the Soviet side. We could encounter most of the grey eminencies of Harvard, Oxford and Cambridge as well as Warsaw and Moscow at Yojana Bhawan. Only Chicago kept itself at a distance. Many intellectuals from the West and the East had looked on India's plans as a brave new experiment. It should not be forgotten that even though the P.C. Mahalanobis model came under critical intellectual scrutiny, many Western intellectuals were found working enthusiastically with India's planners. The third plan of India was important for its incorporation of the concept of the poverty line.

I say all this not to minimize the importance of market forces, but to set in proper perspective the whole case for planning. It is always necessary to look ahead, to strategize, to envision the options and the choices — if this be the object of planning. Not even the most hardheaded market-oriented economist will resent this role of planning.

Where, perhaps, we along with many other countries went wrong was to make the plan and the public sector a rigid framework. Wrong plan priorities, without the correction of market forces, led to tremendous waste of resources and misdirection of investment.

A question that came up in the session was: "Do we still need a Central planning commission?" I believe we do, although it would be wrong to make it over-bureaucratic and another cog in the wheel of governance. Planners at New Delhi would do well to learn from the failure of planning in Russia and realize that all knowledge may not reside in the planners' files. We cannot, however, deny that in a federal union like ours, the planning commission has played an important role in getting together the Centre and states and equilibrating the flow of funds. Another question raised was whether our planning commission should become a constitutional or statutory body, like the finance commission. I believe that the planning commission should not become an independent power centre. That would only weaken the structure and reduce the effectiveness of governance at New Delhi.

It is perhaps all to the good that in the initial stages of economic reform Manmohan Singh as finance minister did not defer too much to the planner, except to the extent to which he consulted C. Rangarajan, then in the planning commission. Planners must, at all time, recognize that they are essentially strategizers, thinkers and not implementers. Russia's Gosplan failed because it tried to do too much. Our planners should not fall into the same error.

To return to Frank's talk on transition, there can be no denying the fact that the transition in the case of the erstwhile Soviet Union has been tragically mismanaged. If only the transition had been better managed — and the American triumphalism kept in check — Russia and her satellites, albeit less reformed, would have still been engines of growth for the rest of the world.

Short-sighted geopolitics, combined with multi-lateral mismanagement has moved millions of people in these erstwhile CIS states into permanent poverty. Living monuments to a botched up structural reform, they are today potential candidates for a revolution in the coming millennium.

**The author is a former governor, Reserve Bank of India**

THE TELEGRAPH
11 JAN 2000

# End of QRs

THE ABOLITION of the Quantitative Restrictions (QRs) by India on 1400 tariff lines by April 2001, with half of it in the next three months, only advances by two years what in any case was scheduled to take place by April 2003. Such import restrictions have been a feature of the Indian scene for over 50 years. However, with the foreign exchange reserves reaching $ 36 billion at the start of the new year, the inevitable lowering of barriers could no longer be prevented. India has been prohibiting or severely restricting the import of various industrial, textile and agricultural products. Earlier, the imports which included a wide range of consumer goods including food, clothing, household appliances etc., were either banned or restricted. In many cases imports were simply canalised through the state trading agencies.

Unlike other negotiations where bilateral trade-offs could be reached, the linking of QRs to India's balance of payments problem has foreclosed such options. Following the agreement with the US which led to the abolition, there is bound to be an impact on the domestic industry in the various areas but substantially on farm and food products. It may also embolden the global pharmaceutical majors to bring in patented drugs without any restriction or compulsion to manufacture it here. India can use the tariff mechanism by raising the import duties on such items which it considered were sensitive or would hurt the domestic industry. Obviously one such area is the farm sector where tariffs can be hiked, as even the European Union strongly protects its farmers through huge subsidies and high import duties. But for non-farm items, the duties will have to be within the WTO ceilings. The only option before the government is to support the domestic industry as it will not be allowed to "protect" it as before.

THE HINDUSTAN TIMES
15 JAN 2000

# Govt cuts interest rate on PPF, small savings

## One per cent reduction to come into effect from today

**HT Correspondent**
New Delhi, January 14

IN AN effort to reduce the cost of borrowing, the Government today cut the interest offered on small savings and Public Provident Fund (PPF) by one percentage point. The reduction in interest on these instruments, from 12 per cent to 11 per cent, will come into effect from tomorrow.

The interest on post office deposits will be 8 per cent for one year, 9 per cent for two years, 10 per cent for three years and 10.5 per cent for five years. Similarly, the return on post office recurring deposit has been reduced to 10.5 per cent.

The rates of interest on post office monthly income account, Kisan Vikas Patra, National Savings Certificate (NSS) VII issue and National Savings Scheme 1992 have also been revised downwards, according to a statement from the Finance Ministry. The interest cut was in line with the lowering of interest rate by public sector banks during 1999, the Ministry said.

The sudden decision of the Finance Ministry to reduce the interest rate on small savings and PPF has given a jolt to the bank managements who will now be under tremendous pressure from the industry to reduce the lending rates. Though the bank managements took the position that this move was only aimed at cutting the cost of government borrowings as a part of the pre-budget fiscal correction exercise, senior North Block officials hinted that the banks should understand the signals emanating from this cut.

The security offered by small savings on account of the sovereign guarantee they bear has also been taken into account while reducing the return. These instruments offer considerable tax incentives apart from being risk free investments. The downward revision is in line with the recommendation of a committee of experts which called for benchmarking of the interest rates on these instruments on the basis of the return offered on similar investment with banks and financial institutions.

In the case of post office monthly income account, the interest rate offered would be 11 per cent. The 10 per cent bonus on maturity and the 5 per cent discount on premature withdrawal before three years would stay. Kisan Vikas Patra will now double in six-and-a-half years instead of six years. Pre-mature encashment value for Kisan Vikas Patra have also been revised correspondingly.

NSS VII issue will now bear an interest of 11 pc. For NSS 1992 the interest will be 10.5 pc. In the case of PPF where interest income is totally exempt from income tax, the return would be 11 per cent.

Accordance of post office time deposits, recurring deposit, monthly income account, NSS VII, NSS 1992, Kisan Vikas Patra and PPF will remain suspended from tomorrow to allow time for post office and public sector banks to make necessary arrangements. These operations would be resumed before February 1, 1999.

The Finance Ministry statement said the benefit of lower interest on small savings would be passed to States and Union Territories. This would be done by reducing the rate of interest on special securities issued against small savings collections to 12.5 pc from the existing 13.5 pc. The share of States and UTs in such collections is also being increased to 80 pc as compared to the existing 75 per cent.

Bankers said the move would not have any major effect on their deposit rates as postal deposit and PPF are no longer the benchmark for the industry. The cut would help the Government to reduce its borrowing cost, they emphasised.

Substantial diversion of funds has taken place from banks to mutual funds following the concessions given to the latter in the 1999-2000 Budget. Hence it is not possible for banks to reduce interest rates, they said. In the case of lending rates, rates are already low since banks are flush with funds and there is a dearth of borrowers.

According to official sources, the benchmark interest rate on PPF was 12 per cent with tax incentives. Various PPF and small saving schemes account for a phenomenal Rs 330,000 crore in the interest burden on the Government.

THE HINDUSTAN TIMES
15 JAN 2000