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MONTHLY
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July 2009





Vishambhar Saran, Chairman, Visa Steel has just been elected President of the Indian Chamber for Commerce.

He is a mining engineer from BHU and former Director, Raw Materials TATA Steel, he has been part of the iron and steel industry for over 35 years, including 25 years with Tata Steel. He has steered the VISA Group from scratch to a global minerals and metals conglomerate within a span of ten years.

His other major involvements are:

****Honorary Consul of the Republic of Bulgaria for Eastern India***

****Trustee on the Board of Kalyan Bharti Trust & VISA Trust***

****Chairman of the Board of Governors, Heritage Institute of Technology, Kolkata***

****Former President of Coal Consumers Association***

****Former Trustee on the Board of Chennai Port Trust, Chennai***

****Former Member Governing Council of the International Chromium Development Association, Paris from 1990-1999; Raw material Committee of the International Iron & Steel Institute, Brussels from 1991-1993; Board of TATA Sponge Iron Limited and Standard Chrome Limited***

Mr Saran is a keen golfer and art collector

Gone with the wind another glorious year of achievements in the long flowing history of Indian Chamber of Commerce. Only two months after the 80th

AGM of ICC was over (held in June 2008), the global economy started to experience a sea-change in terms of employment and income generation. The Domino Effect of economic meltdown spread at a lightning-fast rate from the US economy, which was the epicenter, and touched every corner of the world economy. A few people had been predicting that serious problems were looming, and even fewer had placed bets accordingly, but even they were astounded by what happened in mid-September.

The speed of the contagion that spread across the world is perhaps unprecedented. What started off as a relatively limited crisis in the US housing mortgage sector turned successively into a widespread banking crisis in the United States and Europe, the breakdown of both domestic and international financial markets, and then later into a full blown global economic crisis. In the past ten months, the International Monetary Fund has revised its forecast for global growth in 2009 downwards no less than five times, from 3.8 per cent in April last year to its current estimate of just half a per cent. Initially the downgrades were focused on developed countries, but projections for GDP growth in emerging markets have now halved from 6.6 per cent in April to 3.3 per cent currently.

The current ongoing financial crisis is attributed to a variety of factors such as the developments in the sub-prime mortgage sector, excessive leverage, lax financial regulation and supervision, and global macroeconomic imbalances. At a fundamental level, however, the crisis also reflects the effects of long periods of excessively loose monetary policy in the major advanced economies during the early part of this decade.

Thus began a financial and economic crisis of the first order, on a magnitude not seen at least



since the 1930s and - arguably - with the potential to become bigger than anything seen in the 200 years of modern capitalism. We do not yet know if the economic consequences are “merely” a severe recession or if there will be a prolonged global slump or worse.

India has been one of the least affected countries by the slowdown, and this has happened because of the resilience of the Indian economy, our sound and robust banking and financial systems, our relatively less dependence on exports, our timely and effective policy response and inclination to invest in long-term developmental projects, and our strong foreign cash reserve position. Monetary policy has also been effective in controlling inflation, and intelligent rate cuts have contributed to more liquidity in the system, which has enhanced business optimism.

With the Congress coming back to power, I think India has got a stable government at the Centre which is serious about pushing reforms for enabling steady and higher growth which is equitable in nature. With industrial production and exports dipping sharply in recent months, annual growth has plunged to 6.7 per cent, the slowest pace in six years, contrasted with the over 9 per cent annual growth since 2006. I must say here that even a 6.7 percent growth is enviable in these times of slowdown, and this rate is better than many other countries. However, I think India can surely achieve a higher growth soon, if intelligent policy mixes are put in place. I strongly feel that the new government's 100-day action plan, which places emphasis on job creation, boosting infrastructure and development sectors, and envisages a stimulus package to put the economy back on a trajectory of sustaining a 9 to 10 per cent annual GDP growth, if implemented properly, can do wonders for the Indian economy.

The Government of India has planned infrastructure spending of \$550 billion during the 11th Five Year Plan - I feel strengthening the

Bharat Nirman Programme for development of rural infrastructure, rejuvenating urban infrastructure under the Jawaharlal Nehru National Urban Renewal Mission, completing the Golden Quadrilateral project and re-energizing the 33,000 km National Highway Development Programme, developing capacity in Power and Energy, improving the cargo handling capacity of ports, among other things would be extremely important, if India has to move beyond the negative web of the global meltdown, and emerge



as one of the leading economies in the world.

The Annual Budget of the new UPA government is scheduled to be tabled on 4th July, 2009. And I feel the Union Government would be pragmatic enough to formulate various provisions in the budget, keeping complete synergy with the current economic crisis. For this, some very specific policy measures have to be implemented to get away from this situation. When you will be reading this article, probably the budget of the new UPA government will be in place. I firmly believe we will find many of our expectations fulfilled in that budget document.

I feel and hope that the Union Budget and the 100-day Action Plan, will effectively address the following critical issues in order to re-vitalize the economy, and usher in a phase of sustainable, inclusive growth :

* Listing, Divesting of Government holdings in public sector undertakings



- * Policy changes to reorient subsidies
- * Recapitalize bank to boost their financial position
- * Focus on small enterprises, textiles, export
- * At least 13,000 MW electricity addition in every year envisaged
- * For SEZs, Land Acquisition and R&R Bills have to be introduced
- * Infrastructure spending to be centerpiece of growth
- * Reforms of Coal sector



The uneasy factor of growing government subsidies to feed loss making PSUs has become a huge burden to government coffers. The productivity of these loss making PSUs have also adversely affected income generation

The major areas that would get top billing during the UPA's second term in office, I feel, would be internal security, growth in agriculture and manufacturing, public healthcare and education, governance reform and energy security. An important issue that has been discussed for quite some time now, is disinvestment in PSUs. The system of continuing with highly inefficient and unproductive PSUs needs some urgent overhaul. The uneasy factor of growing government subsidies to feed loss

making PSUs has become a huge burden to government coffers. The productivity of these loss making PSUs have also adversely affected income generation in terms of contribution to country's GDP. With the economic slowdown impacting revenue, I think disinvestment is clearly one way to raise funds to improve the fiscal deficit. IPOs from government owned companies could also help to revive the IPO market and boost the stock market.

Hence it is my perception, the coming budget will be very specific to overhaul some loopholes in the current economic system, keeping in mind the global meltdown. There could be provision of some kind of "Sunset Clause" for the industry to grow. And industry should utilize these opportunities to excel in various dimensions. Especially as one of the most proactive Chambers of Commerce of India, ICC, feels it is our responsibility to make all industry bodies of our country aware about the coming situation, which is no doubt highly depressed by global crisis. And we feel the only way to come out of this financial turmoil is to move in tandem with the government's activities.

The struggle of today is not altogether for today - it is for a vast future also. With a reliance on providence, all the more firm and earnest, let us proceed in the great task which events have devolved upon us. I strongly feel that proper understanding of each other and more co-ordinated efforts between government and industry would be able to provide the "big push" to escape from economic quicksand. And I am highly hopeful that a perfect camaraderie between government and industry would again prove this country highly resilient to external shocks. "Given the collective will, if all of us work together, we can achieve a growth rate of 8 to 9 per cent even if the world economy does not do well," Prime Minister Manmohan Singh commented recently; I think it is now of utmost importance that we work together, in a collective fashion. ■



Global Update

■ **China** has recently decided to impose a 9% rebate on steel exports which is likely to increase the flow of cheaper grades of steel into the country. The dragon's move has raised hopes among domestic steel companies seeking a 20% import duty on all grades steel in the forthcoming budget. The industry is also hopeful of a substantial hike in export tax on iron ore and chrome ore

■ **China**, the world's biggest buyer of iron ore, has rejected a 33 percent price cut accord struck by Rio Tinto Group and Nippon Steel Corp., and called for contract prices to drop as much as 45 percent. Talks between Chinese mills and suppliers remain deadlocked

■ Britain's nuclear energy sector wants a share of the Indian market, and play catch up with countries like France which has already established its presence in the civil nuclear energy sector

■ **Ev**ancing interest to participate in India's urban development process, multilateral lending agency World Bank has initiated a dialogue with the urban development ministry to provide a loan assistance of \$5 billion to develop Indian cities. It is the for the first time that country director of World Bank has come forward and initiated a dialogue to provide \$5 billion loan assistance, the modalities of which will be finalised by February 2010 before the budget

■ A new hydrogen-powered city car has been launched in the UK, which attempts to sidestep the three main hurdles to the dream of hydrogen-fuelled highways. The Riversimple Urban Car (RUC) is powered by a fuel cell that combines hydrogen with oxygen from the air to release energy and nothing more toxic than water. Riversimple is aiming to lease its first fleet in 2011 and mass produce in 2013. Using hydrogen to power cars can cut urban pollution and carbon

emissions too, if the hydrogen comes from a renewable source or is used efficiently enough

■ India has extended the ban on import of milk and milk products, and toys from China for a period of six months. Import of milk and related items including chocolates was banned last September following concerns over presence of toxic chemicals in them. This contamination had also resulted in huge international outrage against China, leading to 25 nations restricting Chinese imports

■ India, with 108 FDI projects (up 44% from last year) has not only replaced Japan as the largest Asian supplier of FDI projects in the UK, but has also leapt forward from seventh place last year to being the second largest source of investments overall in the UK this year, second only to the US. Indian projects created 4,139 new jobs in the UK, 30% more than the next highest job creator

■ RioTinto Group, the world's third largest mining company, scrapped an investment from Aluminum Corp of China in favour of raising \$21 billion from a share sale and an iron ore venture with BHP Billiton Ltd

Market At Close	Jun-09	Pts Change	%Change
Asian Market			
Sensex	14326.22	736.99	5.42
Nifty	4235.25	118.55	2.88
Nikkei	9826.27	373.93	3.96
Hangseng	18059.55	271.73	1.53
China	2896.302	286.352	10.97
US Market			
DowJones	8339.01	-134.48	-1.59
Nasdaq	1766.19	15.76	0.90
European Market			
FTSE	4234.05	-177.67	-4.03
CAC	3123.25	-146.84	-4.49
DAX	4693.4	-292.2	-5.86

Source: Moneycontrol
Closing date : 22nd June 2009



India Update

■ Subzero inflation has finally come to India with inflation dropping by 1.6% in first week of June, ten months after inflation peaked at 12.9% in early August. Annual inflation was at 0.13% in the week before. India's negative inflation is expected to be short and is essentially due to high base effect and supply side issues and temporary in nature. Retail inflation as measured by consumer price indices is still hovering around 8%

■ Industrial production grew 1.4% in April 2009 after contraction for months since September when the global financial crisis deepened. However, certain crucial sectors like consumer non durables, including processed food products and capital goods posted negative growth. Processed food items declined by a whopping 34%. Electricity generation grew by 7.1% in April against 1.4% in the same month a year ago. Manufacturing grew by 0.7% from 6.7 per cent. Mining grew by 3.8% in the month compared with 6.1% in April, 2008.

■ The Government will announce a comprehensive foreign trade policy in August, which would emphasise stimulus to trade, besides granting sops to exporters to beat the global economic meltdown, Commerce and Industry Minister Anand Sharma said

■ The government is considering a proposal to restore the rate of service tax to its earlier level of 12%. The government had reduced the service tax rate to 10% in the third stimulus package which was unveiled in February. This option of withdrawing the service tax cut is being weighed on account of spiralling government expenditure — a result of the government's attempts to boost the economy — and shrinking revenues due to the slowdown in economic activity.

■ The government has imposed a special duty on imports of compact discs-recordable (CD-R) from Iran, Thailand and Korea. The government

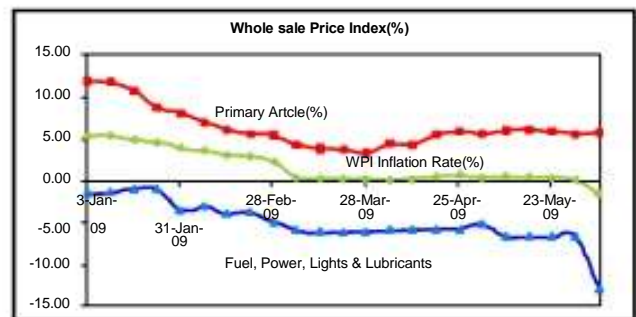
has imposed anti-dumping duty that ranges between \$17.52 and \$ 63.84 per 1,000 pieces

■ The government is looking into formulating new rules for de-notification of special economic zones in the wake of several developers, approaching the Commerce Ministry for surrendering their tax-free enclaves.

■ Exporters told Finance Minister Pranab Mukherjee that exports from the country could reach the \$200-billion mark in 2010, if they were supported through a stimulus package covering tax breaks, market development incentives and cheaper credit.

■ Overseas sales of Indian goods have contracted for the eighth month running during May, and stood at nearly \$10.9 billion, which is an annual dip of 30%. Exporters have been asking the government to dole out fresh fiscal measures to deal with this slowdown

■ The new UPA government at the Centre plans to raise Rs 10,000 crore through stake sales in state-owned units over the next one year, more than what the previous UPA government achieved during its entire five-year tenure. Revitalisation of the disinvestment process is considered important for providing resources to the government to bridge the fiscal deficit, which crossed 6% of the country's gross domestic product in 2008-09. The government is planning to unveil the disinvestment agenda in the coming budget



Source: Office of Economic Advisor



The new President of Indian Chamber of Commerce Shri Vishambhar Saran



New ICC Team: From Left: Shri Jayanta Roy, Sr Vice President; Shri Vishambhar Saran, President; Shri Shrivardhan Goenka, Vice President and Dr Rajeev Singh, Director General

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