

What is the 2G spectrum scandal all about?

REUTERS, New Delhi

The Central Bureau of Investigation (CBI) on Saturday charged former telecoms minister Andimuthu Raja, Reliance ADA Group and the Indian arm of Etisalat, in a multi-billion dollar telecoms licensing corruption scandal that has rocked the government and business establishments.

Here are some questions and answers on the case:

WHAT IS THE ISSUE ALL ABOUT?

The CBI say that in 2007-08, when the government issued 122 new telecoms licences, several rules were violated and bribes were paid to favour certain firms.

Several licences were issued to firms with no prior experience in the telecoms sector or were ineligible or had suppressed relevant facts, an auditor said in its report.

The violations cost the exchequer \$39 billion in lost revenue, the auditor said, equivalent to the country's defence budget.

The telecoms ministry's process of issuing licences "lacked transparency and was undertaken in an arbitrary, unfair and inequitable manner," the auditor said.

Police have accused A Raja, the then-telecoms minister, of having taken bribes from two firms which are now the local joint venture partners of Telenor and Etisalat.

WHAT WAS THE FALLOUT?

The report sparked political

outrage and the main opposition Bharatiya Janata Party (BJP) all-but-shut an entire session of parliament demanding a special parliamentary probe.

Raja was forced to resign and was arrested over the report. The telecoms ministry is considering whether to cancel some 85 licences which the audit report says were issued to firms which were ineligible for them.

Many of India's biggest business names have been questioned, including billionaires Anil Ambani, chairman of Reliance ADA group, and Prashant Ruia, chief executive of Essar Group.

A parliamentary panel probing the scandal will next week question Ratan Tata as well as Anil Ambani.

WHAT DOES IT MEAN POLITICALLY?

Singh and the ruling coalition have been weakened by the events, and the BJP is seen as having regained political momentum it had lost after defeat in the 2009 federal elections.

The Supreme Court criticised Singh for not acting quickly enough against Raja, a rare censure that was picked up by the BJP to accuse the government of shielding corrupt officials.

The attacks have nearly paralysed the government but it is not in danger of collapsing as its slim majority is not expected to see defections by coalition partners and no one, including the BJP, wants general elections now.

The scandal has also touched



India's former telecom minister A Raja exits the CBI headquarters for a Delhi court in New Delhi.

AFP/FILE

Raja's DMK party, a leading ally of the ruling Congress party. The CBI say some of the bribes were routed through the DMK's television channel, controlled by the wife and daughter of the DMK party chief.

DMK rules Tamil Nadu, which goes to polls in April. The cor-

ruption cases could affect the electoral performance of the DMK-Congress coalition there.

WHAT DOES THIS MEAN FOR INVESTMENT IN INDIA?

While corruption itself has been largely shrugged off by investors, the regulatory uncertainty from

the review of past government decisions is a source of concern to investors.

The benchmark BSE Sensex ended the March quarter as the world's worst performer, weighed down in part by worries over fallout from a spate of scandals.

If the telecoms ministry does decide to cancel some or all of the 85 licences it is scrutinising, questions will be raised on whether foreign investors can trust Indian government contracts.

The licences under review include those now held by Telenor and Etisalat's local ventures.

It is too early to know whether licences will be cancelled, but pressure will be on the government not to do so because operators have invested millions of dollars in rolling out networks and cancelling them will inconvenience subscribers.

The telecoms ministry is also mulling imposing charges for spectrum it granted to telecoms firms in the past and has levied fines on newer firms for not rolling out networks quickly enough.

For years, the government gave operators spectrum beyond contracted levels free of cost as they added subscribers.

If the spectrum charges are imposed, market leaders Bharti Airtel and Vodafone would have to pay hundreds of millions of dollars in back-charges. For newer entrants, hefty fines could strain their finances and force them to exit.

ECB appears set for landmark interest rate hike

AFP, Frankfurt

The European Central Bank is expected to announce its first interest rate hike since July 2008 this week even as the eurozone crisis deepens with three members missing key deficit targets.

"Only a severe escalation of the situation in Japan or a crisis in the financial markets is likely to prevent the ECB from raising rates" on Thursday, Commerzbank economist Michael Schubert said.

It would be the first change to the record low rate of 1.0 percent in effect since May 2009 but could raise pressure on eurozone members Greece, Ireland, Portugal and Spain.

It would also make the ECB the first leading central bank to raise its interest rate, and could drive the euro higher on foreign exchange markets.

Bank policymakers, including president Jean-Claude Trichet who flagged the rate hike last month, want to bring monetary policy back towards normal since the economy is growing and inflation is now well above target.

ECB chief economist Juergen Stark said in the Wall Street Journal Europe last month: "We need to be mindful not to keep interest rates too low for too long."

Inflation has risen for four months running to 2.6 percent, higher than the ECB's target of just below 2.0 percent, and shows little sign of stopping as oil, food and other commodity prices climb upwards.

The current level of inflation, the highest since October 2008, raised the chances of more than one interest rate hike this year, economists said.

"In our view it is obvious that more hikes will follow," ING senior economist Carsten Brzeski commented.

High prices have also begun to wear on consumer sentiment, undermining what some economists have said could be a crucial pillar of growth this year.

But higher rates could have the biggest effect on countries that can least afford them, those struggling with acute debt levels and high unemployment.

India's merchandise exports surge 50pc

AFP, New Delhi

India's merchandise exports surged nearly 50 percent in February on the back of growing global demand, as official data Friday also showed an expansion in manufacturing activity.

Merchandise exports grew by 49.7 percent year-on-year during February to \$23.5 billion, according to the Commerce Ministry, bringing the total for the April-February period to \$208.2 billion.

India's government initially set a \$200 billion export target for the fiscal year ending March 31, 2011. But it lifted the goal to \$225 billion thanks to a rise in demand for Indian goods such as cotton, gems and petroleum products.

Commerce Secretary Rahul Khullar said India's 2010-2011 exports should touch \$230 to \$235 billion.

Imports also increased by 21.2 percent in February to \$31.7 billion, creating a trade deficit of \$8.1 billion, the ministry said.

Separately, Indian manufacturing remained robust with the HSBC Purchasing Managers' Index (PMI), based on a survey of a wide range of companies, standing at 57.9 in March, unchanged from February.

A figure above 50 indicates expansion.

The index reading was another sign of strong growth in Asia's third-largest economy, which has rebounded smartly from the global downturn, analysts said.

Japan's new vehicle sales plunge after quake

AFP, Tokyo

Japan's domestic sales of new cars, trucks and buses dropped 37 percent from a year earlier last month, as the devastating March 11 earthquake and tsunami hit production and supplies to auto dealers.

Auto sales totalled 279,389 in March, the seventh-straight monthly decline, the Japan Automobile Dealers Association said Friday.

The 9.0 magnitude earthquake, Japan's biggest ever recorded, three weeks ago unleashed a tsunami that devastated swathes of the northeast coastline and hit the production of all of Japan's automakers.

The latest data are one of the first indications of how severely the disasters have impacted Japan's economy.

Auto assembly and part manufacturing plants have been shuttered amid power shortages and a lack of components for both domestic and overseas car makers.

Toyota led the falls, with its sales down

46 percent, while Nissan's sales slumped 38 percent and Honda's fell 28 percent.

Most automakers have temporarily shut down a large proportion of their factories, largely due to auto part supply chain disruptions, with power shortages in and around the Tokyo area adding to uncertainty.

None of the major makers suffered serious plant damage from the disaster in Japan's northeast, ratings agency Standard & Poor's noted in a report last week.

Japan's auto giants are largely concentrated in the vast urban and industrial belt between Tokyo, Nagoya and the major western port of Osaka.

Partial damage to some Honda factories and to the Iwate prefecture plant of Toyota subsidiary Kanto Auto Works has been reported, S&P said.

Most Japanese automakers have said they will be unable to return to full operations until around mid-April due to the limited availability of key components and electricity shortfalls.



Workers make various toys and games at a factory in Jinjiang, southeast China's Fujian province on Saturday. Manufacturing activity in China rebounded in March after a fall the previous month, official and independent data showed, giving Beijing more leeway to take new measures to rein in inflation.

AFP

Google profile in China shrinking

AP, Beijing

A year after a public spat with Beijing over censorship, Google Inc. says its business with Chinese advertisers is growing even as the Internet giant's share of online searches in China plunges.

A major Chinese portal announced last week it would no longer use Google for search, compounding its rapid loss of market share since March last year when it closed its local search engine. The future of a Google map service that is a key part of its remaining appeal in China is in doubt.

Google's main presence in China has become its advertising sales offices, an unusual situation for a company that dominates the Internet elsewhere.

Google risked being completely shut out of China after it angered Beijing by announcing last January it no longer wanted to comply with Web censorship. It dodged that fate but without a flagship local online presence, analysts say Google will fall further behind local industry leader Baidu Inc. as a search provider, while the controversy makes it hard to line up Chinese partners for other ventures.

"Chinese companies will think twice before they can have any kind of relationship with Google," said Edward Yu, president of Analysys International, a research firm in Beijing.

Google, based in Mountain View, California, says it sees its biggest opportunities in China in selling advertising on behalf of local websites or to companies that want to reach customers abroad through its global sites.

Google was allowed to keep advertising sales offices in China. Beijing had an incentive to let those stay, because they benefit local websites and advertisers.

"Google's revenue in China has grown year-on-year," said a company spokeswoman, Jessica Powell, in an e-mail. "Our business in China is doing well. We have hundreds of partners - large and small - who we continue to work with."



A screen image shows the Google logo in Washington, DC.

AFP

Yet its public relationship with Beijing is chilly. After Chinese authorities stepped up Web censorship following pro-democracy protests in the Middle East, Google said last month the government was obstructing access to its Gmail e-mail service and trying to make the blockage look like a technical problem. The government denied the accusation.

This week, the government newspaper Economic Daily said three Google units that deal with research and development, customer support and advertising were under investigation for possible tax offenses. State media played up the report and one newspaper called the company "Brother Trouble," a play on its Chinese name. Google said in a statement, "We believe we are, and always have been, in full compliance with Chinese tax law."

Mainland users can reach Google's Chinese-language site in Hong Kong, a self-governing Chinese territory without Web censorship. That comes with a big drawback: Beijing's filters can make access sluggish, reducing the site's appeal in China, which has more than 450 million people online.

Google does not break out sales by country, but Analysys estimated its 2010 China revenue at 2.6 billion yuan (\$409 million) - or less than 1.5 percent of Google's global revenues of \$29.3 billion.

Last year's dispute testified to the complex Internet landscape in

China, which promotes Web use for business and education but has strict controls on content and blocks social media sites including YouTube, Facebook and Twitter.

Google's China site still offers music downloads, business services and other features that are not subject to censorship. Users can click a link to reach the Hong Kong site.

Google's share of China's search traffic fell to 19.6 percent in the final quarter of 2010 from 30.9 percent in the first quarter, according to Analysys. It said Baidu's share rose to 75 percent.

Citigroup analyst Alicia Yap said data from other researchers show an even sharper plunge in Google's traffic share to 11 percent in the fourth quarter while Baidu rose to 84 percent.

Google still is China's second-most-popular search service based on use of the Hong Kong site and others abroad. It leads rivals such as Sogou, Tencent Soso and Zhongsou, which have market shares at or below 1 percent.

But the lack of a local presence will hurt as competition for new users spreads to mobile phones and the countryside, where users speak little English and will want a Chinese search engine, Yu said.

"Baidu is in a very good position to grab more market share," he said.

In a new blow to its public visibility, a leading Chinese portal, Sina.com, said this week it would no longer use Google.