

# India still seeking fab formula for chipmakers

REUTERS, Hyderabad

With its vast workforce, thriving chip design sector and burgeoning demand of electronics, India should be an attractive base for semiconductor makers, but its efforts to establish an international manufacturing hub have so far been a flop.

"Fab City", an industrial park on the outskirts of Hyderabad, was launched amid much hype in 2007, with the government offering tax breaks and capital subsidies to chip makers to set up operations there.

Since then, the proposed investment has dwindled from \$9.5 billion for planned semiconductor and solar cell plants to less than \$3 billion, with no semiconductor makers left on board.

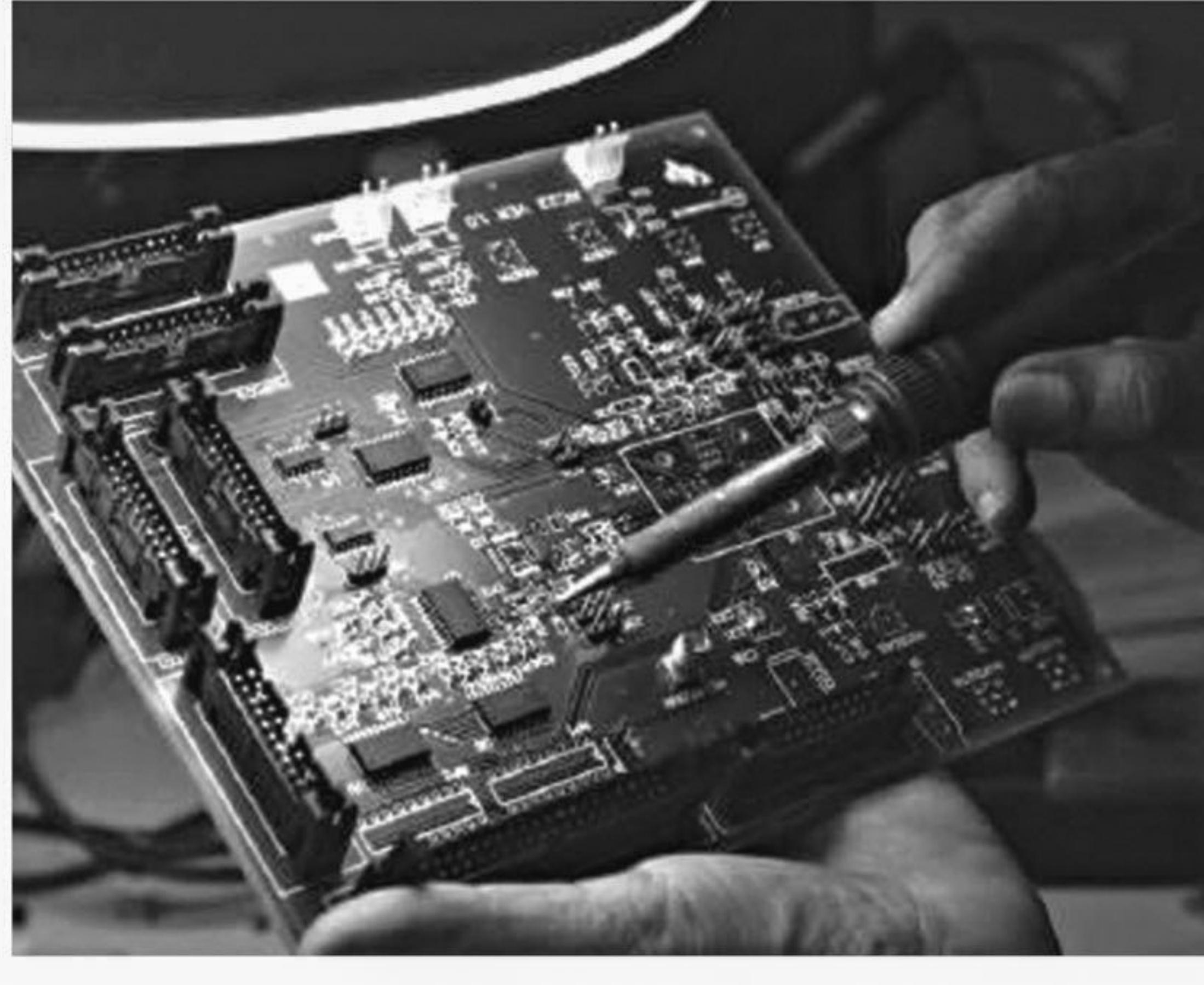
The site has shrunk from 1,200 acres to 1,075 -- of which 600 acres remain unused -- and only one factory, making solar cells, is fully up and running.

In hindsight, Fab City was launched at just the wrong time.

Global semiconductor revenues fell between 2007 and 2009 as the financial crisis hampered trade and companies cut back on capital spending to preserve cash.

Major investors SemIndia and Nano Tech Silicon India, for example, both shelved planned investments in Fab City of \$3 billion and \$2 billion respectively in 2008, leaving the site of India's digital dreams barren save for some paved roads, powerlines and dusty building sites.

"In 2007...globally the chip market was going down and this is a cyclical market," said Ajay Kumar, joint secretary at



the Department of Information Technology.

The year 2007 "happened to be a bad time to have come out shopping for a fab. Right now we are in the period when things are looking up, the demand for chips is going up, foundries and other semiconductor companies are looking to expand capacity."

The logic behind Fab City -- a fab is industry jargon for a fabrication plant making silicon chips for computers, cell phones and other electronics -- remains sound. It explains why the Indian government remains keen to promote itself as a semiconductor manufacturing base to rival established hubs such as Singapore,

Taiwan and China.

Many foreign chip makers, including Intel, AMD and Freescale, already have design operations in India. The Indian Semiconductor Association (ISA) predicts that the country's chip design industry will be worth \$10.2 billion by 2012.

"We feel that we have put so much in there," said B.R. Meena, vice chairman of Andhra Pradesh Industrial Infrastructure Corporation (APIIC), the state agency that runs Fab City.

"We have put our own organisation's money in that and we are not able to get investors there, so we feel slightly disappointed at what is happening."

## BOOMING PHONE SALES

A report from consultants Frost & Sullivan and the ISA said India's electronic chip market -- an indicator of overall electronics consumption -- grew 28 percent in 2010, thanks to booming mobile phone sales. Almost none of the \$6.55 billion of semiconductors used last year were produced in India.

That fact does not deter Kumar, who said India enjoys a demographic advantage over its Asian rivals.

"There is an abundance of labour in India and that situation is likely to further become accentuated in the next 10 years or so as age in China increases and in India the younger generation grows up," he said.

"I think there is a huge value proposition for any company to come and set up a fab in India, take advantage of this, cater to the domestic demand."

But if Fab City has not succeeded by now, despite cheap land, good roads, a dedicated power and water supply and a site 10 minutes from Hyderabad's airport, why should investors have faith in future attempts to lure semiconductor manufacturers?

## CUSTOMISED INCENTIVES

This time around, Indian officials plan to customise incentives, rather than relying on a one-size-fits-all policy, to come up with tailor-made packages that may include the Indian government becoming an equity partner in some schemes.

Pradeep Udhais, an executive director at KPMG, said India also needed to make it easier to import equipment for the capital intensive industry and tweak visa rules to help companies bring in key staff from overseas.

"Throwing money at a problem and saying that we will do \$5 billion and expect people to come in, that is not going to give you good results," he said.

But some investors remain sceptical about India's ambitions, noting the high initial capital costs of setting up a new semiconductor plant at a time when around 15 percent of global capacity remains unutilised. A fab plant can cost around \$3 billion for a low-end facility or about \$10 billion for a high-end fab.

"Globally, it's not profitable," said Sameer Sain, co-founder and managing partner at Everstone Capital. "It's a waste of time to go down this route. India should focus on design."

# Greek PM urges unity over new austerity measures

AFP, Athens

Greek Prime Minister George Papandreou called Friday on all parties to show unity over new austerity measures proposed by his government to send a message of "national consensus" to its European creditors.

"We have ahead of us fresh negotiations with the European Union... I call on party leaders to cooperate," Papandreou said on public television.

The Socialist prime minister stressed that "if Greece arrives at a broad consensus" on the new budgetary plan for 2012-2015, which was handed over to parliament on Thursday, it would put the indebted nation into stronger position at a key European summit scheduled for June 23-24.

Such a national consensus "will be a guarantee to our partners" in the EU, said Papandreou, referring to ongoing talks on a second EU-IMF bailout package for Greece which is likely to be decided at the summit.

Last year the European Union and the International Monetary Fund agreed a 110-billion-euro (\$160 billion) rescue loan package for Greece, but it is now widely accepted that more funding aid will be required to prevent Athens from defaulting on parts of its mountain of debt.

Earlier Greek Finance Minister George Papaconstantinou indicated that the current thinking was for "voluntary" involvement by private creditors to rollover Greek debt.

He said that parliamentary approval of the medium-term austerity plan was "a condition" for Greece to receive the fifth tranche of the original 110 billion euro bailout.

The fifth tranche of 12 billion euros is scheduled to be made available by early July.

The new wave of austerity measures being suggested would yield an estimated 28.5 billion euros of savings by 2015, including 6.4 billion euros this year.

The package of cuts, sell-offs and efficiency savings was delivered late Thursday to the Greek parliament, which would have until the end of the month to consider the measures, the finance ministry said.

# Carstens, Lagarde battle over IMF job

AFP, Washington

The pullout of two dark-horse candidates left France's Christine Lagarde and Mexico's Agustin Carstens the only apparent competitors to head the IMF as nominations were to close at midnight Friday.

Barring any last-minute submissions, the International Monetary Fund's executive board would face a difficult political, rather than merit-based, decision when it meets Monday to begin hashing out who would become managing director of the world's crisis lender.

In Lagarde, France's finance minister, board members would have someone intimately up to speed on Europe's crisis du jour, the crumbling Greek rescue, as well as a leader in the much-needed reform of the global financial system.

In Carstens, Mexico's central bank chief, they would have someone who has already served three years as the IMF's number three and who could satisfy developing country calls to break the Europeans' 65-year lockhold on the job.

The pullout of two other potential candidates -- Grigory Marchenko of Kazakhstan and Trevor Manuel of South Africa -- underscored the widespread belief that Europe already has a done deal.

"It's more or less obvious that Christine Lagarde is going to be elected," Marchenko, the Kazakh central bank chief, told CNN.

Quite a few people do have credentials... But again, it's not about a fair competition, it's about politics. And I think there, a political decision has been taken already."

Manuel, South Africa's planning minister, praised Lagarde as "very competent" but criticized Europe's presumption of owning the post.

"A lot more should have been done to persuade Europeans that this birthright is not a birth-right that should find a resonance in an institution as important as the International Monetary Fund," he said.

Neither candidate was acting as if it



Christine Lagarde



Agustin Guillermo Carstens

was settled: Lagarde went to Lisbon to woo members of the African Development Bank, while Carstens was in New Delhi pitching for support.

The job opened unexpectedly after Frenchman Dominique Strauss-Kahn resigned on May 18 to fight sexual assault charges in New York.

The 24-member executive board, representing all the IMF's members, has targeted the end of June to reach a consensus on one of the candidates, the way it has decided in the past.

But that process has brought harsh criticism of non-transparency and backroom deals that always favors the Europeans -- with IMF power Washington getting one of its own to head the World Bank in a longstanding trans-Atlantic quid pro quo.

Europe has come out in force for Lagarde, as it struggles to keep the IMF-led bailouts of Greece, Ireland and Portugal on the rails.

The United States and Japan, the IMF's other power brokers, remain publicly uncommitted.

Carstens has meanwhile strained to gather endorsements, even in Latin America. An emerging economy bloc has not coalesced.

"At this stage, they don't care enough about this position... to expend the political capital to want to change the status quo," explained Arvind Subramanian of the Peterson Institute for International Economics.

Neither candidate was acting as if it

Former Western Hemisphere Director at the IMF Claudio Loser said "the Europeans have a unified vision, while the emerging countries still have a nationalist vision."

Both candidates have wooed Brazil, Russia, India and China -- the so-called BRICs -- which could expand their shareholding in the Fund under the next director.

After starting in Brazil, Lagarde was in Beijing and then New Delhi this week. Carstens also launched his campaign in Brazil, and was disappointed when he failed to get the endorsement of a fellow Latin American power.

After New Delhi, he was to land in Washington on Monday before heading to Beijing.

The BRICs haven't tipped their hands, but "in private they have already conceded that they are mostly likely to back Lagarde," said Brookings Institution analyst Domenico Lombardi.

They see her "as an important backstop to the European crisis," he added.

Despite its strength, Lagarde's candidacy is clouded by a pending investigation in France into her alleged abuse of authority, in a multi-million-euro business dispute.

The court will not rule on whether the investigation would go ahead until June 9, after the IMF executive board is to make its decision.

Lagarde has repeatedly denied any wrongdoing.

## Obama calls on private sector to create jobs

AFP, Washington

US President Barack Obama on Saturday called for the private sector to create more jobs, but underlined the government's role in promoting professional education.

"Now, government is not -- and should not be -- the main engine of job-creation in this country. That's the role of the private sector," the president said in his weekly radio and Internet address.

"But one thing government can do is partner with the private sector to make sure that every worker has the necessary skills for the jobs they're applying for,"

# Helping euro states vital for Germany: Merkel

REUTERS, Berlin

Helping indebted European countries get back on their feet is vital to Germany's economic health, Chancellor Angela Merkel said on Saturday in a message aimed at the general public.

The comments come a day after Germany's parliament approved a non-binding resolution supporting extra emergency loans to fellow euro zone member Greece, but only on the condition that bondholders be made to share the bailout burden.

Asked in a weekly podcast if the euro zone debt crisis could threaten Germany's economic recovery, Merkel said: "If we don't take action in a positive way, that could happen, but it is exactly what we want to prevent."

"Therefore we should not simply allow the uncontrolled bankruptcy of a state -- instead we must see how we can increase the competitiveness of countries in difficulty and give them the

chance to work off the debt," she added.

European Union leaders are due to finalise a new rescue package for Greece at a Brussels summit on June 23-24, which officials say will total 120 billion euros and ensure the country is funded through 2014.

German Finance Minister Wolfgang Schaeuble urged parliament on Friday to back additional aid for Greece but said private creditor participation in a new package was "unavoidable" and that he favoured a bond swap that would push out Greek debt maturities by seven years.

In her podcast, Merkel said troubled members of the currency union must enact reforms, but warned that allowing one to go insolvent could trigger disastrous consequences for Germany.

"We should not do anything that would endanger the global recovery and put Germany back in danger," Merkel said, adding that the bankruptcy of investment bank Lehman Brothers had triggered a major recession in 2009.



Film actress Nisha Agarwal poses with jewellery at the seventh Hitex International Gems and Jewellery Exposition in Hyderabad on Friday. The four-day event is a platform for exhibitors to explore popular demand and the market trends of Indian jewellery. India is the largest consumer of gold jewellery in the world.