

INDIA NOW

HISTORIC CHALLENGES, DYNAMIC OPPORTUNITIES

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OVERVIEW

What lies ahead for India in view of its recent turbulence in response to world markets?

With a booming middle class that is expected to soar nearly tenfold to more than 583 million in 2025 and the prospect of continued mid-term growth, India makes a compelling investment destination.¹ Yet much remains to be understood about this dynamic region, given the often chaotic nature of its political and business climate, which is now being balanced out by a systematic series of reforms.

Although India's long-term prospects remain robust, three concerns indicate that near-term growth may be affected for the next 12 to 18 months. Anticipated corporate profitability, GDP growth rates and consumption expenditures are all likely to be impacted during this challenging interim period.

The following white paper explores the current influences shaping India, including its economic and corporate backdrop, and presents a balanced view of the opportunities available to investors in this well-established emerging market.

The Current Landscape

Three key drivers continue to impact how India will fulfill its potential over the next five years:

- Attractive demographic trends that favor growth
- Increased infrastructure spending of US \$100 billion annually
- Productivity-led advances in global trade and commerce. This is particularly true in fields such as pharmaceutical research, IT and Information Technology Enabled Services (ITES), as well as custom engineering and automobile components.

India has always been a longer-term story, extending beyond just the next several months. We have every reason to believe that the country's remarkable growth, while experiencing challenges in the interim, will continue to represent an attractive investment opportunity over the next few years.

Why India Continues to Offer Opportunity

Although India has underperformed recently, the world's largest democracy remains defined by its positives:

- Strong domestic growth driven by consumption and private-sector investment
- Decreasing inflation—currently 5.07%², down from a high of 12.91% in August 2008
- Pressure on the fiscal deficit has eased due to softening oil prices and reduced fertilizer subsidies
- Infrastructure spending has increased significantly

and is expected to continue in the coming years.

- The country's GDP reflects an educated workforce, rising income levels and a growing middle class.
- Ongoing Indian economic development and government reforms point towards a more positive future, both domestically and globally.

While we believe India will experience a slowdown in the short term, we expect the longer-term story to emerge by March 2010. These are windows of opportunity that may not present themselves again at any time in the near future.

Favorable Demographics

India's rising income levels and a burgeoning middle class with spending power on par with many Western countries represent a real bright spot among emerging markets. This is especially true at a time when the troubled global economy has raised the prospect of a slowdown in other export-oriented Southeast Asian countries.

Amazingly, in the next 10 years, India's middle class is expected to swell to numbers larger than the entire population of the United States.

India is also characterized by one of the world's youngest populations, with a full 53% of its population under 25 years of age.³

1 Source: <http://www.expressindia.com/> McKinsey Report on the Indian Middle Class, May 3, 2007

2 Source: Bloomberg, as of February 10, 2009

3 Source: ML Research, India - Emerging Growth Engine of the World, 2007

FIGURE 1 Indian GDP as a Percentage of Market Prices			
Item	FY07	FY08	1HF09 (est.)
Total Final Consumption Expenditure	68.4	67.1	68.4
(i) Private Final Consumption Expenditure	58.6	57.6	58.9
(ii) Government Final Consumption Expenditure	9.8	9.5	9.5
Gross Fixed Capital Formation	30.6	32.6	33.8
Net Exports	(4.1)	(24.20)	(6.6)
Others*	5.1	0.9	4.4
Real GDP at market prices (Rs Bn)	31,174	33,988	16,790

*Others include change in stocks/valuables and discrepancies.

Together with the country's rising income levels, this demographic assumes enormous importance. While India GDP is at US \$900 billion, its cumulative Purchasing Power Parity (PPP) is almost three times larger, and it now ranks fourth among all nations worldwide⁴.

The "energy" required to sustain India's economic growth at its present high rate depends on this young population, and youth also represents the major resource feeding India's employment pool.

This same group is responsible for greater consumption demand, which indicates a domestic-led model for growth that is shifting away from reliance on any particular country – especially the U.S.

Today the rate of private investment growth is higher than India's consumption rate, although total consumption accounts for a larger percentage of GDP (Figure 1). This higher growth rate in private investment may also lead to more sustained consumption in the future.

Additionally, the ability to integrate Indian human resources into the global economy based on its English-speaking professional population speaks to its potential for developing into a high technology hub for the world at large.

The Indian IT services industry has set the gold standard for high-quality performance in the past decade, and it is likely that this model will extend to areas such as clinical and pharmaceutical research and custom engineering in the future.

4 Source: CIA World Factbook (2007)
 5 Source: Central Statistical Organisation
 6 Source: NASSCOM

This has become a reality due to the high quality of scientists and engineers available through India's anglicized education system. On an annual basis, 380,000 engineers graduate who are both English-educated and highly qualified in their fields.⁵

Taking their cue from high tech companies, global financial services firms, including many well-known Wall Street names, have set up dedicated back offices and processing centers in India, and they continue to utilize Indian research support and analysis as part of their daily operations.⁶

Moreover, world-class global research labs have also launched in India. This has dramatically lowered costs for life sciences companies facing huge economic pressures on basic research and testing in their respective domestic markets.

Increased Infrastructure Spending

Domestic-led growth is also a key factor, as India is expected to spend heavily on infrastructure in 2009 to the tune of US \$77.47 billion.

Public-private partnerships and an acceptance of the Build-Operate-Transfer (BOT) model has encouraged new spending on a variety of projects such as roads, power generation, airports and other types of infrastructure initiatives. In previous years, weak governmental finances meant equally meager resources available for these types of infrastructure initiatives.

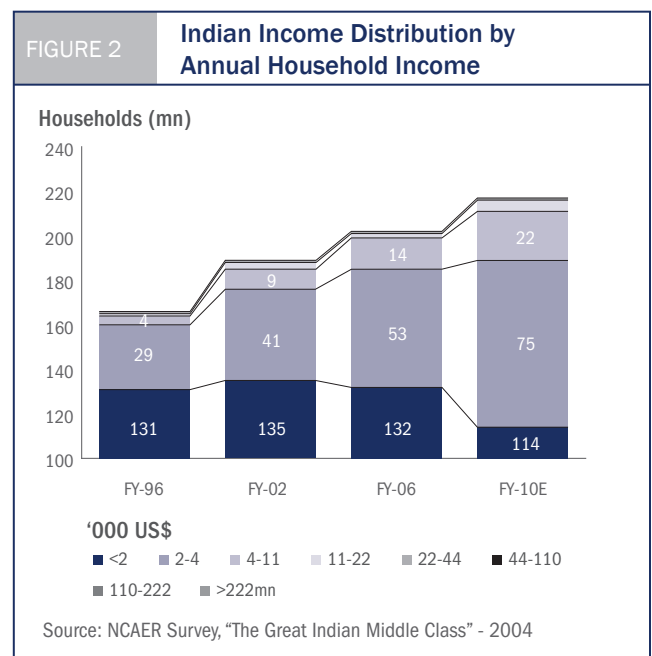
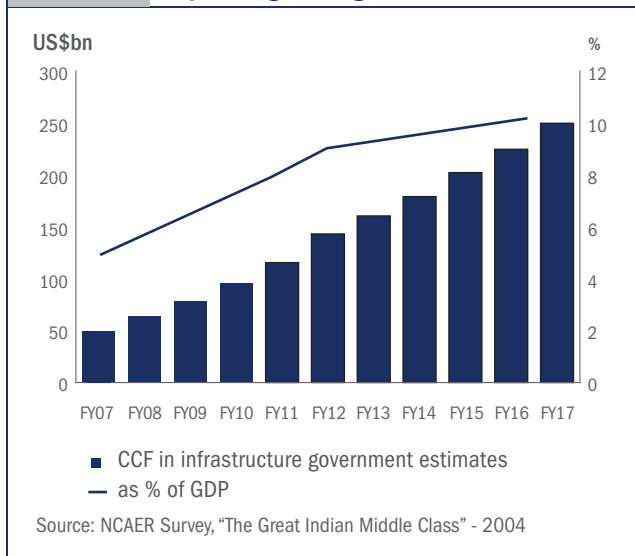


FIGURE 3

India's Estimated Infrastructure Spending Through FY 2017



Although India's current railway infrastructure is complex and extensive, it is also poorly financed and, until recently, relied on governmental funds for its operation.

Additionally, airports have not been modernized, given the increasing level of travel to the country and the expected surge in air passengers over the next several years.

Electrical power is also in short supply across the nation and, except for some urban centers, blackouts and brownouts are a regular occurrence. Costs for power, water and other utilities are also some of the highest in the world.

While the financial crisis currently enveloping the world is impacting the availability of foreign capital at the moment, the long-term importance of India's public-private infrastructure partnerships cannot be overlooked. As part of its recent stimulus package, the government announced a host of additional measures aimed at attracting private capital for high-profile airport, highway and port projects. These actions include authorizing the public-private India Infrastructure Finance Company Limited (IIFCL) to refinance a significant number of longer-maturity bank loans to fund infrastructure projects through sizable tax-free bonds issues.

Positive Global Outlook

Steady, sustained measures have been taken to integrate India's economy into a globalized environment. However, more is needed to modernize the financial infrastructure. India's rupee currency is de facto pegged

to the U.S. dollar on a Real Effective Exchange Rate (REER) basis, whereby the dollar represents the largest percentage of currency in its trade basket.

At the moment, India has only current account convertibility, which means that importers and exporters are free to import and export goods—or receive or make payments for services rendered.

However, investment and borrowing is restricted, because those who need to exchange money cannot freely move from local currency into foreign currency and back. Additionally, there are limitations for Indian citizens on holding foreign exchange currency while traveling abroad.

While this backdrop ensured that the country was not heavily exposed to the Asian crisis during the current decade, it is now a key focus of the country's continuing reform agenda.

India is also continuing its ambitious, decade-long program to rationalize trade levies and bring them in line with Association of Southeast Asian Nations (ASEAN) levels.

However, India's effective barrier of 10%⁷ is still seen as protectionist. Much has been accomplished in just a few years, including decreasing tariff levels, which represents a dramatic change from levels that were prevalent in India even a few years ago.

These developments also underscore the fact that India is increasingly ready for two-way trading. While crude oil continues to represent the largest segment of India's imports, capital goods also represent a significant component.

Additionally, thanks to increasing deregulation and an existing pool of skilled labor available domestically, the Indian automobile component sector and automotive goods manufacturers have transformed the country into a manufacturing hub for high-quality global products. In fact, India is on its way to becoming the small-car manufacturing center for the world, and other industries may well follow.

Telecommunications: Untapped Growth Potential

It is interesting to note how India's present demographics impact certain high-profile sectors. In telecommunications, for instance, India now has a

⁷ Peak custom duty for non-agricultural items, India Union Budget FY2006-07 documents

FIGURE 4 India's Wireless Teledensity Compared to Other Countries	
Country	Wireless Teledensity (%)
Italy	148
U.K.	129
Germany	115
Russia	115
Spain	111
Australia	105
U.S.	88
France	86
Japan	85
Thailand	83
Malaysia	77
Canada	65
Korea	57
Pakistan	48
China	42
Indonesia	40
India	23

Source: Merrill Lynch Telecom Report, 3Q 2008.

higher number of cell phone (mobile) subscribers than the U.S., and yet these subscribers represent only 22% of the total population.

Today, Indian telecom services penetration is still very low, and there is tremendous opportunity for additional cell phone subscribers in the years to come.

With the blistering pace of new subscriptions expected to continue for several more years, India's Department of Telecommunications has targeted reaching a total of 600 million users in the next five years. The lack of earlier fixed-line availability, as well as the steeply falling costs of building wireless networks, has ensured that Indian telecom operators are unburdened by high capital costs and are faced with a virtual sea of younger users waiting to become subscribers.

Even at one of the lowest costs of air time in the world (Average Revenue Per User is US \$6-7⁸ per month), Indian telecommunications companies enjoy healthy EBITDA margins.

Even global cell phone manufacturers, such as Nokia, have established dedicated Indian manufacturing plants to support manufacturing handsets for sale within India. Recently, the company has also created a massive supply chain that can even service the needs of other high technology users beyond Nokia.

Automotive: Driving Opportunities

Averaging only six cars per 1000 people, India's automotive penetration is also one of the lowest in the world, presenting yet another sizable opportunity. This figure compares to 545 for Germany and 482 for the United States (Figure 5).

One reason for this trend is the country's poor record for spending on its highways and road networks. As a result, these critical arteries are of substandard quality, although that situation is changing. A higher level of technology penetration in manufacturing has also given rise to India's high quality automotive- and machine-component outsourcing opportunities now.

As Europe slowly cedes its metallurgical edge to manufacturing Asia, India is poised to grab a share of this lucrative market. The high quality of custom engineering and lower personnel costs make India one of the most promising areas for developments in this industry.

Bharat Forge, Sundaram Fasteners and Rico Auto are just a few of the companies that are already exporting auto components to Original Equipment Manufacturers (OEMs) that include the Big Three automakers in the U.S., as well as companies in Europe. The burgeoning domestic auto industry also sources high-quality parts from local vendors for Japanese and Korean OEMs.

Fiscal and Tax Considerations

The tangled nature of the government's finances is the primary reason for India's past severe underinvestment in infrastructure and other high-profile priorities. A high deficit matched to a high domestic interest rate ensured that the central government was always waging an uphill fight to balance its books. High taxation levels that led to widespread tax evasion, as well as poor governance of individual companies, further compounded the problem.

However, heartening progress has occurred on this front. Production taxes and customs duties have been steadily reduced over the past few years and, although lower than ASEAN levels, show significant improvement over time.

Personal income and corporate tax levels are now comparable with other nations, and tax revenues have swelled to record levels. Sustained high GDP growth has also contributed to the health of the government's overall finances.

⁸ Source: Cellular Operators Association of India

FIGURE 5 Individual Automobile Ownership by Market	
Country	Passenger cars per 1000 people
Canada	561
Germany	545
Italy	545
France	494
Australia	492
U.S.	482
Spain	454
U.K.	439
Japan	432
Malaysia	222
Korea	214
Russia	139
Thailand	28
India	6

Source: Development Data Group, The World Bank, 2006. 2006 World Development Indicators Online. Washington, DC: The World Bank. Available at <http://publications.worldbank.org/> <http://earthtrends.wri.org>

Current infrastructure spending has also increased India's overall revenue through licensing fees (such as those for implementing 3G in the telecom sector); revenue-sharing through Build-Operate-Transfer (BOT) partnerships; and decreased real outlays from government coffers. All these factors have reduced fiscal strain across the board.

The biggest contributor to government finances in the next few years will be from the service tax, which is levied across a wide range of service categories, including intellectual property, telecommunications, stock brokering, general insurance, market research agencies and consulting.

Dating back to the time when India attained independence from Great Britain in 1947, no taxes were associated with agriculture—in fact there still are none. Historically, very high taxes were imposed on manufacturing, and none were attached to services.

The picture has now changed, and services presently contribute 9% of total tax revenue for the central government, income taxes 18% and the rest derives from various indirect taxes and levies.

With the new 12.5% service tax following the Finance Act of 1994, Indian public finances should see a dramatic change for the better.

Lower interest rates in the economy have also ensured a substantial reduction in the cost of government debt.

FIGURE 6 Tax Rates by Country			
Country	Income Tax		VAT
	Corporate	Individual	
Brazil	34%	15%-27.5%	17-25%
China	25%	5%-45%	17%
Cyprus	10%	20%-30%	15%
Czech Rep.	21%	15%	19%
Germany	30%-33%(effective)	15%-45%	19%
Gibraltar	33%	0%-40%	-
Greece	22%/25%	0%-40%	19%
Hong kong	17.5%	2%-17%	-
Hungary	16%	18% and 36%	20%
India	30-40%	10%-30%	12.5%
Indonesia	10-30%	5%-35%	10%
Ireland	12.5%	20%-41%	21%
Israel	27%	10%-47%	15.5%
Luxemburg	22%	0%-38%	15%
Malta	35%	15%-35%	18%
Mexico	28%	0%-28%	15%
Pakistan	35%	0%-25%	15%
Philippines	35%	5%-32%	12%
Poland	19%	19%-40%	22%
Portugal	25%	0%-42%	21%
Romania	16%	16%	19%
Russia	24%	13%	18%
Thailand	30%	5%-37%	7%
Turkey	20%	15%-35%	18%
U.K.	30%	0%-40%	17.5%
Ukraine	25%	15%	20%
U.S.A.	15-35%	15%-35%	-

Source: <http://www.worldwide-tax.com/index.asp#partthree>

Moreover, in the first few years of the present decade, the direct costs (interest paid), as well as the indirect costs, for government-sponsored savings and pension plans were brought down to levels more in line with the broad market trend in interest rates.

The combined impact of better governance, lower taxation levels and surging growth delivered a primary surplus for the current year, which proved to be a welcome surprise. Higher real estate prices also buoyed the normally beleaguered state government finances to a certain extent. For the first time in many years, the Indian finance ministry has presented deficit numbers that look manageable.

While internal indebtedness will probably characterize India's public finances for the next decade or so, there will be fewer negatives associated with high, inflexible interest rates, compared to the past.

INDIA'S DYNAMIC FINANCIAL SECTOR

Vibrant equity, debt markets and prudent banking norms are supported by liberal, progressive policies

- With a network of 70,000 branches, India's healthy banking system is among the largest in the world.
- NPA levels of banks in India are among the lowest of the emerging nations.

India has a transparent, high-technology-enabled and well-regulated stock market defined by the most modern, nationwide, on-line screen-based trading system (SBTS); a T+2 rolling settlement system.

- With the largest number of listed companies – 6000 across 23 Stock Exchanges – India also has the third-largest investor base in the world.

Strong Banking Sector

Capital adequacy ratio*	13% (well over 9% regulatory min)
Total bank deposits*	23% increase in 2007-08
Total bank advances*	25% rise in lending in 2007-08

*Source: RBI report on profile of banks 2007-2008, analysis of results between 2006-2007 and 2007-2008

With the opening up of more sources of capital, the pressure on domestic interest rates is likely to ease over the next few years, regardless of the current liquidity crunch.

Fortunately, we do not see high double-digit interest rates returning and remaining, as they have in the past. However, global fears of inflation and the downstream impact on Indian rates cannot be entirely denied, and this will ensure some pressure in the interim.

Moreover, the recent Nuclear Suppliers Group (NSG) waiver that allows India to trade commercially in nuclear technology and materials signals further cooperation between the U.S. and India. This may lead the U.S. to invest in business opportunities in India's nuclear industry, together with other member countries of the NSG.

Changing Debt Markets

For the first time in India's recent history, the central government indicated that it may gradually reduce all borrowing in the near future. This is particularly surprising because the country's higher domestic interest rates were primarily caused by the government historically being the largest borrower in the market.

This new debt-market scenario has raised the possibility that stable domestic interest rates could be a possibility in the near future.

Unfortunately, the immediate horizon may be clouded because the central government has announced a large pay increase for its employees, in addition to a large farm-loan waiver. However, tax revenues may remain buoyant in the face of projected growth and have longer-term, positive implications for government finance in general.

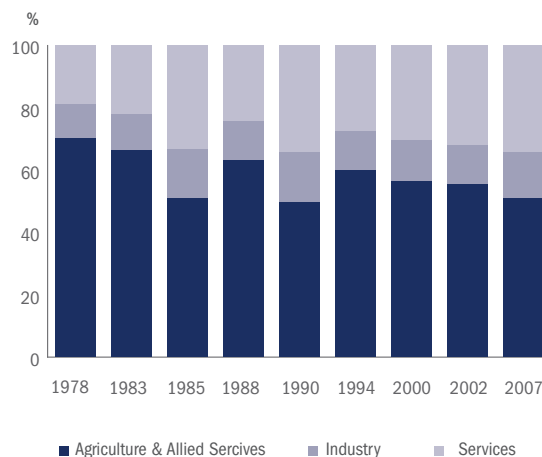
The biggest takeaway in India's debt markets is the fact that the government is interested in developing the aforementioned public-private investments in infrastructure development. In all these initiatives, the government retains the rights for revenue sharing and eventual ownership, in exchange for some level of financial support.

Thus far, these Build-Operate-Transfer (BOT) projects have been assigned for roads, airports and ports, and various government authorities are planning massive similar projects. The total infrastructure expenditure for BOT projects is expected to exceed US \$200 billion in the next five years.

Figure 7 shows how private projects can affect India's overall economy in the present and may also offset any slowdown that may occur on a cyclical basis.

Most of these high-profile projects are expected to be completed over the next five years. However, after this period, the government has even more ambitious plans for BOT projects and will almost double their spending in this direction.

FIGURE 7 Employment by Sector



Source: Central Statistical Organisation, Planning Commission, 2008

More importantly, the majority of projects envisioned during this specific time period have achieved their goal of financial closure.

Indian Stock Markets Continue to Modernize

India has a long history of stock markets and public ownership of corporations. The oldest stock exchange in India, The Bombay Stock Exchange (BSE), was established in 1875 and has functioned for all the years since that time. This is in marked contrast with other emerging markets that lack this type of consistent, stable history.

As a result, the Indian stock markets today are some of the most modern in the world. The two principal stock exchanges, the BSE and the National Stock Exchange (NSE), offer a completely dematerialized environment where stocks are traded in electronic form, as opposed to the past physical exchange of securities.

Clearinghouse trades are also settled by the exchange and offer T+2 settlement cycles. The totally terminal-based share-trading format has been in place for just over a decade, without serious disruption of any kind.

Because back-end custody and share-transfer ability are completely integrated, the Indian stock markets can offer complete straight-through processing for all institutional trades. Retail participants can also easily access the markets, although domestic participation remains on the lower side.

Today, India lists more than 7,000 stocks on its two exchanges, with a total of US \$1.3 trillion in market capitalization. Total daily volumes on its spot equity markets vary between US \$4 billion and US \$7 billion in

value. Due to the range of exchange-traded derivative products available, the combined turnover exceeds US \$12 billion on any single day.

In some respects, Indian corporate disclosure and governance is some of the best in the world. With a long history of public ownership and a highly functioning corporate law infrastructure, the Indian stock market offers unique advantages compared to other emerging markets.

Indian equities are listed in markets abroad by way of ADRs and GDRs, which also ensures adherence to Generally Accepted Accounting Principles (GAAP) across the countries in which these securities are listed.

Assessing the Risks

Of course, no market or endeavor is completely free of risk, and India's risks reflect its unique history and investing landscape. Such a complex, diverse country poses challenges even for intrepid investors.

These risks can be classified under five categories:

Political

Although a long-time democracy, India has a parliamentary form of government based on universal adult franchise and a multi-party electoral format. The executive authority is responsible to the people's elected representatives in the Parliament for all its decisions and actions.

The unprecedented and unexpected verdict in India's recently concluded lower house parliamentary elections has resulted in significant positives for both the near term and the long term. It is well known that the past fractious alliance of often ideologically diverse political parties has made the Indian government an exercise in frustration. Now that the election has concluded, a large majority is seen as a precursor to more comprehensive, focused reform initiatives.

The market has already saluted this new political mandate with a 2000+ point rally in the Sensex, the bellwether index of the Indian stock markets, on May 18—an almost 17% rise in a single day.

The market seems particularly euphoric about the expectation of a much more stable central government able to push through reform without the unnecessary wrangling of the previous coalition. While the Congress party will still be leading the coalition of parties making up the United Progressive Alliance (the UPA for short), it

INDIA OFFERS WELL-DEVELOPED PUBLIC EQUITY MARKETS

- The Bombay Stock Exchange is Asia's oldest stock exchange, established in 1875.
- Market capitalization is over USD \$500 billion as of March 1, 2009.
- Foreign Institutional Investor (FII) ownership in the Indian market is 18.1% as of June 30, 2008 (based on the BSE 200).
- Average cash and derivative daily turnover is approximately USD \$12 billion.
- Large players include foreign portfolio investors, state-owned insurers, mutual funds and wealth management companies.

PRESENT CHALLENGES TO OVERCOME

1. Lack of single-political-party leadership is impacting new policy implementation.
2. Slow pace of regulatory reforms limits progress.
3. Agriculture yields remain low.
4. Rising domestic debt continues to drag on the economy.
5. Greater speed of construction is required to meet the increasing pace of infrastructure investment.

now wields the ultimate bargaining power. This is unlike earlier terms, when the Congress party had to bow to the whims of its political partners.

The government has also made some initial noises about further deregulation, especially in the energy and infrastructure sectors. Although the fiscal deficit is still a cause for concern, easing global liquidity and a sense that the “worst is over” indicates that the situation may not deteriorate from here. Interest rates domestically are heading lower, and so is inflation, although a return to growth may mean an increase in both.

Overall, we believe a higher re-rating for the India market is warranted at this time, especially based on the market valuations prior to the elections. While the actual pace of reform will determine the eventual outcomes, the market’s positive direction is sending positive signals in the interim.

Regulatory

India is a country that has long been famous for draconian legislation and complex regulation. A concerted effort to untangle and deregulate the landscape has been ongoing for the past several years, but success has been uneven.

While deregulation has increased across sectors at a brisk pace, micro-management and a tendency for Indian regulators, legislators, and even Supreme Court judges, to pontificate has been the subject of frustration.

This is especially true in the telecom sector, and the government’s “now-you-have-it-now-you-don’t” policy towards various wireless telecom companies in the past has created many upheavals in capital investment plans. Certainly, the ad-hoc, idiosyncratic nature of most national regulations is a significant risk for many business operations in India. However, there has been considerable progress compared to just a few years ago.

Economic

India has experienced difficulties servicing its domestic debt for many years. Even if its external debt situation is considerably better than many other emerging markets, the domestic debt burden is now rising at alarming proportions. In the past, this has led to monetization and spiraling inflation.

Today, rising tax revenues and innovative sources of revenue have energized the government’s financing options. The introduction of the service tax and the general expansion of the tax base—coupled with greater compliance and oversight—has been one of the recent success stories.

Yet the current landscape, India’s national deficit, and the structural weakness of the trade balance, remain a drag on the economy as a whole.

Interest rates in the domestic economy have always been higher due to the high fiscal deficit and the constant borrowing undertaken by the government itself. With a fundamental change in the revenue structure, this burden has been eased somewhat, but India has still not achieved total fiscal prudence. The Fiscal Responsibility and Budget Management (FRBM) Act has gone a long way toward reducing the risks, but greater progress is anticipated ahead.

Infrastructural

In order for India to continue its pace of industrial and broad economic growth, establishing a world-class infrastructure is essential. While significant reform related to introducing public-private partnerships in this area has succeeded, the pace of actual building has been slower than originally hoped.

These missteps may result in other countries, such as China, Vietnam and the Philippines, enjoying a competitive advantage while India “plays catch-up.” The higher effective costs of a country with poor infrastructure also affect the longer-term attractiveness of the country as a whole.

Indian Agriculture

No discussion of India would be complete without a description of the country’s agricultural tradition and outlook. After achieving independence in 1947, India found 70% of its GDP was based on agriculture and, at that time, roughly the same number of people were employed in this sector.

Currently, agriculture only contributes 18% to the total GDP of the country, while the percentage of the population still involved directly or indirectly in agriculture remains sizable.

The continuing migration of rural populations into the cities has caused this trend to change somewhat, but it is still out of synch with its contributions to the country's financial future. Unfortunately, India agriculture yields still remain some of the lowest in the world.

One reason is that the government has underinvested in agriculture for generations, and so farmers have relied on traditional means of production. Compounding this problem, farmers' low literacy rates and the fragmented nature of land holdings contribute to less-than-optimal yields per acre, compared to many countries that are large agrarian producers.

Lack of proper irrigation and the seasonal nature of the monsoons also ensure that it is difficult to harvest multiple crop yields from the same fields. While 28.9% of the arable land is irrigated, much more still needs to be done.

The government has instituted various result-oriented initiatives aimed at increasing the land acreage under cultivation, as well as providing meaningful employment opportunities for the large numbers of people involved in agriculture.

FIGURE 8		Indian Agriculture and Contribution to Real GDP (2006-2007)			
Sectors	Contribution to Real GDP (%)	Employment (%)			
Agriculture and Allied Services	18.5	51.6			
Industry	19.5	14.43			
Services	61.9	33.98			

Source: Central Statistical Organisation, Planning Commission

Staples Production Continues to Increase					
(Million Tonnes)	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Rice	88.5	83.1	91.8	93.4	95.7
Wheat	72.2	68.6	69.4	75.8	76.8
Coarse Cereals	37.6	33.5	34.1	33.9	39.7
Pulses (Peas, Beans and Lentils)	14.9	13.1	13.4	14.2	15.2
Total Foodgrains	213.2	198.4	208.6	217.3	227.3
Total Oilseeds	25.2	24.4	28	24.3	28.2
Sugarcane	233.9	237.1	281.2	355.5	344.2
Cotton*	13.7	16.4	18.5	22.6	23.2
Jute and Mesta**	11.2	10.3	10.8	11.3	11.5

*Million bales of 170 kg each. ** Million bales of 180 kg each.
Source: Ministry of Agriculture, Government of India

OVERVIEW OF INDIA'S BHARAT NIRMAN RURAL MODERNIZATION PROGRAM

- Every village will be provided with electricity.
- Every area of habitation over 1000 population and above (500 in hilly and tribal areas) will be provided with an all-weather road.
- Every area of habitation will have a safe source of drinking water.
- Every village will be connected by telephone.
- 10 million hectares of additional irrigation capacity will be created by 2009.
- 6 million houses will be constructed for the rural poor by 2009.

Some of the recent initiatives include Bharat Nirman, a time-focused business plan directed at improving irrigation, road, rural housing, rural water supply, rural electrification and rural telecommunication connectivity.

While this ambitious agenda is not new, the Bharat Nirman effort focuses on aggressively meeting these goals and making the program deadline-oriented, transparent and accountable. The government has already approved the finances required for the program of about Rs 48,000 crores (US \$22 billion), which is available through legally approved, national budgetary allowances.

Much progress towards each goal has already been achieved, which will contribute meaningfully to a more inclusive growth model for India's future. In fact, despite the continuing negative forces still at work in India's agricultural arena, the country produces large quantities of agricultural goods and is the leading producer of many agricultural staples (Figure 9).

Conclusion

Because of these far-reaching political, economic and agricultural changes, India continues to emerge as a formidable global player, although its future will undoubtedly be marked by multiple challenges. In the meantime, the large-scale positives appear to far outnumber the risks along the way, and the present top-down view looks strong.

As India continues to distinguish itself as one of the fastest growing economies in the world in the next decade, there are solid opportunities to benefit from sizable gains over the next 3 to 5 years.

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