EXIMIUS: EXPORT ADVANTAGE

September 2005

EXPORT-IMPORT BANK OF INDIA
Visit us at www.eximbankindia.com

A Quarterly Publication

In this issue

Resurgence in the LAC Economies and Buoyancy in Indo-LAC Trade

In 2004 the Latin America & Caribbean (LAC) region registered its best growth performance since 1980. The economies in the region are estimated to have grown by 5.5%, with all except Haiti registering positive growth rates. Growth was primarily led by exports and investments. Private consumption also rose in the year, aided by lower interest rates in the region in general. The export sector benefited from strong global demand matched by high commodity prices. Investments also remained strong in an environment of depressed global interest rates.

The major economies in the region registered improved performances in 2004. Brazil registered a real GDP growth of 5.2% in 2004 compared to a marginal 0.5% growth in 2003. Growth was fuelled by booming exports and strong consumer demand. Recovering from a cumulative output drop of 20% in 2002-03, the maximum growth rate of 17.3% in the region was recorded by Venezuela, which gained from high international fuel prices and expansionary fiscal and monetary policies. Summary of the key economic indicators of the major economies in the LAC region is provided in **Chart 1**.

Exports, which played a crucial role in the economic upswing of the region, are estimated to have grown by 24% to US$ 431 bn in 2004. High global prices of fuel, metals like copper and silver, and agricultural commodities like coffee, soyabean, wheat and cocoa, boosted export growth. Export growth was particularly strong in Chile (50% rise), Venezuela (46% rise) and Brazil (30% rise). Imports also grew at an equal pace to US$ 357 bn in the year. Imports rose by 60% in Argentina, 55% in Venezuela and 28% in Brazil. In recent years, China has emerged as an important trading partner of Latin America.

Inflation declined for the second consecutive year in many countries in the region. Inflation targeting along with more flexible exchange rate regimes helped in keeping domestic inflation in check. Though inflation in Venezuela is still high, nevertheless, it has declined considerably compared to the recent past. Certain countries like Brazil, Mexico, Chile increased interest rates with a view to contain inflation. Particularly, in Brazil inflation targeting resulted in currency appreciation which prompted the central bank to heavily intervene in the foreign exchange market with a view to achieve higher exports and economic growth. In contrast, in Argentina real interest rates have been consciously kept below zero to provide substantial supply of liquidity.

In recent times, the currency regimes in the LAC region have become more flexible, with the exception of Venezuela, which has pegged its currency to the US dollar. With high commodity prices, sharp rise in the region's term-of-trade and weakening of the US dollar, several currencies in the region appreciated with respect to the dollar in 2004. However, considering the strength with respect to a basket of currencies, the trade-weighted real exchange rates of many countries weakened in 2004. This was particularly prominent in countries such as Argentina, Venezuela and Peru.

Growth in 2004 was also propelled by higher investments. Net foreign direct investment rose by around 34% in 2004 to an estimated US$ 39.5 bn, with the major recipients being Mexico, Chile, Brazil, Colombia, Argentina, Trinidad & Tobago and Peru. Also, taking advantage of the low interest rate regime, the LAC economies managed to raise nearly US$ 10 bn from global bond markets.

Growth in the region is expected to slowdown to around 3.9% in 2005 with moderation in global growth influencing LAC's exports. Moreover, with interest rates tending upwards in US as well as in other industrial markets, capital inflows would be restricted in the LAC region, which would further limit economic growth. Nevertheless, Argentina, Chile and Venezuela are expected to grow over 5% in 2005.

India's Trade with LAC increased sharply in 2004-05

India's exports to the LAC region amounted to US$ 2.08 bn in 2004-05, sharply increasing by 85% over US$ 1.13 bn in the previous year. Imports also experienced a robust growth of 63% to reach US$ 1.90 bn in 2004-05 compared to US$ 1.16 bn in 2003-04. As a consequence, total bilateral trade increased by over 70% and reached almost US$ 4 bn in 2004-05, clearly the best performance in recent years.

The upsurge in exports can be attributed to the considerable rise in exports to all the major destinations in the LAC region. However, notable among them were the 138% rise in case of Brazil, 241% rise in case of Colombia, 105% rise in case of Argentina and 223% rise in case of Venezuela **(Chart 2)**.

Brazil continued to be the top export destination for India in the region with total exports of US$ 657.4 mn. Although exports increased to most of the countries, it dipped in case of Panama and Costa Rica.

Chart 1: Summary of Economic Performance of Select LAC Economies in 2004

Country	GDP Growth (%)	Inflation* (%)	Exports (US$ bn)	Imports (US$ bn)	FDI, net (US$ bn)
Argentina	9.0	6.1	34.1	20.9	1.8
Brazil	5.2	6.1	95.0	62.0	7.1
Chile	6.1	2.4	31.6	22.4	7.2
Colombia	3.9	5.6	16.4	15.5	2.2
Mexico	4.4	5.5	189.0	195.2	13.5
Peru	4.5	3.5	12.3	9.7	1.3
Venezuela	17.3	19.2	39.2	16.0	0.6

*Note: all figures are estimates; *: consumer price inflation at the end of 2004*
Source: Institute of International Finance, United Nations Economic Commission for LAC

Chart 2: India's Trade with Major LAC Countries (US$ Mn)

Sl. No.	Exports to:	2003-04	2004-05	% Change
1	Brazil	276.4	657.4	137.9
2	Mexico	265.1	353.0	33.2
3	Colombia	95.6	325.6	240.7
4	Argentina	87.6	179.1	104.6
5	Chile	83.2	105.2	26.3
6	Venezuela	21.2	68.4	223.1
7	Peru	38.1	65.9	72.9
8	Panama	54.7	52.6	-3.8
9	Guatemala	26.4	35.0	32.5
10	Trinidad and Tobago	19.7	27.6	40.1
Sl. No.	**Imports from:**	**2003-04**	**2004-05**	**% Change**
1	Brazil	314.4	763.6	142.9
2	Argentina	525.4	516.5	-1.7
3	Chile	157.2	343.3	118.4
4	Panama	8.0	90.4	1028.2
5	Mexico	74.1	79.3	7.0
6	Costa Rica	25.7	34.0	32.5
7	Peru	30.0	32.9	9.7
8	Ecuador	5.9	22.1	277.8
9	Colombia	10.5	14.0	33.5
10	Trinidad and Tobago	7.4	10.7	45.4

Source: DGCIS, Ministry of Commerce & Industry

In case of imports from the region, Brazil overtook Argentina to become the number one source with total imports amounting to US$ 763.6 mn in 2004-05. This was possible because of a 143% rise in imports from Brazil. Imports from Argentina declined marginally in 2004-05. Imports also rose heavily from Chile (by 118%), Panama (1028%) and Ecuador (278%). Brazil, Argentina and Chile, the top three sources of imports from Latin America, accounted for 85% of total imports from the region.

Petroleum products have emerged as the top export item to the LAC region. In 2004-05, it was the number one export item of India in case of Brazil (US$ 295.6 mn or 45% of total), Argentina (US$ 62.7 mn or 35% of total) and Colombia (US$ 162 mn or 50% of total). Pharmaceuticals & fine chemicals are also exported in large quantities to the LAC economies. In 2004-05, exports of the same to Brazil was US$ 102.7 mn, to Argentina was US$ 23.6 mn, to Chile was US$ 9.4 mn and to Mexico was US$ 57.4 mn, while for Venezuela it was US$ 15.7 mn. Another important export item to the LAC countries is transport equipment. In 2004-05 exports of the same was particularly high in case of Mexico (US$ 101.5 mn) and Colombia (US$ 62.9 mn). India's other major exports to the region include manmade yarn fabrics madeups, plastic & linoleum products, organic/inorganic/ agrochemicals and machinery & instruments.

India imports large amounts of vegetable oils from the LAC region. In 2004-05, it accounted for 85% of total imports from Argentina (US$ 441.5 mn), and 22% of total imports from Brazil (US$ 164.3 mn). Other major imports from Brazil were sugar (US$ 188.7 mn), organic chemicals (US$ 144.2 mn), and metalliferrous ores & metal scrap (US$ 58.3 mn). Metalliferrous ores & metal scrap was the largest import item from Chile accounting for 88% of total imports from the country (US$ 300.8 mn). India's import basket from Mexico mainly comprised electronic goods (US$ 21.9 mn), medicinal & pharmaceutical products (US$ 16.7 mn) and organic chemicals (US$ 8.2 mn). The sharp rise in imports from Panama in 2004-05 was mainly on account of increase in imports of transport equipment, which accounted for 86% of India's total imports from the country.

Buoyancy in Exports Sustained in 2005-06

As per latest available figures, the buoyancy in exports achieved in 2004-05 has been sustained in the first three months of 2005-06. During April-June 2005-06, India's exports to Latin America and Caribbean region increased by 62% to stand at US$ 634.48 mn compared to that of US$ 391.69 mn recorded in the same period of the previous year. Exports to Brazil continued to remain robust in this period with total exports increasing by over 88% to US$ 276.46 mn. Exports to Argentina have also more than doubled to US$ 48.57 mn in this period. However, comparing the first three months of 2005-06 with that of 2004-05, imports from the region have registered a modest rise of 5% to US$ 409.55 mn. The modest rise has been possible however, due to over 100% rise in imports from Brazil.

Website on Doing Business With Latin America (www.businesswithlatinamerica.com)

A website on doing business with Latin America was launched on August 26, 2005 in New Delhi by the Ministry of External Affairs in an event jointly organised by Export-Import Bank of India and the Confederation of Indian Industry. The objective of the website is to motivate the Indian business community in exploring the opportunities in the Latin American markets through dissemination of useful commercial information.

The website gives links to various articles, related to the LAC region. Moreover, a wide gamut of useful economic and business links are provided in the website including contact particulars of Indian missions in the region. The section on Indo-LAC Business covers bilateral trade information, FOCUS LAC programme, Exim Bank's Lines of Credit in the region among others. The country profiles presented in the website give concise overview of the economy as well as trade & industry contacts for respective countries. Useful travel tips and maps are also made available in the website. Information about latest developments in the region as well as bilateral trade & investment could be availed from the "What's New" section of the website. The "Business with India" section has been incorporated in the website with a view to introduce the Indian market to the business community of the LAC region.

The website also gives access to the book titled "*Business with Latin America*" authored by Mr. R. Viswanathan, Joint Secretary, Ministry of External Affairs. The book apart from presenting an overview of the LAC region, focuses on six major markets, viz. Brazil, Argentina, Mexico, Chile, Colombia and Venezuela. It also delineates the prospects for Indo-LAC business highlighting the institutional mechanisms in place.

Business Opportunities Update: Upcoming Projects

Select opportunities for Indian exporters in upcoming projects around the world funded by multilateral funding agencies such as World Bank (WB), Asian Development Bank (AsDB), African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) are given alongside.

Interested exporters need to contact the concerned Executing Agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai would be glad to be of help, if you keep us advised. Please contact **Ms. Samantha Peters** on Tel: 22185272 Extn: 2313.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Kazakhstan/ Kazakhstan Electricity Grid Operation Company, Contact : Mr. Sergey Katyshev, Head of PMU Tel : (7-3272) 682730 Fax : (7-3272) 680218 Email : katyshev@kegoc.kz	**North-South Electricity Transmission Power Project /** The objective of the project is to ensure that business enterprises and households in the power-deficit southern region have adequate access to reliable, cost-effective and high quality electricity through the new North–South Transmission Line.	World Bank US$ 100 mn
Indonesia/ Ministry of Public Works, Contact: Mr. Patana Rantetoding, Director General of Urban and Rural Development, Tel: (62-021) 71796158 Fax: (62-021) 72796155	**Urban Water Supply and Sanitation Project /** The objective of the project is to improve water supply services by strengthening local water utilities to become operationally efficient and financially sustainable.	World Bank US$ 80 mn
Eritrea/ Ministry of Public Works, Department of Infrastructure, Contact: Mr. Kidane Berhane, Director General Tel: (291-1) 122477 Fax: (291-1) 120661	**Road Sector Project/** Proposed project will comprise: 1) Building institutional capacity for engineering and financial management, materials testing and quality control 2) Rehabilitating, strengthening and upgrading priority roads, bridges and culverts 3) Implementing a national road safety program	World Bank US$ 24 mn
Poland/ Elektrownia Belchatow S.A. (EBSA), Contact : Mr. Marek Wdowiak, Technical Director Tel : (48) (44) 7353340 Website :www.elb2.pl/pl/konsultacje.html	**Belchatow II Power and Energy Project /** The proposed project consist of construction of a new 833 MW lignite fired unit at an existing 4,440 MW lignite power plant operated by Elektrownia Belchatow S.A. with the modernisation of existing power units, additional fuel gas desulphurisation installations, new waste disposal system and a cooling tower for the new unit.	European Bank for Reconstruction and Development US$ 1400 mn
Romania/ CFR Electrificare, the Romanian Railways Infrastructure Company, Contact: EBRD Procurement & Purchasing Ms. Maurice Lepage, Director, Tel: (44) (20) 73386534 Fax: (44) (20) 73387472 Email: procurement@ebrd.com	**CFR Rail Traction Project/** The proposed project will consist of the following: 1) Purchase of modern catenary maintenance vehicles 2) Upgrading and Rehabilitation of electric traction power supply equipment in the Criaova section of the network 3) Supervision of all works under the project	European Bank for Reconstruction and Development US$ 227 mn

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Sri Lanka/ Road Development Authority (RDA), Contact: Mr. D.G.S. Chandralal, Tel: (94) (11) 2885490 Fax: (94) (11) 2885490 Mr. Sri Widowati, Project Officer, Transport and Communications Division, SARD Email: swidowati@adb.org	**National Highways Sector Project/** The main objective of the project is to improve transport efficiency by 1) Enabling the RDA to manage the National Highway network 2) Upgrading and increasing capacity of about 270 km of key national highways 3) Supporting the Government's efforts in acquiring land of about 80 km for future development, and 4) Piloting performance based maintenance contract	Asian Development Bank US$ 105 mn
Bangladesh/ Bangladesh Water Development Board, Contact: Mr. Sharif Rafiqul Islam, Director General Fax: (880) 29564763	**Southwest Area Integrated Water Resources Planning and Management/** The project will enhance productivity and sustainability in about 10,000 hectares in the northern Southwest sub-region of Bangladesh.	Asian Development Bank US$ 28 mn
Burkina Faso/ Health Care Development Authority, Contact : Project Implementation Unit, 03, P.O. 7009, Ouagadougou 03, Tel : (226) (50) 324163 Fax : (226) (50) 362464	**Health Care Development Project /** The objective of the project is to improve access to as well as quality and utilisation of health services of Central, Eastern and Northern regions of Burkina Faso.	African Development Bank US$ 36 mn
Kenya/ Ewaso Ng'iro North Development Authority, Contact: Project Implementation Unit, P.O. Box 203, Isiolo, Kenya. Tel: (254) 6452002 Fax: (254) 6452507	**Ewaso Ng'iro North Natural Resources Conservation Project/** The project comprises the following components: 1) Water Resources Development and Management 2) Participatory Catchments Conservation 3) Project Coordination and Capacity Building	African Development Bank US$ 20.53 mn

CONTRACT AWARDS

Select contracts secured by Indian companies:

Global Procurement Consultants Limited (GPCL), Mumbai	Advisory services to be rendered to the procurement staff, to prepare customised bidding documents, procurement plan and notices, review evaluation reports, technical proposals evaluation and the final evaluation report of the Bam Earthquake Emergency Reconstruction Project (BEERP) in **Iran**, funded by **World Bank**
Deloitte Touche Tohmatsu, Baroda	Consultancy services to support Audit Operations and Capacity/Building of Control and Audit Office in Afghanistan, for the Third Public Administration Capacity Project in **Afghanistan**, funded by **World Bank**
Vijai Electricals Ltd, Hyderabad	Contract for the supply of 25 kVA, 3- phase CSP transformers, IC – 5 for the Transmission Development Project in **Nigeria**, funded by the **World Bank**
Saw Pipes Ltd, New Delhi	Contract for the supply and delivery of coated line and corrosion coated casing pipes, for the Dhaka Clean Fuel Project in **Bangladesh**, funded by the **Asian Development Bank**
Tata International Ltd, Mumbai	Contract for the supply of minibus for transportation in Dakar area, for the Urban Mobility Improvement Program Project in **Senegal**, funded by the **African Development Bank**

Trends in Global Export of Services

Global exports of services have witnessed a sharp rise in recent years, registering a growth of 19.1% in 2004, as compared to a growth of 12.9% during the previous year. In fact, the growth rate in services exports during 2004 was higher than that registered by merchandise exports (18.7%). From US$ 1.56 trn in 2002, global services exports rose to US$ 1.76 trn in 2003, and further to US$ 2.1 trn in 2004 (**Table**).

While developed countries continue to dominate global services exports, an analysis of the trend since 2000 would attest to the declining share of key economies such as the US, France, Japan, Belgium, and Canada. Among the developing countries, China and India are increasingly emerging as major service exporters. In the case of China, its share in global services exports has risen from 2.0% in 2000 to 2.8% in 2004, while in the case of India the share in global services exports has also risen from 1.2% to 1.5% during the same period. In absolute terms, China's services exports rose from US$ 30.1 bn in 2000 to US$ 58.9 bn in 2004, while India's services exports also rose from US$ 17.5 bn to US$ 32.2 bn during the same period. While substantial earnings from the tourism sector have boosted China's overall services exports, India's services exports have been boosted primarily by the significant rise in software exports, which has risen from US$ 6.2 bn in 2000-01 to US$ 17.2 bn in 2004-05. In the case of Ireland also, which has emerged as an important services exporter with increasing share in global services exports, the computer and information related services sector has underpinned the rise in overall services exports.

Services constitute a major segment of world economies, including developing countries. In India, the share of the services sector in the country's GDP has risen from 48.3% in 1999-2000 to 52.4% in 2004-05. The rise in services exports from developing countries in recent years, although from a low base, can be attributed to a number of factors. Comparative advantage in labour-intensive services, technological advancement in telecommunication and computer industries, well-educated and cost-competitive workforce, among others, have contributed to the increasing importance of service exports from developing countries.

Table: Leading Exporters in World Trade in Commercial Services

(% share in global exports)

		2000	*2001*	*2002*	*2003*	*2004*
Rank in 2004	**Global Exports (US$ bn)**	**1472**	**1487**	**1561**	**1763**	**2100**
1	United States	18.8	18.1	17.5	16.0	15.2
2	United Kingdom	7.8	7.4	7.9	7.3	8.1
3	Germany	5.6	5.8	6.4	6.3	6.0
4	France	5.5	5.4	5.5	5.6	5.2
5	Japan	4.6	4.3	4.2	4.0	4.5
6	Italy	3.8	3.8	3.8	4.1	4.0
7	Spain	3.6	3.9	4.0	4.3	4.0
8	Netherlands	3.3	3.4	3.5	3.6	3.4
9	*China*	*2.0*	*2.2*	*2.5*	*2.5*	*2.8*
10	Hong Kong, China	2.6	2.6	2.8	2.5	2.6
11	Belgium *	3.3	3.3	2.3	2.4	2.4
12	Austria	2.1	2.2	2.2	2.3	2.2
13	Canada	2.6	2.5	2.3	2.2	2.2
14	*Ireland*	*1.1*	*1.6*	*1.8*	*2.0*	*2.2*
15	Korea	2.0	1.9	1.7	1.8	1.9
16	Sweden	1.4	1.5	1.5	1.8	1.8
17	Denmark	1.6	1.7	1.7	1.8	1.8
18	Switzerland	1.9	1.7	1.8	1.9	1.8
19	Singapore	2.0	1.9	1.9	1.7	1.7
20	Luxembourg	-	-	1.3	1.3	1.6
21	Greece	1.3	1.3	1.3	1.4	1.6
22	***India***	1.2	1.4	1.5	1.4	1.5
23	Norway	1.2	1.2	1.2	1.3	1.2
24	*Taipei Chinese*	*1.3*	*1.3*	*1.4*	*1.3*	*1.2*
25	Australia	1.2	1.1	1.1	1.2	1.2

** 1980 to 2001 figures are for Belgium - Luxembourg*

Note: Commercial Services comprise transportation services, travel, and other commercial services (such as communication, construction, insurance, financial, computer & information, royalty & licence fees, and other business services)

Source: WTO

WTO and Services Sector : Opportunities for India

The emergence of India as one of the fastest growing economies in the world can be attributed to the rapid growth of its service sector. However, India's share was a meagre 1.5% of the total world trade in services, which amounted to US$2.10 trn in 2004. Services sector plays an important role in attracting foreign direct investment (FDI) inflows into the Indian economy.

The General Agreement on Trade in Services (GATS) is the first ever set of multilateral, legally enforceable rules covering international trade in services. GATS negotiations permit India to lock in autonomous domestic policy reforms. Advantage should be taken for obtaining reciprocal concessions from developed countries in sectors and modes of interest to India.

Current negotiations are taking place at a time when this sector is undergoing a profound transformation, which has considerably expanded the tradability of services. They have introduced competition into sectors formerly considered to be natural monopolies (e.g. telecommunications, energy); created additional possibilities for cross-border trade (e.g. business and computer services); and increased private sector participation in services where, in many countries, the public sector had traditionally played a major role (e.g. health, education, environmental services). Service liberalisation would strengthen supply capacities for goods.

India's core objective in the negotiations in trade in services is to induce our trading partners to undertake more liberal commitments in cross-border supply of services (mode 1) and movement of natural persons (mode 4). Cross-border supply of services, especially through electronic mode of delivery, is an area of key interest to India as outsourcing activities are undertaken through this mode of services. With regard to movement of natural persons, developing countries including India have taken up a number of issues such as recognition of qualifications, economic needs tests (ENT), administrative procedures relating to visas, mutual recognition agreements (MRAs), and social security contributions.

India has undertaken extensive commitments in a number of new sectors/ sub-sectors such as architecture, integrated engineering and urban planning and landscape; veterinary; environmental, distribution, construction and related engineering, tourism, education, life insurance, services auxiliary to insurance; recreational, cultural and sporting services and air-transport services.

New commitments have been offered in cross border supply i.e. in mode 1 in a large range of other business; professional; research and development; rental and leasing; real estate services; etc. Under mode 1, the important issues are locking in of autonomous liberalisation, pre-empting protectionism and capturing newer activities under mode 1.

India has made substantial mode 4 initial offer by including all the categories of natural persons like intra-corporate transferees, business visitors, contractual service suppliers and independent professionals.

Benefits from the liberalisation of mode 4 include efficiency gains, enhanced growth, stimulate investment in education, development of skills and human capital. It would also lead to increased remittances particularly for developing countries. Demographic changes in the global economy will also generate demand for mode 4.

Majority of requests on India are in mode 3 either to bind the presently applicable FDI Policy or to offer a more liberal policy. Hence these need to be traded with the opening of modes 1 and 4, given that autonomously many service sectors in mode 3 are already open. It is absolutely essential that effective regulatory frameworks be in place especially for the health, education and social sectors.

The learning from telecom could be usefully applied to health and education. These sectors are already on a track of liberalisation but domestic regulatory capacity has been largely inadequate. The promotion of Universal Service Obligation (USO) may also be a binding constraint and mechanisms to ensure USO need to be worked out. Multi-modal liberalisation will also be beneficial to India. The linkages between various modes illustrates that India's dynamic comparative advantage could relate to all modes.

Foreign service providers could crowd out domestic professional services suppliers. This is because of the given large size of firms in developed countries and lack of viable mutual recognition agreements. It is anticipated that domestic firms would be at a serious comparative disadvantage with respect to foreign providers if access to investment capital were not provided. Although India maybe competitive in most services, its regulatory framework has not fully evolved to market realities.

The major challenge to India in trade in services is adjustment costs. Enormous capital and network of independent organisations are needed to maintain technological advantage, exploit several products simultaneously and economies of scale.

International negotiations can further the benefits that India can obtain from market access in the service sector. Gains would be maximised through both horizontal, across modes 1 and 4, and through sectoral liberalisation. In addition, domestic regulatory improvements and developments in the area of GATS rules could also bring market access opportunities.

Success Story: Shantha Biotechnics Limited

The Hyderabad-based Shantha Biotechnics Limited (SBL), an early entrant into biotechnology in India, pursues its mission in reaching genetically engineered human health care products to the common man at affordable prices with success.

Promoted in 1993 by Mr. K. I. Varaprasad Reddy and HE Yusuf Bin Alawi Abdullah, SBL is an Indo-Omani joint venture. SBL demonstrated its in-house research capabilities by introducing 'SHANVAC-B', a Hepatitis-B vaccine as India's first genetically engineered r-DNA based vaccine after 5 years of intense research. Today, Shanvac-B is widely accepted by the medical fraternity, sourced by UNICEF to meet 40% of its requirement of Hepatitis-B vaccine and supplied to various State Governments' vaccination programmes funded by Bill and Melinda Gates Foundation. With the introduction of Shanvac-B vaccine at an affordable price of Rs. 50/- per dose which is around one tenth of the cost of imported vaccine, SBL is instrumental in reducing the price of imported vaccines substantially.

SBL is a professionally managed company with a staff strength of 580. The Company's Board comprises six members with Mr. K. I. Varaprasad Reddy as the Managing Director and HE Yusuf Bin Alawi Abdullah as Chairman. Its manufacturing facilities are located at Medchal, Hyderabad. SBL has a wholly owned subsidiary Shantha West Inc. (SWI) located in San Diego, USA. SWI is engaged in development of novel therapeutic monoclonal antibodies for the treatment of various types of cancer including non-small cell lung cancer, pancreatic cancer and breast cancer.

SBL has been the first in India to introduce several drugs and vaccines: recombinant human Interferon Alpha-2b (a therapeutic drug for treatment of cancer); Streptokinase drug (primary drug for dissolving blood clots and used as life saving drug in case of acute heart attacks) and combination vaccine of DTP+Hepatitis-B vaccines.
SBL currently holds five process patents and product registrations in 37 countries. SBL contributes to development of biotechnology providing contract R&D services including cloning and express of genes in various host systems, development and characterisation of cell lines, fermentation and purification process development, large scale production of proteins and polyclonal/monoclonal antibodies against desired antigens.

SBL's R&D center is recognised by the Department of Scientific and Industrial Research (DSIR), Govt. of India .
SBL is accredited with ISO 9001 certification and is India's first company to get WHO-Geneva approval as pre-qualified supplier of Hepatitis-B vaccine for United Nations' agencies.
SBL has received several awards and recognition for its innovative work including All India Biotech Award for 'Best invention of the year', DSIR award for 'Best R&D efforts in Industry' and Ernst and Young Entrepreneur of the Year award to Mr. Varaprasad Reddy.

On the financial front, SBL has registered consistent growth over the years with its net sales increasing from Rs. 70 mn in 1997-98 to Rs. 660 mn in FY 2004-05. The exports during the period amounted to Rs. 460 mn constituting 70% of SBL's net sales. Exim Bank's association with SBL has been steady throughout its growth phase. Exim Bank's term finance enabled SBL to set up facilities for manufacture of specialised vaccines and the working capital finance enhanced SBL's export competitiveness. SBL's project under implementation for manufacture of pentavalent vaccine, recombinant plasminogen activator and viral vaccines and setting up of filling suite for viral vaccines has been co-financed by Exim Bank.

The growth plans of SBL include introduction of Tissue Plasminogen Activator, Human Growth Hormone, Rotavirus vaccine, typhoid vaccine, cholera vaccine, HIB vaccine and its combinations with DPT and Hepatitis-B vaccines, MMR vaccine and human insulin. These will further strengthen SBL's resolve of making available human health care products at affordable prices to the common man. In recognition of Mr. Varaprasad Reddy's contribution to the field of biotechnology and human health care sector in the country, Govt. of India conferred the prestigious 'Padma Bhushan' award to him in March 2005.

Chilean Pharmaceutical Market: Opportunities for India

In 2004 total health expenditure in Chile was estimated to be US$ 5 bn with the public sector accounting for half of it. The healthcare sector spending on drugs, medical devices and others amounts to around US$ 275 mn annually and CENABAST is the largest buyer in the public healthcare sector, intermediating 50% of the sector's spending. The Public Health Institute (ISP) of Chile is the apex body responsible for pharmaceutical regulation in the country, particularly registration. In recent times, the institute has been active in implementing Good Manufacturing Practices (GMP) in the Chilean pharmaceutical industry. With a view to meet the challenges facing the Chilean health system, the government has announced the Chilean Healthcare Planning objectives 2000-2010. It aims to reduce health inequalities and meet the needs of ageing population among others. Poverty alleviation is also central to this new reform initiative. The reforms have paved the way for a new healthcare network management with self managed hospitals, modernisation of health systems with IT implementation and opportunities for health training and education. It is also expected that with the reforms in place the demand for pharmaceuticals would also increase in the days to come.

The pharmaceutical market in Chile was estimated to be around US$ 1.1 bn in 2004. Leading market players include companies like LabChile, Recalcine, Saval, Andomaco, Bago, Novartis, Bayer and Abott. The domestic manufactures together account for over half of the market and mainly concentrate on generics. The foreign manufacturers however, focus primarily on branded and OTC drugs. With regard to retail pharmacy, the market is dominated by the presence of three pharmaceutical chains namely, SalcoBrand, Farmacias Ahumada and Cruz Verde. The market is dominated by generic and copycat products. According to an estimate, generic and copycat products together accounted for 80% of the market by volume and 57% by value in 2001. Though generic substitution was not authorised earlier there have been recent developments, which have paved the way for generic substitution subject to the approval of bio-equivalence tests.

With regard to international trade in pharmaceuticals, Chile is a net importer. As per latest available figures, Chile's imports of pharmaceutical products were of the tune of US$ 260 mn in 2002, while exports were around US$ 45 mn. It may be noted that Chile primarily imports finished medicaments, with raw materials and semi-finished medicaments together accounting for one-fourth of total imports. Considering specific products of pharmaceuticals primarily traded by Chile, vitamins & provitamins, vaccines for human & veterinary use, oestrogens & progestogens, penicillins, antisera & other blood factions, erythromycins, antibiotics, hormones etc. form majority of the import basket. It may be noted that India is a major source for imports of erythromycin for Chile having accounted for almost 45% of total imports of the same in 2002. With regard to exports, antibiotics, vitamins & provitamins and hormones form majority of the country's export basket.

Opportunities for India

The Indian pharmaceutical industry is characterised by strong skills in chemistry and low manufacturing costs. Currently, pharmaceutical exports account for around 45% of production in India. However, revenue growth in the coming years is believed to be driven by exports. With the current amount of low penetration in most of the regulated markets and the fact that a number of drugs are going off patent in regulated markets (estimated at around US$ 65 bn as per current sales value), it is expected that there is a significant potential for rise in exports of generic products from India. In this regard, it may be noted that Chilean market has an edge with respect to generic products compared to other Latin American markets. Therefore, there is immense opportunity for collaboration between Indian and Chilean pharmaceutical players in exploring the rising demand for generic products worldwide. Setting up manufacturing bases in Chile would facilitate targeting not only the Chilean market but also the markets of US and EU, taking advantage of the free trade agreements Chile has in place with them. According to an estimate, the US generics market is expected to grow from US$ 12.5 bn in 2003 to US$ 22.5 bn by 2008. Moreover, due to the ageing of the Chilean population, demand for low cost pharmaceuticals are expected to go up, which again brightens the prospect for generic products in Chile.

Given the government's ongoing initiatives in expanding the reach of GMP certifications in Chile, investment in modernisation and upgradation of Chilean pharmaceutical companies are evident. With the ongoing reforms, opportunities also exist in collaborating with Chilean partners towards developing the infrastructure of the Chilean health system, viz. in constructing super speciality hospitals, in training and education, and in enhancing the technological requirements of the health system.

With regard to trading, given a matching in Chile's demand and India's supply capability, initiatives should be undertaken to further enhance the exports of medicaments from India to Chile. Also, with regard to raw materials India should expand its focus from only erythromycin and target other products like vitamins and vaccines.

Opportunities also exist for the Indian contract research firms in exploring the initiative undertaken by the Ministry of Health of Chile in conducting several bio-equivalence tests. Chile recognises the expertise of the Indian contract research and manufacturing firms and therefore, opportunities in this area appear attractive. The Indian System of Medicines, better identified as Ayurveda, also has considerable prospect in Chile as well as in other countries of Latin America.

Exim Bank's Lines Of Credit

Line of Credit is one of the financing mechanisms through which Exim Bank extends finance to support export of goods and services from Indian under deferred payment terms. Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas. The Indian exporters can obtain payment for eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents.

Exim Bank has extended the following LOCs, at the behest of the Government of India, during the quarter – July to September 2005:

- LOC of US$ 26.8 mn to Government of Cote d'Ivoire;
- LOC of US$ 27 mn to Government of Mali;
- LOCs of US$ 27 mn and US$ 60 mn to Government of Ghana;
- LOC of US$ 33.5 mn to Government of Congo D.R.;
- LOC of US$ 50 mn to Government of Chad; and
- LOC of US$ 15 mn to Government of Equatorial Guinea.

These LOCs have been extended under the "Team-9" initiative (Techno-Economic Approach for Africa-India Movement), which has been set up as a regional cooperation mechanism between India and the Governments of Burkina Faso, Chad, Cote d'Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali, and Senegal. Under the "Team-9" initiative, the Government of India provides LOCs through Exim Bank to finance setting up of various projects by Indian companies in these countries. Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods, under the LOCs.

The LOC to **Cote d'Ivoire** has been extended for financing projects, namely renewal of urban transport system in Abidjan with buses to be procured from India, and agricultural projects in the field of vegetable oil extraction, fruits and vegetables, production of cocoa, coffee in Cote d'Ivoire. The LOC to **Mali** is earmarked for financing rural electrification and setting up of agro machinery and tractor assembly plant in Mali. Exim Bank already has in place, a line of credit of US$ 10 mn to the West African Development Bank (BOAD), which can be utilized by the member countries of BOAD, including Cote d'Ivoire and Mali. The LOCs to Cote d'Ivoire and Mali represent a major initiative of Exim Bank to enhance trade and investment relations between India and the West African region.

The two LOCs to **Ghana** have been earmarked for: financing India's exports to Ghana for rural electrification, agriculture, transportation and communication sectors in Ghana; and for rural electrification and a construction of project, respectively. Under the LOCs to Ghana, Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods.

The LOC to **Congo D.R.** has been extended for setting up a cement factory, for acquisition of buses, for rehabilitation of mine of Idsenge Manganese, and for acquisition of equipments for Miniere de Bakwanga (MIBA). Congo D.R.'s real GDP is forecast to grow at 6.5% in 2005 and 8% in 2006. India's exports to Congo D.R. rose substantially by 40% to US$ 86 million in 2004-05 from US$ 61 million in 2003-04, mainly on account of rise in the exports of manmade yarn fabrics madeups, and drugs, pharmaceuticals and fine chemicals. The above LOC would serve to enhance India's trade with Congo D.R.

Exim Bank extended an LOC of US$ 50 mn, at the behest of Government of India, to the Government of **Chad**. Out of this, US$ 24.5 mn have been earmarked for setting up a cotton yarn plant, US$ 11.5 mn for steel billet plant and rolling plant mill, US$ 10 mn for agricultural assembly equipment plant, and US$ 4 mn for bicycle plant. Under the LOC, Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods.

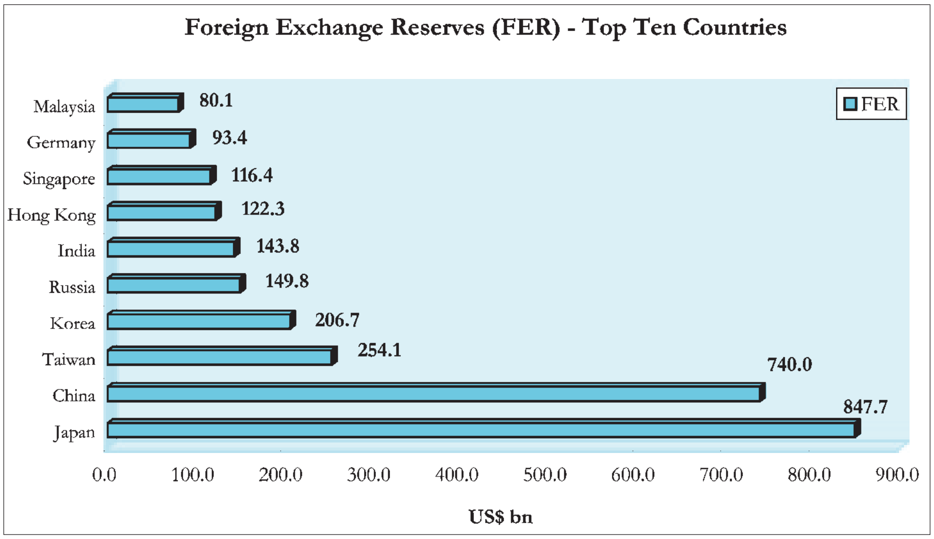
The LOC of US$ 15 mn, extended by Exim Bank to the Government of **Equatorial Guinea**, at the behest of the Government of India, has been earmarked for financing of exports from India for a potable drinking water plant project in Equatorial Guinea.

Indian exporters requiring additional information are welcome to visit Exim Bank's website www.eximbankindia.com/loc.html, which contains detail information on Bank's LOCs, with multi-lingual option, i.e. Spanish, French, Russian, Portuguese, besides English, and/or to contact any of Exim Bank's office in India/overseas.

For further information on LOCs, please contact:

Mr. P. R. Dalal
General Manager
Export-Import Bank of India
Tel: 022 – 22185272
Fax: 022 – 22182460
E-mail: eximloc@eximbankindia.com

Reserves Accumulation: Issues & Concerns



Note: FER at end-August 2005. For China and Germany, end-July.

The global trend of reserves accumulation continued in 2004, with an accretion of over US$ 700 bn worldwide during the year. The trend has been particularly robust in case of developing countries, which accounted for almost 77% of the global accretion of foreign exchange reserves (FER) in 2004. This has considerably increased the share of developing countries in the global FER pie. As per the IMF Annual Report 2005, as on March 2005, developing countries accounted for 60% of global FER. The share of developed countries is significantly influenced by that of Japan, world's leading FER holder (**Chart**). The pace of reserves accumulation has, however, slowed down in Japan with a year-on-year accretion of reserves to the tune of US$ 20 bn between August 2004 and 2005. On the other hand, reserves accumulation has remained strongest in case of China, which added around US$ 29 bn of reserves only in the month of July 2005 (as per latest available figures). It may be interesting to note that the combined reserves of China and Hong Kong have now overtaken Japan's FER.

Traditionally, higher stock of reserves provides a margin of comfort against potential external shocks and also strengthens the financial health of a country, thereby improving its creditworthiness. Often the comfortable level of reserves is derived from the trade-based, debt-based and money-based indicators, which indicate the adequacy of reserves in the face of potential external shocks. For many of the developing countries, particularly the emerging markets, the present stock of reserves reflect a more-than-comfortable situation. However, higher stocks of reserves do imply certain economic costs, which have posed a challenge to the policy makers to maintain a balance between comfort and costs.

According to the Global Development Finance 2005 (GDF 2005, WB), which has discussed the cost implications of high stock of reserves, "excessive reserve accumulation results in i) "quasi-fiscal" costs associated with central banks' sterilisation efforts, and ii) potential capital losses on reserve assets held, typically in highly rated foreign government securities". The first type of cost arises when central banks adopt sterilisation measures (selling of government securities) to offset the inflationary effect of higher monetary base created by higher reserves. The yield on reserve holdings are generally less than the yield of the government securities. GDF 2005 also points out that in several cases, underdeveloped government securities market and insufficient volume of securities limit the scope of open-market operations. The magnitude of the fiscal burden depends on the gap between the interest earned on reserve holdings and interest paid on the domestic issues, adjusted by expected changes in exchange rates. Considering the difference between domestic interest rates and US government bonds (a highly rated government security in which majority of the central banks invest), GDF 2005 has estimated the gap to be 7.6% for China, 8% for Russia, 1.8% for India, among others. The second cost pertaining to the risk of capital losses, depends on the portfolio investment decisions implying the choice of currencies in which the reserves are invested. As majority of reserves worldwide are invested in dollar assets, weakening of the dollar vis-à-vis the local currency of any country implies a decline in real asset value of the reserves held. The present behaviour of the US dollar has, therefore, raised concerns over the portfolio management of FER. This is reflected in a modest rise in the share of Euro holdings of reserves by the developing countries from 26.1% in 2002 to 29.2% in 2004 and a simultaneous decline in the share of dollar assets from 64.0% to 59.9% in the period.

Export Performance of Small and Medium Enterprises in India

Definition of SMEs

The definition of small and medium sized enterprises (SMEs) differs from one country to another. SMEs have been defined against various criteria such as the number of workers employed, volume of output or sales, value of assets employed, and the use of energy. Most of the developed countries define SMEs based on number of employees. However, such a measure in the context of a developing country may result in firms being regarded as relatively large firms.

In India, the concept of small and medium enterprises is not well defined. The internal group set up by the Reserve Bank of India has recently recommended that the units with investment in plant and machinery in excess of SSI limit and up to Rs. 100 million may be treated as medium enterprises.

Significance of SSI in India

The Small Scale Industry (SSI) sector in India employes around 26 mn people and is involved with the production of over 7500 industrial items. At present, the SSI sector accounts for over 90% of industrial units in the country, 40% of value addition in the manufacturing output and approximately 35% of India's exports.

Evolution of Policies

Since independence, the Government of India has formulated a total of six Industrial Policy Resolutions / Statements with a view to promote industrial growth in the country. All these policies have also covered the small-scale sector, in general. Protectionist policies have been devised to guard the SSIs against competition from the large scale sector. Realising the credit requirements of SSI sector, the Government has evolved a credit policy under the priority sector lending.

Export Performance

SSI sector in India has been exhibiting significant export performance. Exports at current prices in 2002-03, the latest year for which data is available, stood at Rs. 860 mn. This works out to about 34% of total exports of India in the same year. Major sectors contributing to SSI exports include readymade garments (27%), engineering goods (14.5%), chemicals & pharmaceuticals, electronics & computers, and processed foods (11% each). In terms of export orientation, sports goods have 100% exports from SSI sector, followed by readymade garments (90%), leather (70%), marine products (47%) and chemicals & pharmaceuticals (44%).

Over the last 10 years, the share of SSI exports has increased in most of the sectors. At the same time, in some sectors the SSI sector's share in total exports has come down. The SSI sectors that have witnessed increase in export share include engineering goods, chemicals and allied products, plastic products, processed foods, marine products, woollen garments and knitwear, processed tobacco. Sectors like basic chemicals & pharmaceuticals, finished leather and leather products, synthetic and rayon products have witnessed declining share in total exports. Sectors like readymade garments and sports goods have registered neutral trend, with the share remaining same.

While these SSI intensive sectors have improved their cumulative share in India's total exports from 51.6% in 1991-92 to 55.5% in 2002-03, the export share by SSI units alone in these 12 sectors have come down from 58.4% in 1991-92 to 52.4% in 2002-03. Thus, it may be inferred that, since liberalisation, more and more exporting units from SSI intensive sectors have been increasing their capital investments to come out of the SSI net and emerge as global players. This trend is noticeable especially in sectors like basic chemicals, pharmaceuticals, engineering goods, leather and textile sectors. Such a trend calls for redefining the SSI sector to incorporate medium enterprises, and be in line with the global trend of defining small and medium enterprises as one entity.

There are no official data for compilation of export performance by the medium scale units. However, analysis has been made using the Centre for Monitoring Indian Economy (CMIE's) India Corporate Database, which represents a sizeable share of Indian manufacturing sector. The analysis revealed that sectors like food and beverages, chemicals, auto-components, machinery, electronics, metals, castings and forgings have witnessed increasing export orientation trend over the last decade. However, the export orientation of sectors like leather, textiles and readymade garments has more or less remained static over the period. It may be inferred that these sectors need to be kept out of any limit on capital investment, since they require large capital investment to meet the global challenges.

Constraints and Strategies

The constraints faced by the SSI sector include product reservations, regulatory hassles – both at the entry and exit stages, insufficient finance at affordable terms, inflexible labour markets and infrastructure related problems - like high power tariff, in adequate export infrastructure.

SME development requires a cross-cutting strategy, that touches upon many areas. Apart from conducive policies, there is need for simplified legal and regulatory framework, good governance, sufficient and accessible finance, suitable infrastructure, entrepreneurial skill, infrastructure and competitive environment.

EXIMIUS CENTRE COLUMN

During the quarter ending September 2005, the Centre organised the following programmes:

❖ A series of three-day workshop on *"Marketing of Handicrafts and Home Decoration Items"* was organised at Jaipur (July 4-6, 2005), New Delhi (July 7-9, 2005) and Guwahati (July 11-13, 2005). The workshop series was organised with faculty support from Centre for Promotion of Imports from Developing Countries (CBI), The Netherlands.
The workshop at Jaipur was organised in association with Federation of Rajasthan Handicrafts Exporters (FORHEX). The workshop addressed entire spectrum of issues related to tracking of fashion trends, transforming the trends into products, product development, design inspiration and export marketing strategies.

❖ A seminar on *"Quality Standards for Export of Food Products"* was organized at the PSG College of Arts & Science, Coimbatore on July 23, 2005. Dr. K.M. Appaiah, Scientist Emeritus, and Mr.V.D. Sattigeri, Senior Scientist, of the Central Food Technological Research Institute (CFTRI), Mysore, were the faculty for the seminar. The presentations covered various quality standards prescribed by the developed countries for importing from developing countries.

❖ An interactive session on *"Opportunities for Export of Electronic Products to the European Union"* was organized at the Centre in Bangalore. Mr. Gunther P. Fandrich, Expert from CBI, The Netherlands, discussed in details the existing and potential opportunities for export of electronic products to various countries in the EU.

❖ An *"Entrepreneurial Development Workshop"* was held on September 9-10, 2005 at Guwahati in association with the Institute for Integrated Learning in Management (IILM), New Delhi and the Indian Institute of Entrepreneurship, Guwahati.

❖ An interactive session on *"Opportunities for Investment in Australia"* was held on September 16, 2005 at the Centre in Bangalore. Mr. Garry Draffin, CEO, Invest Australia, addressed an exclusive gathering of select export organisations from a wide array of sectors, on the opportunities for bilateral trade and investment with Australia.

Other Programmes on the anvil include:

❖ A seminar on *"Quality Standards for Export of Agricultural Products"* to be held at Hubli, in Karnataka in October 2005.

❖ An *"Entrepreneurial Development Workshop"* in October, 2005 at Raipur, Chhattisgarh in association with the Institute for Integrated Learning in Management (IILM), New Delhi.

The Centre welcomes suggestions on its future agenda.

For details on future programmes contact:
Mr. Sanjay Sarkar,
Director, Eximius Centre, Bangalore
Tel: (080) 25589106
E-mail: eximius@vsnl.com

BOOK REVIEW

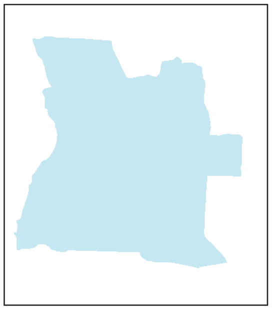
Addressing the Challenges of Globalization
World Bank, 2004

The World Bank publication 'Addressing the Challenges of Globalization' attempts an independent evaluation of the Bank's approach to global programmes. The report is based on case studies of 26 World Bank supported global programmes that accounted for 90% of the Bank's global expenditure in 2002. The report has three distinguishing features. First, it looks across the global programmes to draw cross-cutting lessons about the design, implementation, and evaluation of global programmes. Second, it identifies sector-specific lessons. Third, it focuses on the World Bank's role in global programme partnerships. The report maintains that the accelerated pace of globalisation has, *inter alia*, stimulated dramatic changes in trade, finance, private investment, and information and communications technology, and that addressing the challenges posed by globalisation requires collective action at the global level. The report emphasises that involving developing countries in programme governance increases programme relevance, ownership and effectiveness, but facilitating their involvement remains a challenge. The report's recommendations emphasise two key elements, viz., the need for a global strategy that will focus Bank support on high priority, well-funded global public goods programmes, and better routine management of the global portfolio in order to set international standards for quality, add value and enhance returns to Bank country operations. The report draws on extensive consultations internally and with partners. This cumulative approach has enabled the Operations Evaluation Department (OED) to comprehensively assess the Bank's evolving approach to global programmes, including the application of existing criteria and processes for selectivity, grant support, governance, management and evaluation.

Review by: **Mr. Ashish Kumar**
Executive Assistant to CMD

Angola

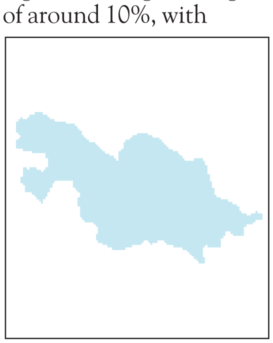
Reflecting primarily rising production and high oil prices, Angola's real GDP growth accelerated to 12.2% in 2004, from a growth of 4.7% during the previous year.



Exports, of which crude oil comprise more than 90%, rose sharply by 36.5% during 2004 to reach US$ 12.97 bn in 2004, up from US$ 9.5 bn during the previous year. Reflecting these developments, the country's foreign exchange reserves (excluding gold) more than doubled from US$ 634 mn in 2003 to US$ 1.36 bn in 2004. Crude oil output is set to rise from an estimated 980,000 barrels/day (b/d) in 2004 to 1.10 mn b/d in 2005 and further to 1.24 mn b/d in 2006 as new oilfields come onstream. It is estimated that China has overtaken the US as the largest recipient of Angola's oil, with approximately 325,000 b/d being exported to China as compared to 305,000 b/d to the US in 2004. According to the IMF, oil production in Angola would reach 2 mn b/d by mid-2007 and is likely to continue at very high levels until 2020.

Kazakhstan

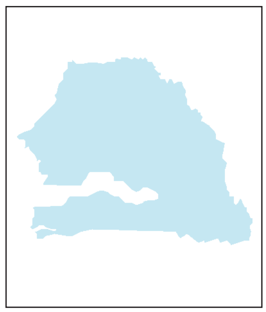
Continued high global oil prices and growing export volumes have led to large trade surplus, which amounted to US$ 6.8 bn in 2004, up from US$ 3.7 bn in the previous. As a result, the current account balance registered a surplus of US$ 533 mn in 2004, while reserves doubled from US$ 4.2 bn in 2003 to US$ 8.5 bn in 2004. In the last five years, the economy has registered a high average real GDP growth of around 10%, with robust growth expected to continue. The boom in growth has led to surge in housing construction.



The metals sector, the second largest exporters and industrial sub-sector after oil and gas, is in a phase of expansion, and in recent years has attracted heightened interest from Russian companies seeking to strengthen their presence in central Asia. For instance, Russian Aluminium (RusAl) is planning to build new aluminium and alumina plants in Kazakhstan, with estimated costs of US$ 3 bn. Production of the country's largest steel producer, Ispat Karmet steel plant in Temirtau, central Kazakhstan, which is owned by Mittal Steel, increased from around 4.9 mn tonnes in 2003 to an estimated 5.2 mn tones in 2004, boosted primarily by the strong demand from China.

Senegal

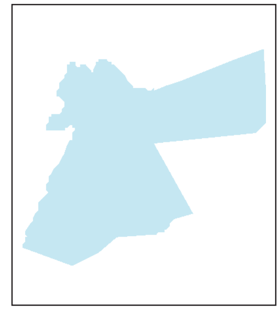
As part of the on-going efforts to set up a regional energy integration process throughout West Africa, Senegal and Guinea have entered into a joint power agreement in March 2005 to establish a power station in Guinea, which could also supply electricity to other countries in the region.



At the same time, the World Bank, in May 2005, approved an IDA loan of US$ 15.7 mn, an IDA partial risk guarantee of US$ 7.2 mn, and an IFC loan of US$ 22 mn for the electricity sector efficiency enhancement project, a long-term programme developed by the Senegalese government, which aims to increase electricity production and improve the power sector by facilitating public-private investment in new power production facilities through the provision of power guarantees. In June 2005, the African Development Bank (AfDB) approved a Euro 8 mn loan for the same project, which is the first instance of the AfDB's Private Sector Window in the energy sector in Senegal. The government has also embarked on a new strategy for the development of tourism, which includes promotion of Senegal as a tourist destination, development of new tourist zones, establishment of a tourism promotion agency, and the development of infrastructure, including improving the road network and upgrading airports.

Jordan

The EU has supported the Agadir free trade agreement (FTA) between Jordan, Egypt, Morocco and Tunisia with an Euro 4 mn grant to help implement the agreement. The FTA seeks to create an integrated market linking the 100 mn plus population of the four countries and enabling them to use combined rules of origin to produce for the EU market, as also for the US market. The EU is committed to the agreement as a move towards the completion of the Euro-Mediterranean free trade area by 2010. To provide a boost to the tourism industry, the government has announced a National Tourism Strategy 2004-10, which aims to involve the private sector in the investment and management of tourism sites.



The country's airport infrastructure is being improved by the Jordan Civil Aviation Authority (JCAA), while the Aqaba Special Economic Zone Authority (ASEZA) has signed agreements for the construction of new hotels as part of the Tala Bay project. New hotels are also being built around the Dead Sea to promote tourism, and the Jordan Valley Authority (JVA) has announced that it would lease further plots of land at the Dead Sea for development of hotels or tourist villages.

Peru

Peru's healthy economic performance in recent years can be primarily attributed to the dynamism in its exports and private investments. Strong investments, particularly from the US and Canada, in the mining sector have facilitated higher exports of gold and copper, which together accounted for 40% of Peru's total exports of US$ 12.6 bn in 2004.

With the trend continuing in 2005, annual exports are expected to rise by 18%, thereby contributing to an improvement in Peru's economic growth rate to an expected 5.4% in the year over 4.8% recorded in 2004. The hydrocarbon sector has also emerged strong in recent years with a 30% rise in production of liquid hydrocarbon in the first quarter of 2005. Two major discoveries of hydrocarbons in June imply higher investment opportunities in this sector. The Ministry of Hydrocarbon and Energy has also expressed plans to offer 10 exploration licenses by the end of 2005. Investment prospects of Peru's transport infrastructure have also brightened with a US$ 50 mn loan announcement from the World Bank in July 2005.

Select Currencies

Chinese Yuan

China had followed a dual exchange rate policy since 1979. In 1994, it unified the rate to create a crawling Yuan peg.
The peg allowed the Yuan to move in a 0.04% band centered on a rate of around 8.28 per US$. The Yuan moved in a band of 8.7 per US$ to 8.3 per US$ till the Asian financial crisis and after that remained virtually fixed at 8.28 per US$. In a significant move in the foreign currency market, China revalued its currency Yuan by 2.1% on July 21, 2005 to 8.11 per US$ changing from a fixed rate of regime to a floating rate regime. Under this new regime, the Yuan will operate as a managed float with reference to a basket of currencies of China's main trade and investment partners. The Chinese Central Bank allows the Yuan to rise and fall each day by 0.3% from the Central Bank's middle rate reset each day based on the previous day's close. While theoretically it has opened the possibility of a crawling peg, in actual practice the currency has gained only about 0.23% in value and was quoted at 8.0911 per dollar on September 21, 2005. The Chinese economy has been growing at a phenomenal pace with an average GDP growth rate of 8.6% during 2000 to 2004. China, with one of the highest savings rate in the world, has focused on an export led growth instead of a domestic consumption led growth. This growth in exports has resulted in a huge trade surplus for China. China has posted a surplus of US$ 60.2 bn in the first 8 months of this year compared with US$ 32bn in all of 2004. The ideal solution for a bulging trade surplus is a stronger exchange rate. Also, the fixed currency was creating trade frictions between China and its other trade partners. To keep the value of Yuan fixed at 8.3, the Chinese Central Bank resorted to massive intervention in the foreign currency market. As a result, China's foreign exchange reserves have grown from US$ 166 bn in December 2000 to US$ 740 bn in July '05. China's reserves have grown by US$101 bn in the first 6 months of 2005. The massive intervention also created huge liquidity in the Chinese economy. This excess liquidity was sucked out by China's Central Bank through sterilization operations. The value of outstanding loans issued by the Chinese Central Bank for sterilization purpose amounted to 1.1 trillion Yuan. These operations, because of their scale and cost, became unsustainable and China ultimately had to revalue its currency. To slow down the pace of its economic growth, China has taken a number of steps like hiking the Cash Reserve Ratio of banks to slow down credit offtake and moderate the growth in money supply. On trade grounds, there will be pressure to let the Yuan appreciate further as the currency is still undervalued. One year onshore forwards, launched on Aug 15 to provide a benchmark for local expectations of the Yuan's longer-term appreciation, were quoted at 7.8380 to the US$ on September 21, 2005, anticipating 3.1% appreciation of the currency. However, the Central Bank is likely to resist rapid Yuan gains and will keep a tight control on the exchange rate resisting market pressure for a free float. Overall, however, there is likely to be medium term Yuan appreciation due to strong economic conditions.

Canadian Dollar

Canada follows a floating exchange rate regime. Imports and exports form a relatively large part of its economy, USA being a major trade partner. The Canadian dollar therefore, is closely linked to the US$. The Canadian dollar has recently been reacting to the swings in crude prices and interest rate expectations and has gained against the US$, following good economic data. The Canadian economy has added 27,500 jobs in August 05, more than the 19000 expected by the market. Core inflation was at 1.7% for Aug 05 against the 2% rate targeted by the Bank of Canada. The domestic economic growth rate was 3.2% in the second quarter, up from 2.1% in the first quarter. The strong economic data has rebuilt rate hike expectations that were questioned in the wake of the Hurricane Katrina's destructive toll in the US Gulf Coast region. It is now expected that Bank of Canada will increase the rate at least one more time before the end of the year. Earlier, Bank of Canada raised its overnight rate for the first time in nearly a year by 25 bps to 2.75% on September 7, 2005. This hike reduced the interest rate differential between the US and Canadian interest rates to 100 bps in favor of USA. The rate hike followed by good economic data has resulted in the Canadian dollar rising to a 13 year high of 1.16246 against the US$ on September 22, 2005. The most important factor affecting the Canadian dollar is oil price. Canada is a net exporter of oil and oil price trends have closely affected Canadian dollar gains and losses, fuelling a 6% rise in the currency over the past three months. However, while oil prices have been the main driver of the currency in recent months, the Canadian dollar has held its strength while oil prices has retreated from the US$ 70 per barrel level.
The Canadian dollar was quoted at 1.1697 to the US$, as on September 23, 2005.The Canadian dollar is expected to be vulnerable to any large changes in oil prices or wider fears over the global growth outlook. The Canadian dollar is likely to hit tough resistance in the 1.18 region against the US currency.

Malaysian Ringgit

Malaysia fixed its currency, the Ringgit, at 3.8 to the US$ in September 1998 at the height of the Asian financial crisis when Asian currencies were in a free fall. The measure helped Malaysia to weather the crisis but as the dollar weakened last year, Malaysia's trade surplus rose significantly pushing up import costs and inflation. Over the past couple of years, Bank Negara, the Malaysian Central Bank, in order to keep the peg intact, has been intervening by buying US$ heavily. As a result, Malaysian foreign exchange reserves rose to US$ 80.1 bn in August 05.
To negate the inflationary impact caused by excess liquidity released into the economy from dollar purchases, Bank Negara has been issuing sterilization bonds.

On 21st July 2005, following the Chinese revaluation and to reduce the cost of intervening in the foreign currency market, Malaysia dropped its peg against the US$ and adopted a managed float against a basket of currencies of its major trading partners. Although a firmer currency would make exports more expensive, Malaysia's global competitiveness would benefit longer term as exports in Malaysia have a large amount of import content. For example, electronics, which make up about half of the total exports, have 85% import content. Although Malaysia is a net oil exporter, high oil prices are more of a concern for Malaysia's exports than any marginal appreciation of Ringgit as rising oil prices slow the economic growth of Malaysia's trading partners. The Ringgit has moved less than one percent since the peg against the US$ was removed and was quoted at 3.7690 per US$ on September 23, 2005. The Ringgit is likely to broadly track the Yuan with gradual appreciation against the US$.

India's Comprehensive Economic Cooperation Agreement (CECA) with Singapore

On June 29, 2005, India and Singapore signed a landmark Comprehensive Economic Cooperation Agreement (CECA). The Agreement, which comes into effect from August 1, 2005, represents India's first CECA with any country, and the first time India is entering into a bilateral agreement in Services.

The Agreement is an integrated package of several agreements comprising trade in goods and services, investment, mutual recognition agreements of standards in goods and services, cooperation agreements in customs, science and technology, education, e-commerce, intellectual property and media.

Salient features of the CECA are highlighted below.

A. Trade in Goods

Implementation of tariff concession by India has been categorised into four lists:

- *Early Harvest List* – 506 products which would become duty-free immediately upon entry into force of the Agreement;
- *Phased Elimination* – 2202 products for which customs duty would be eliminated in a phased manner by April 1, 2009;
- *Phased Reduction* – 2407 products for which customs duty would be offered a margin of preference of 50% by April 1, 2009; and
- *Negative List* – 6551 products would be subject to MFN tariff rates.

As regards Singapore's offer, Singapore would eliminate customs duties on all goods originating from India as from the date of entry into force of the Agreement.

B. Rules of Origin

Stringent Rules of Origin (ROO) have been built into the Agreement comprising, among others, value addition of 40% and well-defined sufficient manufacturing operation norms.

C. Agreement on Mutual Recognition (MRAs) on Standards and Technical Regulations, Sanitary and Phytosanitary Measures

The Agreement provides for the recognition of standards and technical regulations on goods by the regulatory authorities of both countries in the identified sectors, such as food products (egg, poultry, dairy products and packaged drinking water), electrical and electronic equipment, and telecommunication equipment.

D. Investment

The Agreement envisages national treatment in respect of investments by both countries in a number of sectors. India has agreed to grant National Treatment on a positive basis covering 22 sub-sectors, while Singapore has taken commitments on a negative list basis under which all manufacturing sectors are included except a few sectors.

E. Trade in Services

On trade in services, India has taken commitments in 9 sectors that include professional services, architecture, engineering, medical and dental, services by nursing, midwives, and veterinary services, computer and related services, real estate, rental/leasing services, R&D services. Singapore has taken commitments in 12 sectors offering partial or full commitments in all the sectors in which India has made commitments and some additional sectors including market research, retail trading and franchising under distribution services, education services, environment and health. Further, the Agreement provides for agreements or arrangements providing for mutual recognition of education or experience obtained, requirements met, or licenses or certifications in those services sectors.

In *Financial Services,* India has committed to allowing, among others, three Singaporean Banks (viz. *Development Bank of Singapore (DBS) Group Holdings Ltd., United Overseas Bank Ltd., and Overseas-Chinese Banking Corp Ltd.)* to incorporate one insurance company, provided that none of them individually or collectively hold more than 26% equity; the above three banks to establish 15 branches in four years; and 74% investment by Singapore banks in banking (both FDI & FII).

Asset management companies established in India, which are owned or controlled by Singapore or Indian juridical persons, are permitted to invest up to US$ 250 mn in equities and instruments listed on the Singapore Stock Exchange, over and above the cap of US$ 1 bn. Singapore has also agreed to grant Qualifying Full Banking (QFB) privileges to three Indian banks with or without operations in Singapore. This would provide better market access to Indian banks in Singapore

F. Movement of Natural Persons

Movement of natural persons (mode 4) is an important mode of supply of service for India. A list of 127 professional categories has been identified for grant of visa. Further, both sides have agreed that neither party shall require labour market testing, economic needs testing or other procedures of similar effects as a condition for temporary entry in respect of natural persons.

G. Other Areas

The Agreement also provides for cooperation and collaboration in areas such as electronic commerce, intellectual property rights, science and technology, education, media.

Note: Indian Rupees are referred in crore and lakhs:
1 crore : 10 million
1 lakh : 100 thousand

Export-Import Bank of India, Centre One Building, Floor 21, World Trade Centre Complex,
Cuffe Parade, Mumbai 400 005.
Tel: (022) 2218 5272 Fax: (022) 2218 2572
E-Mail: eximcord@vsnl.com
Website: www.eximbankindia.com

Contact Numbers : Ahmedabad : 2657 6852, Bangalore : 2558 5755, Chennai : 2522 4714, Guwahati : 259 9135, Hyderabad : 2330 7816, Kolkata : 2283 3419, Mumbai : 2283 0761, New Delhi : 2332 6625, Pune : 2645 8599
Budapest : (361) 338 2833, Johannesburg : (2711) 442 8010, London : (0044)7783231963, Singapore : (65) 653 26464, Washington D.C. : (202) 223-3238