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In this issue

Recent Economic Developments in ASEAN: An Overview

The *Association of Southeast Asian Nations (ASEAN)* was established on 8 August 1967 in Bangkok by its five original member countries, viz. *Indonesia, Malaysia, Philippines, Singapore* and *Thailand*. *Brunei Darussalam* joined on 8 January 1984, *Vietnam* on 28 July 1995, *Lao PDR* and *Myanmar* on 23 July 1997 and *Cambodia* on 30 April 1999. The ASEAN region has a total land area of 4.5 mn sq km and population of about 500 mn. Its combined GDP is US$ 737 bn and has total trade of US$ 720 bn.

Economic Growth

The ASEAN economies expanded by 5.5% in aggregate in 2005, above the average of the previous 5 years, but easing from 6.3% in 2004 **(Table 1)**. The pace slowed in four of the five biggest economies, viz. *Malaysia, Philippines, Singapore* and *Thailand*. Real GDP growth in *Myanmar* has been the most robust among all the ASEAN countries at 12.2% in 2005. The recovery of agricultural production from the previous year's drought and increased clothing exports backed *Cambodia's* strong economic performance, and the economy expanded by 8.4% in 2005.

Despite the December 2004 tsunami, weak rupiah and sharp rise in fuel prices due to cut in subsidies that resulted in higher inflation and interest rates, growth picked up in *Indonesia* to 5.6% in 2005, supported mainly by private consumption and fixed investment. Increased private investment and strong domestic demand and higher world oil prices pushed *Vietnam's* growth to 8.4% in 2005.

The expansion of the industrial sector driven by gold and copper mining supported a growth rate of 7.2% in *Lao PDR*. In 2005, while *Brunei Darussalam's* economic growth increased to 3.0%, GDP in *Singapore* grew by 6.4% in 2005, benefiting from the rising global demand for electronics products in late 2005.

Low agricultural production, loss in tourism sector due to tsunami and trade and current account deficits constrained economic growth in *Thailand*. Consumption was the only major contributor to GDP growth, which slowed to 4.5% in 2005.

Low interest rates, access to credit and higher private consumption supported growth in Malaysia. However, weak demand for electronics products, one of

Table 1: ASEAN-GDP Growth Rate (%)

	2003	2004	2005	2006*
ASEAN	**5.3**	**6.3**	**5.5**	**5.5**
Cambodia	7.0	7.7	8.4	6.3
Indonesia	5.0	4.9	5.6	5.4
Lao PDR	5.8	6.9	7.2	7.3
Malaysia	5.4	7.1	5.3	5.5
Myanmar	13.8	13.6	12.2	--
Philippines	4.5	6.0	5.1	5.0
Singapore	2.9	8.7	6.4	6.1
Thailand	7.0	6.2	4.5	4.7
Vietnam	7.3	7.8	8.4	7.8
Brunei Darussalam	3.1	1.0	3.0	3.0

*Source: Asian Development Outlook 2006, Asian Development Bank (ADB); EIU Country Reports; *Estimates*

Malaysia's top exports caused the economy to decelerate to 5.3% in 2005. In Philippines, drought, slower growth in services and reduced government consumption caused an economic slowdown, while personal consumption spending boosted growth. Overall, GDP grew by 5.1% in 2005.

Inflation

Overall inflation in the ASEAN region rose to 6.3% in 2005 from the previous year's 4.3% **(Table 2)**. High food and fuel prices along with reduction in fuel subsidies, wage increases and changes in tax and tariff structures, caused inflation to rise in the ASEAN economies. With the exception of Singapore and Lao PDR, all other ASEAN economies experienced a rise in inflation rate.

Table 2: ASEAN-Inflation (%)

	2003	2004	2005
ASEAN	**4.3**	**4.3**	**6.3**
Cambodia	1.2	3.9	5.8
Indonesia	9.8	6.5	10.5
Lao PDR	15.5	10.5	7.2
Malaysia	1.2	1.4	3.0
Myanmar	36.6	4.5	20.2
Philippines	3.5	6.0	7.6
Singapore	0.5	1.7	0.4
Thailand	1.8	2.8	4.5
Vietnam	3.1	7.8	8.3
Brunei Darussalam	0.3	1.0	1.0

Source: EIU Country Reports; Asian Development Outlook 2006, ADB.

Intra-ASEAN trade

Reflecting the importance of ASEAN in world trade, ASEAN's exports accounted for 6.1% of total world exports in 2004. Among the Middle East & Asian economies, ASEAN was the second most important exporter to the world and also the second most significant intra-bloc trader.

Intra-ASEAN exports increased significantly from US$ 27.4 bn in 1990 to US$ 122.4 bn in 2004 **(Table 3)**. The share of intra-ASEAN exports as a percentage of total ASEAN exports has shown a rise from 19% in 1990 to 22% in 2004.

Table 3: Intra-Bloc Exports of ASEAN Countries, 1990-2004

	1990	2000	2004
Intra-Bloc Exports (US$ mn)	27,365	98,060	122,369
% of Total Bloc Exports	19.0	23.0	22.2
% of World Exports	4.3	6.7	6.1

Source: World Development Indicators 2006, World Bank

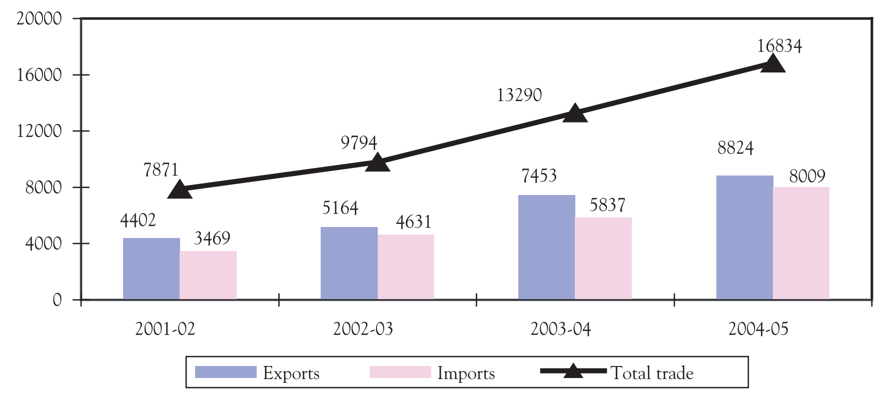
Indonesia, Malaysia, Singapore and Philippines have been at the forefront of regional cooperation initiatives in Asia as core members of ASEAN and as participants in the ASEAN FTA and the ASEAN Vision 2020, which foresees an integrated Southeast Asian market by 2020. These countries are also active participants in the Asia Pacific Economic Cooperation Forum.

As part of ASEAN Free Trade Area (AFTA), intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme have been brought down within the 0-5% tariff range for almost all products in the CEPT Inclusion List (IL) of ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand). The other ASEAN members are also following suit. Products in the Highly Sensitive List (i.e. rice) and the General Exception List remain out of the CEPT-AFTA Scheme. In an effort to improve and strengthen the rules governing the implementation of the CEPT Scheme, and to make the Scheme more attractive to regional businessmen and prospective investors, the CEPT Rules of Origin and its Operational Certification Procedures have been revised and implemented since 1 January 2004. In order to promote greater utilisation of the CEPT-AFTA Scheme, substantial transformation has also been adopted as an alternative rule in determining origin for CEPT products.

Indo-ASEAN Trade

The significance of ASEAN as India's trade partner can be seen from the rise in India's trade with ASEAN. Total trade has grown over two-folds in the recent years from US$ 7871 mn in 2001-02 to US$ 16834 mn in 2004-05 **(Chart 1)**. Singapore has been the most important trading partner among the ASEAN countries, accounting for 29.3% of India's total imports from ASEAN and 47.5% of India's total exports

Chart 1: Indo - ASEAN Trade, 2001-02 to 2004-05 (US$ mn)



to ASEAN in 2004-05. Indonesia, Malaysia, Thailand, Myanmar and Vietnam are other key trading partners for India. In 2004-05, the ASEAN region accounted for 10.7% of India's total exports and about 7.2% of India's total imports.

ASEAN is an important export destination for India's two major export commodities, viz. gems & jewellery, and petroleum products in 2004-05. Other important exports to ASEAN include machinery & instruments, primary & semi-finished iron & steel, transport equipment, electronic goods, inorganic / organic / agro chemicals.

With regard to India's imports from ASEAN, electronic goods, organic chemicals, coal, coke & briquettes, transport equipment, vegetable oils (edible) are among India's major import commodities.

Chart 2: India's Imports from ASEAN, 2004-05 (% Share)

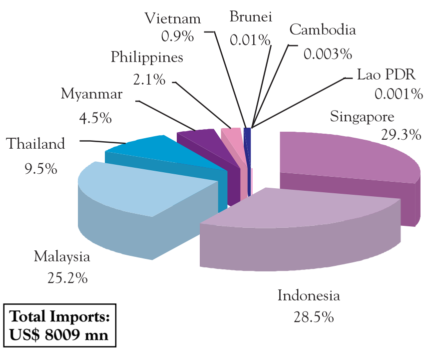
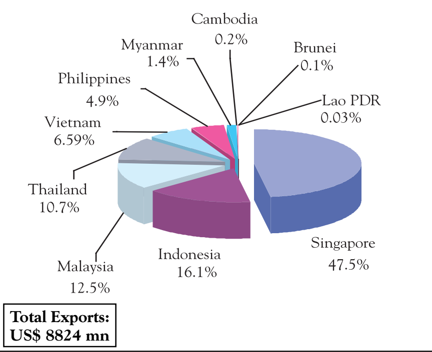


Chart 3: India's Exports to ASEAN, 2004-05 (% Share)



FDI

Total foreign direct investment (FDI) inflows into ASEAN region in 2004 amounted to US$ 25.7 bn, up from the previous year's USS$ 17.4 bn **(Table 4)**. *Singapore* was the largest recipient of FDI among the ASEAN countries, absorbing 62.6% of total FDI inflows into ASEAN in 2004, with most investments targeted at the electronics sector.

Malaysia, the second largest recipient of FDI among the ASEAN member countries, absorbs 18% of the total FDI inflows into the region. Vietnam, Thailand and Indonesia are the other top recipients of FDI.

Table 4: FDI into ASEAN Countries, 2002-2004 (US $ mn)

	2002	2003	2004
Asia	**92,009**	**101,278**	**147,545**
ASEAN	**14,507**	**17,364**	**25,662**
Singapore	5,822	9,331	16,060
Malaysia	3,203	2,473	4,624
Vietnam	1,200	1,450	1,610
Thailand	947	1,952	1,064
Indonesia	145	-597	1,023
Myanmar	191	291	556
Philippines	1,792	347	469
Cambodia	145	84	131
Brunei Darussalam	1,035	2,009	103
Lao PDR	25	19	17

Source: World Investment Report 2005, United Nations.

India's Cooperation Agreements in ASEAN Region

India - Thailand FTA

The Framework Agreement was signed by India and Thailand in October 2003, with a view to liberalise and expand trade and investment between them and eventually sign a bilateral FTA by 2010. This would be achieved by progressively eliminating tariff and non-tariff barriers, liberalising trade in services, implementing favorable investment regime to facilitate investment between the two nations and effective measures to facilitate trade & investment, and economic cooperation in mutually agreed areas. "Early Harvest Scheme" is a special feature of this Agreement and will be an integral part of the India - Thailand FTA.

India - Singapore CECA

In June 2005, India signed a Comprehensive Economic Cooperation Agreement (CECA) with Singapore, with the aim of strengthening economic, trade and investment cooperation, liberalising and promoting trade in goods and services, establishing favorable investment regimes, improving the efficiency and competitiveness of the manufacturing and services sectors in both countries, exploring new areas of cooperation and facilitating regional economic cooperation and integration.

India - ASEAN FTA

The India-ASEAN FTA, which is expected to come into force from January 1, 2007, is envisaged to be an overall regional trade and investment agreement, includes FTA on goods, services and investment. It aims to strengthen and enhance economic, trade and investment co-operation, progressively liberalise and promote trade in goods and services, create a facilitative investment regime.

Concerns have been expressed over issues like revenue loss, impact of increased competition on domestic industry and farmers, possibility of inverted duty on certain items and entry of Chinese goods into India through ASEAN nations. The framework agreement for India-ASEAN FTA envisages that tariff concessions should cover at least 80% of the trade. With this FTA in place, India could become part of the proposed Pan-Asian Economic Community that includes a common currency for the Asian region.

PROJECT OPPORTUNITIES

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.

Projects funded by these multilateral agencies present attractive business opportunities for consultants, suppliers and contractors. These projects enjoy relatively high priority in the countries where they are taken up for implementation. The procurement guidelines, policies and procedures of the multilateral agencies help ensure equal and fair opportunity for all eligible bidders. Implementation of such projects are monitored by the multilateral agencies.

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 **Mr. O'Neil Rane** on Tel: 22185272 Extn: 2351.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Egypt/ Ministry of Housing, Utilities and Urban Development 12 Ismail Abaza St., El Qasr El Einy, Cairo, Egypt. Contact: Dr. Hazim El Quidy, Chairman, General Organization of Physical Planning. Tel.: (202) 796-4047 Fax: (202) 792-1512 E-mail: madbouly@yahoo.com	**Greater Cairo Development /** The objective of the project is to enable the three governorates of metropolitan Cairo to enhance their comparative advantages and achieve sustainable development through priority infrastructure investments, land development and tackling key environmental problems. Consultants will be required for infrastructure design.	**World Bank** US$ 150 mn.
Viet Nam/ Hanoi Transport and Urban Public Works Project Management Unit 75 To Hien Thanh Ave., 3rd, 4th Floor, Hanoi, Viet Nam Contact: Mr. Hoang Ha, Director. Tel: (84-4) 974-0914 E-mail: tupmu.toan@fpt.vn	**Hanoi Urban Transport and Development /** The objective of the project is to develop a sustainable urban transport system through the establishment of high capacity busways on the major corridors of the city, development of a comprehensive urban transport policy, investments in road infrastructure that facilitate growth of public transport, and technical assistance.	**World Bank** US$ 135 mn.
Albania/ KESH- Korporata Elektroenergjetike Shqiptare Address Blloku "Vasil Shanto", Tirana, Albania Contact: Director of PMU Tel: +355 4 262055 Fax: + 355 4 262055 E-mail: hoxhaf@kesh.com.al	**Albania Power Transmission Substations Rehabilitation /** The proposed project includes rehabilitation of six transmission substations. The procurement of the following goods, works and services will be required: i) Equipment for 220 kV and 400 kV substations ii) Control Monitoring and Protection (CMP) systems.	**European Bank for Reconstruction and Development** US$ 20 mn **World Bank** US$ 27 mn
Latvia/ Liepaja Water Contact: Olita Berzina, Operation Leader: Email: berzinao@ebrd.com Serkan Tel: +44 20 7338 7168 Fax: +44 20 7338 7380	**Development of Water Services in Liepaja /** This project comprises renovation of well-fields, rehabilitation of a wastewater treatment plant and wastewater facilities, improvements of water supply and wastewater collection, reconstruction of water and wastewater networks; rehabilitation of drinking water river crossing network and procurement and installation of pumps and water meters.	**European Bank for Reconstruction and Development** US$ 40.8 mn.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Islamic Republic of Afghanistan/ **Ministry of Public Works** Contact: Mr. Wali M. Rasooli, Deputy Minister, 1st Macrorayan, Kabul, Afghanistan Tel.: 0093-7919486 Project Officer Dong-Soo Pyo (632-6817) Transport and Communications Division, SARD Email: dspyo@adb.org	**North-South Corridor Project /** The objective of the project is to help the Government promote economic and social development and reduce poverty by providing access to road transport for the central mountain region and facilitating direct and shorter connections between various regions as well as facilitating North–South transit traffic.	**Asian Development Bank** US $ 78.20 mn
Bangladesh/ **Department of Public Health Engineering** AsDB Project Officer: Nayana Mawilmada (632-6229) Urban Development Division, SARD Email: nmawilmada@adb.org	**Secondary Towns Water Supply and Sanitation /** Specific outcomes of the project will include: i) Increased quantity and quality of water supply; ii) Increased sanitation coverage; iii) Improved community awareness of the link between proper hygiene, sanitation, and health.	**Asian Development Bank** US $ 50 mn
Tanzania/ **Ministry of Water, Dar es Salaam** AfDB Contact: Mr. F.N. Black, Director, Country Operations. Tel. No.: (+216) 7110-2042)	**Rural Water Supply & Sanitation Programme/** The RWSSP components are the following: i) Construction of rural water supply & sanitation facilities, ii) District management support, and iii) Institutional strengthening and development.	**African Development Bank** US $ 76.5 mn US $ 84 mn (ADF)
Zambia/ **Ministry of Industry, Lusaka.** AfDB Contact: Mr. F.N. Black, Director, Country Operations. Tel. No.: (+216) 7110-2042)	**(N) Lumwana Copper Mining Project/** The project, which is located in the Northwestern Province of Zambia, involves : i) Development of an opencast mine, ii) Construction of a copper concentrate processing plant, iii) Transmission line from Solwezi to Lumwana, iv) Water dam and tailings storage facilities, and v) Associated infrastructure.	**African Development Bank** US $ 39.8 mn

CONTRACT AWARDS

Select contracts secured by Indian companies :

B. Seenaiah & Company, Hyderabad, and C & C Construction Private Limited, Gurgaon	Contract for Emergency Transport Rehabilitation Project (Taloqan – Kishem Road) in Afghanistan, funded by **World Bank.**
Kirloskar Brothers Limited, Pune	Contract for supply and erection of electromechanical equipment for rehabilitation of six pumping stations in Bani Sweif Governorate (Pumping Stations Rehabilitaion III Project) in Arab Republic of Egypt, funded by **World Bank**
PEC Limited, New Delhi	Contract for procurement of medical equipment for 248 health centers and health posts (Health Sector Development Programme) in Ethiopia, funded by **World Bank**
Intercontinental Consultants and Technocrats Private Limited, New Delhi	Technical assistance contract for advisory and operational service for strengthening implementation of road maintenance in Tajikistan, funded by **Asian Development Bank**
KEC International Limited, Mumbai	Contract for distribution network construction for Rural Electrification Project in Ethiopia, funded by **African Development Bank**

Performance Highlights of Asian Development Bank (AsDB) in 2005

The Asian Development Bank (AsDB), a multilateral development finance institution is owned by 64 members, of which 46 are from Asia and the Pacific.

In 2005, AsDB approved 72 loans (64 projects) for US$ 5.80 bn, 10 equity investments for US$ 217.1 mn, 2 guarantees for US$ 68.4 mn, 51 grant-financed projects for US $ 1.2 bn and 299 technical assistance operations amounting to about US $ 198.7 mn. Thus, total AsDB loan operations amounted to US $ 7.4 bn in 2005. This is a 30% increase over the US $ 5.7 bn in 2004. In addition, AsDB approved 2 multitranche financing facilities totalling US $ 1.52 bn.

Of the total lending, loans with Government guarantees were over US$ 5.3 bn. This comprised US$ 3.9 bn from Ordinary Capital Resources (OCR) and US$ 1.4 bn from the concessional Asian Development Fund (ADF).

Total co-financing as of end-2005 amounted to about US$ 7.5 bn. Of this, US$ 5.2 bn was for commercial co-financing from international and domestic banks and export credit agencies, US$ 1.8 bn of official loan co-financing and US$ 352.6 mn of grant co-financing from bilateral and multilateral development partners.

The largest developing member country borrowers in 2005 were the People's Republic of China (US$ 1500 mn), Indonesia (US$ 1146 mn), Pakistan (US$ 776 mn), Vietnam (US$ 578 mn), Bangladesh (US$ 475 mn) and India (US$ 440 mn).

Transport and communications sector received 30% of total lending (US$ 1.7 bn), followed by multi-sector (15%), law, economic management and public policy (13%), water supply, sanitation and waste management (11%).

Performance Highlights of European Bank for Reconstruction and Development (EBRD) in 2005

The European Bank for Reconstruction and Development (EBRD) was established in 1991, to help build market economies and democracies in 27 countries from Central Europe to Central Asia. EBRD's capital is provided by 60 countries and two international institutions, the European Community and the European Investment Bank.

In 2005, the EBRD financed 151 projects totaling € 4.3 bn, as compared to 129 projects totaling € 4.1 bn financed in 2004. The EBRD's investments in 2005 reflect the strategy of moving further south and east. About 58% of the Bank's business volume in 2005 was invested in the early and intermediate transition countries of South-Eastern Europe, the Caucasus, Central Asia and the former Soviet Union. Russia attracted 26% of EBRD investment while 16% of business volume was devoted to the advanced transition countries of Central Europe.

EBRD's investment in enterprises include both large and small units, and the investment brings benefits to all sections of society, from entrepreneurs running the businesses to customers benefiting from improved services.

The EBRD's investments were spread across a variety of sectors. About 34% of EBRD's business volume in 2005 was devoted to financial institutions to support local enterprises. About 22% was provided for infrastructure projects - compared with 12% in 2004 - while 17% was dedicated to the energy sector. Manufacturing projects received 9% of EBRD investment in 2005, while the remaining 18% of business volume was devoted to agribusiness, property/tourism and telecommunications.

Performance Highlights of African Development Bank (AfDB) in 2005

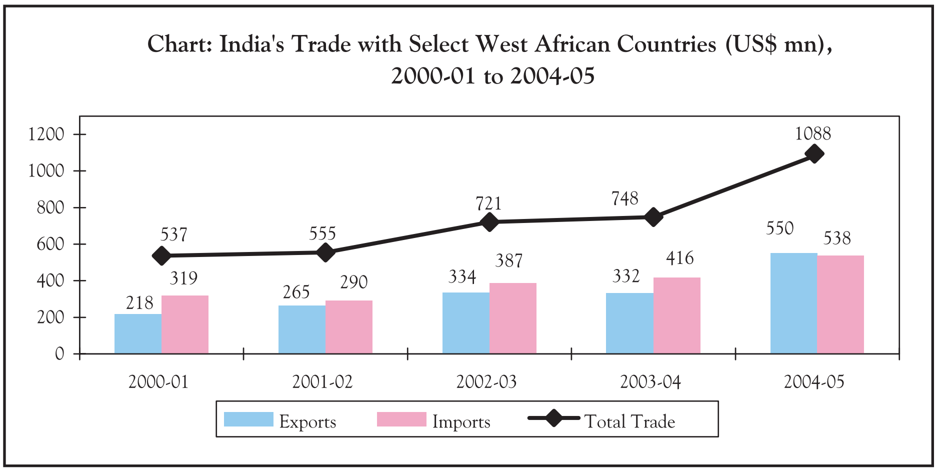
The African Development Bank Group comprises three institutions; the African Development Bank (AfDB), the African Development Fund (ADF) and the Nigerian Trust Fund (NTF). AfDB was established in 1964 and started its operations in 1966. AfDB's shareholders are the 53 regional member countries in Africa, as well as 24 non-regional member countries in the Americas, Europe and Asia.

The African Development Bank Group reported a total lending of US$ 3278 mn for 102 operations in 2005, compared to the US$ 4328 mn in 2004. Out of the total lending, the AfDB reported a lending approval of US$ 1242 mn, the ADF recorded a lending approval of US$ 2032 mn and the NTF registered a lending approval of US$ 4.56 mn. AfDB's authorised capital stood at US$ 31.26 bn as of end-2005, and subscribed capital stood at US$ 30.92 bn. ADF subscriptions were US$ 21.36 bn and NTF resources were US$ 584 mn, as of end-2005.

The AfDB Group lending operations in 2005 continued to emphasise priority sectors, like the infrastructure sector (including transportation, communication, water supply & sanitation and power supply), which amounted to approximately US$ 1 bn, with a share of 30% of total approvals. Multi-sector projects amounted to US$ 378 mn, a share of 11% of the total approvals. The finance sector, and agriculture and rural development sector reported an approved share of 11% and 10%, of the total investments in 2005, respectively.

AfDB's new strategic orientations and priorities continued to guide the strategic thrust of its operations.

Exim Bank's Study on Select West African Countries



Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry of Commerce and Industry (MOCI)

Exim Bank's study titled, ***'Select West African Countries: A Study of India's Trade & Investment Potential'***, covers eight member States of the West African Economic & Monetary Union (UEMOA), viz. Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, and delineates potential areas for enhancing India's trade and investment relations with these countries.

The study draws attention to these countries as important trade partners for India, which account for three-fifth of India's trade with the West African region. India's total trade with the select countries has increased two-fold from US$ 537 mn in 2000-01 to US$ 1088 mn during 2004-05, underlined by the rise in both India's exports to and imports from these countries **(Chart)**. Amongst these countries, Togo has emerged as the leading destination for India's exports, while Senegal is the major source of imports.

Based on India's export capability and import demand in these countries, the study has identified potential exports items to these countries, which would include: food products, pharmaceutical products, iron & steel and its products, machinery & transport equipment, textile yarn and fabrics, plastics and articles, ceramic products, petroleum products. As regards imports from the select countries, potential items would include: coconuts, brazil nuts and cashew nuts, uncarded or uncombed cotton, sheep or lambskin leather, inorganic chemicals, sulphur, and natural calcium phosphate.

The study further observes that the governments of these countries have been making continued and conscious efforts to improve investment climates and have identified certain priority sectors. There are opportunities for Indian investment in sectors such as agriculture and allied activities (such as cotton cultivation, cocoa, coffee & palm oil production, cashew nut processing, fishing & animal husbandry), generation & distribution of electricity, hotel and tourism development, prospecting and extraction of minerals (such as gold, phosphate & uranium), exploration & extraction of oil, developing railways, water supply, financial sector, and certain manufacturing and construction activities.

The study has further delineated certain broad strategies and recommendations to enhance India's commercial relation with these countries, which include: focus on multilateral funded projects, cooperation in the agricultural sector, wider dissemination of information about trade and investment potential, closer cooperation with Investment Promotion Agencies, setting up a business hub in the region, cooperation in the IT, banking & financial sector, developing entrepreneurship & institution building, and developing the natural resources in the region.

In light of the potential to enhance trade and investment relations with these countries, Export-Import Bank of India (Exim India) has in place a comprehensive range of financing, advisory and support programmes to facilitate and promote bilateral commercial relations. With agriculture and related activities being the backbone of most of these countries, Exim India has extended Lines of Credit (LOCs) to Senegal, Côte d'Ivoire, Mali, Burkina Faso and Niger, which are earmarked for agri-related projects and activities. Exim India also has in place an LOC to the West African Development Bank (BOAD), which is the development financing institution for the select countries, in addition to having taken equity in BOAD. Exim India has also taken equity in the African Export-Import Bank (Afrexim Bank) and the Development Bank of Zambia (DBZ), and is a member of the Association of African Development Finance Institutions (AADFI). Exim India has supported Indian companies in securing projects in countries such as Senegal, and has also supported Indian consultants to take up assignments in Côte d'Ivoire and Togo. Further, Exim India's publication titled "Market Maker: Technology Aided Business Solutions" contains project profiles in the food processing sector, which are most appropriate for SME units in Africa, including the select West African countries, while Exim India's bilingual magazine titled "Indo-African Business" focuses on promoting bilateral trade and investment relations between India and countries in Africa.

Aurobindo Pharma Limited : A Success Story

Founded in 1986, Aurobindo Pharma Limited (APL) is headquartered in Hyderabad, India. Its business activity includes producing and marketing bulk drugs {Active Pharmaceutical Ingredients (APIs)}, intermediates and speciality generic formulations. In 1995, it became the leading domestic supplier of bulk Semi Synthetic Penicillins (SSPs), moving up from the 36th position in early 1990s. Currently, it ranks among the top 5 pharma companies in India and is a multi product, multi technology, transnational company. Today, the Company's products are sold in India and over 100 other countries.

Mr. P.V. Ramaprasad Reddy is the Chairman and Mr. Nityanand Reddy is the Managing Director of APL. The Board is broad based comprising six non-executive independent directors. Promoters hold around 56% of the equity. There has been an increase in participation from global investors, reflecting the growing confidence in APL's capabilities. Foreign institutional investors, including Templeton and Standard Chartered, have picked up about 6.75% and 6.03% equity stake, respectively, in APL through the secondary market route.

The company's product portfolio is spread over 6 major product areas encompassing Antibiotics, Anti-Retro Virals (ARV), Cardio Vascular System, Central Nervous System, Gastro-enterologicals, and Anti-Allergics, with around 65 APIs in the non-antibiotics and over 55 APIs in the antibiotic segment. The company has been the first to introduce some of the latest generation products in India such as Cefoperazone, Cefepime and Cefpirome.

APL has invested significant resources in building a mega infrastructure for APIs and formulations to emerge as a vertically integrated company. APL's 5 units for APIs and 4 units for formulations are designed for the regulated markets. US FDA has approved five manufacturing units of the company, covering APIs and formulations. Medicines and Healthcare Products Regulatory Agency, UK (UK MHRA) and South African MCC have approved three production facilities each.

APL commenced commercial production of SSP bulk drugs in 1988 at Pondicherry. From 1993 upto 1998, APL set up 5 manufacturing units near Hyderabad for manufacture of bulk drugs, formulations, intermediates and bulk sterile products. In 1999, APL set up two pharmaceutical formulation plants, partly financed by Exim Bank at Rangareddy and Medak districts in Andhra Pradesh. This marked the beginning of Exim Bank's association with the company. The other two formulation units are located at Andhra Pradesh and California, USA. In 2000, APL set up a R & D centre, part financed by Exim Bank under its R&D Programmme. Exim Bank alongwith Development Bank of Singapore, Beijing, financially assisted APL in setting up a Wholly Owned Subsidiary in China to manufacture 6 Amino Penicillian Acid (6APA), one of the principal raw materials that goes into the production of SSPs.

In 2003, Exim Bank also sanctioned foreign currency pre-shipment credit to APL and is now part of the multiple banking arrangement.

The net worth of the company stood at Rs.8.80 bn as on 31st March 2005. APL achieved net sales of Rs.1085 crore and net profit of Rs.35 crore as on 31st March 2005. APL, during the last three years, has been consistently achieving an export orientation of more than 50%. The export turnover for the year 2005 was Rs.554.62 crore, i.e. 51.12 % of net sales. There is high export potential for generics to regulatory markets in view of the majority of the products going off patent. The Company holds seven product approvals from US FDA. The Company has accelerated the DMF/ANDA filings programme. Cumulatively, the Company has filed a total of 89 DMFs (Drug Master Files), of which 45 are with US FDA, and 44 in Europe. APL has geared up in the ARV segment by clinching more approvals under the President's Emergency Plan for Aids Relief (PEPFAR) program, a five year programme to fight HIV/ AIDS pandemic. APL has started marketing its products under this programme. The US government has earmarked US$15 bn for the PEPFAR programme. As of date, the company has received approvals for eight products.

After creating a name for itself in producing APIs and intermediates, the company is poised for major growth in its speciality generic formulations business. It has potential both in regulated and other global markets. It is one of the world's top 5 manufacturers of SSPs and has Asia's largest sterile API facility.

Performance Highlights of Exim Bank: 2005-06

Financial Performance

- Profit After Tax amounted to Rs. 271 crore, registering a growth of 5%.
- Rs. 86.75 crore was paid to the Central Government as dividend, as compared to Rs. 65.44 crore in 2004-05.
- Capital adequacy stood at 18.42%.

Business Performance

- During the year, 568 export contracts worth Rs. 13530 crore covering 64 countries were secured by 174 Indian exporters with Exim Bank's support.
- Loan sanctions aggregated Rs. 20489 crore, an increase of 29% from the previous year.
- Disbursements aggregated Rs. 15039 crore, an increase of 32% from the previous year.
- Loan Assets increased by 34% to Rs.18028 crore as on March 31, 2006.
- Net NPAs/Net Loan Assets stood at 0.59%, improving from 0.85% in the previous year.
- During the year, Bank extended 20 lines of credit (LOCs) amounting to US$ 836 mn. As on March 31, 2006, the Bank had 59 LOCs with credit commitments aggregating US$ 1.74 bn available for utilisation, covering 78 countries.
- Bank sanctioned and issued guarantees aggregating Rs. 4326 crore and Rs. 2196 crore, respectively.
- Net profit per employee for the year 2005-06 was Rs. 1.36 crore.

Resources / Treasury

- Bank raised borrowings of varying maturities aggregating Rs. 7886 crore comprising rupee resources of Rs. 4384 crore and foreign currency resources of US$ 785 mn equivalent. Foreign currency resources raised during the year included JPY 23 bn by way of Samurai bond offering, which is the first such offering from India in 15 years.
- The Bank's debt instruments continued to enjoy the highest rating from CRISIL and ICRA.
- Bank obtained 'BBB' rating which is one notch above investment grade rating from Japan Credit Rating Agency (JCRA) in August 2005. Bank also has in place ratings from International Credit Rating Agencies, Moody's (Baa3), Fitch (BB+) and S&P (BB+), on par with sovereign rating.

New Initiatives

Rural Grassroot Business Initiatives

- The Bank has signed Memoranda of Cooperation with DHAN Foundation (a leading NGO active in 4 states) for marketing, advisory and financial support for export related activities, with BASIX, Hyderabad, and Uravu (an NGO involved in employment generation programs in the bamboo sector for tribal and poor families in Waynad, Kerala) for promoting products of rural enterprises. The Bank, in association with NABARD and Bank of India, is in dialogue with non-profit organisations in USA to promote Madhubani paintings from Bihar.

Financing R&D and New Product Development for Pharmaceutical/ Biopharma Industry

- Exim Bank has introduced a structured product for pharmaceutical companies for facilitating R&D expenditure with the aim to assist approvals in regulated pharmaceutical markets.

Development of Natural Resources Abroad

- There is an increasing trend in Indian companies in the development/ exploitation of natural resources in foreign geographies. Exim Bank selectively supports Indian companies in these endeavours as a means of strategic support.

Pan-Asia Project Development Fund

- The Bank is in the process of investing US$ 10 mn in the Pan-Asia Project Development Fund sponsored by Infrastructure Leasing & Financial Services Ltd. and Orix Corporation, Japan. The objective is to catalyse involvement of Indian companies with project execution capabilities towards participating in infrastructure projects across Asia by providing seed capital.

Quarterly Publication: India-China Newsletter

- The Bank introduced a new publication titled 'India-China Newsletter', a quarterly bilingual (English and Chinese) newsletter focusing on issues relating to bilateral trade and investment relations between India and China.

Overseas Investment Finance Programme

- During the year, 21 corporates were sanctioned funded and non-funded assistance aggregating Rs. 1132 crore for part financing their overseas investments in 13 countries. Exim Bank has so far provided finance to 144 ventures set up by over 120 companies in 45 countries.

Planning and Research

- Research publications brought out during the year have focused on export potential of select sectors such as leather, petroleum products and floriculture, as also India's trade and investment potential with Select West African countries and Gulf Cooperation Council countries. Bank also brought out a study titled 'Essays on Globalisation and Wages in Developing Countries' during the year.

ADFIAP Award for Trade Development

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Development Award recognises and honours ADFIAP member institutions, which have implemented or enhanced outstanding and innovative development projects during the year.

The Bank has been conferred the 2006 'Trade Development Award', in recognition of the Bank's programme for supporting village and rural industries that proactively creates an enabling environment for small and micro enterprises in the rural and village hinterlands of India to explore newer geographies leveraging upon the Bank's extensive institutional and trade promotion linkages. The Bank was previously conferred this award in the years 2002, 2004 and 2005.

Annual Supplement 2006 to the Foreign Trade Policy (FTP) 2004-09: Highlights

Recognising the dynamic nature of international trade and the consequent need for periodic realignment of India's international trade strategies, the Annual Supplement, announced on April 7, 2006, has sought to address contemporary issues while also introducing a number of measures for: identifying and nurturing special focus areas which would generate additional employment opportunities in semi-urban and rural areas; identifying focus markets and focus products; and simplifying procedures and reducing transaction costs. The highlights of the Annual Supplement 2006 to the Foreign Trade Policy 2004-09, are as under:

1. Products-market Focus

Focus Product Scheme - The Scheme provides incentives to export of products, which have high employment potential in rural and semi-urban areas, in order to offset the inherent infrastructure bottlenecks and other associated costs involved in marketing of such products. The Scheme allows duty credit facility at 2.5% of the FOB value of exports on fifty percent of the export turnover of notified products, such as value added fish and leather products, stationery items, fireworks, sports goods, and handloom & handicraft items.

Focus Market Scheme - The Scheme aims at penetration of strategic markets by Indian products, especially markets in which India's exports are comparatively low by offsetting the high freight costs and other impediments faced in accessing select international markets. The initiative will enhance India's export competitiveness in these regions. The Scheme allows duty credit facility at 2.5% of the FOB value of exports of all products to the notified countries.

2. Promoting Rural and Agro Products

Vishesh Krishi Upaj Aur Gram Udyog Yojana - Keeping in view the objective of the FTP to promote employment generation in rural and semi-urban areas, exports of village and cottage industry products have been awarded a duty-free scrip at 5% of FOB value of exports. To promote the use of domestic farm produce in agricultural exports, a built-in incentive has been introduced for exporters utilising domestic raw materials for export production. Such exports would now get additional benefits at 1.5% of FOB value of exports .

3. Promoting Services Exports

A number of features have been added to the "***Served from India" Scheme*** to encourage services exports, which include the following:

- Benefits of the Scheme earned by one service provider of a Group company can now be utilised by other service providers of the same Group Company including managed hotels.
- Service exports in Indian Rupees will now qualify for benefits under the Scheme.

4. India Emerging as Gems and Jewellery Hub

A number of measures have been introduced to facilitate export of value added products, easier product movement across borders and allow import of precious metal scrap for refining, including:

- Import of precious metal scrap and used jewellery has been allowed for melting, refining and re-export of jewellery;
- Gems & Jewellery exporters have been allowed to re-import the rejected precious metal jewellery subject to refund of duty exemption benefits on the inputs only.

5. Automotive Hub

To facilitate the emergence of India as an important centre for sourcing auto-components, import of new vehicles by auto component manufacturers for R&D purposes without homologation (prior approval) has been allowed, subject to conditions.

6. Aviation Sector

Supplies of stores (food, beverages and other supplies) and refueling of long distance flights have emerged as a big business opportunity. In light of this, such supplies are being brought on equal footing with other exports, and supplies of stores on board the foreign going vessel/aircraft shall be treated as exports for the purpose of availing benefits under various Export Promotion Schemes.

7. Duty Free Import Authorisation Scheme

A new scheme has been introduced, which offers the facility to import the required inputs before exports, and allows transferability of scrip once the export obligation is complete. Imports made under this authorisation will be exempted from payment of basic custom duty, additional customs duty, education cess, anti-dumping duty and safeguard duty, if any.

8. Trade Facilitation

- Interest for delayed payment of refunds would be made by the Government to ensure accountability and reduce delays;
- Units (status holders) having physical turnover of Rs. 15 crores have been allowed the facility of submitting consolidated procurement certificate and pre-authenticated procurement certificates;
- To accelerate cargo clearances, it has been decided to allow pre-shipment test certificates from accredited international agencies in lieu of demanding only test reports.

Indian Floriculture Industry

The world floriculture market is estimated to be worth US$ 60 bn. The production is growing at a rate of 8 – 10 % per annum. The global exports of floriculture products stood at US$ 12.39 bn in 2004. With an estimated 8% annual growth rate, world exports are expected to reach US$ 16-18 bn by 2010.

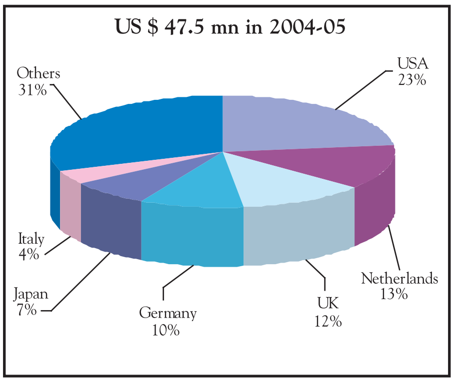
Floriculture in India

The total area under floriculture cultivation in India is estimated to be more than one lakh hectares. Maharashtra, Karnataka, Andhra Pradesh and Haryana have emerged as major floriculture centres. Tamil Nadu is estimated to have the highest area under floriculture production followed by Karnataka, West Bengal, Andhra Pradesh and Maharashtra. A number of Export Oriented Units have been setup in the floriculture segment in the last decade and half. Liberalisation and the Plant, Fruits and Seeds (Regulation of Import into India) Order, 1989, also known as the New Seed Policy, has already made it feasible to import planting material of international varieties into India.

India's exports of floriculture products amounted to US$ 18 mn in 1995 and stood at around US$ 47 mn in 2004, which is only 0.38% of the world exports of floriculture products (US$ 12.4 bn). In 2004-05, India's exports of cut flowers and foliage were valued at US$ 41.8 mn, while bulbs and live plants exports stood at US$ 5.7 mn. Over 95% of Indian cut flower exports are different varieties of roses.

Government of India acknowledges the potential of the floriculture industry and has conferred 100% export oriented industry status. The Government is offering various incentives, which have enabled the setting up of a number of floriculture units for producing and exporting flowers. Most of these are located near Mumbai, Bangalore and Delhi. These units have obtained technical know-how from Dutch and Israeli consultants.

Countrywise Exports of Indian Floriculture



Source: Directorate General of Commercial Intelligence and Statistics.

Challenges

Although production cost of Indian flowers is competitive, the high freight cost puts the industry at a competitive disadvantage position. Paucity of air cargo space for flowers is another challenge affecting the growth in exports. It is also being cited that small unit size of the flower farms in India acts as a constraint due to absence of economies of scale. Another challenge for Indian flower exporters is to diversify and reduce the dependency of producing cut rose alone. The flower plants, majority of them being roses, are of older varieties. Also they are old plants ranging from 7-9 years, whereas the peak productive phase of the plants on an average is only 3 to 5 years. Some of the challenges that need collective attention include improvement in production / supply infrastructure, easing the availability of basic inputs including seeds and planting materials, adherence to quality and environmental parameters, and diversification of products.

Opportunities for India

The market for cut flowers consists of a range of product groups, which offer diverse export opportunities for countries like India. However, it is a highly competitive market in which importers are continually seeking new, special and different products. A new product also offers the prospect of making higher profits than those gained from selling conventional floriculture products.

Demand for foliage varieties is still increasing in Europe, particularly for small leafed foliage for use in bouquets. Furthermore, European importers do not have any reticence about using tropical foliage. The opportunities are optimal for tropical countries like India in supplying products during periods when these products are scarce in the western markets.

In order to compete, Indian exporters must be able to supply products of consistent quality and on a regular basis. This would require investment in adequate infrastructure facilities such as cold chains, cargo handling and container facilities for floriculture. With a strong preference for direct marketing and private R & D for developing proprietary products, the industry will have to develop a unique selling proposition to increase the competitiveness. Joint initiatives may be taken for creation of appropriate infrastructure for production, post-harvest handling and transportation of floriculture products. Establishment of model nurseries for supply of genuine planting materials, and distribution of environmentally friendly production and planting materials are other factors required for penetrating the western markets. The marketing and distribution channels also need to be strengthened. With such initiatives, it may be inferred that the structure and composition of the Indian floriculture industry may undergo major changes in the future.

Rural Grassroot Enterprises in India: Exim Bank's Initiatives

India has a very rich and diverse base of artisan related industry which is highly employment intensive, eco-friendly and based on traditional skills. Typically, these employ simple manufacturing processes that use hand tools or simple machines with low energy usage for fulfilling the local market needs. Such products may be handmade textiles, handicrafts, bamboo products, agro products, artwork like paintings, artifacts, metal based products, etc and are generally produced in clusters.

In order to help the sector integrate with the industry at large within the liberalised economic framework, the Government of India has taken various policy measures. Non Governmental Organisations (NGOs) / Self Help Groups (SHGs) are also active in this direction. Awareness and demand for traditional Indian products internationally has grown in recent years with the expanding Indian diaspora. However, the export potential for such rural products has not been tapped.

Exim Bank's Focus

Exim Bank, as part of its agri business initiative, has been endeavouring to assist exports of products from rural and small and medium enterprises (SMEs). Towards this end, the Bank has assisted exports of honey, financed setting up of food processing plants in select states, exports of handmade paper, dried flowers, medicinal plants, etc., where the SMEs supported have developed backward linkages with farmers / rural poor for procurement of raw materials. However, considering the absence of an institutional support mechanism for export of rural products on an ongoing basis, a need was felt to take up export marketing activities of such rural enterprises in a more structured and systematic manner.

It was with this objective that Bank took up a new initiative in seeking to provide international market access to products from rural grassroot enterprises. To support and scale up Indian handicrafts and non-farm products from rural India, Bank has partnered with select NGOs in different states in India. While some of the activities of these NGOs are oriented towards the concerned state, others' encompass entire India.

Exim Bank's Initiatives

Bank's initiatives in the rural sector were formalised after supporting a grassroot level workshop at Sivaganga, Tamil Nadu, in June 2005 in association with DHAN Foundation, Madurai, which is a NGO with active presence in 4 states. The workshop enabled the Bank to understand the dynamics of rural industries and the need for external support for capacity building.

Exim Bank, today, has partnership arrangements in place with DHAN Foundation (DHAN), Madurai, Tamil Nadu, a professional development organisation working for poverty reduction through capacity building; BASIX, Hyderabad, Andhra Pradesh, a new generation livelihood promotion institution and pioneer microfinance institution in India; Uravu, a trust based in Wayanad, Kerala, engaged in development of bamboo-based rural products; and CARE-India, an international developmental and humanitarian organisation established in 1950 for fighting poverty in India. Further, the Bank, in association with NABARD and Bank of India, is in dialogue with NGOs in USA to promote export of Madhubani paintings from Bihar. All these partnership arrangenments aim at promoting exports, especially from the rural areas, for the products made by these partners and their associates.

Exim Bank is working on various fronts with these institutions to support rural products. While rural non-farm products, artifacts and handicrafts produced by the partner SHGs find only local markets or, to a lesser extent, urban markets in metros, they rarely reach the higher end international markets where they can derive more value. This is despite the fact that these rural products and handicrafts have strong 'product-equity' and would capture higher value if properly marketed overseas. The need to market overseas is further buttressed by an increasing awareness among the global populace at large, about ethical and fair trade organisation, products of which fetch a premium in the developed country markets.

Other Initiatives

Exim Bank's efforts are aimed at facilitating not only the visibility of rural products in the international market but also to find alternative channels through partnership arrangements with corporates in India. Towards this end, the Bank was successful in getting a mandate from ITC Ltd. to market their 'Mangaldeep' brand of agarbattis (incense sticks) in select overseas markets leveraging Bank's strong network. Further, ITC has mandated Uravu for sourcing incense stick holder made of bamboo exclusively to embrace ITC's high-end agarbatti range. The Mangaldeep agarbatti and the wooden holder are being exhibited by ITC in a craft fair in Paris.

Exim Bank has supported Subiksha Ayurvedics (Subiksha), a Coimbatore-based Cottage Industry firm engaged in manufacturing aromatic hand-rolled agarbattis (incense sticks). Subiksha has developed a range of 'proprietary' flavour formulations that are added in its incense sticks. Exim Bank, besides assisting Subiksha in acquiring international market presence through its overseas network, is also extending export credit for supporting its exports to Brazil and Israel.

The products of Exim Bank's partner NGOs have been displayed at international events including Pangea Artisan Market and Café (PAMC) and Commonwealth-India Small Business Competitiveness Development programme. PAMC is part of International Finance Corporation (IFC)'s Grassroot business initiative under which IFC has set up a store dedicated for display of various handmade merchandise/crafts from various rural areas of the world, primarily made by small businesses.

EXIMIUS CENTRE COLUMN

In the second quarter April-June of 2006, the Centre organised the following programmes:

❖ A series of seminars on *"Business Opportunities in African Development Bank Funded Projects"* was organised at New Delhi on April 17 and Pune on April 20, 2006. The objectives of the seminars are to encourage Indian project exporters, turnkey contractors and consulting firms to participate in the African Development Bank (AfDB) funded projects, and enhance their prospects of effective participation. A team of experts, led by Mrs. Aud Marit Wiig, Executive Director for India at AfDB, provided detailed information on procurement guidelines of AfDB to enable Indian firms prepare and submit responsive bids.

  Projects funded by Multilateral Funding Agencies, such as the African Development Bank, present attractive business opportunities for suppliers, contractors and consultants. Exim Bank actively promotes effective participation by Indian companies in such opportunities by providing a range of information, advisory and support services.

❖ A one-day *"Entrepreneurial Development Workshop"* was organised at Gwalior, Madhya Pradesh, on June 2, 2006. The workshop covered various aspects of launching an export venture, through lectures, panel discussions and group work. The programme was organised with the objective of broadening the country's exporter base through motivating the existing and potential entrepreneurs in smaller industrial centres.

❖ An interactive session on *"Opportunities for Investment in Australia"* was organised on June 7, 2006 at Eximius Centre, Bangalore, with the objective of informing the advantages, facilities and incentives offered by Australia, to the potential investors. Ms. Sandra Fox, Senior Manager, International Operations, served as the faculty for this session.

  With substantial intra-regional trade taking place in the Asia-Pacific region – the world's fastest growing region – Australia is becoming a preferential business base for many multinational companies.

❖ A series of interactive seminars on *"Investment Opportunities in Bahrain"* were organised at Chennai and Pune on June 26 and June 29, 2006, respectively. The objectives of these seminars were to inform potential overseas investors about the advantages, facilities and incentives offered by Bahrain. A team of experts from Economic Development Board, Bahrain, served as faculty for these seminars focussing on sectors such as automotive, textiles and engineering.

Other programmes on the anvil include:

❖ A one day workshop on *"Export Procedures & Documentation"*, in association with the Orissa Assembly of Small and Medium Enterprises, at Bhubaneswar on July 12, 2006. The workshop will cover various aspects of export procedures such as the Foreign Trade Policy, Customs procedures, RBI Foreign Exchange Procedures and Export Credit Risk Insurance.

❖ A series of informative seminars on *"Business Opportunities in The British Midlands"* will be organised at different centres, viz. Ahmedabad, Kolkata, Bangalore, Hyderabad and Coimbatore in July / August 2006.

❖ A one day workshop on *"How to Initiate Export"* is being organised at Siliguri, West Bengal in August /September, 2006. The workshop will cover various aspects of launching an export venture, through lectures, panel discussions and group work.

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

India and the Knowledge Economy: Leveraging Strengths and Opportunities

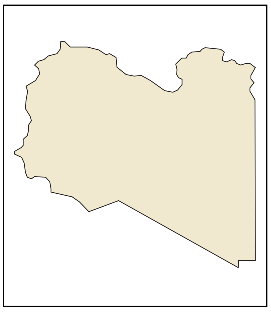
World Bank, 2005

The World Bank publication "India and the Knowledge Economy" attempts to evaluate the economic gains India could reap by developing policies and strategies that focus on effective use of knowledge to increase overall productivity of the economy and welfare of its population. There exists great potential in India for increasing productivity by shifting labour from low productivity and subsistence activities in agriculture, informal industry and service activities to more productive modern sectors, as well as to new knowledge-based activities. The book suggests that India should continue to leverage its strengths of critical mass of skilled, English-speaking workers, well functioning democracy, large domestic market, widespread diaspora and a host of other advantages. The book provides a 'big picture' assessment of India's readiness to embrace knowledge and highlights some of the key constraints and emerging possibilities facing India on four critical pillars of the knowledge economy, namely, 1) strengthening the economic and institutional regime, 2) developing educated and skilled workers, 3) creating an efficient innovation system, and 4) building a dynamic information infrastructure.

The book makes following suggestions: (a) Designating the Prime Minister's Office as national "knowledge" champion to advance the knowledge economy agenda by integrating the economic reform agenda with initiatives already taking place in more functional areas, (b) Organising a Knowledge Economy Task Force headed by the Prime Minister and comprising stakeholders from government, the private sector, academia, think-tanks, research organisations, and NGOs, to determine ways of co-ordinating action to tackle key reforms and sequence the investments necessary to move India successfully into the knowledge economy of the 21st century.

Libya

With the lifting of UN sanctions and the removal of US trade embargo, Libya would gradually have greater access to credit from international lenders. The US has also lifted the ban on the US Export-Import Bank providing loans to US companies operating in Libya.



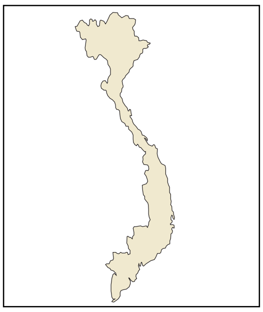
Foreign direct investment (FDI) inflows are expected to register a rise in the coming years, with large-scale development plans in the offing, both for the oil industry and for infrastructure projects. The economy, which is dominated by the hydrocarbons sector, registered a robust growth of 8.5% in 2005, attributed to high global oil prices as also increased investment. In October 2005, for the first time, Asian companies from India (Oil India and ONGC Videsh), China, Japan and Indonesia, secured the right to explore and develop oil fields in Libya.

Gabon

Real GDP growth of Gabon is expected to edge up from 2.1% in 2005 to 2.3% in 2006, aided by high international oil prices and only a small decline in crude oil production. In November 2005, the Government of Gabon signed a production sharing agreement with four Indian companies for the FT-200 Shakhti onshore license - Marvis PTE, Oil India, Indian Oil Corporation and Oil & Natural Gas Corporation. This is the first entry into Gabon by Indian companies and reflects increased interest by India in mineral and oil exploration opportunities in Africa, in competition with fast-growing interest from China.

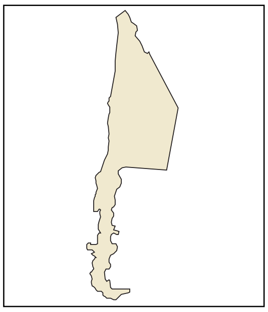
Vietnam

With a view to improve the legal environment for investment, the government has recently passed the new Law on Investment, which would come into effect in mid-2006. The country's gas prospects are promising, with natural gas reserves in the Nam Con Son basin estimated at nearly 60 bn cu metres. The Nam Con Son gas project in the country is operated by a consortium of UK-based BP, ONGC Videsh of India, and ConocoPhillips of the US, along with the state-owned Vietnam Oil and Gas Corporation (Petro Vietnam). The rapid pace of growth in international tourist arrivals is set to continue, with improvements in hotel standards, frequent international flights and reputation as a safe tourist destination.



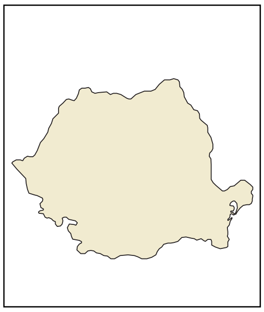
Chile

According to the govern-ment's agricultural policy institute, Odepa, Chile's agricultural and forestry exports are forecast to reach US$ 10.2 bn in 2009, and further to US$ 14.4 bn by 2014, up from US$ 7.5 bn in 2004, helped by the country's widening range of free trade agreements (FTAs), including those already in operation with the US, EU, Mexico, South Korea and Mexico, and prospective FTAs with China, Japan and India. With great agriculture potential, Chile has emerged as the largest fruit exporter in the world. Chilean wine production reached a new high of 788 mn litres in the 2005 season, and the country is the fifth largest wine exporter, after France, Italy, Spain and Australia. The FTA with China, which has emerged as Chile's second largest trade partner after the US, is expected to come into effect in mid-2006, and would serve to enhance bilateral trade and investment flows between the two countries. Chile's Molymet, the world's largest manufacturer of molybdenum, has announced plans to form a joint venture with a Chinese Group to build a molybdenum plant in China involving investment upto US$ 100 mn.



Romania

Reflecting improved business environment, FDI inflows into the country touched € 5.2 bn in 2005, which is expected to reach a record € 7-8 bn in 2006, boosted by the sale of Banca Comerciala Romana (BCR), receipts from privatisation in the energy sector, and continued greenfield investments. FDI inflows play an important role in technology upgradation and industrial restructuring in the country. The automotive industry has one of the highest levels of foreign penetration and is dominated by Dacia, owned by Renault (France). FDI is also leading to modernisation and quality improvements in the pharmaceuticals sector, with increasing number of domestic producers meeting Good Manufacturing Practice (GMP) standards, thereby improving prospects for exports. GlaxoSmithKline (UK), the leading pharmaceutical company in Romania, has invested over US$ 70 mn in Romania, and plans to invest further in upgrading its chain of Europharm pharmaceutical outlets.



Select Currencies

South Korean Won-

The South Korean Won (KRW) was floated in December 1997 after the South Asian Financial crisis. The exchange rate is market determined and any intervention by the central bank is to moderate wild fluctuations, keeping an eye on the Won's competitiveness. The Bank of Korea follows an inflation targeting policy and has raised interest rates four times between October 2005 and June 2006. The central bank raised the interest rate by a quarter basis points to 4.25% on June 8, 2006 to contain inflationary pressures. The annual rate of core inflation rose to 2.0% p.a. in May from 1.6% p.a. in April. KRW generally tracks the movement of Japanese Yen against the US$ as the economies of Japan and South Korea are closely linked to each other. The KRW has been appreciating against the dollar and touched an eight and a half year high of 927.30 per US$ on May 8, 2006, tracking the movement of Japanese Yen. The KRW has weakened about 2% since then due to central bank's intervention and a falling stock market. Firm KRW and high oil prices remain key risks to growth in South Korea's economy, which relies heavily on export of electronic goods and cars. For the first four months, South Korea posted US$ 257.5 mn current account deficit on a seasonally adjusted basis compared to US$ 7.27 bn current account surplus during same period of 2005.With the current account deficit increasing and export and industrial production expected to be slower in second half, the KRW is likely to weaken against the US$ in the near term. On June 30, 2006 KRW was quoted at 948.90 per US$.

Great Britain Pound-

After the collapse of the Bretton woods fixed exchange rate regime in 1971, the British Pound (Sterling) started as a floating currency at US$ 2.55 and rose as high as US$ 2.64 the following year. Although in the '70s and early '80s, the Pound stayed above US$ 2 for most of the times, it started to fall in value and has been below US$ 2 after that. The Pound touched a one-year high of US$ 1.9025 on May 17, 2006 on news of UK merger and acquisition activities and rising expectations of a UK rate hike. Interest rate differentials and the movement of Euro against the Dollar have been important drivers for movements of the Pound against the dollar. Bank of England (BOE) has kept the rate unchanged at 4.5% p.a. for the tenth month in a row at its monetary policy committee (MPC) meeting held on June 8, 2006. UK consumer price index rose to 2.0% in April from 1.8% in March, in line with the 2.0% target. There is also sign of slowing down in the property market. British house prices rose only 0.2% in May from the previous month and mortgage approval fell in April, to its lowest level in last seven months casting doubts about revival in property market. The housing market segment is one of the major sectors considered by BOE while determining the Monetary Policy. Economists are now expecting BOE to keep interest rates on hold at 4.5% p.a. till the end of the year. Decline in the Pound would be limited despite the outlook for higher US rates as concerns about the US trade deficit deepen and keep the dollar on its broad downward trend. As on June 30, 2006 the British pound was trading at 1.8472 per US$.

Brazilian Real-

The Brazilian Real (BRL), floating independently against the US$ since January 1999, is viewed as one of the strongest currency in emerging Latin America markets. The BRL has been steadily appreciating against the US$ since Oct 2002, touching a 5 year high of 2.053 per dollar on 10th May 2006 before the FED raised interest rates to 5% on hopes that US Federal Reserve will stop raising interest rates. The BRL has been appreciating against the US$ on improving economic fundamentals and high overnight interest rates (called Selic interest rate). The central bank of Brazil (BCB) has been following an easy monetary policy and has cut the Selic interest rates to 15.75% from a high of 19.75% in the middle of 2005. The BCB's Monetary Policy Committee (COPOM) is expected to reduce the Selic interest rate by 50 points to 15.25% in the next policy meeting on improving economic fundamentals and low inflation. April consumer price inflation reached its lowest level in Brazil since August 2005 to 0.2%. On the fiscal front, Brazil government has an annual public sector primary surplus target of 4.25% of GDP. This is expected to come under pressure during the second half due to higher spending ahead of presidential elections in October. The BRL is expected to be more vulnerable if there is slower global economic growth and higher US inflation, which will result in higher US interest rates. The central bank will also curb real gains, as a strong BRL will hurt exporters. Overall the BRL is likely to weaken against the Dollar. On June 30, 2006 BRL was trading at 2.165 per US$.

Role of the State in Trade and Development

Delivering the Twenty-first Annual Commencement Day Lecture of Exim Bank, *Sir Suma Chakrabarti, Permanent Secretary, Department for International Development (DFID), United Kingdom,* highlighted the importance of a strong state to tackle an increasingly challenging national and international development agenda.

Arguing for an effective state, Sir Chakrabarti stressed that while the private sector is the very motor of economic growth and at the heart of trading nations, the role of the state assumes significance in ensuring an enabling environment for the private sector to perform to their potential.

According to him, the absolutely basic functions of the state would include (1) Peace and security, without which it is almost impossible to invest, and sometimes impossible even to do business; (2) Property rights, as there is a strong correlation between property rights and per capita income levels; and (3) Macroeconomic stability,

In delineating the role of the state in fostering economic development, Sir Chakrabarti enumerated *"7 Deadly Sins"* which the state ought to avoid:

Corruption, which is now amongst the issues of greatest concern to the public in developing countries;

Excessive regulation, which kills growth and becomes a public bad;

Trade barriers, which could be used to stifle foreign competition;

Exchange rate restrictions, which could undermine the balance of payments and affect external competitiveness;

Stifling the financial sector, wherein financial repression could be very damaging;

Fiscal profligacy, where developmental priorities are crowded out; and

Wasteful subsidies, which are justifiable neither by concerns of social equity nor by economic efficiency.

Sir Chakrabarti also pointed out *"7 Heavenly Virtues"* the state should do to promote trade and development:

Promote human development, as labour is not just one of the "factors of production", but the driver of innovation and enterprise. The case for investing in education and health rests both on equity and efficiency.

Provide infrastructure, which is a key ingredient of any successful trade and growth strategy. The state should only provide infrastructure which cannot be provided more efficiently and more effectively by the private sector;

Promote competition, which is in the public interest as reforms can have a major impact on economic growth and innovation.

Raise revenue fairly and efficiently, without reducing the incentive to work or save or consume, all of which are essential for growth.

Foster external linkages, as evidence shows that economic growth and poverty reduction is associated with greater integration into the global economy. This means more two-way trade and more foreign investment. The government must balance the interests of the consumer as well as the producer, and manage a process of providing incentives to the private sector for integration into the world economy.

Sustain the environment, as the costs of environmental degradation could be enormous and fall disproportionately on the poor. Failure to protect the environment is another classic case of market failure in which state intervention can redress the gap between what individuals will do in their own interests, and what is best for society as a whole.

Protect the vulnerable, including poor people in the economy is the only way to ensure that the whole population become more valuable as consumers and workers, the lifeblood of trade and the economy.

Sir Chakrabarti opined that the imperatives for the state would be relevant to most country circumstances, and that each agenda must be tailored to local circumstances. He remarked that there is no single "model" of a modern state and there is scope for very different approaches to be effective in different cultural settings.

At the same time, the state should not assume exclusivity in ensuring these virtues, but needs to work in ways which complement and leverage the efforts of others - the private sector and civil society.

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

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