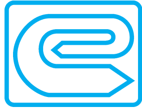
FOR PRIVATE CIRCULATION VOL. XXI ISSUE III

EXIMIUS: EXPORT ADVANTAGE



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Middle East Region: Recent Economic Development and Prospects

The Middle East Region is undergoing a remarkable period of high economic growth. The private sector is becoming the main source of new jobs as the share of domestic and foreign private investment increases. During the last few years, the Middle East has registered strong economic performances, driven, to a large degree, by high oil prices and a favorable global environment, and also by reform policies that, though gradual, are progressive.

Growth in the Region

Strong oil revenues, along with the ongoing European recovery, a more dynamic private sector and a shift toward more investment provided the momentum needed for another year of first-rate economic performance. Real GDP increased by 6.5 percent in 2006, sustaining above 6 per cent growth rate recorded in the previous year (**Table**). On a per capita basis, the region grew at an average of 4.2 percent in 2006, the highest level recorded in at least two decades.

Hydrocarbon receipts in 2006 rose by more than US$ 75 bn over the 2005 figure, reaching US$ 510 bn. Surplus funds among the oil exporters and the availability of new investment opportunities across the region (some generated by ongoing reforms) boosted inflows of foreign direct investment (FDI) to new heights of over US$ 24 bn in 2006. FDI was highest in the United Arab Emirates (UAE).

Domestic demand continues to be the main source of growth in the region, but investment has risen markedly. In addition, private investment as a share of GDP has been increasing, signaling a shift toward more private-sector led growth.

The dispersion of growth across in the diverse economies in the region remains wide, from 12.7 percent growth in Kuwait in 2006 to a decline of the same magnitude in the West Bank and Gaza. This is due not only to the fundamental split between oil-dominant and more diversified economies of the region—affected by differing trends in the external environment—but also to economic policy and attitudes toward reform, as well as to the present set of geopolitical tensions carrying strong direct and indirect effects across regional economies.

Developments in the External Sector

Economic activity among the economies of the Middle East had gathered substantial momentum by 2006, from the preceding years of escalating oil prices and heightened external revenue. To a degree, the accrual of further oil receipts in 2006 offered an

Economic Developments in the Middle East, 2006

Sl. No.	Countries	Real GDP growth (%)	Per capita GDP (US$ bn)	Consumer price index (CPI) inflation (%)
1	Bahrain	7.8	20,500	2.1
2	Iran	4.3	8,100	12
3	Jordan	6.4	4,800	6.2
4	Kuwait	12.7	22,800	3
5	Oman	6.6	13,400	3.2
6	Qatar	7.1	26,100	11.8
7	Saudi Arabia	4.2	12,900	2.2
8	Syria	4	3,400	10
9	UAE	8.9	29,100	13.5
10	Yemen	2.6	800	20.8
11	**Middle East (av)**	**6.5**	**14,190**	**8.5**

Source: EIU Country Report; World Economic Outlook 2007, IMF.
Note: Countries such as Iraq, Lebanon and Palestinian Territories are not included in the list.

opportunity to engage in shifting expenditure—from consumption to capital outlays—and to intensify efforts to encourage spillovers from the oil to the non-oil economy by involving the domestic private sector.

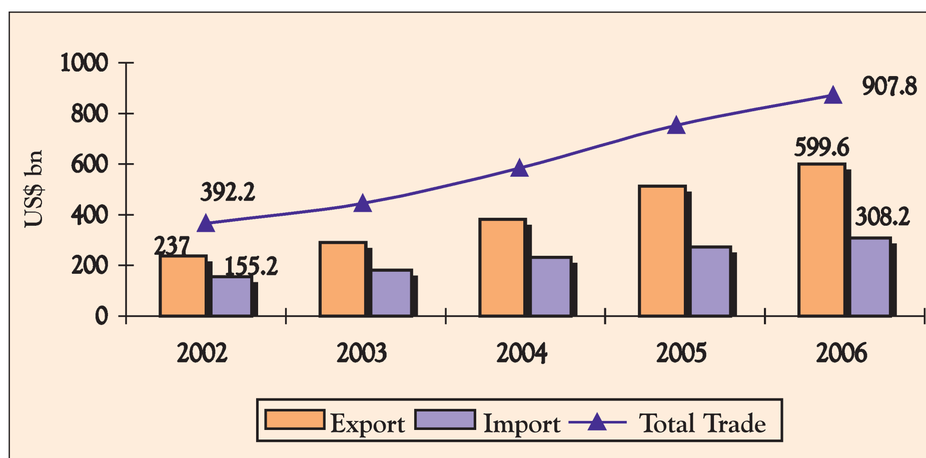
The total trade of the Middle East region has increased from US$ 392.2 bn in 2002 to US$ 907.8 bn in 2006 (**see Figure 1**). For the region as a whole, merchandise exports grew by 17 percent in 2006, though falling below the growth boom of 2004–05, when exports achieved 34 percent gains on the back of the hydrocarbons market. As petroleum and related products constitute some 80–85 percent of the region's exports, global oil demand was the fundamental driver for the region's export performance over 2005–06.

Middle East oil exporters possess nearly 60 percent of the world's reported oil reserves, and account for 36 percent of world's oil production, a situation that has largely been maintained over the last decade.

Imports into Middle East countries increased by 13 percent in 2006, stimulated by oil revenues. Capital goods accounted for 45 percent of imports, given the widespread emphasis among oil exporters on infrastructure development and other public sector investment initiatives. Consumer goods accounted for a fairly small percentage—13 percent of total goods imports—suggesting that, in contrast with previous oil booms, the current period appears to be characterised by a more focused effort to encourage longer-term development. Country-wise exports and imports in the Middle East region are presented in **Figure 2**.

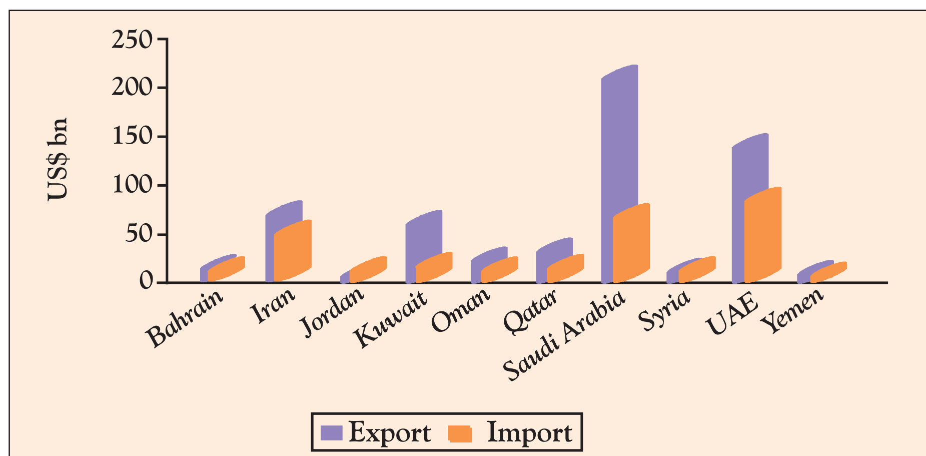
For the Middle East region as a whole, the current account surplus of the balance of payments (BOP) improved to almost 21 percent of GDP, but changes in current account positions showed wide variation in 2006. **Figure 3** presents trend in current account balance in the region. Saudi Arabia—which had stepped up oil and natural gas production in the first half of 2006 in an effort to soften rising global oil prices—saw a sharp increase in current surplus to almost 33 percent of GDP. Oman's surplus increased because of the coming online of a third LNG train, as well as implementation of an FTA with the United States at mid-year 2006, while Jordan's position moved deeper into deficit, as oil prices increased. Iran's current account surplus diminished to 5.8 percent of GDP, as oil production was cut by some 13.5 percent—in part due to capacity constraints—and imports continued on a double-digit growth path. Yemen also faced severe capacity constraints in oil production.

Figure 1: Trend in Foreign Trade - Middle East Region, 2002 to 2006



Source: EIU Country Reports

Figure 2: Foreign Trade of Middle East Countries, 2006



Source: EIU Country Reports

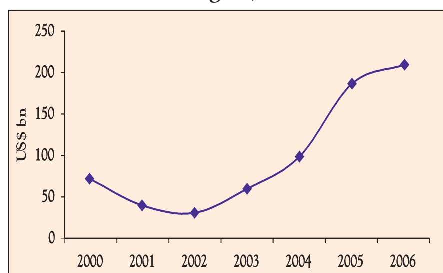
The Middle East region experienced a sharp increase in FDI flows in 2006—to a record US$ 24.4 bn—up almost 40 percent in the year, and triple the level of 2004. This is due in part to the completion of major privatisation deals and increased investments in the energy sector. Intra-regional FDI flows increased not only in the energy sector, but also in sectors such as infrastructure, real estate, and tourism. Investors from countries such as Qatar and the United Arab Emirates are expanding their sights rapidly to Middle East countries.

Economic Prospects

Several factors are likely to shape the profile for growth in the Middle East region over the medium term. The external environment is expected to be fairly conducive during 2007–09. At the same time, domestic conditions will vary decidedly across the region, as will efforts at reform.

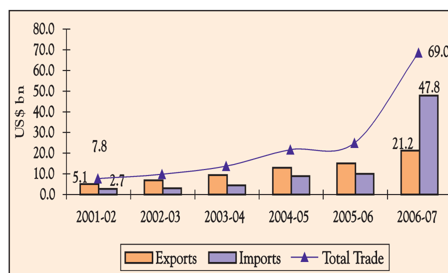
For the oil-dominant Middle East countries, the future path of oil prices, the underlying determinants of global oil demand and supply, and OPEC policy measures to hold prices within an acceptable range, are all fundamental to prospects for oil revenues and growth. The general growth outlook for the Organisation for Economic Co-operation and Development (OECD) and developing countries, in turn, helps to

Figure 3: Current Account Balance in Middle East Region, 2000 to 2006



Source: World Economic Outlook 2007, IMF.

Figure 4: Trend in Indo-Middle East Trade, 2001-02 to 2006-07



Source: Ministry of Commerce and Industry, Govt. of India

determine global oil demand—in recent years a large step-up in the importance of the latter group. Oil supply growth from non-OPEC sources also has the potential to increase in importance, providing competition for OPEC world markets.

Trends in Indo-Middle East Trade and Investment Relations

The symbiosis in bilateral commercial relations between India and the Middle East, and the potential thereof, can be assessed from the fact that total trade between India and Middle East has risen more than seven-fold during the last five years **(Figure 4)**, from US$ 7.8 bn in 2001-02 to as much as US$ 69.0 bn in 2006-07, thereby representing an impressive CAGR of 33.1%. Bilateral merchandise trade balance, which was a surplus of US$ 2.4 bn in 2001-02, turned to a deficit of US$ 26.6 bn in 2006-07, due to inclusion of oil imports into total imports data. UAE, Saudi Arabia and Iran are top trading partners in Middle East region, accounting for 56.8%, 12.8% and 6.9%, respectively, in share in total of India's exports to Middle East, as also 18.1%, 27.9% and 16.0%, respectively, in share in total of India's imports from the region. As a regional bloc, the six member countries of Gulf Cooperation Council (GCC) account for 71% of India's total trade with the region. During year 2006-07, UAE was the 2nd largest export destination and 6th largest import source for India.

As regards investment, the Middle East region attracted US$ 946.7 mn of approved cumulative investments from Indian firms during the last decade (April 1996 to October 2006), with UAE, Oman, Iran, and Saudi Arabia being the major recipient countries. FDI into India from the region amounted to only about US$ 615.2 mn (August 1991 to May 2007), indicating immense scope for enhancing mutual cooperation.

Exim Bank's Initiatives in the Middle East Region

The Middle East has always been a focus region ever since Export-Import Bank of India (Exim Bank) commenced operations in 1982, and thus forms a critical component of Bank's strategy to intensify two-way economic ties. Exim Bank's main lines of business include promoting overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy services contracts, in the form of project exports. The Middle East region is the major destination for India's project exports. The region accounts for as much as 53.4% (US$ 4.1 bn) of the total value of ongoing contracts under execution by Indian project exporters, with the support of Exim Bank. The value of contracts secured by Indian project exporters in the region, with the support of Exim Bank, has risen from US$ 146 mn in 2000-01 to US$ 963 mn in 2005-06. During year 2006-07, Exim Bank has supported 22 turnkey projects, 5 consultancy projects and 8 construction contracts in the Middle East region. Within the region, UAE, Qatar, Oman and Saudi Arabia are the major project export destinations.

With a view to support Indian companies in their endeavour to globalise their operations, Exim Bank operates a programme to support overseas investment by Indian companies through joint ventures (JVs)/wholly owned subsidiaries (WOS). Exim Bank has supported several joint ventures in Iran, Jordan, Saudi Arabia and the UAE in sectors such as engineering, pharmaceuticals, transport and petrochemicals.

Towards fostering institutional linkages, Exim Bank has signed Memoranda of Understanding (MOUs) with Sharjah Chamber of Commerce & Industry, UAE; Economic Development Board, Bahrain; Jordan Investment Board, Jordan; Qatar Industrial Development Bank, Qatar; Kuwait India Business Council, Kuwait; and Gulf Investment Corporation (GIC), Kuwait.

Exim Bank-Gulf Investment Corporation (GIC) signs Cooperation Memorandum

A Memorandum of Cooperation (MOC) was signed between Export-Import Bank of India (Exim Bank) and Gulf Investment Corporation (GIC) on August 13, 2007, in Mumbai. Mr. S. R. Rao, Executive Director, Exim Bank signed the MOC on behalf of Exim Bank and Mr. Muhammed Al-Melhem, Head of Diversified Projects Division, signed on behalf of GIC. The MOC would facilitate exchange of relevant information and joint identification of avenues to improve two-way trade and investment between GCC region and India. The MOC envisages, among others, regular exchange of information on trade, business and investment opportunities to facilitate increased co-operation between the two countries; locating suitable joint venture/trade partners in order to promote the realization of business opportunities and facilitating trade and investment between GCC region and India; co-financing and co-investment of projects.

Exim Bank carries out research on areas related to bilateral trade and investment, sector/ product/ country and regional studies as also policy issues related to the external sector, which it publishes in the form of Occasional Papers. The Bank has published an Occasional Paper "GCC Countries: A Study of India's Trade and Investment Potential", which explores India's trade and investment relations with the GCC countries.

Recently, Exim Bank opened a representative office in the prestigious Dubai International Financial Centre (DIFC), which is increasingly emerging as a major hub for financial activities in the region. The Dubai representative office of Exim Bank is set to play a key, catalytic role in enhancing the trade and investment between India and the Middle East Region.

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, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development 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 is 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, please contact **Ms. Sumana Sarkar / Mr. Ashish Kumar** on Tel: 22172623

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
The Government of the Republic of Indonesia, Ministry of Public Works, Directorate General of Highways SNVT Pembangunan Jalan dan Jembatan Jawa Barat, Jalan Surapati No. 92, City Bandung, Indonesia. Contact: Procurement Committee. Strategic Roads Infrastructure Project (SRIP). Tel/Fax: (62-22) 723-0369, 723-0368. E-mail: pan_srip_jbrbang@yahoo.com	**Strategic Roads Infrastructure Project /** The objectives of the project are to: ❑ improve economic competitiveness by impro7ving the capacity and quality of strategic national roads on the islands of Java and Sumatra; and ❑ improving road safety and increasing the efficiency, quality and transparency of works procurement and implementation in Indonesia's Ministry o f Public Works. Consultants will be required.	**World Bank** US$ 287 mn.
The Russian Health Care Foundation (RHCF), / Ministry of Health and Social Development of the Russian Federation (MOHSD) / Federal Penitentiary Service (FPS) Russian Health Care Foundation3/5, Bldg. 5, 4th Syromyatnichesky per, Moscow, 105120, Russian Federation. Contact: Vladimir A. Grechukha, Project Director. Tel: (7-495) 258-3881. Fax: (7-495) 787-2438. E-mail: grechukha@rhcf.ru	**Tuberculosis and Aids Control Project /** The objective of the project are to: ❑ contain the growth of the epidemics of tuberculosis (TB) and HIV/AIDS in the short term; and ❑ halt and reverse the courses of these epidemics in the medium term	**World Bank** US$ 150 mn.
State Enterprise National Power Company (NPC Ukrenergo Kiev) Ukraine NPC Ukrenergo Office, 25 Kominternu St., Kyiv, Ukraine .Contact: Mr. Volodymyr Buzinov, Deputy Director for Investment Program and Capital Construction. Tel: (38-44) 238-3249. Fax: (38-44) 238-3264. E-mail: kanc@nec.energy.gov.ua	**Odessa high voltage grid upgrade - construction of 330 kv line from Adjalykto Usatove** The objective of this project is to increase the reliability of power supply to consumers in the Odessa region and to decrease dependency on unstable power supply from Moldova, through modernization of the substations as well as increased reliability of the power line.	**European Bank for Reconstruction and Development** Euro 25.8 mn.
Municipal Enterprise Kaliningrad Vodokanal Kaliningrad Northern Dimension Foundation, 1B, Prazhskaya Str., Kaliningrad, 236000, Russian Federation. Contact: Mr. Vladimir Dmitrievsky, Director. Kaliningrad Northern Dimension Foundation Tel/Fax: +7 4012 34 77 50. E-mail: ndf.office@kaliningrad.ru	**Kaliningrad Municipal Water Project /** The proposed project consists of two components: ❑ implementation of the priority track rehabilitation programme to ensure adequate rail track safety standards; and ❑ a labour severance programme to support the restructuring programme of Zeljeznica Crne Gore Infrastruktura DOO (ZCG Infrastruktura).	**European Bank for Reconstruction and Development** US$ 18 mn.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
The National Water Supply & Drainage Board (NWS&DB) Office of Project Director, Secondary Towns and Rural Community Based Water Supply & Sanitation Project, No. 37, P.B. Alwis Perera Mawatha,Katubedda, Moratuwa, Sri Lanka Tel: +94-(0)11-2605285 Fax: +94-(0)11-2605352 E-mail: strcbwss@sltnet.lk	**Secondary Towns and Rural Community-Based Water Supply and Sanitation Project) /** The project objectives are to: ❑ provide safe water to 969,000 people and sanitation to 171,500 in five urban areas and in the rural districts of the North Central Province; and ❑ increase the capacity of the Government of Sri Lanka to provide safe water by strengthening the water sector institutions.	**Asian Development Bank** US$ 300 mn.
The China National Machinery Import and Export Corporation (CMC) / Foreign Capital and Technical Import Center of MOR, PRC Room 2105, West Wing of Sichuan Mansion. 1 Fuwaidajie St., Xicheng District. Beijing 100037 China. Tel: (86-10) 6899-1567 6899-1564. Fax: (86-10) 6899-1398	**Taiyuan-Zhongwei Railway Project** The project involves procurement of: ❑ Basin rubber bearing of passenger and cargo co-line railway bridges ❑ Hyperboloid faced steel bearing of passenger and cargo co-line railway or cylindrical faced steel bearing of passenger and cargo co-line railway	**Asian Development Bank** US$ 135 mn.
Rural Water Supply and Sanitation Agency, (RWASSA)/ Osun Rural Water Supply and Environmental Sanitation Agency (RWESA) Ahmadu Bello Way, P.M.B.1108 Damaturu. Yobe State, Nigeria. Tel: +234 74-522210 Fax: +23474-522210 Email: musasdf@yahoo.com/ idifika@yahoo.co **Contact:** Mr. R. Sherman	**Rural Water Supply and Sanitation Sub-Programmes in Yobé and Osun States(New)** The objective of the programmes is to: ❑ increase and sustain provision of safe water supply and adequate sanitation services to the rural population in the states of Yobe and Osun, and ❑ build institutional and sector capacity for effective management and implementation.	**African Development Bank** US$ 7773 mn.
Regional/Director of Engineering Services. Volta River Authority Electro-Volta House, 28th February Road. PO Box MB 77 Accra, Ghana. Tel: (233-21) 668-910. Fax: (233-21) 669-0040	**Program in Support of the Secondary Education Development Plan** The program supports the Secondary Education Development Plan, which aims to support efforts to increase access and improve the quality and equity of secondary education in Mainland Tanzania. SEDP has five program areas as follows: (i) Improvement of access (ii) Equity improvement; (iii) Quality improvement; (iv) Management reform and devolution of authority; and (v) Education management system improvement	**African Development Bank** ADF US$ 30.48 mn.

CONTRACT AWARDS

Select contracts secured by Indian companies:

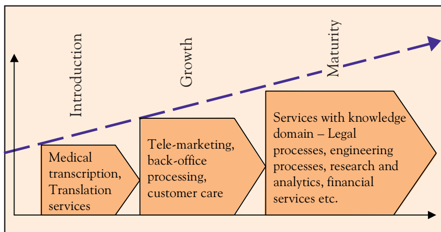
Balaji Industries & Agricultural Castings, Hyderabad	Technical Assistance contract for **Nigeria:** First National Urban Water Sector Reform Project: Rehabilitation of Ijebu-Ode Water Supply Scheme, Construction of new intake structure, Chemical building, and electrification room, Rehabilitation of pump station and Genset building, funded by **The World Bank.**
Hindustan Paper Corporation Ltd., Kolkata	Contract for supply of white cartridge paper & accessories for **Bangladesh:** Primary Education Development Program II, funded by **The World Bank.**
KEC International Limited, Mumbai	The North-South Electricity Transmission Project for **Kazakhstan:** The project includes construction of a new 475 km 500 kV single circuit overhead line; expanding the existing 1,150/500 kV substation at Ekibastuz by three bays and installing shunt reactors; and consulting services for procurement and project management – funded by the **World Bank.**
Consulting Engineering Services, New Delhi	Technical Assistance contract for Road Sector Support Project, **Uganda;** Construction Works for the upgrading of gravel-surfaced road to bitumen standard from Kabale town through Kisoro town to Bunagana; Construction supervision services for Kabale-Bunagana/Kyanika road works; Consultancy Services for Feasibility and Detailed Engineering studies of Nyakahita-Ibanda-Fort Portal Road (208 km); Consultancy Services for Detailed engineering study for rehabilitation of rural roads in 12 Districts; among others, funded by **African Development Bank (AfDB).**
Techfab International, New Delhi	Technical Assistance contract for Rural Health Care Project III, **Malawi;** focus on strategies to accelerate reduction of maternal and new born mortality, funded by **African Development Bank (AfDB).**

Knowledge Process Outsourcing: India's Advantage

Definition

Knowledge Process Outsourcing (KPO) is a higher-end version of outsourcing of business processes that require significant domain expertise. With the evolution and maturity of companies' outsourcing strategies, businesses are moving towards outsourcing high-end processes such as legal processes, market research and analytics, engineering processes, design and product development. Such outsourcing of high-end knowledge-intensive work is termed as KPO.

Exhibit - Evolution of Knowledge Process Outsourcing

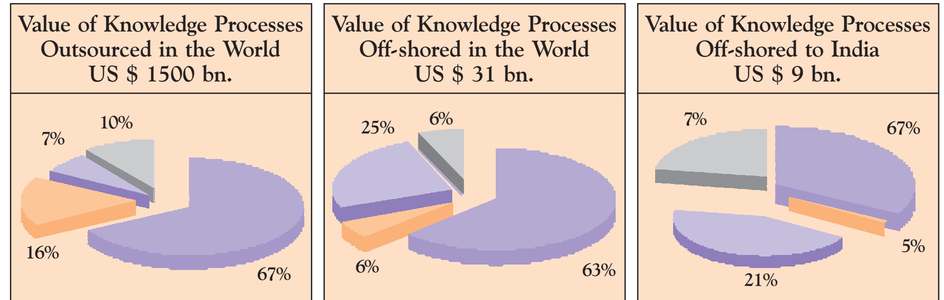


Source: Exim Research

Features

As KPO has also emerged out of the traditional cost-quality paradigm, on which Business Process Outsourcing (BPO) industry thrives, KPO is being regarded as next stage in the outsourcing value chain. Many firms have been recognizing the importance of low-cost knowledge as a key strategic tool to lower the operational costs and to compete in the world market. KPO, thus is considered to be providing higher business value to a firm that outsources its knowledge activities.

Market Size of Knowledge Process Offshoring



Source: Exim Research MRO – LPO – RPO – EPO –

MRO – Market Research Offshoring
LPO – Legal Process Offshoring
RPO – Research Process Offshoring
EPO – Engineering Process Offshoring

Market Size

Global market size for the Knowledge Process Outsourcing is estimated to be US $ 1.5 trillion; of which about 2% is being off-shored to other countries. Thus, the global market size for Knowledge Process Off-shoring (KPO_F) business is estimated to be over US $ 30 billion in 2006. Though, it appears to be a small value, the growth is over 50% in the last few years. Countries that are involved in KPO_F business include India, China, Philippines, Russia, Ireland, Israel, Mexico and Brazil. India is estimated to be having a share of 13% of world (KPO_F) business.

India's Position

Value of off-shored knowledge process services to India amounted to over US $ 9 billion in 2006. Off-shoring of engineering processes and R&D processes amounted to nearly 90% of total value of off-shored knowledge process services to India. Market research and analytics (including financial services outsourcing) and legal processes and other such services are emerging segments that have greater level of off-shoring opportunities in India.

Demand Drivers and India's Advantage

KPO_F is a high-end BPO, involving processes demanding advanced technical and analytical skills as well as judgment and decision-making abilities. It is generally believed that cost arbitrage has been the major driving force of outsourcing work to offshore centres like India. However, other factors such as quality and timely delivery, productivity vis-à-vis cost, are some of the major parameters that would be driving the demand for off-shoring in future.

Various factors influence the demand for KPO_F in the global market place. Domain expertise will be the principal driver for off-shoring a knowledge process vertical to another country. A country having skill-sets along with cost competitiveness would score high and become ideal destination for sourcing knowledge based services. India is considered as having a large pool of highly educated people, especially in the science and management streams, showing significant achievements, both domestically and globally. Such parameters position India as an ideal destination for KPO, especially for engineering processes, market / financial research, and R&D outsourcing.

Language skill is another important demand driver for sourcing knowledge based services across borders. India is in an advantageous position in this aspect mainly due to the proficiency of workforce in English language.

There are also other demand drivers such as time-zone / location, response time and regulatory framework (both in sourcing and sourced countries), which are important for growth in KPO_F. India is in an advantageous position in all these parameters too.

Greater emphasis on factors such as breadth of coverage, domain expertise, locational advantage, sales and marketing capabilities, compliance with regulatory standards and strengthening of risk management practices would help India to differentiate and sustain competitive advantage in future. India, with its vast potential, could soon emerge as a preferred destination for KPO_F.

Lines of Credit (LOC) is a special financing mechanism through which Export-Import Bank of India (Exim Bank) extends finance to support export of projects, goods and services from India on deferred payment terms. Exim Bank extends Lines of Credit to overseas financial institutions, regional development banks, sovereign governments and other entities overseas. Indian exporters can obtain payment for eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. Exim Bank also extends LOCs at the behest of Government of India.

Exim Bank has extended the following LOCs during the quarter July-September 2007:

- LOC of US$ 52 mn to Government of Sudan.
- LOC of US$ 45 million to the Government of Mali;
- LOC of US$ 10 million to the Government of Senegal;
- LOC of US$ 5 million to Nigerian Export-Import Bank (Neximbank); and
- LOC of US$ 100 million to the Government of Nepal;

Exim Bank, at the behest of Government of India, extended an LOC of US$ 52 million to the Government of Sudan. The LOC has been earmarked for financing India's exports to Sudan for setting up (i) Singa-Gadarif Transmission Line extension to Galabat, (ii) micro-industrial projects and (iii) development of livestock production and services in Sudan. Under the LOC to Sudan, Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods. This is the fifth LOC extended by Exim Bank to Sudan, at the behest of Government of India. The earlier LOCs have been utilized to finance exports from India - of goods and services such as electric equipment, solar photovoltaic cells, leather machinery, laboratory & scientific equipment as also for setting up projects such as for power generation, transmission lines & sub-stations, rehabilitation of railways.

Exim Bank, at the behest of Government of India, extended an LOC of US$ 45 million to the Government of Mali, under the "Team-9 Initiative". Team-9 envisages a special cooperation model between India and 8 countries of West Africa, viz. Burkina Faso, Chad, Côte d'Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali and Senegal. Under the Team-9 initiative, GOI provides LOCs through Exim Bank to Team-9 countries to finance setting up of various projects by Indian companies in these countries. This LOC of US$ 45 million to the Government of Mali was a second and final tranche of US$ 75 million extended to the Government of Mali for financing an inter-country project involving transmission and distribution of electricity from Côte d'Ivoire to Mali. Additionally, Exim Bank already has in place two LOCs, amounting to US$ 47.62 million, that have been extended to the Government of Mali for rural electrification and for acquisition of railway coaches and locomotives from India. Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods.

Exim Bank has, at the behest of Government of India, extended an LOC of US$ 10 million to the Government of Senegal, under the "Team-9 Initiative". The LOC has been earmarked for financing IT Training projects in Senegal. Exim Bank already has in place five LOCs amounting to US$ 78 million that have been extended to the Government of Senegal. Under the LOC to Senegal, Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods.

Exim Bank has also extended an LOC of US$ 5 million to the Nigerian Export Import Bank (Neximbank) for financing export of capital and engineering goods, industrial manufactures, consumer durables, commodities and services from India to Nigeria. Under the LOC to Neximbank, Exim Bank will provide credit for 90% of contract value to Neximbank and will reimburse Indian exporters upfront upon the shipment of goods and provision of services.

Exim Bank has, at the behest of Government of India, extended an LOC of US$ 100 mn to the Government of Nepal, for financing various road projects, rural electrification projects, power transmission projects and hydropower projects. This is the first ever LOC extended by Exim Bank to the Government of Nepal. India is the most important trading partner for Nepal, as 67% of Nepal's exports are to India and 59% of Nepal's imports are from India. Exim Bank's LOC to Government of Nepal will help strengthen India's trade relations with Nepal. Under the LOC to Nepal, Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods/ provision of services.

Exim Bank has in place over 80 Lines of Credit, covering over 80 countries in Africa, Asia, Latin America, Europe and the CIS, with credit commitments amounting to US$ 2.5 bn, available for utilization for financing exports from India. Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters.

Indian exporters seeking additional information are welcome to visit Exim India's website www.eximbankindia.in/loc.asp, which contains detailed information on Bank's LOCs, with multilingual option i.e. Spanish, French, Russian, Portuguese, besides English, and/ or to contact any of Exim Bank's offices, in India/overseas.

For further information on LOC, please contact:
Mr. P. R. Dalal
Chief General Manager
Export-Import Bank of India
Centre One Building, Floor 21,
World Trade Centre Complex,
Cuffe Parade,
Mumbai- 400005
Tel: 22185272/ 22172310 Extn. 2310
Fax: [022] 22182460
E-mail: eximloc@eximbankindia.in

PSL Limited: A Success Story

PSL Limited, the flagship company of the PSL Group, is a market leader in Steel Pipes products in India. The PSL Group traces its origin to Punj Sons Ltd., a company incorporated in 1956 with various business activities. Incorporated in 1987 as a private limited company, PSL Ltd. was converted to a public limited company in 1994.

The company's activities include manufacture of helical Submerged Arc Welded (SAW) pipes, provision of different kinds of anti-corrosive coatings on pipes, ancillary products and services relating to pipe manufacture and execution of turnkey projects. It today operates ten pipe mills at its manufacturing facilities at Kandla, Anjar, Bhachau, Daman, Visakhapatnam, Chennai and Jaipur. The Jamnagar plant caters exclusively to the Reliance petroleum refinery. The pipes manufactured are in sizes varying from diameters of 16 inches – 120 inches and thicknesses of 5 mm – 25 mm. The spiral weld pipes manufactured by PSL Ltd. are certified to American Petroleum Institute standards for oil, gas and water transmission, as well as structural and piling applications for both onshore and offshore applications.

In 1995, PSL Ltd. made an initial public offer aggregating Rs. 13.87 crore to part finance its pipe coating project at Visakhapatnam and mobile coating plant. With the doubling of capacity of the pipe mill division during the period 2000-02, the company augmented its capacity to 5,25,000 MT per year. During the same period, the company modernised its polyethylene coating plants at Visakhapatnam, Daman and Kandla. Internal cement mortar lining plants were added in accordance with customer feedback at Daman and Chennai. Exim Bank part financed the expansion in 2002 through a term loan of Rs. 18 crore, besides extending a long term working capital loan of Rs. 23 crore to PSL Ltd.

In 2003-04, PSL Ltd. further expanded the installed capacity of Spiral Arc Welded (SAW) pipes to 6,75,000 MT. Exim India extended equipment finance of Rs. 16 crore to the company in 2004. Pursuant to upgradation of the pipe mill in 2005-06 at a cost of Rs. 150 crore, the capacity now stands at 11,00,000 MT, bringing the company to a position of leadership in the industry in terms of capacity.

Since inception, PSL Ltd. has successfully executed orders for a number of clients, including Oil and Natural Gas Corporation Ltd., Gas Authority of India Ltd. (GAIL), Hindustan Petroleum Corporation Ltd., Indian Oil Corporation Ltd. (IOC) and Bharat Petrolecum Corporation Ltd. Exim India extended bulk import finance of US$ 5.40 mn to the company in 2003 to finance its imports of raw material required to execute an order from IOC. A major milestone achieved was the successful execution of a gas pipeline project for GAIL by the company's Visakhapatnam unit. This was followed by PSL gaining another order for from GAIL, for the high pressure Dahej-Vijaipur gas pipeline project.

Having gained full-fledged experience in expansion programmes carried out in the pipe mill and pipe coating divisions, the company's EPC division took initiatives to enter the international arena as an exporter of turnkey pipe mills and pipe coating plants. In 2005, PSL Ltd. bagged a contract valued at US$ 25 mn for supervision, design, engineering, erection and commissioning of a pipeline project from Ispat Karmet in Kazakhstan. A further US$ 9 mn worth of equipment was supplied by the company for a steel pipe manufacturing facility being set up in Kazakhstan.

Over the years, the company has expanded its reach in the international markets, with countries of the Middle East and North Africa being its major export markets, besides North America. To cater to the Middle East markets, the Company's wholly owned subsidiary PSL FZE is in the process of setting up a plant at Hamriyah Free Trade Zone, Sharjah, United Arab Emirates, which would have a capacity of 75,000 MT p.a. For North America, the company set up a subsidiary, PSL USA Inc. In the process, the company has also reached out to overseas collaborators to ensure maintaining of the highest international standards of its products. Some of PSL Ltd.'s technical collaborators are Commercial Resins Company of USA, Lily Powder Coating of USA, Oronzio de Nora of Switzerland, Dr. Servio Dazzi of Italy, Abbey Resources of UK, UPC Management Services Ltd. of UK and Cormach of Italy.

PSL Ltd. has steadily displayed improvements in its financial performance in recent years. From just Rs. 392 crore in 2002-03, the company increased its sales to Rs. 1583 crore in 2006-07. Net profit increased from Rs. 15 crore to Rs. 62 crore over the same period. As a partner in its progress, Exim Bank has extended a number of term loans and faciilties to PSL Ltd. from time to time, the latest being a non-fund based limit of Rs. 50 crore in 2007.

Looking to the future, the company perceives an opportunity in several water supply projects being funded by the World Bank and the Asian Development Bank across India. Internationally, with several forthcoming oil and gas pipeline projects being in the energy rich Middle East, North and East Africa and South East Asian countries, PSL Ltd. has a locational advantage compared to manufacturers in Europe and Japan. In line with this buoyancy in the pipe sector, the company is presently executing expansion plans to augment its HSAW pipes manufacturing capacity at Jaipur and Visakhapatnam.

SAARC: An Emerging Vibrant Trade Bloc

At the first SAARC Summit in Dhaka in December 1985, the heads of State or Government adopted the Charter formally establishing the South Asian Association for Regional Cooperation (SAARC). South Asian Association for Regional Cooperation (SAARC) comprises eight countries of South Asia, viz. Afghanistan[1], Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

Economic Profile

The average growth of SAARC region has reached 8.4% in 2006 from 6.0% recorded in the previous year (**see Figure**). Inflation decreased from 7.0% in 2005 to 6.5% in 2006, accompanied by sharp rise in current account deficit due to higher imports. Current account balance showed a deficit of US$ 24.1 bn in 2006 as compared to US$ 12.3 bn recorded in 2005.

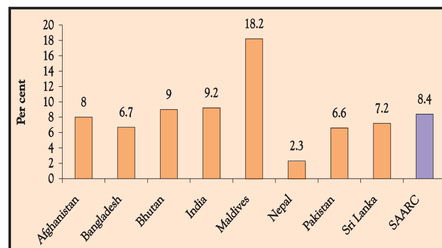
Trend in Trade

During the year 2000 to 2005 the total exports of SAARC countries increased from US$ 63.54 bn to US$ 130.06 bn. Among all the member countries, India is the largest exporter followed by Pakistan and Bangladesh. The total imports of SAARC countries also increased from US$ 78.98 bn in 2000 to US$ 188.89 bn in 2005.

The total intra-SAARC exports increased from US$ 2831.04 mn in 2000 to US$ 8471.18 mn in 2005. Exports among the SAARC countries are dominated by India, followed by Pakistan and Sri Lanka. The total intra-SAARC imports increased from US$ 2956.23 mn in 2000 to US$ 8648.44 mn in 2005. The intra-SAARC imports are dominated by Bangladesh and Sri Lanka.

[1] Afghanistan joined as a full member of SAARC on April 3, 2007. For details visit www.saarc-sec.org

GDP Growth in SAARC Countries, 2006



Source: Asian Development Outlook, 2007

SAARC has ***potential for trade*** in a number of commodities. The region has potential for exports in commodities namely, textiles, gems & jewellery, jute goods, handicrafts, fish & fish products, and engineering goods. As regards imports, petroleum & petroleum products and capital goods are the main items having import potential. Petroleum & petroleum products constitute more than 20 percent of the total imports of SAARC.

Trend in Investment

The total FDI inflow into the SAARC region increased from US$ 5.57 bn in 2000 to US$ 9.76 bn in 2005. FDI outflows from the SAARC region increased from US$ 0.35 bn in 2000 to US$ 1.49 bn in 2005. Of all the eight-member countries, FDI outflow of India is the highest with US$ 1.4 bn in 2005, followed by Pakistan (US$ .044 bn) and Sri Lanka (US$ .038 bn).

The ***potential for investment*** in the SAARC region varies from country to country. Manufacturing sector is the largest sector attracting FDI to the region. In the manufacturing sector, electrical equipment, chemicals and pharmaceuticals, and engineering goods are the fields attracting the major share of investment. Services sector is another sector having potential and receiving large direct investment from outside.

Trade and Investment Relations with India

India's total exports to the region have increased from US$ 2790.4 mn in 2002-03 to US$ 6467.1 mn in 2006-07. Further, the growth in export was reported at 16.6% in 2006-07. India's imports from SAARC countries also show an increasing trend. The total imports have increased from US$ 531.47 mn in 2002-03 to US$ 1506 mn in 2006-07. The growth in imports was reported at 6.6% in 2006-07. Total foreign direct investments from India to other SAARC countries amounted to US$ 280.44 mn during April 1996 to October 2006. Total investments of SAARC countries to India amounted to US$ 11.98 mn during August 1991 - May 2007. Among all the SAARC countries, Sri Lanka is the largest source of FDI with US$ 7.88 mn during the period, followed by Maldives (US$ 3.01 mn).

Exim Bank in the SAARC Region

Export Import Bank of India (Exim India) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with the SAARC region.

To facilitate Indian presence in the SAARC region, Exim Bank has supported a number of joint ventures by Indian companies in the sectors namely; textiles (Arvind Mills Ltd.), pharmaceuticals (Cadila Pharmaceutical Ltd.), steel (Bhuwalka Steel Industries Ltd.), glass (Gujarat Glass Ltd.) sectors in Sri Lanka; electrical (Vijai Electricals Ltd.) sector in Bangladesh, engineering goods (Orissa Industries Ltd.) and textile (Sri Sarita Synthetics Ltd.) sectors in Nepal.

Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, foreign governments and their agencies, enabling them to on-lend term loans to finance imports of eligible goods from India. In the SAARC region Exim Bank has in operation, an LOC of US$ 150 mn to Ceylon Petroleum Corporation for the export of petroleum products to Sri Lanka, and an LOC of US$ 5.0 mn to Hatton National Bank Ltd. in Sri Lanka for general purpose.

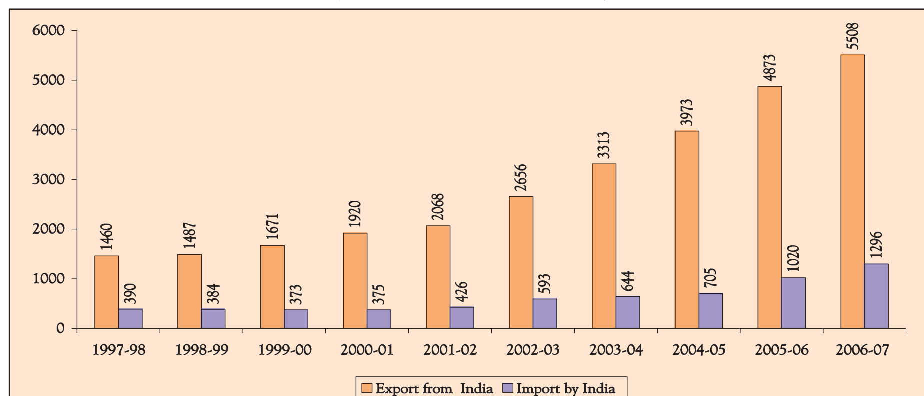
Further, the Bank has linkages with following institutions in SAARC countries: Afghanistan Investment Support Agency (AISA); Industrial Promotion and Development Co. of Bangladesh Ltd. in Bangladesh; Board of Investment of Sri Lanka, Hatton Bank Ltd. and SME Bank of Sri Lanka, Sri Lanka.

Policy Implications

Some broad recommendations to enhance trade in the SAARC region include: emphasis on exports in order to reduce the trade deficit experienced by the SAARC region; diversification of exportables based on comparative advantage; reduction in tariff level for more open trade in the region; introduction of adequate steps to attract more FDI into the region; creation of more bilateral agreements in the region; adoption of cautious exchange rate policies; and specialisation based on the principle of comparative advantage.

Indian Pharmaceutical Industry: Success Strategies

India's Export and Import of Drugs, Pharmaceuticals and Fine Chemicals (1997-98 to 2006-07)



Source: Directorate General of Commercial Intelligence and Statistics

Current Status of the Industry

Pharmaceutical industry is one of the high performing sectors of the Indian economy experiencing a growth rate of over 8%. Over the years Indian pharmaceutical sector has developed a strong manufacturing base and emerged as a major producer of generics drugs. The sector meets around 95% of the country's domestic demand for drugs. The annual turnover of the industry is over US $ 11 billion. Globally, it ranks 4th in terms of volume with a share of 8% in the world pharmaceutical market.

The pharmaceutical industry is also showing good performance in terms of exports, exporting to more than 100 countries. It is one of the top export items from India accounting for more than 4% of India's total exports. Exports constitute around 40% of the industry's total production.

The pharmaceutical industry in India is highly fragmented with more than 11,000 registered units, of which 300 units are of large and medium scale and more than 10,000 are small-scale units. In terms of value, however, top 20 players control more than 50 per cent of total market size. Some of the top players include Ranbaxy, Cipla, Dr Reddy's Laboratories, Nicholas Piramal, Aurobindo Pharma, Cadila Healthcare and Sun Pharmaceuticals.

Success Strategies of Indian Pharmaceutical Industry

Indian pharmaceutical industry, utilising the policy environment prevailing over the years, has adopted various strategies to surge as a global player. These include:

– Increasing R&D Activities: The new patent regime requires the pharmaceutical industry to become innovative rather than imitative. In order to compete in the patent regime, the industry has been increasing its R&D spending considerably. R&D expenditure as a percentage of sales, which stood at around 2% in 1993-94, increased to over 5% in 2005-06.

– Leveraging Biotechnology: Biotechnology drugs represent a significant part of the new innovative medicines launched worldwide. Bio-pharmaceuticals account for more than 10% of global pharmaceutical sales. Many Indian pharmaceutical firms are leveraging the potential of biotechnology, including manufacture of bio-generics.

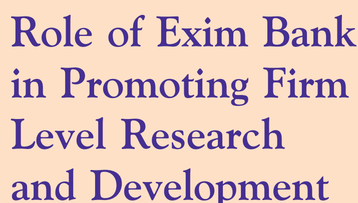
– Inorganic Growth Strategy: Indian pharmaceutical firms are also undertaking M&A activities in many parts of world. Most of the acquisitions by Indian pharmaceutical firms are in developed country markets, such as USA and Europe. Buying out products from overseas companies, acquiring proprietary drug development capabilities or facilities to strategically enter the target markets are some such growth strategies adopted by Indian firms.

– Contract Research and Manufacturing: Given the pressing need of global pharmaceutical industry to develop new drugs, major pharmaceutical producers across the globe are looking out for sourcing R&D as well as manufacturing activities. Indian companies are undertaking contract research for global pharmaceutical majors leveraging the prevailing advantages such as: well-developed pharmaceutical manufacturing base, low R&D cost and availability of highly qualified manpower.

– Co-Marketing Alliances: Another growth strategy adopted by Indian firms is entering into co-marketing alliances with foreign firms to market their products. Co-marketing alliances are taking place not only between Indian and foreign producers, but also amongst Indian producers. Such alliances have proved to be beneficial to both the parties.

The Road Ahead

Successful adoption of the above strategies has enabled the Indian pharmaceutical industry attain a commendable position in the world pharmaceutical scenario. However, challenges still remain. Further strengthening of R&D activities will be crucial in this regard. Bio-pharma is another emerging area and Indian pharmaceutical companies should try to tap the large bio-generics market. Strengthening of regulatory system is also required in the context of the new patent regime. With such initiatives at firm level, industry level and governmental level, Indian pharmaceutical industry could emerge as a leading player with influential role in global pharmaceutical industry market place.



Role of Exim Bank in Promoting Firm Level Research and Development

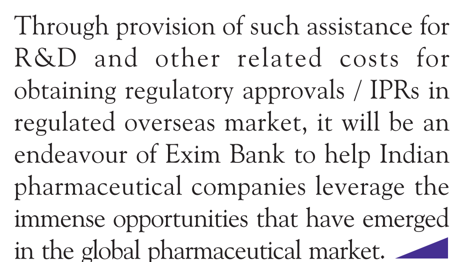
The Indian pharmaceutical sector has been increasingly focusing on R&D activities. Opportunities have emerged in the areas of contract research and manufacturing and R&D outsourcing. Besides, in the current IPR regime, Indian pharmaceutical / biopharma companies are also investing in research and development including new product development with a view to develop new products, including products with New Drug Delivery System for which patents are sought to be filed in regulated markets. In view of the high R&D costs involved and investment needed for a longer period of time, there is a felt need by pharmaceutical / biopharma companies for financial assistance from bank/ financial institution with longer moratorium period. With the product patent regime firmly in place and given the fact that the largest number of US FDA approved plants outside USA are in India, the Indian pharmaceutical sector is poised for significant growth.

Against this backdrop, Indian pharmaceutical companies will have to decide appropriately on their export strategy. Indian companies have made money by exporting products to countries where product patents were not in force. But this market will progressively shrink with more and more countries embracing product patents. With India embracing product patents, production of patented drugs will cease. This leaves Indian players with export markets in the generic segment and for new products including products with new drug delivery systems for which patents can be registered. The patented products worth USD 80 bn. will lose patent protection in the next few years. But exploiting this opportunity will mean sizeable commitment of funds in terms of filing regulatory approvals in regulated markets overseas. Indian pharmaceutical companies have the strengths of world class plants and formidable chemical synthesis skills to compete in the generic markets. The US generic market is likely to double to USD 38 billion by 2010. Generics have gradually inched up 22% of the prescription market in 1985 to 47% of a much larger market in 2002. Rising health care expenditures all over the world are also forcing substitution of prescription drugs with cheaper generics. Global generic markets definitely hold a lot of promise, but the competition will be intense and the margins are thin.

It is in this context that Exim Bank has introduced a structured product for pharmaceutical/ biopharma companies for facilitating R&D expenditure with the aim to assist approvals in regulated pharmaceutical markets. The financing by Exim Bank is in the form of either term loan / equity participation or a hybrid product and would facilitate R&D expenditure and approvals in regulated markets. The return to the Bank will be in the form of premium paid at the time of bullet repayment or in the form of royalties from the commercialized / non-commercialized regulatory approvals / IPRs. The possibility of revenue sharing from the commercialized regulatory approvals / IPRs may also be explored. The aggregate yield is expected to be generally better than the term debt.

The eligible R&D activities under this financing programme include:

- Development and commercialization of new product / process / application;
- Significant improvements in existing product / process / application/ design;
- Development of technology or design to satisfy domestic or international environment, technical requirements/ standards, specifications;
- Setting up, expansion of pilot plants;
- Research studies necessary for obtaining regulatory approvals, product registrations, cost of filing and maintaining international patents;
- R&D centers.
- Acquisition of technology at the 'proof of concept' or design stage which will be used to develop new product/ process;
- Land and building, civil works for housing eligible R&D activities;
- Dies, tools, laboratory and other R&D equipment, mould, computer hardware, software, miscellaneous fixed assets;
- Salaries of R&D personnel, support staff during the R&D project phase including training costs;
- Cost of regulatory approvals, filing and maintenance of patent registration;
- Expenditure on external consultants for outsourcing a component of R&D project;
- Product documentation and allied costs during the R&D project phase;
- Costs of materials, surveys, technology demonstration studies, field trials.



Through provision of such assistance for R&D and other related costs for obtaining regulatory approvals / IPRs in regulated overseas market, it will be an endeavour of Exim Bank to help Indian pharmaceutical companies leverage the immense opportunities that have emerged in the global pharmaceutical market.

Exim Bank's IEDRA Award 2006

The Award

Exim Bank's International Economic Development Research Annual (IEDRA) Award, instituted in 1989 in commemoration of Pandit Jawaharlal Nehru's Birth Centenary, is given to Indian nationals for their Doctoral dissertations in the area of international economics, trade & development and related financing. The Award carries a prize of Rupees One Lakh and a Citation. Over the years, the Award has been won by scholars, from both Indian and overseas institutions, for their high quality research in diverse areas such as foreign direct investment, exchange rate regimes, external debt of developing countries, international technology transfer, international joint ventures, foreign trade regimes and strategic trade policy.

IEDRA Award 2006

The year 2006 was the eighteenth year of the Award. Exim Bank's IEDRA Award 2006 was announced at an Award function held on August 31, 2007 in Washington D.C. Dr. Monica Das received the award for her Doctoral dissertation titled "*Theory and Empirical Evidence on the Ecology versus Economy Debate: A Nonparametric Estimation of the SURE Model and an Application to a General Equilibrium Model of Trade and Environment*". The Award and Citation were handed over by the Chief Guest, Mr. Dhanendra Kumar, Executive Director for India, Bangladesh, Bhutan and Sri Lanka, at the World Bank. Mr. Kumar also released Exim Bank's Occasional Paper titled "*Trade and Environment: A Theoretical and Empirical Analysis*", which is based on Dr. Das' Award winning thesis. Mr. Uri Dadush, Director, International Trade Department, World Bank, provided key insights on the subject in the function. The winner of IEDRA Award 2006 was selected by a Jury of eminent academicians, which comprised Prof. D. M. Nachane, Senior Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Pulin Nayak, Director, Delhi School of Economics, New Delhi; and Dr. Partha Mukhopadhyay, Senior Research Fellow, Center for Policy Research, New Delhi.

Winner and the Winning Thesis

Dr. Monica Das obtained her Doctorate from the University of California, Riverside, USA in 2005 and at present is working as an Assistant Professor, in the Department of Economics, Skidmore College, New York. The thesis was written under the supervision of Prof. Aman Ullah, Prof. Prasanta K. Pattanaik, Prof. R. Robert Russell and Prof. Linda Fernandez.

In her thesis, Dr. Das has addressed the effect of environmental policies on the pattern of trade and the composition of industrial output. The thesis has made an attempt to examine the validity of the proposition that for the benefit of the environment, trade agreements should be linked with environmental agreements. It shows that there are unanticipated consequences of regulation on pollution, production structure, income distribution and the pattern of trade.

The thesis views abatement as a technological retardation because labour and capital are diverted from production to abatement to produce the same output in order to meet the environmental standard set by the regulator. It develops an empirical technique to show what happens to U.S. manufacturing industries that are subjected to stricter abatement requirements. A nonparametric estimation provides estimates of the effect of environmental standard on the GDP share of each industry at every time point. Since the share equations are seemingly unrelated, the thesis therefore, develops a nonparametric SURE estimation technique. The pollution abatement data used in the thesis is for 19 industries spread over a period of 17 years between 1978 and 1994.

The focus in the thesis, contrary to the existing literature, is placed on command and control programs of regulation since these are clearly preferred by countries to decentralised regulatory programmes. The thesis finds that pollution cannot be reduced without affecting income distribution, as a stricter environmental standard enforced by the regulator will reduce real wages (or rental on capital), if the polluting units are labour (or capital) intensive. The thesis also examines the possibility of a country with weaker environmental standard reducing the production of the polluting good and therefore, exporting less of it, contradicting the hypothesis that developing countries export pollution. The conclusions of the thesis place a serious doubt on the general belief that trade agreements with developing countries with weaker standards should be tied with environmental agreements. The thesis supports the argument that environmental and economic issues should be kept separate in the context of international trade.

EXIMIUS CENTRE COLUMN

❖ One of the important factors for successful exports is proper compliance with export procedures and documentation requirements in conformity with the regulatory framework and guidelines, as also the uniform customs and practices relating to international trade.

To provide information on export procedures to the existing and potential SME exporters, five one day Seminars on **"Export Procedures & Documentation"** were organised at Belgaum (July 13,2007); Peenya (August 7, 2007), Chennai (August 17, 2007), Nashik (September 11, 2007) and Guntur (September 17, 2007). Senior officials from DGFT, Customs, RBI, ECGC, GTF and Exim Bank discussed in details the various aspects of foreign trade policy, customs formalities, foreign exchange regulations, documentary credit, Exim Bank's financing products and services, export credit insurance and export forfaiting & factoring.

❖ With almost half of global trade now focused in the Asia-Pacific – the world's fastest growing region – Australia, is becoming a preferential business base for many multinational companies.

To inform potential overseas investors of the advantages, facilities and incentives offered by the State of Victoria, Australia, an Interactive Session on **"Opportunities for Investment in Victoria"** was organised at Pune (September 4, 2007) and Ahmedabad (September 6, 2007) at Eximius Centre facilities. Mr. Wayne Lewis, Commissioner to India, Invest Victoria, addressed an exclusive gathering of select exporting organisations from a wide array of industry sectors, on the opportunities for bilateral trade and investment.

❖ In striving to accelerate the pace of enterprise, companies need to consider positioning themselves in new locations that offer modern infrastructure, large potential markets, liberalising economic policies and attractive fiscal incentives for industrial investment. On all those counts, Bahrain scores favorably as a preferred investment destination.

To inform potential overseas investors of the advantages, facilities and incentives offered by Bahrain, senior officials from the Bahrain Economic Development Board visited India to address groups of externally oriented companies in varied sectors. Two such series of Interactive Sessions on **"Investment Opportunities in Bahrain"** were organised at Coimbatore and Cochin on September 21 and September 24, 2007 respectively.

❖ Broadening the country's exporter base requires informing and motivating the existing and potential entrepreneurs in smaller industrial centres, on the prospect of developing export ventures based on local resources and skills.

A one day **"Entrepreneurial Development Workshop"** was organised at Shillong, Meghalaya on September 28,2007. The workshop covered various aspects of launching an export venture, through lectures, panel discussions and group work.

❖ Programmes in the pipeline include a series of Export Training Programmes for Industrial Sector in association with Centre for the Promotion of Imports from Developing Countries (CBI), The Netherlands, at Kolkata and Mumbai.

For details on future programmes contact:
Mr. S. Srinivas,
Deputy General Manager,
Eximius Centre, Bangalore
Tel: (080) 25589106 E-mail: eximius@vsnl.com

BOOK REVIEW

Regional Cooperation in South Asia and Southeast Asia

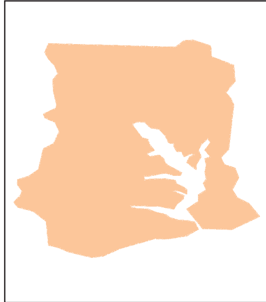
(Institute of Southeast Asia Studies (ISEAS) Publications, Singapore)

The general view about regionalism seems to be that it is better to have regionalised and faltered than never to have regionalised at all! Inspired by this observation, this comparative study of selective issues incisively and competently analyses the institutional, political, and social dynamics of SAARC and ASEAN region. The book analyses the complex issues related to highs and lows of regional experience mainly in South Asia (SAARC) and Southeast Asia (ASEAN), that could be sorted out with visionary zeal and mature statesmanship, in order to follow successfully, the European lead. Explaining the economic dimension, the study also reinforces the role of 'political will' and suggests adopting a 'regional public goods' approach. The comparison of ASEAN and SAARC, using European region suggests that while ASEAN has done reasonably well in pushing regionalism along, SAARC has to overcome several difficulties before South Asia can deal with itself and the rest of the world as a region.

After analysing the selective issues, the book puts forth the following suggestions: first, regionalism as a driver of national and foreign policies is here to stay, but there is no one-size-fits-all model, so each region relies on an adaptation strategy to keep the regionalism process on track. Second, economic integration requires certain prior conditions to be fulfilled and does not happen merely because governments wish it to happen. Third, in view of the above, there are limits beyond which comparisons between regional arrangements cannot be stretched. Finally, therefore, as an area for future research, the likely trajectories of ASEAN and SAARC, including their converging into a giant Asian regional arrangement, could be explored.

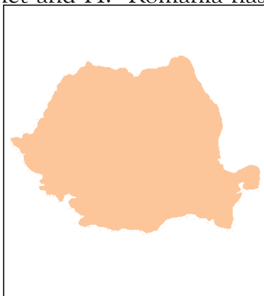
Ghana

Ghana will continue to play a leading role in Africa region. Ghana has positioned itself as a key proponent of the New Partnership for Africa's Development (NEPAD) and is supportive of NEPAD's underlying principles, such as good governance and the process of peer review, having been one of the first countries to undergo a peer review examination, in April 2005. Reflecting high international prices for gold and a record year for cocoa production, the real GDP of Ghana is estimated to have grown by 6% in 2006. Ghana's foreign direct investment (FDI) inflows improved markedly in 2006. FDI increased by 131% to US$ 335 mn in 2006. Gold production in Ghana had increased by over 10% in 2006 to 2.23 mn oz (US$ 1.3 bn) from 2.1 mn oz (US$ 903 mn in value) in 2005. As a result of this increase, Ghana became the tenth-largest gold producer in the world, up from the eleventh largest in 2006 and remained the second-largest producer in Africa behind South Africa.



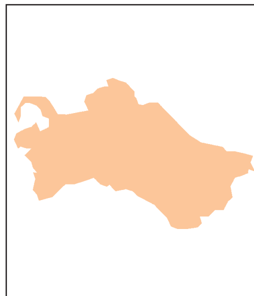
Romania

Romania's accession to the European Union (EU) in January 2007 has contributed to a sharp increase in the total trade. Romania's exports grew by 14.8% in the first four months of 2007 in euro terms to € 9,292 mn, while imports grew by 30% to € 14,967 mn. Romania is one of the fastest growing IT markets in Eastern Europe. The country has made significant progress in all of the information and communications technology (ICT) sub-sectors, including basic telephony, mobile telephony, Internet and IT. Romania has substantial oil and gas reserves attracting the interest of foreign investors and a large-scale and highly developed refining industry. Romania imports around 30% of natural gas consumption, from Russia. Gazprom, the Russian state-owned gas entity, is playing a growing role in Romanian gas supply as a direct supplier, and the firm is co-operating in the construction of the underground gas storage facilities that are required to meet peak consumption demand.



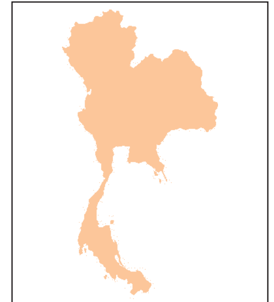
Turkey

Turkey has the third-largest population in Europe, after Russia and Germany. Turkey's population is young, with about 50% under the age of 25. By sector, services accounted for 47% of employment in 2006, agriculture for around 27% and industry including construction for about 26%. Turkey is a major importer of oil and, increasingly, of natural gas. The Turkish economy grew by 6.0% in 2006, boosted by expansion in investment on machinery & equipment and telecommunication sector. Turkey has a wide range of mineral deposits, but in recent years extractive industries have accounted for little over 1% of gross value added (1.4% in 2006). Turkey possesses over 60% of the world reserves of boron, which is primarily used for fiberglass and detergents. Natural stones, primarily marble, in raw or processed form, have become Turkey's most important mineral export, and earned about US$1.0 bn in 2006.



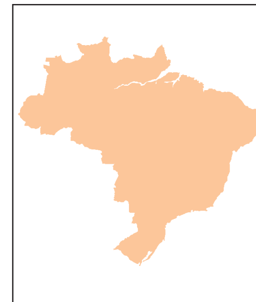
Thailand

The Baht (local currency) has remained strong against the US dollar in past few years, reflecting the large current account surplus. Real GDP grew by 5.0% in 2006, with a strong external sector offsetting weak domestic demand growth. The Japan-Thailand Economic Partnership Agreement (JTEPA), which was signed in April 2007, in Tokyo, is set to come into effect in the near future, which could provide a massive boost to the struggling garment and textile sector. Under the agreement, Japan will lower its import tariffs on Thai textiles and garments from 12% to 0% from October 2007. The Thai government is also now in the process of negotiating new tariff reductions with India as part of an effort to conclude a bilateral FTA with India. In 2003, India and Thailand signed a partial FTA that featured the lowering of tariffs on 82 product lines.



Brazil

With its ample natural resources, Brazil has comparative advantages in agriculture and primary goods processing sectors. According to the Associação Brasileira de Agribusiness (*ABAG, the Brazilian Agribusiness Association*), agribusiness as a whole *(including food processing, sugar and alcohol, paper and cellulose, leather and wood products)* accounts for 34% of Brazilian GDP. Agribusiness exports account for over one-third of Brazil's external sales' earnings (36% in 2006) and the sector runs a large foreign trade surplus. This amounted to a record US$ 42.7 bn in 2006, the equivalent of over 90% of the country's trade surplus. Brazil's economy is estimated to have grown by 4.7% in 2007, rising from 3.7% in previous year. This rise in growth during 2007 was primarily due to increase in public investments and expansion in cultivation that encouraged higher production. Further, strong corporate profitability and household income growth, combined with a rise in formal employment and increased imports, have been underpinning the public finances. Oil and hydroelectricity account for more than half of energy provision in Brazil. It remains one of the world's biggest producers of hydropower and in 2006 Brazil had achieved virtual self-sufficiency in oil output. The energy company, Petróleo Brasileiro (Petrobras), also discovered large offshore natural gas reserves, which are due to be explored from 2008.



Currency Currents

Russian Rouble

Rouble is the currency of Russia, Belarus and was the currency unit of several other countries influenced by the integrated Soviet Union. It has been the Russian unit of currency for about 500 years. Since 1710, one rouble has been divided into 100 kopecks. The Central Bank of Russia runs a managed float of the rouble. Like other Central Banks, it uses exchange rate as a tool to control inflation and keep it within the full year target. The inflation target for 2007-08 is 8%.

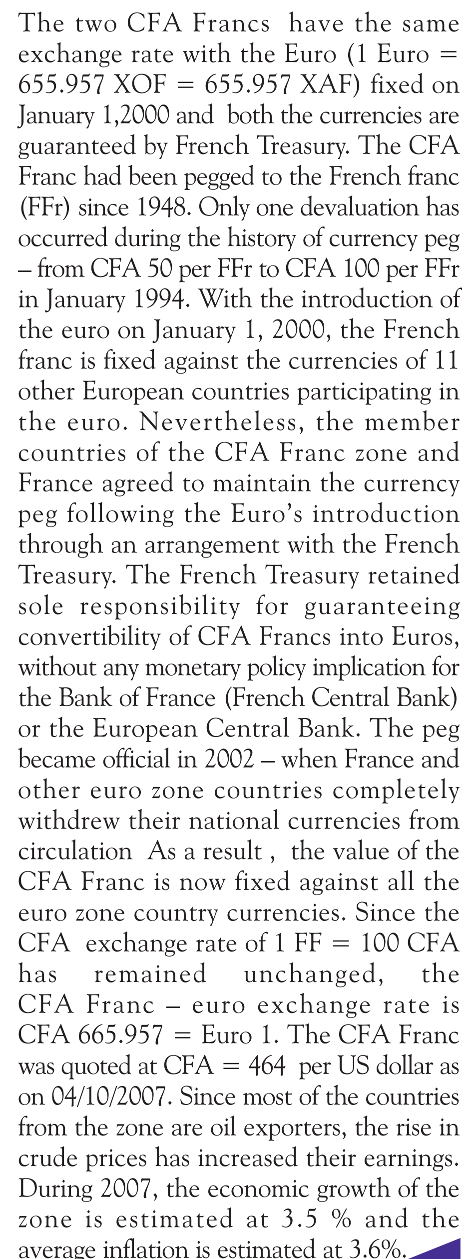
Since Russia's default and devaluation of the rouble in 1998, the country has accumulated $ 417 billion in gold and foreign exchange reserves, which has given the Central Bank massive firepower to defend a stable exchange rate. Russian rouble, which utterly collapsed less than a decade ago, is beginning to challenge the US Dollar as the next regional foreign reserve currency. Rouble is also backed by a strong Russian economy. Russia is the second largest oil exporter in the world. Strong oil prices and weakness of US Dollar in the global market has resulted in the rouble rallying against the US Dollar.In December 2006 Rouble was at 26.32 against the US Dollar and in September 2007 the rouble hit an eight-year high against the US Dollar and touched 24.9930 to a Dollar. Following a rate cut by the US the rouble is set to climb higher versus the US Dollar in the near term.

Sri Lankan Rupee

The SriLankan Rupee (SLR) is being managed under a floating rate regime where the exchange rate is determined by the demand for and supply of foreign currencies in the foreign exchange market, while the Central Bank intervenes mainly to smoothen excess volatility. The SLR has depreciated 5.7 % against the US dollar so far this year besides a 5% depreciation in 2006. It touched a record low of 113.45 per US Dollar on 24/09/2007. The SLR is steadily depreciating mainly due to a hefty trade deficit owing to costly fuel imports and inflation, which reached 17.3 % in August 2007 as measured on a 12 month rolling average. In 2007 the Central Bank urged foreign exchange dealers to persuade their exporter clients to sell US dollars to help halt a steady depreciation of the SLR. However some analysts expect the SLR to continue to depreciate to as much as 118-120 per US dollar by the end of 2007.

CFA Franc

The CFA Franc (CFA stands for *Communaute financiere de l Afrique*) is a currency used in 12 formerly French ruled African countries as well as in Guinea – Bissau (a former Portuguese colony) and in Equatorial Guinea (a former Spanish colony).These 14 countries comprise the African Financial Community, which in turn is comprised of two regional economic and monetary groupings. Eight countries – Benin, Burkina Faso, Cote d'lvoire, Guinea-Bissau, Mali, Niger, Senegal and Togo form the West African Economic and Monetary Union (WAEMU) while six countries – Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon are termed as Central African Economic and Monetary Community (CEMAC). Thus strictly speaking, there actually exist two different currencies called CFA Franc – the West African CFA Franc (XOF) and the Central African CFA Franc (XAF). Although the two CFA francs are legal tender only in their respective regions, each region's central bank maintains the



same parity of its CFA franc against the French Franc and capital can move freely between the two regions. The CFA franc was created on Dec 26,1945 due to weakness of the French franc immediately after the Second World War. When France ratified the Bretton Woods agreement in December 1945, the French franc was devalued in order to set a fixed exchange rate with the US Dollar. New currencies were created in the French colonies with a fixed rate & the FFr to spare them from the devaluation of the French Franc of December 1945.

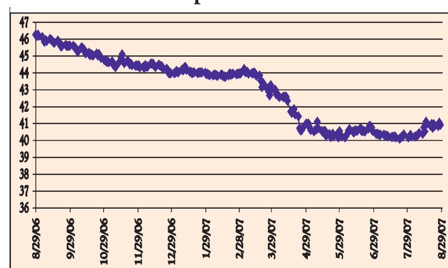
The two CFA Francs have the same exchange rate with the Euro (1 Euro = 655.957 XOF = 655.957 XAF) fixed on January 1,2000 and both the currencies are guaranteed by French Treasury. The CFA Franc had been pegged to the French franc (FFr) since 1948. Only one devaluation has occurred during the history of currency peg – from CFA 50 per FFr to CFA 100 per FFr in January 1994. With the introduction of the euro on January 1, 2000, the French franc is fixed against the currencies of 11 other European countries participating in the euro. Nevertheless, the member countries of the CFA Franc zone and France agreed to maintain the currency peg following the Euro's introduction through an arrangement with the French Treasury. The French Treasury retained sole responsibility for guaranteeing convertibility of CFA Francs into Euros, without any monetary policy implication for the Bank of France (French Central Bank) or the European Central Bank. The peg became official in 2002 – when France and other euro zone countries completely withdrew their national currencies from circulation As a result , the value of the CFA Franc is now fixed against all the euro zone country currencies. Since the CFA exchange rate of 1 FF = 100 CFA has remained unchanged, the CFA Franc – euro exchange rate is CFA 665.957 = Euro 1. The CFA Franc was quoted at CFA = 464 per US dollar as on 04/10/2007. Since most of the countries from the zone are oil exporters, the rise in crude prices has increased their earnings. During 2007, the economic growth of the zone is estimated at 3.5 % and the average inflation is estimated at 3.6%.

Rupee Appreciation: Impact on India's Exports

The exchange rate of Indian Rupee (INR) vis-à-vis USD has surged from Rs. 46.6 on August 28, 2007 to 40.9 on August 29, 2007, an appreciation of over 12 per cent in the last one year. INR has also appreciated against Euro by over 6 percent during the same period. The main reasons for this include: net inflow of foreign exchange through FDI and FII, and build-up in foreign exchange reserves.

The concern on the INR's appreciation against the USD is due to the fact that three-fourth of India's external trade is invoiced in USD and any change in the exchange value has impact on various players such as importers, exporters, borrowers, lenders and consumers of imported goods.

Exhibit - 1
Movement of Rupee Vis a Vis US Dollar



Movement of Select Currencies vis-à-vis USD, EURO, BP, JPY
Position on August 15, 2007 vis-à-vis August 15, 2006

Countries/ currencies	Vs. USD	Vs. Euro	Vs. British	Vs. JPY
Brazil / Real	(+) 6.54	(+) 1.82	(+) 1.97	(+) 5.90
China / Yuan	(+) 5.12	(+) 0.09	(+) 0.26	(+) 4.24
Malaysia / Ringgit	(+) 5.16	0.00	(+) 0.28	(+) 4.25
South Korea / Won	(+) 3.46	(-) 1.77	(-) 1.55	(+) 2.51
Thailand / Baht	(+) 13.32	(+) 8.62	(+) 8.81	(+) 12.46
Sri Lanka / Rupee	(-) 7.74	(-) 13.59	(-) 13.35	(-) 8.81
India / Rupee	(+) 12.73	(+) 7.99	(+) 8.19	(+) 11.87
Pakistan / Rupee	(-) 0.33	(-) 5.78	(-) 5.54	(-) 1.32
Indonesia / Rupiah	(-) 3.60	(-) 9.23	(-) 8.99	(-) 4.63
Philippines / Peso	(+) 8.05	(+) 3.05	(+) 3.27	(+) 7.14

Source : RBI & Exim Bank Research

Movement of Select Currencies

Movement of currencies of select developing competitor countries have been analysed to understand the impact of INR appreciation with regard to export price competitiveness. It is observed that in the one year, currencies of the select emerging countries, except Sri Lanka, Pakistan and Indonesia have appreciated vis-à-vis USD. Currencies of Brazil, China and Malaysia have appreciated by 5 % to 6%. Thai Baht has appreciated by more than 13%.

The impact of rupee appreciation on exports can be assessed by examining the export and import intensity of the different sectors of the economy and also analyzing the foreign exchange component in the cost of raw materials i.e. import dependency of the sector for raw materials.

Impact Analysis

Manufacturing

The manufacturing sectors that have high export intensity are textiles, gems and jewellery, leather and pharmaceuticals. Within the textile sector, silk, apparels, cotton textiles, jute textiles are some of the segments with high export intensity. With lower appreciation of Chinese currency and the Sri Lankan and Pakistani Rupee depreciating, the competitiveness of the Indian textile industry may get adversely affected in the international market. The impact of INR appreciation on chemicals and engineering goods may not be significant in view of greater dependency of imported raw materials. As regards engineering goods, competition from Thailand may not be significant in view of greater level of appreciation of Thai Baht.

Agro-Based Products

Export intensity of meat and meat products is also high (63%) in the organised sector, thus making this sector vulnerable to INR appreciation. Major competitors for India in this sector are Brazil and China. Lower appreciation of the currencies of both countries may erode the competitiveness of Indian producers. The tea sector is possibly vulnerable to Rupee appreciation, more so in view of currency depreciation of Sri Lanka, and lower level of Chinese currency appreciation vis-à-vis INR. Both countries are leading competitors for Indian tea. Export intensity of coffee is 58%, and thus the INR appreciation would adversely impact the profitability of Indian coffee exporters. Export intensity of rice milling sector is 33%; thus, this sector is also vulnerable to currency appreciation. The position of Pakistani Rupee is favourable vis-à-vis that of INR, especially for Basmati rice in Euro zone, reducing price competitiveness of Indian rice. However, India may still retain its competitiveness vis-à-vis Thailand, a leading competitor in the non-basmati segment.

Services

Software and IT enabled services sector is likely to be impacted in view of the high export intensity (90%). Analysis of impact of INR appreciation on profitability revealed that IT sector, especially in the SME segment, may be worst affected in terms of profitability if the firms do not adjust their pricing strategies to suit the currency movements. Export orientation of construction sector (both export of construction goods and services) is around 10%, which is lower than the sector's import intensity. Thus, the impact of Rupee appreciation may not be that significant for this sector.

The news items and information published herein have been collected from various sources, which are considered to be reliable. While every care has been taken for authenticity of the material published, Exim Bank accepts no responsibility for authencity or accuracy of such items.

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

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