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In this issue

Latin America and Caribbean Region: Recent Developments

Latin America and the Caribbean (LAC) region is a major market in the world economy, contributing to 5.3% of global GDP, and accounting for 4.8% of global exports and 4.1% of global imports of goods and services. However, the economies have under performed in recent years primarily in the face of political turmoils and economic vulnerabilities. The LAC economies being intensely trade dependent on one another, which is apparent from a multiplicity of existing bilateral and sub-regional trade agreements, have been to a great extent impacted in times by economic recession in major economies like Argentina, Brazil, Mexico, Venezuela. Nevertheless, 2003 has been a year of recovery. Following a contraction of real GDP in 2002, the LAC region rebounded in 2003 with a 1.7% growth rate. The improved performance in 2003 occurred on account of a favourable external demand supported by a weak dollar together with a pick up in domestic demand due to falling interest rates. However, overall growth was subdued due to a downturn of economic activity in Brazil and the continuation of recession in Venezuela. Then again, the prospects for 2004 are bright, as the IMF has forecast a regional growth rate of 3.9% for the year.

A distinct feature of the performance of the LAC economies in 2003 has been a current account surplus of the tune of US$ 6 bn, by far the best figures in the last four decades. Exports from the LAC region registered an estimated rise of 7.4% to stand at US$ 372 bn. Imports, on the other hand, went up by 2.5% to US$ 331 bn. The sharp improvement in trade surplus significantly contributed to an overall positive balance in the current account. A recovery in the world economy implied increased economic activity, which got reflected in an expansion on external demand for goods from the LAC region. The upturn in the US economy, which is a major non-LAC trading partner of the LAC economies, recovery in Japan and continuation of growth in the Asian economies, particularly China, can be identified to have fuelled export growth in terms of volume from the LAC region. Another impetus came from higher commodity prices. The price rise boosted exports from the LAC region, particularly in the latter part of 2003. LAC economies gained from higher prices of sugar, soybean, cocoa, cotton and wool, minerals such as gold, copper and tin, and other commodities like rolled steel and crude oil. The weakening of the dollar also acted as a positive factor, as international trade of the LAC economies is considerably dollar dependent. Nevertheless, the growth in imports was limited. In some countries, real exchange rate appreciation supported higher imports, but the rise in imports in 2003 could not match the level achieved in 2001. However, with better prospects of economic activities, imports are likely to grow sizeably in 2004-05.

Intra-regional trade experienced a modest rise in 2003 and stood at 15% of total exports from the region. However, it is still less than that of 21% recorded in 1997. A reason for the decline might be the rise in trading activities of major economies like Brazil, Mexico, Chile, with extra-regional members. This is a promising trend as far as prospects for India are concerned. Foreign direct investment in the region amounted to US$ 29 bn in 2003, continuing the declining trend. FDI inflow was at a high of US$ 70 bn in 2001. While political uncertainties in many countries have influenced FDI inflows, particularly inflows into the financial sectors, in 2003, there was a downturn in the acquisition of privately held assets in the LAC countries by foreign residents. FDI inflow declined sharply in Brazil, Argentina, Peru and Mexico. However, there were gainers like Chile, Ecuador, Honduras, Nicaragua, Panama and Venezuela.

On the macroeconomic front, fiscal policies of the LAC economies in 2003 have essentially focused on reducing deficits, while monetary policies have attempted to put a check on the inflationary pressures. Argentina experienced rapid growth in tax revenues and a primary surplus of 3% of GDP is forecasted for 2004. Brazil has also attained a comfortable fiscal situation with attempts to contain expenditures. In general, improved fiscal balances have helped in the reduction of public indebtedness of the LAC region. It is worth mentioning in this context that the LAC economies in general have a high level of public debt, which is particularly high for Nicaragua (330% of GDP), Argentina (134% of GDP), Panama (83%), Uruguay (82%), Ecuador (56%) and Brazil (53%). As far as monetary policies are concerned, the overall stance of reducing inflation is reflected by a lower regional average consumer price inflation of 9% in December 2003 as compared to that of 12.1% in December 2002. Inflation rates came down in Argentina, Ecuador, Brazil, Guatemala, Paraguay, Uruguay, Mexico and Venezuela among others. However, Dominican Republic, Haiti and to some extent Jamaica witnessed sharp rises in consumer prices. Another highlight of the monetary policies in 2003 has been lowering of interbank rates and other nominal interest rates. The lowering of interest rates is likely to continue in 2004.

UNCTAD XI

The UNCTAD XI Summit was held in Brazil in June 2004 with the theme "*Enhancing the coherence between national development strategies and global economic processes towards economic growth and development, particularly of developing countries*". It concluded with the adoption of the Ministerial Declaration called the Sao Paolo Consensus, which gives a positive signal for the progress of the current Doha Round of multilateral trade negotiations. Major issues concerning the interests of the developing countries which were discussed at the Conference include trade-distorting subsidies particularly in areas of export interest to developing countries, anti-dumping, technical barriers to trade and sanitary and phyto-sanitary measures, trade liberalisation in agricultural products and labour-intensive manufactures. A highlight of the event was the India-Mercosur Forum held against the backdrop of an expanding South-South Cooperation. There was a consensus among the speakers that the India-Mercosur trade initiative and other new South-South cooperation vehicles should be more open, more market-driven and more business-oriented. The forum discussed and identified areas of mutual commercial cooperation and the prospective role of private sector in this regard.

Majority of the Latin American economies have freely floated their exchange rates in recent years. Argentina, for instance, shifted from a currency board to a flexible exchange rate regime in 2002. In 2003, Panama, Ecuador and El Salvador continued to remain dollarised economies, while Bolivia, Costa Rica and Nicaragua remained under a crawling peg. The only reversal towards a fixed exchange regime was witnessed in case of Venezuela in March 2003. The reversal, however, led to a significant reduction in exchange rate volatility in Venezuela. In general, the average real effective exchange rates in the region have been less volatile in 2003 than in 2002. This has been particularly true for Mercosur countries, which registered an effective appreciation of their currencies largely due to their real appreciation against the dollar. Countries in Central America, Caribbean and Mexico having a greater trade linkage with the US, recorded on average a real depreciation.

The LAC economies have continued to strive for greater regional and extra-regional cooperation in the recent period. Chile has entered into a Free Trade Agreement (FTA) with the United States and the European Union and is in a process of negotiations with several others, including India; Mercosur and Andean economies took serious initiatives for strengthening their integration process; the Central American countries along with Dominican Republic have entered into a FTA with the United States; the Andean economies are negotiating a FTA with the US; and Mercosur and India have signed a Preferential Trade Agreement. However, the negotiations with respect to the Free Trade Area of the Americas (FTAA) have remained relatively submissive.

India's trade with the LAC economies remained stable at around US$ 2.1 bn in the period April-February 2003-04 compared to the same period of the previous year. Though exports suffered a decline from US$ 1.2 bn to US$ 1 bn comparing the two periods, imports showed a rise from US$ 0.9 bn to US$ 1.1 bn. Overall, exports to the region remained subdued as exports to Brazil and Mexico, the major destinations for India, declined sharply in the said period of 2003-04. However, in the same period exports to Argentina, Colombia, Chile, Panama, Guatemala, Costa Rica have shown an increase. As far as imports are concerned, the overall rise can be primarily attributed to higher imports from Argentina, Mexico, Peru, Costa Rica, Guyana and Uruguay.

Overall, it can be said that in 2003 the LAC economies registered an improved performance resulting out of better policy management and a favourable external economic environment. However, there are areas of concern, which would influence investor confidence in the region and guide a revival of foreign capital inflow. Notable is the expanding external debt of the region. Gross external debt of the region (including debt owed to multilateral creditors) went up to US$ 744 bn in 2003 from that of US$ 727 bn in 2002. The rise in debt can be attributed to euro's appreciation against the dollar, which led to an increase in euro denominated debts during the year, and build-up in public sector interest payments, among others. External debt accounts for over 40% of LAC's GDP and almost 170% of the value of exports of goods and services. It is a concern as the three major economies of Argentina, Brazil, Mexico together account for 70% of the total debt, and debt/GDP ratio is as high as 50% or more, for economies like Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Honduras, Paraguay and Uruguay. It may be rightly concluded that, in the backdrop of a burgeoning external debt and limited foreign exchange reserves, the economies of the LAC region need to move ahead with international trade and consolidate fiscal health with a view to remain on a positive growth trend. Moreover, a focus on reducing unemployment and poverty should remain on the forefront of the social agenda in order to bring in a balanced growth for the region.

References: World Economic Outlook, April 2004, IMF; Preliminary Overview of the economies of Latin America and the Caribbean, 2003, UNECLAC

Table: Summary of Economic Performance of Select LAC Countries in 2003

Countries	Real GDP (% growth)	Per capita GDP (% growth)	Exports (US$ bn)	*Growth (%)*	Imports (US$ bn)	*Growth (%)*	Net FDI inflow (US$ bn)
Argentina	7.3	6.0	29.3	*14.0*	12.7	*49.4*	1.1
Brazil	0.1	-1.2	72.4	*20.0*	48.4	*2.5*	7.1
Chile	3.2	2.0	20.5	*12.0*	17.9	*13.3*	1.2
Colombia	3.4	1.6	13.1	*6.5*	13.1	*8.4*	1.0
Costa Rica	5.6	3.5	6.1	*15.1*	7.1	*9.2*	0.5
Dominican Republic	-1.3	-2.9	5.5	*5.8*	8.3	*-6.7*	0.7
Guatemala	2.4	-0.2	2.8	*7.7*	5.7	*1.8*	0.1
Mexico	1.2	-0.3	165.1	*2.7*	170.4	*1.0*	11.0
Panama	3.0	1.1	4.9	*-7.5*	5.8	*-9.4*	0.6
Peru	4.0	2.4	8.6	*13.1*	8.2	*10.8*	1.0
Uruguay	1.0	0.3	2.2	*15.8*	2.0	*5.3*	0.1
Venezuela	-9.5	-11.2	25.3	*-5.0*	9.9	*-27.2*	2.1

Source: United Nations Economic Commission for Latin America and Caribbean (UNECLAC)

Exim Bank signs Export Credit Line facility with UNIBANCO, Brazil

On the periphery of Rio Trade Week, held as a prelude to UNCTAD-XI in Brazil, Export-Import Bank of India signed with Uniao De Bancos Brasileiros (Unibanco), one of the largest private sector Brazilian banks, an Agreement, providing a Line of Credit (LOC) of US$ 10 mn, to finance India's export of equipment, goods and services to Brazil. This is the second LOC extended by Exim Bank to Brazil, which is emerging as a very large market for India. Brazil is a key member of Mercosur (along with Argentina, Uruguay and Paraguay), a regional trading association of Latin America, with whom India has signed preferential trade agreement last year.

Exim Bank's LOCs provide a risk-free, non-recourse export financing option to Indian exporters. Under the LOC, importers based in Brazil will make advance payment of 10% of contract value and Exim Bank will reimburse Indian exporters for 90% of contract value, upfront on shipment of goods. The credit period available to importers through UNIBANCO, ranges from 6 months to 3 years.

India's exports to Brazil more than doubled in 2002-03 to stand at US$ 480 mn. Exports of petroleum and crude products were major contributors. Other products in the export basket were pharmaceuticals and fine chemicals, inorganic/organic/ agro chemicals, manmade yarn fabrics, madeups, and machinery and instruments. Besides Brazil, Exim Bank's LOCs are also available for financing exports to other Latin American and Caribbean countries, which include Mexico, Venezuela, Colombia, Ecuador, Peru, Bolivia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and negotiations are underway for setting up LOCs to other countries in the 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 (WB), Asian Development Bank (AsDB), African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) are given alongside.

Interested exporters need to contact the concerned Executing Agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai would be glad to be of help, if you keep us advised. Please contact **Ms. Geeta Pruthi** on Tel: 22185272 Extn: 2301.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Poland/ Ministry of Finance, 12 Swietokryska St., 00-916 Warsaw, Poland Tel: (48-22) 694-3171 Fax: (48-22) 826-6670 E-mail: agr@mofnet.gov.pl	Road Maintenance and Rehabilitation Project/ The project will support the rehabilitation, and maintenance of economic, social, and institutional roads infrastructure, and finance, as well, consulting services in management and training programs.	World Bank US$ 126 mn
Russian Federation/ Ministry of Education, Lusinovskaya 51, Moscow, Russian Federation Tel: (7-095) 237-7675 Contact: Mr. Vladimir Filipov, Minister	E-Learning Support Project/ The project seeks to set up enabling conditions to assist with the system-wide introduction, and enhanced use of Information and Communication Technologies (ICT) in Russian general and initial vocational schools.	World Bank US$ 100 mn
Kazakhstan/ KEGOC Kazakhstan Electricity Grid Operating Company, 162 "zh", Shevchenko St., Almaty 480008, Kazakhstan Tel: (7-3272) 68 10 00, Fax: (7-3272) 681060/ 684308 Contact: Mr. Kanat Bozumbayev, President	North South Power Transmission Project / The proposed project will finance the construction of 270 km YukGres-Shu section of the new North-South 500kV electricity transmission line to address energy and peak supply deficits in South Kazakhstan, improve electricity transmission reliability, reduce transmission losses and contribute to development of regional electricity trade in Central Asia.	European Bank for Reconstruction and Development US$ 60 mn
Albania/ Korporata Elektroenergjetike Shqiptare (KESH) - Albanian Power Corporation, Blloku Vasil Shanto, Tirana, Albania Tel: (355-4) 234501 Fax: (355-4) 234501 E-mail: pmu-ptdp@kesh.com.al	Vlore Thermal Power Generation Project/ The project involves construction of a combined cycle power station fuelled by distillate oil located north of Vlore adjacent to an off-shore oil tanker terminal, to ensure continuous provision of electricity.	European Bank for Reconstruction and Development US$ 40 mn

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Cambodia/ Ministry of Education, Youth and Sports, 148 Norodom Blvd., Phnom Penh Fax: (855) 23-215-096, (855) 23-423-216 AsDB Contact: Mr. Paul L. Chang, Principal Education Specialist, Social Sectors Division, MKRD Tel : (632) 632-4196 E-mail: pchang@adb.org	Education Sector Development Program II/ The project includes implementation of pro-poor education policy reforms; enhanced access to secondary, technical and vocation education and training (TVET), and higher education services; and a technical assistance program for capacity building for decentralization.	Asian Development Bank US$ 30 mn
Vietnam/ Electricity Viet Nam (EVN), 18 Tran Nguyen Han, Hanoi, Vietnam Fax: (84-4) 8249462 AsDB Contact: Mr. Constantine Pappas Principal Project Specialist, Infrastructure Division, MKRD Tel : (632) 632-6317 E-mail: cpappas@adb.org	Northern Power Transmission (Sector) Project/ The objectives of the project are to (i) expand and strengthen EVN's transmission system in the north to improve system reliability and quality; and (ii) improve the efficiency of the power sector by supporting restructuring and commercialisation of EVN	Asian Development Bank US$ 120 mn
Gambia/ AfDB Contact: Mr. J.M. Gharbi, Director, Country Operations: Central and West Tel: (216) 7133-3511	Banjul Integrated Watershed Management Project/ The proposed project will have three components; (a) Land use Management; (b) Training and Capacity Building; and (c) Project Management and Co-ordination.	African Development Bank US$ 15 mn
Ethiopia/ Ethiopian Civil Aviation Authority/Ethiopian Airlines Corporation, PO Box 1755, Addis Ababa Fax: (251-1) 611-474. AfDB Contact: Mr. A.D. Mtegha, Director, Country Operations: Projects financed by the African Development Fund Tel: (216) 7133-3511	Ethiopian Airlines Infrastructure Facilities Project/ The project consists of (a) construction of a cargo terminal building and of a cargo apron to provide space for five cargo aircrafts, (b) consulting services for the supervision of the works described at item (a) above, and (c) project audit.	African Development Bank US$ 30 mn

CONTRACT AWARDS

Select contracts secured by Indian companies :

Vijai Electricals Ltd., Hyderabad	Contract for supply of distribution transformers for Rural Electrification and Renewable Energy Development Project, secured in Bangladesh, funded by World Bank.
Madras Security Printers, Chennai	Contract for supply of printed material for Secondary Education Project, secured in Malawi, funded by World Bank.
Plethico Pharmaceuticals Limited, Mumbai	Contract for supply of medicines for HIV / AIDS Control Project, secured in Uganda, funded by World Bank.
Jaya Shree Insulators, Hooghly	Contract for supply of insulators for West Zone Power System Development Project, secured in Bangladesh, funded by Asian Development Bank.
TTL Limited, New Delhi	Contract for supply of electronic meters for Dhaka Power System Upgrade Project, secured in Bangladesh, funded by Asian Development Bank.
Administrative Staff College of India, Hyderabad	Consultancy contract for Capacity Building of the Bhutan Electricity Authority, secured in Bhutan, funded by Asian Development Bank.
KEC International Ltd., Mumbai	Turnkey contract for Transmission Line Project for Coalition Provisional Authority, secured in Iraq.
Jyoti Structures Ltd., Mumbai	Turnkey contract for Transmission Line Project, for Sohar Power Plant secured in Oman.
Vijay Tanks & Vessels Ltd., Baroda	Consultancy contract for erection of storage tanks at Effluent Water Disposal Plants for Kuwait Oil Co., secured in Kuwait.

Performance Highlights of the Asian Development Bank in 2003

Asian Development Bank (AsDB), a multilateral development finance institution established in 1966, is dedicated to reducing poverty in Asia and the Pacific. It is owned by 63 members, of which 45 are from Asia and the Pacific.

AsDB extends loans and equity investments to its developing member countries for their economic and social development, provides technical assistance for the planning and execution of development projects and programs and for advisory services, promotes and facilitates investment of public and private capital for development, and responds to requests for assistance in coordinating development policies and plans of its developing member countries.

In 2003, AsDB approved 85 loans totaling US$6.1 bn, 3 equity investments valued at US$35.7 mn, 315 technical assistance grants amounting to US$ 176.5 mn. A total of 23 countries and 1 regional project received loans in 2003. As in 2002, the largest borrower of loans in 2003 was India (25% of the total), followed by People's Republic of China, Pakistan, Bangladesh, Sri Lanka, Indonesia. AsDB's assistance in private sector operations in 2003 totaled US$562.7 mn, a 174% increase over the 2002 level.

The transport and communications sector received the largest share of loans (42%) followed by social infrastructure (19%), energy (12%), and finance (8%). Other sectors received 5% of total lending.

Performance Highlights of the European Bank for Reconstruction and Development in 2003

The European Bank for Reconstruction and Development (EBRD) was established in 1991 when countries in central and eastern Europe and ex-soviet countries needed support to nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to foster the transition of former centrally planned economies to open markets and democracies in 27 countries from central Europe to central Asia.

The EBRD is owned by its 60 member/shareholder countries, the European Community and the European Investment Bank. But despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners.

The EBRD provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services.

During the year 2003, the EBRD committed €3.7 bn and disbursed €2.1 bn, signing 119 projects, more than ever before, in every country from central Europe to central Asia and in virtually every sector. 79 per cent of the EBRD's business volume was in the private sector. The EBRD had strong business in Russia and in the countries of central Asia, southern and eastern Europe and the Caucasus, reflecting the Bank's continuing efforts to extend its operations further east and south. In terms of sectoral focus, one third of the EBRD's business volume in 2003 was devoted to financial institutions, followed by infrastructure, energy, manufacturing, agribusiness and other sectors.

Performance Highlights of African Development Bank in 2003

The African Development Bank (AfDB) was established in 1964 with its headquarters in Abidjan, Cote d' lvoire, with the mission of promoting the economic development and social progress of its Regional Member Countries (RMCs) in Africa. Its shareholders are the 53 countries in Africa as well as 24 countries in the Americas, Europe, and Asia.

The Bank group consists of the AfDB and two concessional windows, the African Development Fund (AfDF) and the Nigerian Trust Fund (NTF). The AfDF, established in 1974 as the soft lending window of the Bank group, is primarily financed by the 24 non-African countries that form part of its membership. The NTF is a special fund created in 1976 by agreement between the Bank and the Government of Nigeria to assist in the development efforts of low-income RMCs.

Total lending and grant operations for the Bank Group in 2003, excluding debt relief, amounted to US$2.6 bn, as compared to US$2.2 bn in 2002 – a 21.5% increase. Of this total, the non-concessional AfDB window accounted for US$ 1.1 bn – a slight decrease from 2002. The share of the AfDF in 2003 stood at US$ 1.5 bn – an increase of over 56% from 2002. NTF approvals amounted to US$ 33.5 mn in 2003 as compared to US$ 13.5 mn in 2002. Operations under the private sector window increased from US$ 270 mn in 2002 to over US$ 305 mn in 2003.

Bank Group lending operations in 2003 continued to emphasize priority sectors such as agriculture and rural development; infrastructure where this is a vital component of rural development or economic integration; and human capital formation through support to education and health.

Market Maker: Technology Aided Business Solutions

Central Food Technological Research Institute (CFTRI), established in 1950, is a constituent institute of Council of Scientific and Industrial Research (CSIR) as its third national laboratory. CFTRI is the premier organization of Scientific and Industrial Research in Food Science and Technology. CFTRI is one of the largest and most diversified Food Technology laboratories in the world. The focus is on Development of low-cost and cost-effective adaptable Food Technologies, utilisation of indigenous raw materials, bio-friendly technology with emphasis on integrated processing, and high-level pursuit of total technology, underlining the need for food safety, health and nutrition to the consumer.

Developing countries of the world have always realised that the key to their food security lies in the right intervention of science and technology to conserve and preserve and process and distribute their available food resources.

CFTRI has developed over 270 products, processes and equipment designs, and close to 1600 licenses have availed themselves of 160 of these technologies for commercial exploitation.

Exim Bank has an MOU with CFTRI to promote small scale food processing projects in Africa and CIS region under its Lines of Credit facility. Exim Bank's publication titled 'Market Maker: Technology aided Business Solutions' containing project profiles in food processing sector based on CFTRI technologies, was released by Dr. M. S. Swaminathan during CFTRI Research Council Meeting in Mysore in May 2004.

Following are some of the select technologies available for commercial application that have been included in the publication. The cost of project will vary with the plant capacity, location, type of raw materials, etc. The simplicity of the technologies, manufacturing processes and maintenance of equipments will make these projects ideally suitable for African countries, which are predominantly agro-based.

- Fruit Juice Concentrate and Paste
- Clarified Fruit Juice from Pulpy Fruits
- Honey- based Beverages
- Fruit Bars
- Fruit Toffees
- Chicken Wafers
- Sugar Free Biscuits
- Oyster Mushroom
- Spice, Oils and Oleresins
- Tamarind Juice Concentrate
- Instant Cake Mix
- Spray Dried Coconut Milk Powder
- Production of Spirulina
- Mosquito Repellent Herbal Coil
- Dehydrated Instant Gravy Mixes
- Natural Food Colours from Beetroot, Safflower, Kokum and Grapes
- Sterilisation of Black Pepper
- Production of Phycocynanin from Spirulina
- Production of Plant Growth Promoter

MOU With CFTRI

A Memorandum of Understanding (MOU) was signed between Exim Bank and Central Food Technological Research Institute (CFTRI), for the purpose of promoting research undertaken by CFTRI in the area of Food Science and Technology, identifying avenues for commercial applications as relevant to exports, for new enterprises in Food Processing Sector in developing countries in Africa and CIS.

Under the MOU, the institutions have agreed to cooperate with each other in activities such as

- Promotion of SME projects based on CFTRI's technologies in overseas market;
- Locating suitable partners for facilitating R&D collaboration abroad and Technology transfer to foreign companies in the area of Food Processing;
- Identification of opportunities for providing consultancy assistance of advisory nature to foreign companies setting up Food Processing units;
- Undertaking sponsored / contract R&D work and turnkey implementation of projects in various countries for identified entrepreneurs;
- Co-operation in promotional activities, including exchange of information on research, technology, trade, business and investment opportunities; organising seminars/workshops and exchange of faculty.

Emirates Grain Products Company LLC

Emirates Grain Products Company LLC (EGPC), United Arab Emirates, is a US$ 120 mn (Rs. 550 crore) company promoted by the Allana International Limited Group of Companies of the UAE. EGPC is a joint venture between the Allana Group and the Government of Sharjah. First established as a trading house in 1975, by Mr. Feroz Allana and Mr. Shiraz Allana, as part of the international operations of Mumbai-based Allanasons Ltd. promoted by Mr. Razak Allana, Allana International Ltd. is today the holding company for manufacturing and marketing of a range of mass market consumer products, and has emerged as one of the largest processed foods groups in the Gulf region, having 30% market share. The Government of Sharjah has a shareholding of 25% on account of its ownership of land where the company's premises are located.

EGPC commenced operations in February 1996. It owns and operates wheat and durum mills with its own battery of storage silos, producing semolina and various types of wheat flour. By the end of 1998, EGPC had expanded its milling capacity over five-fold from 250 tonnes per day to 1320 tonnes per day. In 2000, EGPC expanded its operations by setting up a feedmill with a capacity of 240 tonnes per day, manufacturing a wide range of animal feed products. EGPC has a six-storied fully automated flour mill with a capacity of 1320 tonnes per day and that of 396,000 metric tonnes per annum. Capacity utilisation at the plant is 100%.

The mill is connected to storage silos with a capacity of 44,000 tonnes wherein wheat is stored. The entire complex admeasuring 2.25 sq. kms has been allocated by Government of Sharjah with exclusive port rights to the Allana Group. The various types of wheat, imported from various countries are mixed as per requirement of the type of flour to be produced. The various varieties of flour so produced are sent for testing to its laboratory and thereafter are packaged in the mill itself. The entire flour mill is run by a system developed by Buhler, Switzerland, with minimal manpower required to run the mill. A grain storage facility at Hamriyah Free Zone with a storage capacity of 85,000 MT, and exclusive port rights, was set up in September 1999 to reduce freight cost, by moving grains in large capacity ships. Sophisticated, automated vessel unloading facilities including quay located ship containers and underground ship to silo conveyer systems facilitate rapid, efficient and cost effective bulk grain handling operations with negligible manual intervention.

EGPC manufactures a wide range of grain and flour products under the brand names of 'Emigrain' and 'Al Baker'. Its other products include biscuit flour, semolina, durum semolina, bran, barley and bran-barley mix catering to specific market segments. EGPC has a market share of 37% in UAE. In the local market, its products are marketed directly to the retailer.

EGPC's immediate market focus is the local market of UAE, as well as other Gulf Co-operation Council (GCC) markets of Saudi Arabia, Oman, Bahrain, Kuwait and Qatar. Within GCC countries, the company does not have any agents. Its products have a competitive advantage as it does not face tariff barriers within the GCC countries. Besides, EGPC exports significant quantities of flour to Somalia, Sudan, Djibouti and Eritrea in Africa; Yemen, Iraq and Jordan in the Middle East; Indonesia, Malaysia, Myanmar, and Brunei in the Far East, besides Sri Lanka and Maldives.

EGPC has consistently maintained high quality standards, beginning with the stage of procurement of wheat. With this in view, EGPC monitors the world wheat market closely as procurement is a critical process. The quality of wheat varies from country to country, based on parameters such as soil conditions, seed pedigree, protein and gluten characteristics.

EGPC traditionally sourced wheat and barley from Australia. In recent years, however, it has also procured wheat from Argentina, Canada, France, Poland, Ukraine, USA and India. In India, Allanasons Ltd., a well-established super star trading house, is the main exporter of wheat to EGPC. Exim Bank has extended two lines of credit of US$ 10 mn each to EGPC, to finance its imports of wheat and other commodities from India. Exim Bank has also extended a similar line of credit of US$ 10 mn to International Foodstuffs Company, an Allana International Limited Group Company engaged in frozen meat and bakery products, dry foodstuffs, commodities, fruits and eggs. Together, Exim Bank's three lines of credit have facilitated import of over 300,000 metric tons of wheat by EGPC and International Foodstuffs Company from India, valued at over USD 35 mn.

EGPC has achieved and sustained high levels of growth in turnover and profits since inception. The Company has now established itself as a well-reputed and successful player in the international foodstuffs market.

Impact of European Union (EU) Enlargement on India's Trade

The India-EU 15 bilateral relationship is significant, in view of EU 15's ranking as India's largest trading partner. The EU 15-India trade was over US $ 24 bn, of which exports accounted for around US $ 11.6 bn. With EU enlargement (EU 25) in May 2004, this relationship will enter a new phase, one that will present challenges as well as opportunities.

On May 1, 2004, 10 new Central European countries viz., Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Malta and Cyprus, joined the European Union. EU 25 will have a market size of 455 mn population, about 18% of world trade and a combined GDP of € 9.7 bn, which is about 28% of world GDP.

India exported goods worth US $ 326 mn to the Acceding Countries (ACs) as against the import value of US $ 239 mn in 2002-03. Poland, Czech Republic and Hungary are the major markets for India in the ACs. Major items of imports by ACs from India include organic chemicals, cotton, electrical machinery and equipments, articles of apparels, and footwear and parts.

Analysis of Imports from India by EU 15 and ACs

A comparison of major items imported from India by EU 15 as also by the ACs reveals that there are as many as 9 common items in the top 15 products. The common products include articles of apparel and clothing, articles of leather, organic chemicals, footwear and parts, machinery and equipments, made-up articles and parts, cotton, articles of iron and steel and vehicles.

This implies that there will be no negative impact through non-tariff trade measures, on these product groups, as India is a recognised exporter to EU 15. The simplified administrative procedures (organised supply chain, dealing with single custom union and single market, harmonization of rules) and single reduced custom tariff levels would help India to become cost competitive (due to lower transaction cost and low custom tariff) and strengthen its position in these product groups. However, in some product groups, ACs stand as threat to Indian products in the EU 25, due to their easy accessibility to the EU 25 market.

Concentration of ACs in EU 15 imports

Overall, EU 15 imported about 5% of their import requirements from the ACs. Analysis of top 15 products imported by EU 15, from world and also from ACs, revealed many common products. In some product groups, like furniture, articles of iron and steel, articles of apparel and accessories and vehicles, the concentration of ACs in total imports by EU 15 were higher.

Analysis of EU 15 imports from India and ACs

There were also many common products imported by EU 15 from India and ACs. These include articles of apparel and accessories (not knitted), electrical machinery and equipments, boilers and machinery, articles of iron and steel and vehicles. These five items together account for 23% of India's exports to EU 15 and 55% of ACs exports to EU 15. Indian exporters of these product groups might lose their competitive position as compared to their AC counterparts. The impact would be more pronounced in the apparels (not knitted) and articles of iron and steel, in which EU 15 imports more than 10% of their total imports from ACs. The outward processing traffic (OPT) is likely to increase between EU 15 and ACs after the accession. Similarly, competition from ACs would be more pronounced in sectors such as agro and food products. It is estimated that some of the ACs would now receive agri subsidy of US$350 mn, making Indian agro-products uncompetitive in the common market.

Other Issues:

- EU 15's bilateral agreements and FTA commitments will involve now all the 25 states.
- The Rules of Origin relationship between EU 15 and ACs get changed.
- EU 15's trade defence measures, especially anti-dumping measures, will now apply to the EU 25. However, in some cases, India could seek review of the operation and calculations.

Some Strategies:

- India could consider investing in manufacturing and services sector in ACs to increase its presence in the EU 25.
- Entering into technological collaborations, especially in knowledge-driven areas such as information technology, biotechnology and pharmaceuticals, would lead to beneficial cooperation.
- Indian software companies could benefit from the low cost locations of ACs, while catering to the new enlarged Europe. Indian software firms can also club their project management skills with the IT skills of ACs.
- There is a need for creating trade awareness amongst exporters, strengthening commercial arrangements in ACs and logistic requirements, especially, air links, warehousing operations and supply chain management.

Exim Bank Study Highlights Potential for Enhancing Bilateral Trade and Investment with BIMST-EC Countries

Exim Bank's latest Occasional Paper titled *"BIMST-EC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries"* was released by His Excellency, Mr. Sumith Nakandala, Ambassador and Deputy High Commissioner of Sri Lanka, Chennai, at a function organized by India-ASEAN-Sri Lanka Chamber of Commerce and Industry in Chennai on June 25, 2004. The Study analyses the trade and investment relations of the BIMST-EC countries (which include Bangladesh, India, Myanmar, Sri Lanka and Thailand), and indicates high potential for increasing bilateral trade and investment between India and the BIMST-EC countries.

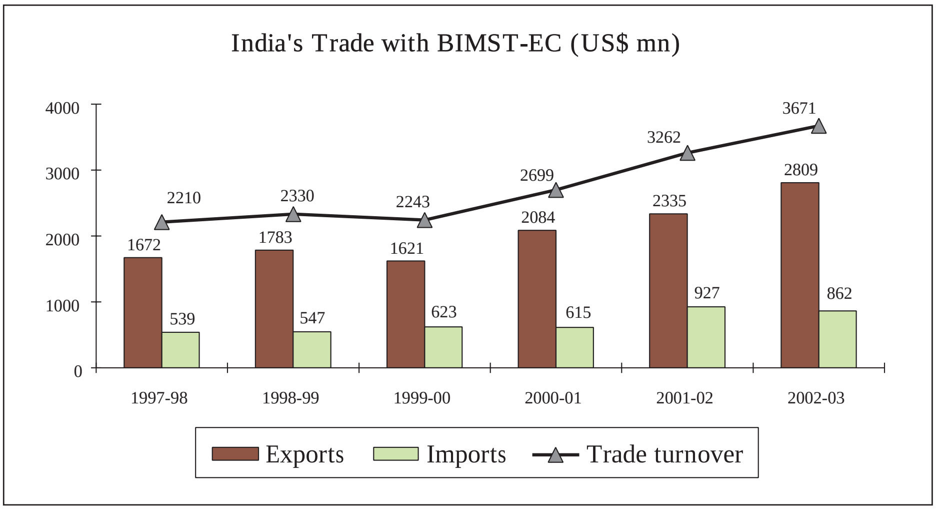
The Study delineates that since the formation of BIMST-EC in 1997, India's trade with other BIMST-EC countries have witnessed robust rise with the total turnover (exports plus imports) having risen from US$ 2.2 bn in 1997-98 to US$ 3.7 bn in 2002-03. India maintains significant and continuous trade surplus with the other BIMST-EC members, with the exception of Myanmar with which the trade balance is in favor of Myanmar. According to the Study, potential exists to further enhance exports to the region, based on the import demand in these countries and India's export capability. The BIMST-EC countries offer potential for a wide range of products which include, among others, drugs and pharmaceuticals, machinery and instruments, transport equipments, gems and jewellery, manufacture of metals, and iron and steel. These countries can also be important sources for import of inorganic chemicals, leather, tea, natural rubber, vegetable oils, and non ferrous metals.

With a view to attract more investment, BIMST-EC countries have introduced various investment incentives, and have also set up investment promotion agencies to actively promote investment. The Study has identified priority sectors for investment in the member countries which include textiles, electronics, information technology, agro based industry in Bangladesh; oil and gas, manufacturing, fisheries, hotel and tourism in Myanmar; information technology, electronics and rubber in Sri Lanka; and agriculture and agriculture products in Thailand.

To further enhance cooperation, BIMST-EC members, with the exception of Bangladesh, signed a framework agreement on Free Trade Area (FTA) in February 2004 in Phuket, Thailand, where Bhutan and Nepal were admitted as members. Thus, with members of SAARC (India, Bangladesh, Sri Lanka, Nepal and Bhutan) and members of ASEAN (Thailand and Myanmar), the activities of BIMST-EC could be designed to eventually form a bridge linking ASEAN and SAARC.

The Study further delineates that Indian companies could also endeavour to increase participation in projects funded by multilateral agencies in these countries. Multilateral institutions such as the World Bank and the Asian Development Bank support and fund a number of projects in the BIMST-EC countries, particularly in sectors such as agriculture, fishing and forestry, transportation, health and other social services, energy and mining, education, information and communications, water sanitation and flood protection among others.

To enhance bilateral trade and commercial relations with the region, Exim Bank has extended Lines of Credit to select banks in the region. Exim Bank has in place credit lines to Sri Lanka and Philippines to finance India's exports. Exim Bank has also extended a Guarantee and L/C confirmation facility of US$ 50 mn to Exim Bank of Thailand. Similar facility exists with Exim Bank of Malaysia. Exim Bank is also in the process of extending a Line of Credit facility for financing the upgradation of the Yangon-Mandalay Railway System and another Line of Credit to finance the development of information and communication technology in Myanmar.



EXIM-FICCI Study on India-Mercosur Trade

At the recently held UNCTAD XI, the Exim Bank-FICCI joint study titled "Potential for Enhanced India-Mercosur Trade in Pharmaceutical, Chemical and Petrochemical Products" was released in the India-Mercosur Forum. According to the study, trade in pharmaceutical, chemical and petrochemical products has played a crucial role in enhancing India-Mercosur trade, which stood at US$ 1.5 bn in 2002-03. India is a net exporter of these products with total exports amounting to US$ 481 mn in 2002-03. The study points out that against the backdrop of a prospective growth in Indo-Mercosur trade and strengthening of India's capability in exporting these items, there is considerable potential in India's trade with Mercosur in pharmaceutical, chemical and petrochemical products. The study has applied the Revealed Comparative Advantage (RCA) methodology in identifying sub-products in these categories where India has already become a major global player. The study has also analysed the size of the import markets for pharmaceutical, chemical and petrochemical products in the Mercosur countries and has identified the largest markets as fertilizers, plastic materials, cellulose, derivatives, organic-inorganic compounds, soap, cleansing preparations, pigments, paints varnishes and miscellaneous chemical products. Moreover, the study states that in 161 of these products India has price advantage with respect to their global imports by Mercosur. The study identifies products at a sub-level with prospects of increase in bilateral trade in the range US$ 1-10 mn and above. The study among others has also dwelt upon the prospects of Indian System of Medicines.

Regional Economic Integration and Cooperation

The 10th Annual meeting of Asian Export Credit Agencies (ECAs) was held in May 2004 at Beijing, hosted by Exim China, which coincided with the 10th anniversary of establishment of Exim China. The meeting was attended by representatives from India, Australia, China, Indonesia, Japan, Korea, Malaysia, Philippines and Thailand. In addition, representatives from Asian Development Bank and International Monetary Fund were present.

The initiative for holding Annual meetings of Asian ECAs to exchange information and share ideas in a structured manner was originally taken by Exim India in 1996, which also hosted the first two meetings in India. The previous meetings other than those organised by Exim India were held in Tokyo (1997), Beijing (1998), Bali (1999), Bangkok (2000), Seoul (2001), Kuala Lumpur (2002) and Manila (2003).

An important outcome of past endeavours by Asian ECAs was signing of Multilateral and Bilateral Letter of Credit Confirmation facilities. Also, feasibility of the establishment of a Regional Export Credit Agency for Asia is being discussed, which could play a role to ensure liquidity through refinance and rediscounting, particularly for smaller economies in Asia.

The 8 Asian countries represented at the meeting, together account for 21% of global GDP, 47% of world population and 47% of total global foreign exchange reserves. The task of the Asian ECA forum is to enhance cooperation, thereby fostering a long-term relationship which has grown in strength over the last ten years and moved from the state of competition to a spirit of constructive cooperation.

Sovereign Rating for Foreign Currency Bond Issue

Exim Bank obtained sovereign credit ratings from international credit rating agencies for its proposed maiden foreign currency bond issue:

- Moody's have conferred 'Issuer Rating Baa3 - Investment grade' rating for long term debt.
- Standard & Poor's has assigned 'BB : Stable outlook'.
- Fitch Ratings has assigned 'BB+ : Stable outlook'.

Bank is to tap the international capital market shortly with a medium term Euro dollar bond issue. The Bank has, hitherto, been raising foreign currency resources by way of syndicated loans, bi-lateral and club deals. During 2003-04, the Bank raised US$ 355 mn (1 year maturity) through syndicated loans attracting participation from a variety of international banks. As on March 31, 2004, the Bank's foreign currency resources with maturity ranging from 1 year to 20 years stood at US $ 1.2 bn. Bank's current loan assets portfolio includes 46% in foreign currencies.

Bank's financial results for FY 2003-04 show impressive all-round growth. Profit after tax of Rs. 229 crore and the total assets exceeded Rs.15,500 crore showing 26% growth over previous year.

CRISIL and ICRA have consistently assigned 'AAA' rating to Exim Bank's short /medium/long term debt instruments and the Bank has been raising CPs/Bonds at bench-mark rates. Fitch has also assigned a National Rating of 'AAA' for the Bank's domestic bond programme.

Performance Highlights of Exim Bank: 2003-04

Financial Performance

- Profit before Tax at Rs 304 crore, an increase of 13%.
- Net Profit (after tax) at Rs. 229 crore, an increase of 11%.
- Net worth of the Bank increased to Rs. 2143 crore from Rs. 1967 crore.
- Dividend to Government of Rs. 47 crore (pay out of 21% of the post-tax profit) as compared to Rs. 45 crore in the previous year.
- Capital to Risk Weighted Assets Ratio (CRAR) stood at 23.5%.
- Debt instruments enjoy highest rating (AAA) from rating agencies, CRISIL and ICRA and sovereign credit ratings from international rating agencies viz. Moody's, Standard & Poor's and Fitch Ratings, for its proposed maiden foreign currency bond issue.

Business Performance

- 164 contracts worth Rs. 7543 crore covering 48 countries were secured by 96 Indian exporters with Exim Bank's support as against 110 contracts worth Rs. 6531 crore covering 45 countries secured by 59 Indian exporters during the previous year.
- Loan Sanctions: Rs. 9266 crore, an increase of 18%.
- Disbursements: Rs. 6957 crore, an increase of 31%.
- Loans Assets: Rs. 10775 crore, an increase of 23%.
- Total Assets exceed Rs. 15500 crore.
- Net NPAs/Net Loan Assets stood at 1.26% showing improvement from 2.25% in the previous year. Cumulative provisions cover 82% of Gross NPAs.
- Bank extended 12 lines of credit amounting to US$168 mn. As on March 31, 2004, the Bank had 28 Lines of Credit with credit commitments aggregating US$ 530 mn available for utilisation, covering 51 countries in Asia, Africa, CIS and Latin America.

New Initiatives

Financing of Services Sector

- Bank made an entry into financing of entertainment industry, which has huge export potential. The first loan was extended to a firm to produce the Spanish dubbed version of Hindi blockbuster 'Kaho Na Pyaar Hai', for release in around 20 Spanish speaking Latin American countries.
- Bank's foray into financing of healthcare services sector was by way of financing import of state-of-the-art medical equipment for a super speciality hospital project.

Agri Business Group

- Bank signed a Memorandum of Understanding (MOU) with Ministry of Food Processing Industries (MFPI), Government of India to synergise efforts in developing food-processing industry with Bank's expertise.
- Bank's support to the food processing sector included finance to units engaged in manufacture/processing of mushrooms, pulses, seafood, spices, soya, castor oil derivatives, rice, tea, fruit juices and pulps, instant coffee, gherkins, herbal extracts, medicines and cosmetics, organic food products, ready-to-eat foods, honey.

Institutional Linkages

- Bank entered into an MOU with Central Food Technological Research Institute (CFTRI). Bank became a member of International Chamber of Commerce, India.

Promotional Programmes

- Bank carried out research studies and published 4 occasional papers, 3 working papers on international trade and investment and 2 books titled 'Road Beyond Boundaries: The Case of Select Indian Healthcare Systems' and 'Project Exports: Connecting Continents with Indian Expertise'.
- Under arrangements with International Finance Corporation, of the World Bank Group and other international agencies, Bank has supported 77 consultancy assignments by Indian consultants in 28 countries as on March 31, 2004 covering a number of specialised fields. During the year, services of Indian consultants were utilised in sectors like agriculture, horticulture, bank restructuring and environment management.
- Bank's Eximius Centre conducted 23 programmes on international trade and investment related topics.

ADFIAP Award for Trade Development

The Association of Development Financing Institutions in Asia and Pacific (ADFIAP) Award recognises and honours ADFIAP member institutions, which have assisted projects that have created a development impact in their respective countries. Awards are given to member institutions, which have implemented or enhanced outstanding and innovative development projects during the year.

ADFIAP has conferred the 'Trade Development Award' to Exim Bank during the 27th ADFIAP Annual Meeting held recently in Almaty, Kazakhstan. This is the second time that the Bank has been conferred with the award by ADFIAP. The Award is in recognition of Exim Bank's Consultancy Support Programme that proactively creates the enabling environment for India to share its experience and expertise. Exim Bank, through this innovative facility, has helped increase visibility for Indian expertise, and leveraging upon its links with multilateral agencies, promote Indian exports.

EXIMIUS CENTRE COLUMN

In the Second quarter of 2004, The Centre took part in the following programmes:

A Workshop on *'International Marketing-Changing Perspectives'* in June, 2004 at the Learning Centre of the Bank's Ahmedabad Representative office. The principal faculty was Dr. Y L R Moorthi, Professor (Marketing), Indian Institute of Marketing, Bangalore. The program provided guidelines to develop a systematic plan for managing products and services internationally. It also highlighted the challenges that are in store for a typical company going global. The program consisted of i) interactive discussion ii) suitable case study iii) a mini-project. There were presentations by individual groups and a final summing up by the faculty. 30 participants attended the workshop from, engineering, pharmaceuticals, machinery, auto parts and food sectors.

A Seminar on *'Achieving Sustainable Success in Global Markets Challenge India'*, was organised by The IIM Calcutta Alumni Association, Bangalore Chapter, in Bangalore in June 2004. Exim Bank was a knowledge partner. The keynote address was by Mr. Nandan Nilekani, Managing Director and CEO, Infosys Ltd. The seminar focused on key trends and opportunities in the global market for Indian companies, provided insights into strategies and best practices adopted by successful indigenous companies and highlighted constraints faced by export companies with possible ways to overcome them.

'A Seminar on 'Six Sigma for IT Industry' was held in June 2004 a the Eximius Centre, Bangalore. The seminar was addressed by Mr. D. Sankararaman, Manager in Management Advisory Services Group of TUV Rheinland India Pvt Ltd, Bangalore. Mr. Sankararaman has been trained by GE on Six Sigma Black Belt and Six Sigma Champions. He has conducted multiple Six Sigma training programs on DMAIC (Define, Measure, Analyse, Improve, Control) and DMADV (Define, Measure, Analyse, Design, Verify) methodologies. There were 20 participants who were Quality Heads, Quality Professionals of IT and IT Enabled Services industry.

The calendar programmes for the next quarter include:

a) IT-Marketing Strategies and Emerging Opportunities
b) Investment Opportunities in biotechnology in Norway
c) Development of Domestic Consulting Services
d) Food Safety and Quality-Role of Food Control Systems.

The Centre's workshops are aimed at enhancing the capabilities of the industrial and financial communities in India and other developing countries. These programmes bring to their notice proposals of trade and investment, and offer them access to contemporary thinking in international trade and finance. The Centre remains committed to conducting result-oriented programmes that will bring international expertise to Indian corporates. The Centre welcomes suggestions on its future agenda.

For details on future programmes at Eximius Centre, contact:
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BOOK REVIEW

Agriculture, Trade, and the WTO in South Asia

World Bank

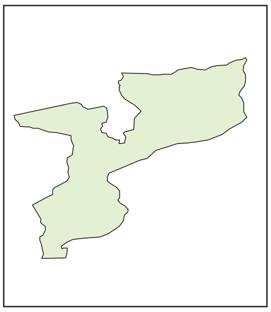
Recognising the important role of agriculture and trade liberalisation in alleviating poverty in developing countries, the World Bank in May 1999 initiated an integrated programme of research and capacity building with the goal of assisting developing countries in participating more effectively in multilateral trade negotiations. This Book is a part of the programme's series of work under the 'built in' agenda, which is the continuation of the reform process begun in the Uruguay Round, as well as the new trade issues in the WTO that affect developing and industrialised countries.

Recognising the crucial role that agriculture plays in South Asian Economies, the publication says that the further opening of international markets to agricultural exports from South Asia promises to raise the standard of living in this region. The Uruguay Round Agreement on Agriculture established a rule-based system for agricultural trade and set guidelines to reduce protection in agriculture and distortional policies in trade. However, the book says that more work needs to be done in order that countries benefit from the liberalisation process.

Four papers have been presented on select South Asian countries viz. Bangladesh, Sri Lanka, Pakistan and India, which says that South Asia has the potential to achieve further progress in domestic policy reform and in the further opening of international markets to their exports. The book providing valuable insights into various issues, perspectives, and interests of South Asia in the current global scenario, is intended for policymakers, analysts, and other stakeholders from industrialised and developing countries.

Mozambique

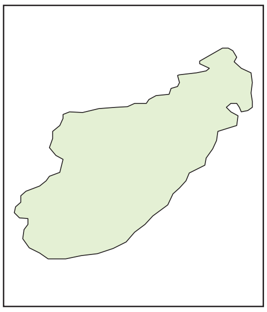
The economy grew strongly in 2003, with real GDP estimated at 7%, led by services (up by 15.6% from 2002),



transport and communications (up by 9.6%) and commerce (up by 8.1%). Growth in 2004 will continue to be affected by the effects of the large investment projects which have dominated in recent years. The government's road construction programme, which is the major focus of the Ministry of Public Works and accounts for a substantial portion of recurrent and capital investment in the state budget, has made substantial progress over the past year, with over 75% of the road building/rehabilitation target being met. Road construction is a key element of the government's poverty reduction strategy owing to the role it plays in facilitating rural access and reducing transaction costs for commercial agriculture, and the government's priorities in this road programme is set to continue throughout 2004.

Madagascar

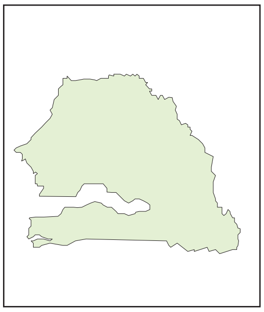
Madagascar is the leading producer of vanilla, contributing to almost two-thirds of world's total exports, and generating



around US$ 160 mn per year in export earnings of the country. Madagascar enjoys a reputation for good quality of vanilla produced by 60,000 growers in the key "SAVA" (Sambava, Antalaha, Vohemar, Andapa) producing region. In 2003, the vanilla prices soared and the farmers enjoyed extraordinarily high prices as a result of the low global supply. However, traders are worried that if the price of Malagasy vanilla soars too high, it could encourage the potential competitors, such as Comoros, India, Indonesia and Uganda to increase production and erode Madagascar's market share. In 2003, the country is expected to have produced about 500 tonnes, but owing partly to the encouragement of high prices, farmers are expected to plant much more vanilla in 2004 and output could leap as high as 2000 tonnes.

Senegal

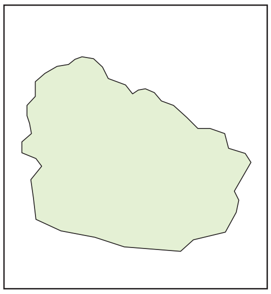
Senegal registered a real GDP growth rate of an estimated 5.9% in 2003, increasing from that of 1.9% in 2002, owing to the robust



performance of the primary sector, which grew by more than 36% over that in 2002. With the slowing down of the primary sector in 2004, real GDP is forecast to slow down to 4.9% in 2004. The services sector which generates nearly two-thirds of GDP, is expected to benefit from continued growth in telecommunications and commerce. The fishing industry is Senegal's largest source of foreign exchange, constituting 23.6% of total merchandise exports in 2002 as well as the second most important source of employment, accounting for 15% of the economically active population. According to the US Government's recent African Growth and Opportunity Act (AGOA) trade data, in the period January-July 2003, Senegalese exports to the US under AGOA increased to US$ 500,000 from US$ 200,000 in the same period in 2002.

Uruguay

The trade agreement which Mercosur is negotiating with the EU is expected to benefit Uruguay. Uruguay also seeks speedy implementation of the FTAs signed with Mexico and Peru in 2003. The government is focused on



safeguarding the momentum of economic recovery and macroeconomic stability and complying with the criteria set out in 2004 economic programme agreed with the IMF. Export led growth is expected to drive GDP growth to 6% in 2004 in the backdrop of falling inflation and stable exchanges rates. Economic ties between India and Uruguay were strengthened with the setting up of a large warehouse in Uruguay with Government assistance by the Central Warehousing Corporation (India).

Brazil

As a result of sound macroeconomic policies, improved liability management and a strengthened current account, the country is well

positioned for a GDP growth rate of 2.9% in 2004, a sharp rise from the decline of 0.2% in 2003. Exports have continued to grow reflecting competitive real exchange rate, improved terms of trade and strong external demand. However due to political turmoil and volatility of financial markets, there is the need to implement key structural reforms. In addition, trade negotiations on the Free Trade Area of the Americas (FTAA) and the EU-Mercosur free trade agreement are underway. During the past decade, several foreign banks acquired local institutions and the government's privatisation programme has provided opportunities in the financial sector. Several foreign insurance companies have begun operations in Brazil.

Select Currencies

EURO

The accession of ten new countries into the EU has increased the responsibilities of the European Central Bank (ECB) in framing monetary policy in the euro area - the second largest economic area after United States. The euro subsequently became the second most widely used international currency, after the US dollar and ahead of Japanese yen. At present there are about 50 countries with an exchange regime linked to the euro, including those EU Member States that have not yet joined the euro area. In most of these countries, the euro is also the main or the sole intervention currency used by authorities to stabilise the exchange rates of their respective currencies. The ECB sees the internationalisation of its currency beyond the borders of the euro area as a market driven process. In today's world trade, the euro is increasingly used, since its launch on Jan 1, 1999, as settlement or invoicing currency in euro area countries' trade with non-euro area residents. In terms of total foreign exchange transactions the euro accounts for about one-fifth to one quarter of all daily transactions. Currently, the non-euro area residents hold about 10% of the total amount of euro currency in circulation. This amount is roughly in line with estimates of the amount of the euro legacy currencies circulating outside the euro area prior to the cash change over in 2002. With the Fed Rate hike almost a certainty; the euro is making some exciting moves recently. On Jan 1, 2003 the euro was at 1.0770 per USD and on Jan 1, 2004 it was 1EUR=1.2478 appreciating by about 16% during this period. This was basically due to weakening of USD against all major currencies. On June 29, 2004 euro was trading at 1.2126 against USD and this trend is not expected to reverse in near future.

South African Rand

The South African Rand(ZAR) is managed by South African Reserve Bank(SARB). The SARB conducts the monetary policy with an inflation-targeting framework. The current targets are for average consumer price index inflation to be within the range of 3 to 6% in 2004. The SARB has a floating exchange rate policy and there are no exchange rate targets. The ZAR has been freely convertible since March 1995. The rand has been gaining since June 2003. On June 23, 2003, the rand was quoted at 7.93 per USD and on June 22, 2004 it was 6.28 per USD, an appreciation of around 20%. The recent gains have puzzled many market participants, as they defy trends in commodity prices. But for now the rand was seen tracking the euro, the unit of South Africa's main trading partner. The rand last touched 6.09 per USD in December 2003, which was a 46 months peak at that time. The rand has now appreciated by about six percent against the USD this year, building on the gains of 28% in 2003 – a trend viewed with concern by domestic exporters, who maintain that its strength is eroding their profits. The appeal of South Africa's high interest rates along with surging commodity prices and good economic fundamentals helped buoy the rand in the past few months. On June 29, 2004 ZAR was trading at 6.27 per USD.

Brazilian Real

Brazilian Real(BRL) is one of the few currencies in the world which is watched keenly by economists in the wake of expected hike of Fed rate of United States. Since Jan 18, 1999 the real has been freely floating against USD. The BRL depend largely on the domestic policies of Brazil. As Brazil is the largest debtor among developing nations, faster inflation could push up the cost of refinancing to roughly USD 415 bn. Almost 60% of Brazil's BRL 768 bn of local debts is indexed to the benchmark interest rate and the cost of repaying it, or selling new bonds would surge if inflation prompted the central bank to raise interest rates. The central bank is also to take a decision on the rollover of USD 2.5 bn dollar linked securities maturing on July 1,2004. Since Nov 19, 2003 the central bank had stopped offering dollar - linked debt, but on June 9, 2004 it went back to the market by selling USD 326.6 mn in currency - denominated securities, rolling over 33% of USD 983 mn that expired on June 17, 2004. These factors are going to affect the real's near term movement. The currency has fallen 7.6% this year- the second worst performance of the 16 most traded currencies against USD. On Jan 1, 2004 the real was at 2.93 per USD and on June 29, 2004 it was at 3.11 per USD.

Project Exports: *Connecting Continents with Indian Expertise*

Exim Bank's forthcoming publication titled 'Project Exports: Connecting Continents with Indian Expertise' outlines the evolution of Project Exports from India over the last three decades and the growing recognition of Indian expertise in the global market. The analysis is based on extensive data available within the Bank as the principal financial institution for promoting Project Exports, primary research on activities, policies and current focus of Multilateral Funding Agencies (MFAs), and interaction with leading Indian project exporters.

Project Exports have been increasing steadily over the years, indicating growing stature of Indian expertise overseas in a wide range of activities, upward movement in the value chain of its export performance, and boosting the economy in manifold ways.

Currently, 167 project export contracts valued at over Rs. 20,000 crore under execution in 43 countries across Asia, Africa and Europe by 36 Indian companies. Many of these projects are funded by MFAs and contracts secured by Indian companies against stiff international competition. Though the current level of Project Exports at US$ 4.5 bn appears impressive, the potential is much greater. Many capable companies, highly successful in the domestic market, do not participate in overseas projects, possibly due to diffidence in operating in an unfamiliar environment.

Growing Opportunities

Projects funded by MFAs are characterised by professional appraisal for technical feasibility and economic viability and the funds are fully tied up, ensuring timely payment to contractors. Also, host country payment risks do not exist and bid evaluation and selection process are transparent and fair. Such projects cover major sectors of economy such as agriculture, energy, transport and communication, industry, water supply and sanitation, education, health and urban development. Recent trends indicate an increasing focus on social and human development. In addition to projects funded by MFAs, many developing countries offer scope for project exports, if suitable credit packages are offered by the bidders.

Though Indian companies' share in projects funded by MFAs in India is impressive, the share in overseas projects is marginal. For instance, as per prior review contracts under World Bank funded projects in 2003, Indian companies secured contracts valued at US$ 324.5 mn, out of which, 96% contracts (by value) were for projects in India and only 4% for overseas projects.

Need for Strategic Approach

Indian project exporters must consider developing strategic partnerships as also securing sub-contracts from major overseas companies. Further, Indian consultancy firms can do well in exports markets, by establishing strategic alliances with major international consultancy firms for joint bidding.

As a member of MFAs viz. World Bank, Asian Development Bank and African Development Bank, India needs to leverage its position for increased overseas business and take membership, through equity participation, in other MFAs such as European Bank for Reconstruction and Development and Inter-American Development Bank (currently non-members can't participate in projects funded by IDB). India's membership through equity participation in regional development banks will strengthen efforts to expand the trade canvas.

With export credit becoming a critical external factor, export credit agencies (ECAs - also referred to as Exim Banks) around the world have become an important component of a country's export promotion strategy. Exim Banks, though differing in role and function (depending upon the country's economic status) and resources, are mostly government owned. However, even if they are not state owned, ECAs are backed by respective national governments, and are able to extend credit on longer terms and higher risks, compared with commercial banks.

The Prime Minister's Office set up a high level Task Force on Project Exports to explore ways and means to register a quantum jump in India's project exports. The Task Force observed that Exim Bank of India must be strengthened through regular infusion of share capital and resources support, in order to evolve and expand as an institution and strengthen its reach, and coverage as a major international financial institution to support India's international trade and investment.

Against this backdrop, the book aims to highlight the issues involved, as it explores the positive instrumental role that Project Exports is capable of playing in India's quest for a sustainable rapid economic growth.

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

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