

EXIMIUS: EXPORT ADVANTAGE



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Role of Regional Trade Agreements in Global Trade

The global trading system has seen a sharp increase in regional trade agreements (RTAs) in recent years. As per the WTO report, a total of 285 RTAs have been notified to the GATT / WTO by the end of October 2003; however about 189 RTAs are currently in force. WTO also estimates that an additional 60 RTAs are likely to be operational, although not yet notified. There are also over 70 trade agreements that are under negotiation stage. The WTO also reports that as of March 2003,

only four WTO members – Hong Kong, Macao, Taiwan and Mongolia were not party to any regional agreement; however, with the sole exception of Mongolia, all others are engaged in negotiations on preferential agreement with at least one country.

Under the WTO agreement, countries normally cannot discriminate between their trading partners (grant someone a special favour such as lower customs duty rate for one of their products). This principle is known as most-favoured-nation (MFN) treatment, which governs not only trade in goods, but also trade in services and under TRIPs agreement. However, there are some exceptions that are allowed under the WTO framework. For example, countries can set up a free trade agreement that applies to goods traded only within the group – discriminating against goods from outside, or developed countries can give special access to the products of developing countries.

What is RTA?

By definition, RTAs are agreements whereby members accord preferential treatment to one another in respect to trade barriers. RTAs vary in terms of the level of integration amongst participating nation-states, and can be classified under different heads.

- At the most basic level, Preferential Trading Agreements (PTAs) lower trade barriers among members. Such preferential trade is usually limited to a portion of actual trade flows, and is

often non-reciprocal. While some PTAs are in origin a political expression of desired closer economic relations, they can act as a catalyst to eventual free trade amongst participants.

- A Free Trade Agreement/Area (FTA) is a reciprocal arrangement whereby trade barriers (usually tariffs) between participating nations are abolished. However, each member determines its' own external trade barriers against non-FTA members independently. Most commonly, barriers to trade are reduced over time, however in most cases, not all trade is completely free of national barriers.
- The next level of economic integration is the Customs Union. In a Customs Union, all participating nations adopt a common external trade policy (e.g. common external tariff regime or CET).
- Common Markets and Economic Unions are another category, which adopt further integration measures to facilitate the free movement of labour and capital, as well as the harmonisation of independent national policies.

RTA Trends:

Traditionally, RTAs occurred between geographical contiguous countries or regional partners. However, this trend has changed with the emergence of WTO, and the idea of tapping cross





regional potential. WTO estimates that of the 146 WTO members, 65 are currently engaged in, or are negotiating, RTAs with cross regional partners. WTO also reports that the number of RTAs signed between developed and developing countries have increased over the years. This trend was started by the European Union, which entered into a series of reciprocal agreements with a number of developing countries including Turkey, Mexico, South Africa and Chile.

Analysis on the growth of the RTAs reveals that 149 of them have emerged after the formation of WTO (between 1995 to 2002). Of the 124 RTAs which emerged during the GATT years, only 48 are operational, as other agreements

Assistance (COMECON) and to make up for the foregone preferences under COMECON.

The profile of agreements signed / under negotiations by developing countries (Table) shows that the RTAs amongst intra-developing countries account for over a half of the total agreements. RTAs between developing and developed countries account for nearly 38%, and the remaining 11% is accounted by transition economies. Amongst the developed countries, European economies are the front runners in signing RTAs with developing countries (23% in total).

WTO estimates that nearly 70% of the RTAs are free trade agreements, followed

geographical areas. The proliferation of new RTAs and the increasing number of bilateral agreements have meant overlapping membership for many countries. Of late, RTAs are also taking different forms. Many RTAs go beyond the simple agreement for removal of tariff barriers and quotas. They also comprise agreements for removal of non-tariff barriers, through harmonization of mutual recognition of product standards and conformity assessment procedures. Increasingly, many RTAs contain provisions related to trade in services also. Some are also into policy areas, such as competition, environment, investment and labour standards.

As a result, the world is also seeing a complex network of preferential trade regimes, with a rise in cross-regional bilateral agreements, with growing involvement of countries that have traditionally remained outside regional arrangements, with emergence of overlapping agreements and with considerable variations in design and content of agreements. Such a complex network of RTAs and trade regime increases the possibility of mutually inconsistent trade provisions and might create uncertainty with respect to applicable rules and thereby could increase the transaction costs of conducting trade.

Reasons for increasing trend in RTAs:

Considering the mixed objectives (political, security and economic considerations) with which the RTAs emerge, there will be an increasing number of such agreements, irrespective of the efficiency of multilateral trading systems. In fact, such regional or preferential liberalization would lead to further liberalization through the process of 'competitive liberalisation'. Under the competitive liberalisation strategy, while the developed countries will have the objectives of protecting their investment interests, and new market

Table
RTAs - Effective / Under Negotiation by Developing Countries (DCs)

(As of May 2003)

	Notified to WTO	Concluded but not notified to WTO	Under Negotiation	Total	% Share
Total agreements by DCs	76	34	39	149	100
Agreements with Developed Countries	33	8	16	57	38
<i>Of which</i>					
o USA is a partner	3	2	4	9	6
o Canada is a partner	4	0	3	7	5
o EU and EFTA is a partner	24	5	5	34	23
o Japan is a partner	1	0	1	2	1
FSU/CIT is a partner	16	0	0	16	11
Intra-DCs	27	26	23	76	51

Source: WTO

have evolved into newer ones with deeper integration. Analysis on the regional trends in RTAs after the formation of WTO reveals that more than one-third of RTAs had the involvement of developed country partners, while another equal number of RTAs was amongst the transition economies. The RTAs amongst transition economies have emerged mainly as a result of the fall out of Council for Mutual Economic

by preferential trade agreements (23%) and customs union (7%). Most of the RTAs (over 100) are concentrated in Europe, with the European Commission (EC) and European Free Trade Area (EFTA) being the continental hub for the network of RTAs.

The trend in emergence of new RTAs, since the formation of WTO, is amongst the countries that belong to different





access, the developing countries will have the overall objective of attracting infrastructure investment, which could contribute to their economic growth.

There are many reasons for such increasing number of preferential trade agreements in the liberalized trade arena. These agreements have emerged with both economic and political purposes. Economic reasons for governments opting for such preferential trading agreements include reduction of barriers on selective basis, benefits of reciprocal liberalization, increasing competitive strengths of each country, countering the competition of third country in both the countries, and such others.

Governments may also want to negotiate agreements in deeper manner bilaterally, in order to integrate their economies with much broader perspective. Or they may want to negotiate agreements on a range of other issues not touched upon or fully dealt within the current WTO framework, such as investment, competition, trade in services, or environment and labour standards. There may be gains from such bilateral agreements, including harmonization of economic policies or regulations, with like-minded countries. The growing number of bilateral or regional trade agreements is also because of long-term negotiations on some issues under WTO, which are time consuming.

Another important economic factor behind such emerging scenario is to attract foreign direct investment, which will flow towards those countries, which will enjoy preferential access to large markets. Participation in regional agreements by developing countries also demonstrates that the country is committed to opening its markets.

Political considerations for such emergence of regional / bilateral agreements will inevitably include consolidation of peace and increasing the regional security.

Furthermore, there are politico-economic reasons because of which governments may find it easier to liberalise when other countries are doing the same.

Pros and Cons of RTAs

It is generally believed that by providing tariff preferences or duty-free treatment, trade between regions or among participating countries is multiplied (trade creation). However, there are also dangers arising out of RTAs by way of trade diversion. The advantages that may emerge through RTAs include preferential access to markets that may be highly competitive, securing foreign direct investment (for eg. countries with low labour cost), and operation of economies of scale and direction of investment resources to best alternatives.

The negative impacts of RTAs could be that it could cause trade distortions and ultimately shackle the growth of multilateral system of trade. The rules of origin associated with such RTAs could distort technology developments / transfer and hinder the globalisation of manufacturing process and thereby create obstacles in trade facilitation. Such effects are costly to business and detrimental to the regional trading areas.

Analysis undertaken by OECD, on the economic effects of many RTAs, shows mixed results. According to the OECD analysis, positive impact of trade creation was revealed as a result of formation of EU and EFTA. Over 60 percent of EU exports are to the other partners of EU. With respect to NAFTA, the analysis on trade creation found insignificant impact; although trade amongst the members increased substantially. However, higher positive impact is found if the analysis is done at sectoral level. The analysis on ASEAN RTA was found to have mixed impact. If we do not look at the 'trade creation'

in a pure sense, most of the RTAs favoured increase in intra-regional trade. The increase in intra-regional trade can be measured through Export Concentration Ratios (ECR). These ratios are calculated with the region's intra-regional trade share (IRt/Rt) to the region's share in world trade (Rt/Wt).

$$ECR = (IRt / Rt) / (Rt / Wt)$$

Analysing the ECR across the traditional RTAs, one could find out that the positive effect of RTAs could show ECR witnessing an increasing trend since the time the RTA is implemented.

The analysis shows that the ECR for Central European Free Trade Area (CEFTA), ANDEAN Community, Caribbean Community and Common Market (CARICOM), Southern Cone Common Market (MERCOSUR), Common Market for Eastern and Southern Africa (COMESA), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC) and West African Economic and Monetary Union (UEMOA) regions went up immediately or consistently after the implementation of the respective RTAs.

It could be concluded that Governments opt for regional trade agreements for variety of reasons. While it appears in the overall context that RTAs are meant for liberalization and reduction of tariffs, such agreements do not necessarily facilitate trade under preferential tariff rates for all commodities. There are of course few sensitive sectors that are excluded from such agreements. A country may enter into preferential tariff agreements for certain products and exclude the same set of products in another preferential agreement with another country. However, such arrangements provide more effective link to the international trade under multilateral framework.



PROJECT OPPORTUNITIES

Business Opportunities Update: Upcoming Projects

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

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
Philippines/ Development Bank of the Philippines (DBP), 5/F, DBP Bldg, Makati Ave. Cor. Sen. Gil Puyat Ave., Makati City, Philippines Tel: (632) 893-4444, 818-9511 Fax: (632) 893-5380 E-mail: ecmendoza@devbankphil.com.ph Contact: Ms. Eufemia Mendoza, Vice President, Development Banking Sector, Program Management I	Rural Power Project/ The objective of the project is to assist in the implementation of the first phase of the Rural Power Development Program, aimed at supporting reforms and priority investments. The rural electrification subproject component would have two subcomponents: (1) grid-connected electric cooperative (EC) subprojects; and, (2) decentralized electrification.	World Bank US\$ 150 mn
Peru/ Protransporte Lima, Avenida Aramburu No.166 5, Miraflores, Lima Tel: (51-1) 421-7473 Fax: (51-1) 421-8512 Email: Jpflucke@Protransporte.org.pe Contact: Julio Pflucker, Executive Director	Lima Transport Project/ The objective of the project is to assist the Municipality of Metropolitan Lima (MML) in enhancing the economic productivity and the quality of life within the Lima Metropolitan area through improving mobility and accessibility for the metropolitan population.	World Bank US\$ 45 mn
Indonesia/ Directorate General of Regional Infrastructure Development, Jalan Pattimura 15020, Kebayoran Baru, Jakarta Selatan Contact: Machfudz Madjid, Director of Technical Affairs Tel: (6221) 720 0281 Fax: (6221) 720 1760	Road Rehabilitation II Project/ The main objective of the project is to support growth and in turn reduce poverty through rehabilitating 1,266 km of national roads in 10 provinces in Sumatra and Kalimantan, and replacing 21 timber bridges in Kalimantan.	Asian Development Bank US\$ 146 mn
Afghanistan/ Ministry of Finance Contact: Minister C/o UNDP-Kabul, Islamic Transitional Government of Afghanistan Fax: (873-761) 660 769	Agriculture Sector Project/ The goal is to promote agricultural growth and poverty reduction through support for market-based policy reforms, formulation of public infrastructure investment programs, and institutional reform and organizational capacity building.	Asian Development Bank US\$ 50 mn





Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Bulgaria/ "Maritza East 2" TPP- EAD, 6265 Kovachevo, Stara Zagora distr., Bulgaria Fax : (359 42) 662 000 Email: tec2@tpp2.com Contact: Atanas Dimitrov, Executive Director	Maritza East 2 Project/ The key objective of the project is to reduce pollutant emissions and therefore to help improve local conditions and assist the country in meeting its national and EU environmental standards and obligations. The project includes the installation of Flue Gas Desulphurisation (FGD) plants and associated investments at the 1,450 MW lignite-fired Maritza East 2 power plant.	European Bank for Reconstruction and Development US\$ 43 mn
Regional/ Affiliated Firm "Uzelectroset" of State Joint-Stock Company "Uzbekenergo", Ul. Khorezmskaya No. 6, Tashkent 700000, Republic of Uzbekistan Fax: (998 71) 133 9821 Email: energetyka @pkp.com.pl Contact: General Director	Regional Transmission Modernisation Project/ The project seeks to modernise the transmission systems of Uzbekistan and Tajikistan to enhance power trade between the two countries.	European Bank for Reconstruction and Development US\$ 49 mn
Ghana/ Ministry of Health, Accra Fax: (233-21) 666-630 E-mail: piumoh @africaonline.com.gh. AfDB Contact: Mr. J.M. Gharbi, Director, Country Operations: West. Tel: (216) 7133-3511	Health Services Rehabilitation III/ The project comprises (i) strengthening district health services; (ii) support to the national blood bank; (iii) support to the national HIV/AIDS control program; and (iv) support to the Project Management Unit.	African Development Bank US\$ 25 mn
Malawi/ Ministry of Natural Resources and Environmental Affairs, PO Box 593, Lilongwe 3 Tel: (265-78) 9488 Fax: (265-78) 8689 E-mail: sadcfish @malawi.net.	Lake Malawi Littoral Development Project/ The project comprises: (i) Fishery production and marketing development; (ii) watershed management; (iii) capacity building and institutional strengthening; and (iv) project management.	African Development Bank US\$ 10 mn

CONTRACT AWARDS

Select contracts secured by Indian companies during the quarter:

Apar Industries Limited, Mumbai	Contract for supply of conductors for Rural Electrification and Renewable Energy Development Project, in Bangladesh , funded by World Bank .
Cipla Ltd., Mumbai	Contract for supply of pharmaceuticals for HIV/AIDS, Malaria, Sexually Transmitted Diseases and Tuberculosis (HAMSET) Control Project, in Eritrea , funded by World Bank .
Jaguar Overseas Limited, New Delhi	Contract for supply of transmission line materials for Energy Project, in Ethiopia , funded by World Bank .
Tata Infotech Limited, Mumbai	Consultancy contract for Financial Services Project, in Ghana , funded by World Bank .
ICICI Infotech Limited, Mumbai	Turnkey contract for information systems for Financial Sector Technical Assistance Project in Nepal , funded by World Bank .
Kalpataru Power Transmission Limited, Gandhinagar	Contract for supply of towers and accessories for System Efficiency Improvement, Equitization, and Renewables Project, in Vietnam , funded by World Bank .
Jaya Shree Insulators, Hooghly	Contract for supply of insulators for West Zone Power System Development Project, in Bangladesh , funded by Asian Development Bank .
RITES Ltd., New Delhi	Consultancy contract for Railway Modernization Project, in Uzbekistan , funded by Asian Development Bank .





India – Brazil – South Africa (IBSA) Trilateral Commission

The first meeting of the India – Brazil – South Africa (IBSA) Trilateral Commission of the foreign ministers of India, Brazil and South Africa took place in March 2004 in New Delhi. The trilateral commission is an outcome of the IBSA Dialogue Forum which was formed amongst the three countries during the visit of the Indian Foreign Minister to Brazil during June 2003.

An important outcome of the Trilateral Commission meeting was the decision to hold regular meetings of the foreign ministers of the three countries. Another was the formation of a Trilateral Joint Commission which will be co-chaired by the foreign ministers. The “New Delhi Agenda for Cooperation and Plan of Action” was signed by the three foreign ministers, which aims to boost bilateral trade and promote South-South cooperation. The Plan of Action envisages, among others, cooperation in fields like health, IT, civil aviation to defence, and the three countries have agreed to reinforce the economic strength of each other by synergising their complementarities in areas of industry, services, business and technologies. As per the Plan of Action, a trilateral cooperation agreement on air services would be considered and finalized before the end of the year, particularly in the areas of identification of routes for increased frequency of air

links and possibilities for commercial agreements between airline companies.

A Trilateral Business Council is also planned to be set up to promote business-to-business exchange amongst the three countries, and it would focus on improving cooperation in trade, infrastructure, technology, sustainable development and energy. Further, a fund is also envisaged to be set up for fighting poverty and hunger in the three countries. On the issue of non-proliferation and disarmament, the three countries agreed to intensify their cooperation at the International Atomic Energy Agency (IAEA) to ensure growth and development of peaceful use of atomic energy through supply of technology, equipment and materials under safeguards.

The Trilateral Commission assumes significance as it brings together three important countries representing the aspirations of developing countries in three continents. India and Brazil are key members among developing countries which banded together at the WTO Multilateral Trade Negotiations in Cancun in September 2003 to press the developed countries to phase out farm subsidies. The three countries also resolved to act in concert in all multilateral forums like the UN and the WTO with the aim of advancing an alternative perspective of world affairs.

Table: India's Trade with Brazil and South Africa

(US\$ mn)

	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
Brazil						
Exports	143.6	133.3	135.1	223.4	219.8	480.3
Imports	199.5	195.8	331.3	142.6	309.2	317.5
Total trade	343.1	329.1	466.4	366.0	529.0	797.8
South Africa						
Exports	394.3	387.6	285.7	308.4	354.2	476.9
Imports	498.7	1351.6	2014.6	1019.7	1445.8	2095.0
Total trade	893.0	1739.2	2300.3	1328.1	1800.0	2571.9

Source: DGCIS

China – A Leading Market for Iron Ore and Steel

China has dominated discussions in the steel industry in the past two years. The strong increase in demand for steel in China - linked to rapid economic growth in China and consequent large demand for the metal in fields such as construction and automobiles - has been responsible for a hefty part of the world's entire additional demand for steel over this period.

In the year 2003, China imported steel valued at US \$ 20 billion and was the leading importer of steel in the world. Major sources of steel imports for China include Japan (22%), Taiwan (18%), Korea (16%), Russia (6%) and India (5%).

China is also a leading importer of iron ore with an import value of US \$ 4.86 billion in 2003. It is estimated that China accounts for 25% of global imports of iron ore. Major sources of iron ore imports for China include Australia (33%), Brazil (28%), and India (25%). Together, the import share of iron ore and steel accounted for 6% of total imports of China in 2003.

Chinese imports of steel from India increased by 319% to US \$ 1.08 billion in the year 2003, whereas imports of iron ore from India witnessed 118% growth, with an export value of US \$ 1.22 billion. Put together, the import of iron ore and steel from India accounted for over 50% of China's total imports from India.

China's demand for steel is likely to remain high in the immediate future also. A strong GDP growth rate, and large investments made in the construction sector, particularly in infrastructure projects, would fuel the demand for iron and steel. Since utilization of imported iron ore has been emphasized by the China's domestic steel industry, China has now begun to consider the coordination of iron ore import, with various strategic measures.



Exim Bank's Lines of Credit

Line of Credit is one of the financing mechanisms through which Exim Bank extends finance to support export of goods and services from India on deferred credit terms. Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas. The Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool.

Exim Bank has extended six LOCs during January to March 2004.

Under these LOCs, the importers from the respective countries (except for Iran), are required to make advance payment of 10% of the contract value to the Indian exporters and the balance 90% of contract value would be reimbursed by Exim Bank to Indian exporters, upfront upon the shipment of

	Borrower	Amount of Credit	Terminal Dates for Utilisation		Credit Period available upto
			Opening of L/C	Disbursement	
1.	Bank Gospodarstwa Krajowego (National Economy Bank, Poland)	US\$ 10 mn	14.03.2006	14.09.2006	5 years
2.	Bank TuranAlem, Kazakhstan	US\$ 10 mn	24.03.2006	24.09.2006	5 years
3.	Six Iranian Commercial Banks	US\$ 20 mn	28.02.2006	28.02.2006	1 year
4.	Government of Angola	US\$ 5 mn	To become effective soon		5 years
5.	Republic Bank Limited, Trinidad & Tobago	US\$ 8 mn	To become effective soon		5 years
6.	Government of Sudan	US\$ 50 mn	To become effective soon		8 years
<p>Notes</p> <ol style="list-style-type: none"> Exporters are requested to contact any of Exim Bank's offices to ascertain the current amount available for utilization under the concerned LOC as well as the service fee payable, if any. Terminal Dates for Utilization are subject to modifications as and when necessary. 					

goods. In Iran, under the Letter of Credit Refinancing Facility, Exim Bank will reimburse Indian exporters 100% value of Letters of Credit opened by any one of the six Iranian Banks viz. Bank Melli Iran, Bank Mellat, Bank Saderat, Bank Tejarat, Bank Sepah and Industry & Mine Bank, and approved by Bank Markazi and Exim Bank. Exim Bank's first short term Line of Credit of US\$ 20 million has been almost fully utilised. In addition, Exim Bank has also in place a medium term Line of Credit facility of US\$ 200 mn for export of capital goods, projects and related services to Iran.

Capital goods, plant and machinery, industrial manufactures, consumer durables and any other items under the 'Exim Policy' of the Government of India are eligible for being financed under these LOCs.

Indian exporters requiring additional information or clarifications are welcome

- to visit Exim Bank's website www.eximbankindia.com/loc.html, which contains detailed information on Bank's LOCs, with a multilingual option, viz. Spanish, French, Russian, Portuguese, besides English, and/or
- to contact any of Exim Bank's offices in India/overseas.

For further information on all LOCs, please contact

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Success Story – Garware Elastomerics Ltd (GEL)

Garware Elastomerics Ltd (GEL), Pune is an ISO 9001 2000 firm promoted by R B Garware group of companies. GEL was set up with an installed capacity of 2400 TPA to manufacture heat resistant rubber tension tapes / threads, also known as elastic rubber tapes. Established in 1995, the company commenced its production in 1997 and quickly reached commanding heights in the global elastic rubber tape industry. This could be achieved by GEL with multi-pronged strategies of R&D, product development, quality standards, newer application and product / market diversification. Now, GEL is the second largest manufacturer of elastic rubber tapes in the world with an export orientation of 95%.

The high export orientation enabled GEL to deliver significant volumes of high quality elastic rubber tapes to customers across the world. Major markets for GEL are USA and Latin America. GEL's notable customers include two of the leading under garment manufacturers, viz., Jockey and Fruit of the Loom in USA and Latin America, who source their entire elastic rubber tape requirements from GEL. As GEL's products also find applications in home-

garment segments, medical / fitness markets and in the swimwear markets, other customers include some of the biggest global names in apparel, home textiles, medical disposables and sports industry. GEL has a marketing network in over 20 countries, across various continents. The company's stock and sale arrangements in USA, Latin America and Europe enable the company to respond quickly to the customer's requirements and thereby manage the supply chain efficiently.

The product development efforts taken by GEL have enabled it to achieve global standards and customer satisfaction; be it in terms of its quality parameters like resistance to heat, stains from body lotions and zero shrinkage property. The products in the swimwear segment has been developed with inherent properties to resist copper content, saline content and chlorine solution in water. The products were also developed to withstand the rigours of competitive water sports. To meet the ever-changing demand, GEL is geared to offer a wide choice of thickness, widths, and surface finishes, choice of colours and elasticity levels.

With increased usage of elastic rubber tapes over conventional woven elastic ribbons, GEL expects the demand to increase in future. Besides, GEL expects that the increasing urbanization, would lead to the usage of westernised garments and fashion-wear and thus the demand for elastic rubber tapes is expected to go up in future. Hence, GEL with its R&D professionals and rubber technologists embarked upon developing newer applications, viz. usage of this product in the diaper industry and readymade garment and fashion-wear industries. With significant R&D efforts, GEL could breakthrough in the medical industry by developing enzyme-free tourniquets based on synthetic polymers. In order to reinforce its presence in the medical industry, GEL has initiated steps for obtaining US-FDA approval.

With the view to fulfill the increasing global demand for elastic rubber tapes, GEL has recently decided to expand its operations by way of strategically

splitting its manufacturing activities and forming a new 100% Export Oriented Company (EOU), with the name 'Bestretch Elastomers International Ltd' (BEIL). Under this strategic arrangement, GEL will continue with the initial stages of operations like mixing of rubber and chemicals and supply the semi-finished product to BEIL for upstream operations of calendering, curing, slitting, festooning and packaging. With term loan assistance from Exim Bank BEIL is in the process of installing new calender line with an installed capacity of 4000 TPA, which would drive the company towards volume business.

Exim Bank has also assisted another company of the same group, Garware Wallropes Ltd. in the past, for strategic export development activities.

GEL's sales have grown over the years with sales increasing from 430MT during 1997-98 to 2400 MT during 2002-03. Making minor modifications to the existing plant and running the unit continuously for 30 days a month, GEL achieved 100% capacity utilization in 2002-03. GEL's performance has also improved in terms of turnover and operating profitability over the years. The net sales of the company have increased from Rs. 30 crore in 1999-2000 to nearly Rs. 46 crores in 2002-03, of which exports were to the tune of Rs. 43 crore. In the first half of 2003-04, GEL recorded net sales of Rs. 26 crore, of which 96% were exported.

The consistency in quality and customized product extension (like smooth tapes, ribbed tapes and textured surface tapes) facilitated flow of repeat orders from USA and Europe. The product diversification, especially into medical and healthcare (diaper) segments have brought-in newer clients for GEL. As regards market diversification, GEL is planning to expand gradually to Asian markets including China. Because of availability of natural rubber, which are produced in India at a lower cost, the unit price is low which satisfies the requirements of many developing countries markets also.



Select Southern African Countries: A Study of India's Trade and Investment Potential

Exim Bank's latest Occasional Paper titled "*Select Southern African Countries: A Study of India's Trade and Investment Potential*" indicates high potential for increasing bilateral trade and investment between India and the Southern African Development Community (SADC) member countries. SADC countries and India have robust trade relations, with the trade turnover (i.e. exports plus imports) more than doubling from US\$ 1.5 bn in 1997-98 to US\$ 3.3 bn in 2002-03. India's trade balance, however, changed from a surplus of US\$ 68 mn to a deficit of US\$ 1269 mn over the same period. This is primarily due to a doubling of India's imports from SADC over the period, while exports have not varied significantly over the years.

The Southern African Development Community (SADC) with its 14 member states (Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe) and population of more than 200 million, forms a major integrated trading bloc in Sub-Saharan Africa. In September 2001, the SADC Protocol on Trade was

Table: Trends in India's Trade with SADC (US\$ million)

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Exports	773.7	764.4	671.3	768.9	778.7	1006.0
Imports	705.6	1565.0	2219.7	1136.9	1558.9	2274.9
Trade balance	68.1	-800.6	-1548.4	-368.0	-780.2	-1268.9
Trade Turnover (i.e. exports + imports)	1479.3	2329.4	2891.0	1905.8	2337.6	3280.9

Source : Directorate General of Commercial Intelligence & Statistics (DGCIS) Ministry of Commerce & Industry

launched to liberalise intra-regional trade in goods and services within the region on the basis of fair, mutually equitable and beneficial trading arrangements, which envisages the establishment of a SADC Free Trade Area by 2008.

According to the Study, while India's exports to the SADC countries have witnessed positive growth during the past few years, potential exists to further enhance exports to the region. India's potential exports to these countries include machinery and transport equipment, paper and wood products, textiles, iron and steel, plastic and linoleum products, rubber manufactured products, agro products, chemicals and pharmaceutical products. These countries can also be important sources for import of metallurgical goods, diamonds, gold, inorganic chemicals, electronic goods, coffee, and cashew nuts. Based on the opportunities existing in these SADC countries, and the incentives offered by the respective governments and Investment Promotion Agencies for foreign investors, the Study has attempted to delineate select sectors which have potential for investment. These are in sectors such as tourism, pharmaceuticals, construction, electronics, computer software and accessories, information technology related products, financial services and textiles.

To boost India's trade with the Sub-Saharan African region, 'Focus: Africa' Programme was launched from the year 2002-03 by the Government of India.

SADC members, which are among target countries identified in the Programme, include Angola, Botswana, Mauritius, Mozambique, Namibia, South Africa, Seychelles, Tanzania, Zambia and Zimbabwe. The Government of India will provide assistance to various trade promotion organizations, export promotion councils and apex chambers in the form of Market Development Assistance under the 'Focus: Africa' Programme.

To promote bilateral and regional commercial relations with the SADC Region, Exim Bank has extended Lines of Credit (LOCs) to support export of eligible goods on deferred payment terms. The operative LOCs covering this region include US\$ 10 million each to the Eastern and Southern African Trade and Development Bank (PTA Bank), Government of Zambia and the ABSA Bank, South Africa; US\$ 5 million each to Seychelles Marketing Board, Seychelles and Government of Angola; and Rs. 20 crores to Offshore Development Community, Namibia. These Lines of Credit seek to expand export of product groups identified as those with potential to enhance trade between two regions. Exim Bank also operates a comprehensive programme, through equity, loans and guarantees, to support setting up of joint ventures and wholly owned subsidiaries by Indian enterprises. Further the Bank assists Indian companies to participate more actively in projects funded by multilateral agencies.

Foreign Exchange Reserves: Some Recent Issues

A key feature of international finance in recent years has been the steady accumulation of foreign exchange reserves (FER). According to RBI's Report on Currency and Finance 2002-03, global accumulation of reserves has increased by US\$ 0.78 trillion during 2001-2003 compared to US\$ 1.1 trillion for the entire 1990-2000. This speedy growth in reserves can be primarily attributed to Japan and the emerging countries of Asia. Japan, world's highest FER holder, particularly, has increased its FER at a significant rate. In the first two months of 2004, it has added US\$ 103.3 billion to its reserves position, which stood at US\$ 776.9 billion as on end-February 2004. Table 1 gives the latest positions of major FER holders of the world. The significant share of the top 10 countries in global reserves can be easily gauged from the fact that global reserves, as per latest available figures, stood at an estimated US\$ 2.8 trillion as on August 2003.

Table 1: Major Holders of Foreign Exchange Reserves
(US\$ billion)

Sl. No.	Country	As on February, 2004
1	Japan	776.9
2	China	415.7
3	Taiwan	224.8
4	South Korea	163.0
5	Hong Kong	123.5
6	India	108.4
7	Singapore	101.1
8	Russia	86.4
9	USA	85.4
10	Germany	76.1
Total		2161.2

Source: IMF; various Central Banks

With regard to India, following the international trend, reserves have risen at an unprecedented rate in recent years. Foreign exchange reserves of India stood at US\$ 110.3 billion as on March 26, 2004, which is more than double than that of US\$ 54.1 billion in March 2002. A comparison of the accumulation of reserves in recent years by major FER holders is given in Table 2.

Apart from the usual reasons of limiting external vulnerability and providing confidence to markets, certain others can be cited in support of the recent rise in reserve accumulation. Firstly, the easing of monetary policies in the industrialised nations has enabled excess liquidity to flow into the emerging economies. Secondly, it is argued that the present

trend is a reflection of current account imbalances of certain industrialised nations. For instance, it has been identified in the recent RBI's Report on Currency and Finance that Central Banks of Asia are funding roughly 3-3.5% of the current account deficit and almost the entire fiscal deficit of the United States. It appears that the present trend is likely to continue in the near future.

Given the backdrop of steady accumulation of reserves, there is an increasing concern over the excess liquidity, which has its own implications. The softening of interest rates worldwide has subdued the returns on FER and has posed a challenge to the cost-benefit equation of holding reserves. In this regard two recent instances can be cited which have worked towards easing the situation as well as contributing to economic development. China injected US\$ 45 billion out of its FER on December 31, 2003 to two of its major banks, Bank of China and China Construction Bank with a view to enable the banks to make stock offerings overseas that could attract billions of dollars more in investment and significantly raise their profile. Earlier in December 2003 the Executive Cabinet of Taiwan decided to utilize a part of the nation's FER to set up an economic revitalisation fund, which could make available preferential loans with interest rate subsidies for importing capital equipment required for investment projects.

Table 2: Reserves accumulation in recent years by major FER holders
(US\$ billion)

Countries	1997-2000	2001	2002	2003
Japan	135.3	40.3	66.0	191.6
China	25.5	47.3	75.5	114.9
Taiwan	22.9	15.7	37.9	44.9
South Korea	75.8	6.6	18.6	34.1
Hong Kong	14.7	3.6	0.7	6.5
India	13.2	8.0	21.7	30.6

Source: Report on Currency and Finance 2002-03, RBI

Trends in Global Exports: A Comparative Performance

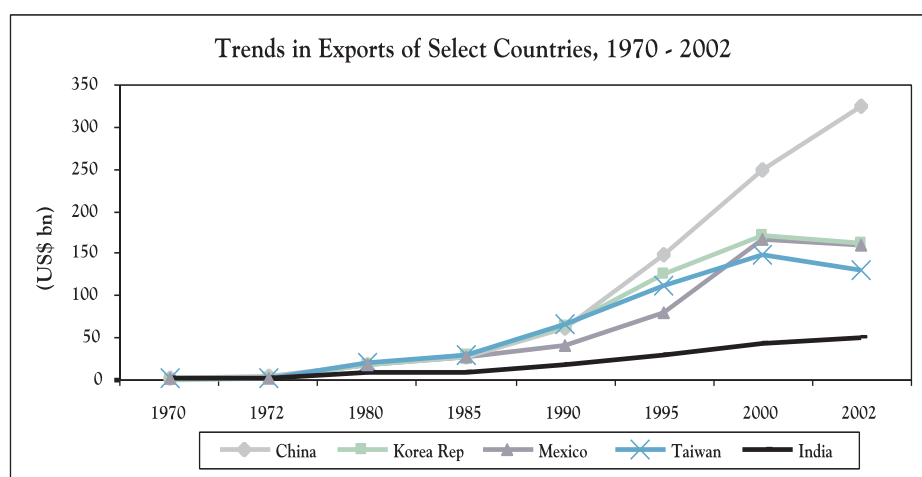
An analysis of the long-term growth in global exports, and comparative analysis of the performance of major global exporters reveals interesting trends. While major exporters such as the US, Germany, Japan, France, UK, Canada, Italy and Netherlands continue to dominate global exports, albeit with declining shares, developing economies have emerged as important exporters in recent years. Of particular significance has been the case of China whose share in global exports has risen from a marginal 0.78 percent in 1970 to as high as 5.07 percent in 2002, thereby emerging as the fifth largest exporter surpassing UK, Canada, Italy and Netherlands. In value terms, China's exports rose from US\$ 3.7 billion in 1970 to as much as US\$ 325.6 billion in 2002.

Other countries which have also registered sharp rise in exports include Korea, Mexico, Taiwan, Malaysia and Thailand. In the case of India, although its share was comparable with that of China in 1970, the subsequent years witnessed a contraction. However, reflecting among others the liberalization measures effected, its share has picked up since the decade of the 1990s to reach 0.78% in 2002.

Leading Countries in Global Exports, 1970 - 2002

(% share in global exports)

Rank in 2002		1970	1972	1980	1990	1995	2000	2002
1	US	14.55	12.29	11.59	11.45	11.41	12.32	10.80
2	Germany	11.66	11.66	9.91	11.93	10.22	8.67	9.53
3	Japan	6.58	7.27	6.70	8.36	8.65	7.56	6.48
4	France	6.10	6.59	5.96	6.30	5.56	4.71	5.13
5	China	0.78	0.92	0.93	1.81	2.90	3.93	5.07
6	UK	6.61	5.97	5.66	5.39	4.72	4.44	4.29
7	Canada	5.69	5.29	3.48	3.71	3.75	4.36	3.93
8	Italy	4.50	4.65	4.01	4.96	4.57	3.78	3.92
9	Netherlands	4.57	4.80	4.36	3.83	3.83	3.29	3.79
10	Belgium	3.92	4.05	3.32	3.44	3.43	2.96	3.32
12	Korea Rep	0.27	0.40	0.90	1.89	2.44	2.72	2.53
13	Mexico	0.48	0.42	0.93	1.18	1.55	2.62	2.50
14	Taiwan	0.48	0.72	1.02	1.95	2.18	2.33	2.03
18	Malaysia	0.58	0.42	0.66	0.86	1.44	1.55	1.49
24	Thailand	0.24	0.27	0.33	0.67	1.10	1.09	1.07
30	India	0.68	0.60	0.44	0.52	0.60	0.67	0.78



Source: UNCTAD, WTO & IMF

FDI and foreign affiliates have played a crucial role in China's export dynamism, with foreign invested enterprises (FIEs) accounting for as high as 50% of the country's exports. The composition of exports basket has also shifted from low-end light industrial products such as toys and textiles to machinery and equipment, and electronics. In the case of Mexico, sharp rise in exports production in the Maquiladoras (in-bond assembly for re-export plants) destined for the

US market facilitated by the North American Free Trade Agreement (NAFTA) boosted overall exports. In Taiwan, the growth of electronics and information technology industries fueled exports of electrical equipment and computer peripherals, while increasing capital intensity and sophistication of its engineering goods have boosted exports of electronics from Korea.



WTO – The Unfinished Agenda

Trade in the WTO-era presents opportunities and challenges. While the WTO has achieved significant milestones in bringing new areas under its umbrella, the rules and regulations laid down by WTO need to be implemented to ensure that the benefits envisaged by these Agreements are duly realized by developed and developing countries alike. Given the unequal bargaining strength of trading nations, a multilateral forum such as the WTO offers a better opportunity for developing countries to air their concerns.

Agriculture Sector

Agriculture continues to face the worst barriers since the establishment of GATT. The Doha mandate called for major reform in the three pillars of global agriculture – export competition, trade-distorting domestic subsidies and market access. Currently, according to OECD, the developed countries pay out nearly US\$ 1 billion a day to their farmers in agricultural subsidies, that is almost four times of all development assistance going to poor nations. Thus, the reduction of all forms of export subsidies is an important unfinished agenda. Further, negotiations would need to take into account the need for developing countries to retain marketing and

transportation subsidies on exports, and the flexibility of minimum tariff cuts or exemption from tariff cuts in respect of special products towards food and livelihood security and rural development.

Tariff Peaks and Tariff Escalation

An important issue which has restrained the growth of exports from developing countries, while also constraining moving up the value chain in production, is the incidence of peak tariff and tariff escalation in developed countries on products of export interest for developing countries, such as textiles, clothing and leather products. At the same time, a long-standing complaint of developing countries is that tariff escalation in developed countries biases developing countries' production towards less processed products, thereby creating a major impediment to their industrialization.

Services

The GATS envisages the establishment of a sound multilateral framework and rules for trade in services; it also aims at increased participation by developing countries. But the fact is that in case of services trade, developed countries, which control more than 80 percent of the market, have erected different kinds of non-tariff barriers to protect their service industries. Developing countries on the other hand are minor players in service trade and may succeed only when the developed countries take the initiative to liberalise services. For developing countries including India, the balance of benefit in the negotiations will accrue to the extent to which their service providers are allowed to supply services in important overseas markets either from remote locations or through temporary movement of natural persons.

Trade-Related Intellectual Property Rights

The relation between intellectual property and public health is an area of concern particularly for developing countries. While the patent system's role

would be necessary in providing incentives for R&D into new medicines, it is also crucial to ensure that patent protection for pharmaceutical products does not prevent people in poor countries from having access to medicines. Another important issue would relate to protection of bio-diversity and traditional knowledge wherein many developing countries including India would stand to lose in the absence of consensus among member countries. Negotiations will have to encompass issues relating to patentability or non-patentability of plant and animal inventions and the protection of plant varieties.

Singapore Issues

Lack of consensus on the so-called "Singapore Issues", namely, trade and competition, government procurement, trade and investment, and trade facilitation, has relegated these issues to less imperative agenda items. However, with the WTO agenda, and it's increasingly widened coverage, particularly at the behest of developed countries, the focus of trade negotiations could eventually deal with these issues. In light of these, it would be in the interest of developing countries to examine domestic policies vis-à-vis these issues so as to ensure that policy mechanism as also implementation machinery are duly geared to deal with requisite changes.

Some Observations

Regardless of the outcomes of negotiations and consultations in various sectors under the WTO, benefits would ultimately accrue to countries who have taken requisite measures to enhance their ability to compete in a globalised environment. In this context, it is imperative to understand that, in today's world and more so in the coming years ahead, competitive strength of countries would increasingly depend on the strategic behaviour of firms in adapting to changing environment and building up core competencies on the lines of comparative advantage.





EXIMIUS CENTRE COLUMN

In the first quarter of 2004, the Centre organised the following programmes:

The Centre organised a Workshop on 'International Marketing- Changing Perspectives' in February 2004. The principal faculty was Dr. Y L R Moorthi, Professor (Marketing), Indian Institute of Marketing, Bangalore. The programme provided guidelines on developing 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 programme consisted of interactive discussion, suitable case study and a mini-project. The participants were divided into several groups and had to work out a strategic plan within their group. The first part of the strategic plan for international marketing included rationale, country and differentiation dimensions. The second part included entry mode, marketing mix and action plan dimensions. Further the programme provided a forum for reflecting on the challenges in International Marketing. It was also an opportunity to exchange notes with professionals from reputed organizations grappling with similar challenges. There were presentations by individual groups, and a final summing up by the faculty. The workshop was attended by 38 participants from engineering, pharmaceuticals, textiles, IT, machine tools and service sectors.

A Workshop on 'IT-Marketing Strategies and Emerging Opportunities' was held at the Learning Centre, Pune in March 2004. The workshop was addressed by Prof. Ashok Korwar, who was a Professor of Management at Indian Institute of Management, Ahmedabad and is now Strategic Advisor to CEO, Polaris Software Lab Ltd; and Mr. Vijayaraghavan, Chartered

Accountant, Certified Management Consultant (CMC), a fellow of the IMCI (International Council of Management Consulting Institutes), USA and Director of Sathguru Management Consultants Pvt. Ltd. The workshop gave an overview of Market Reach issues and Marketing Plan. The workshop covered various topics including customer's buying process and how to align the sales effort with that, creating packaged solutions, pricing strategies, brands, telemarketing, partners and direct sales, and choice of markets. The workshop was attended by 25 participants who were CEOs and top management from IT companies.

The calendar of programmes for the next quarter include seminars/ workshops on:

- a) Exim Bank's Lines of Credit
- b) Export Management
- c) Investment Opportunities in biotechnology in Norway
- d) Investment Opportunities in Japan.

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:

Ms. Leona Pais in Bangalore on
Tel: (080) 5589106
E-mail: eximius@vsnl.com

BOOK REVIEW

Regional Integration and Development

Maurice Schiff & L. Allan Winters – World Bank

The growth of regional trading blocs has been one of the major developments in international relations in recent years, and virtually all countries are now members of at least one bloc. In addition to the boom in numbers, the past ten years have also witnessed qualitative changes in regional integration arrangements.

Discriminatory trade arrangements have proliferated in recent years. Emulating earlier actions by the European Community, the United States has negotiated free trade deals with Canada, Chile, Israel, Jordan, Mexico, and Singapore and has begun discussions with a number of other countries. Many developing countries have formed "regional integration agreements" (RIAs) among themselves. Not to be left out, East Asian states, heretofore committed to a multilateral, non-discriminatory trade regime, are now actively exploring free trade areas. In this book, two World Bank economists take a comprehensive look at RIAs involving developing countries.

The Book, examines regionalism from the viewpoint of developing countries and provides a comprehensive account of existing economic theory and empirical results. In a thorough analysis of the politics and dynamics of regionalism, the book considers the relationship between regionalism and multilateralism and explores the economic advantages of non-discriminatory trade liberalisation, which the authors argue should be exploited to the maximum extent. Designed as a practical guide for policymakers whose countries are considering membership in a trade bloc, this book will also be of interest to scholars and students of international trade.



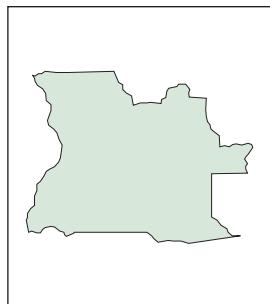


COUNTRY SCAN



Angola

Although oil production in Angola fell in 2003, owing to problems with the Kuito field, the steady increase in

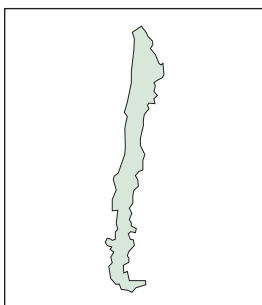


production in recent years is set to continue, which will boost the real GDP growth to 11.3% in 2004 and 13.7% in

2005, from a growth rate of 1.5% in 2003. This energy driven growth is expected to be capital intensive and import dependent and would be boosted by higher government spending. The average annual rate of inflation fell to 77% in 2003, representing a drop into double digits for the first time in over a decade. This fall was due to an intervention in the foreign exchange market and delays in increasing the prices of fuel and utilities. Inflationary pressures thus stored up, will unwind in the forecast period, and the annual rate is thus expected to reach around 85% in 2004.

Chile

Chile is one of the most resilient economies in the Latin American region. It is the only country in the LAC region apart from Dominican Republic to experience a positive growth in per capita income during 1996-2002. In the Chilean economy inflation is low, trade balance is positive, forex reserves and import cover are comfortable as also external debt and debt servicing. As a result, Chile is the only country in the region with an investment grade rating. In 2003, Chile's GDP is estimated to have grown by 3.1%, which is likely to improve to



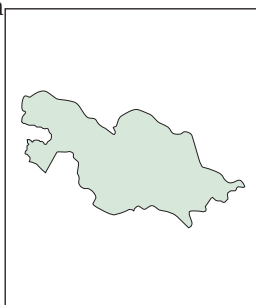
4.4% in 2004. Chile is a major exporter of copper, fruits and wine. Following an impressive performance in 2003, international trade is likely to remain strong in 2004, as Chile has recently established FTAs with the EU and the US. An FTA with South Korea is likely to be implemented soon. In addition, Chile is negotiating FTA possibilities with China, Japan and India. The Chilean currency peso is expected to continue to remain strong in 2004.

Kazakhstan

Investment by foreign oil companies into Kazakhstan has been the main driver of rapid economic growth in recent years. It has attracted well over 80% of all FDI

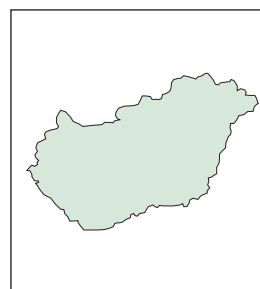
into Central Asia and about 10% of FDI into former communist bloc. A significant portion of this FDI went into the oil and gas sector for the completion of

Caspian Pipeline Consortium (CPC) as well as to the Tengizchevroil (TCO) joint venture with Chevron Texaco (US). The country's continued and strengthening dependence on oil could be a fundamental vulnerability in the event of an oil price collapse and its exchange rate is a leading source of risk as the non-oil sectors are vulnerable to exchange rate appreciation. Kazakhstan is seeking membership of WTO to further its trade relations but this prospect seems distant.



Hungary

Hungary is set to join the EU on May 1st 2004 along with nine other countries in central Europe and the Mediterranean. Although EU membership is assured, it is at risk of not using its full entitlement of EU funds (US\$ 4.3 billion for 2004-06) as the country is not prepared for accession in the agricultural sector. EU membership has also led to major tax changes such as the realignment of the



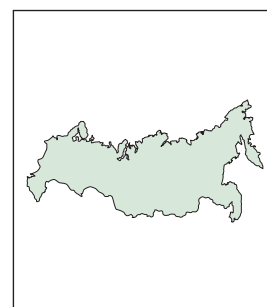
rates for value-added tax (VAT). The plans to enter into ERM-2 (EU's exchange rate mechanism) are likely to go

ahead, however currency stability and the fulfillment of other Maastricht criteria required for entering the EU's economic and monetary union (EMU) are unlikely to be achieved for a number of years. Almost all the price controls on manufactured goods have been phased out to prepare for EU accession.

Russia

EU expansion is expected to hurt Russia's foreign trade by about US\$ 150 million since a compromise has not been reached between both the parties. The European Commission made six demands on Russia: to raise internal prices for natural gas, to end Gazprom's monopoly on gas exports, to lift

restrictions on gas transit, to allow foreign investors to build pipelines in Russia, introduce equal prices for



the transit of gas for domestic users and for exports, and to cancel gas export tariffs. Russia sees some of these demands as unacceptable. However, financial sector reforms are planned including streamlining of laws and regulations governing financial markets, rationalising tax structures and reducing the holdings by the state. Special Economic Zones are also planned to be set up to encourage foreign investment, which stood at US\$ 2.5 billion for 2000-02. The decision of BP (UK) to invest US\$ 6.75 billion in the oil industry is a sign of confidence.



Select Currencies

national price or cost indicators of the home country and basket of select countries. The indices of NEER and REER are often used as indicators of external competitiveness. For e.g.: The index of REER based on 5-country (comprising US, UK, France, Germany and Japan) trade based weights and price differentials for Indian Rupee (INR) published by Reserve Bank of India as on Feb 13, 2004 stood at 97.44 (base year 1993-94 as 100) indicating that the INR was undervalued by 2.56% in real terms. As on March 29, 2004, the REER of INR stood at 101.79 indicating 1.79% overvaluation. A REER value greater than 100 indicate the rupee is overvalued with respect to base and vice versa.

CHILE

The exchange rate of Chilean Peso (CLP) has fluctuated from CLP 422.92 in end-December 1992, to CLP 498.12 in end-December 1999, and further to 547.85 in end-December 2003 against 1US\$, indicating a depreciation of 10% in the last 4 years. The Central Bank's reference rate was US\$ 1 = CLP 549.08 in end-December 2002, which implies considerable stability of the peso in 2003. This has continued in 2004 as on March 31, 2004 as the Peso stood at CLP 552.92 with respect to US\$. This was due to the weakening of the dollar and the strong performance of the economy, particularly of the current account. The foreign exchange reserves as on end-March 2004 was US\$ 16.2 bn. The growth in real GDP terms has been at 2.1% in 2002, and 3.1% in 2003 and it is expected to be in the range of 4 - 5 % in 2004-05. The current account balance has reduced from a deficit of US\$ 553 mn in 2002 to US\$ 146.7 mn in 2003 and is expected to register a surplus in 2004. The average inflation in 2003 was at 2.8% and is expected to be around 1% in 2004. Thus, the economy is expected to be relatively stable. However, as the Chilean economy is a net importer of the oil and natural gas, the prices of these

two commodities will have an impact on the exchange rates. Similarly prices of copper, which is the major commodity exported from Chile, would have impact on exchange rates. Any restrictions by Argentina on its exports of natural gas to Chile would also have severe impact on Chile's economy.

TURKEY

The currency of Turkey is Turkish Lira (TRL) and its exchange rate is market determined with central bank intervention which aims to moderate the fluctuations without out establishing a level for the rate. During the period 1981-2003, the TRL has depreciated from 95.65 to 1,700,073 against the US\$, touching the historical low of 1,746,390 on March 25, 2003. Since April 2003, TRL has been appreciating and as on March 31, 2004, TRL was quoted at 1,314,000 per 1 US\$. The purchasing power of TRL declined continuously due to persistent high inflation at average of 209% during 1981-2002. TRL is the highest denominated currency in the world and therefore has got low value and face practical problems while handling cash management transactions, both physically and electronically. Therefore, the government has initiated 'zero-dropping operation' and would be introducing New Turkish Lira (YTL) with effect from January 1, 2005 by redenominating 1YTL = 1,000,000 existing TRL. After the ruling party's victory in the local elections held in March 2004, it is expected to boost the prospects of finding a solution in current negotiations on the island of Cyprus between Turkey and Greece, which have been continuing for the past 30 years. A political solution on this front will ensure Turkey's entry to the European Union, which will pave way for more institutional fund flows to Turkey giving a boost to its economy. However, due to high current account deficit, inflation and external debt (53.6% of GDP) the TRL is expected to be under pressure during the current year.

THE REAL EFFECTIVE EXCHANGE RATE (REER)

The real or inflation adjusted exchange rate can be defined as the nominal exchange rate (R_n) that is adjusted by the ratio of the foreign price level (P_f) to the domestic price level (P_d), in line with the purchasing power parity. It can be shown as $R_r = R_n * (P_f / P_d)$. The decline in R_r can be interpreted as the real appreciation of the exchange rate and vice versa. The nominal effective exchange rate (NEER) also called as 'Trade-weighted currency index' describes changes in the average value of a currency with reference to a given base period and a group of selected countries. The word 'effective, being used to denote a suitable weighted average', often representing the domestic country's trade relations with the rest of the world. NEER is calculated as a weighted geometric average of the bilateral exchange rates against the currencies of selected countries. Real Effective Exchange rate (REER) index is expressed as NEER index adjusted for relative movements in



The Challenges of Globalisation: Developing Countries' Perspective

Dr. Eduardo Aninat, former Deputy Managing Director of IMF and former Minister of Finance, Chile, delivered the Nineteenth Annual Commencement Day Lecture of Exim Bank. Dr. Aninat, in his address, highlighted that in the current global trading environment, technological development and human resource management are potentially the most dynamic factors for export growth, particularly for developing countries.

Given increasing globalisation, Dr. Aninat stressed that it is the mature and sustained interaction between research and development, the identification and pursuit of state-of-the-art imported technologies and its re-adaptation, local innovation and creation, and dissemination in competitive conditions, among others, which will maintain, sustain or enhance the position of most products and services traded in international markets. Countries like Ireland, Spain, Holland, New Zealand and South Korea are way ahead of the curve in these matters as compared to most Latin American countries. India and China have also made significant progress in this direction.

Dr. Vijay Kelkar, Adviser to Union Finance Minister, Government of India, presided over the function. Mr. T.C. Venkat Subramanian, Chairman and Managing Director of Exim Bank, welcomed the guests and made introductory remarks.

Dwelling on the evolution of economic thinking in foreign trade and the

experiences of Less Developed Countries in the export business, Dr. Aninat opined that the possibility of integrating different economies has the potential to modify the rooted underdevelopment existing in large economic blocks, especially in the more closed economies. A more open and freer trade regime, and the heightened possibility of exchanging goods and services with larger markets, according to him, brings about the possibility of stimulating a more open economic structure for local economic systems. This helps a local economic organisation to become more sophisticated, resulting thereby in an expanded and integrated body belonging to the same process of competition, modernisation and globalisation.

Based on the substantive evidence documented by both IMF and the World Bank on the positive relationship between trade openness and exports to GDP growth, Dr. Aninat stressed that most countries that have pursued reasonable macro-economic policies and worked to modernise and promote their trade sectors have experienced faster and more enduring growth rates, as compared to those that have been indifferent, passive, or have favoured the development of non-tradeables.

Highlighting the important role of institutions, sectoral and macro economic parameters in determining overall performance of countries which are externally-oriented, Dr. Aninat opined that the quality of infrastructure available to exporters will ultimately prove decisive for cost comparisons and timely catering to international markets. In Chile and Mexico, for instance, cooperation between the public and private sectors opened up opportunities for private sector investment in infrastructure, which in turn significantly benefited important exporting sectors.

As regards the services sector, Dr. Aninat highlighted that India, China, Mexico,

Ireland, Hungary, Chile and other countries have come to realise in the last decade that the case for services (traditionally called "tertiary industries") is now at the centre stage of opportunities for the generation of growth in the new era of globalisation. He highlighted that the efforts of the Government of India have contributed to this change of world paradigm: allowing and promoting the formation and replication of skills in the information services areas. India's efforts and achievements in software and related services, according to him, speak well and optimistically for exports growth prospects in India.

Exim Bank initiated the Commencement Day Lecture series in 1986, to mark the Bank's Commencement Day. Previous speakers include Lord Meghnad Desai, Dr. Stanley Fisher, Dr. Pedro Aspe, Mr. Charles Dallara, Dr. Fred Bergsten, Dr. Eisuke Sakakibara, Professor Nicholas Stern, and Dr. Per Pinstrup-Andersen. Right Honourable James Bolger, Chairman, World Agricultural Forum and former Prime Minister of New Zealand was the speaker in the last year. Over the years, with the encouragement and support from the distinguished members of the business community, academia and other sections of the society, Exim Bank's Annual Lecture series has earned the recognition as an important milestone in the public life of many.

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 authenticity 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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