



# EXIMIUS: EXPORT ADVANTAGE



September 2006

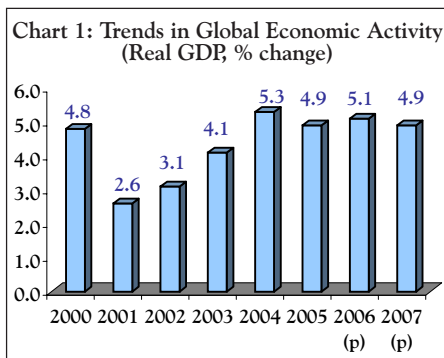
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A Quarterly Publication

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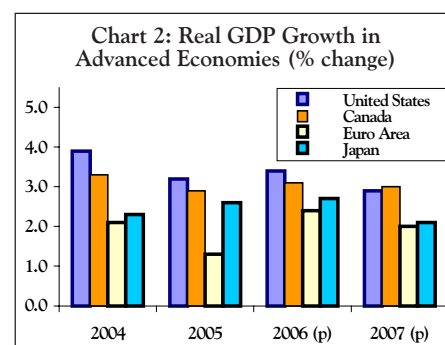
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during the first half of 2006, and the expansion is expected to continue during the course of the year. In the advanced economies, strong growth in the US, increased momentum in the Euro Area, and continued expansion in Japan have boosted overall growth, while in the developing and emerging economies, growth continues to be strong in Asia, while increased expansion in Latin America and sustained growth in Africa have also contributed to overall sustained growth.



Source: IMF; World Economic Outlook Sept. 2006; p - projections

and boom in global commodity prices. As a result, real GDP growth, which stood at 2.9% in 2005, would strengthen further to 3.1% in 2006 (**Chart 2**).



Source: IMF; p - projections

In the **Euro Area**, economic activity has gained momentum with real GDP growth projected to pick up from 1.3% in 2005 to 2.4% in 2006, supported by strong domestic demand and investment. Growth has remained strong in most economies in the region, while corporate investment is expected to remain buoyant among major economies. A key challenge for the Euro Area would be to ensure that the current upswing in economic activity is sustained, which in turn would call for key reforms to tackle impediments to stronger productivity growth as also further measures to reduce barriers to competition across the region. Outside the Euro Area, increased employment coupled with consumption and investment growth underpinned economic activity in the **UK**, with real GDP growth expected to increase from 1.9% in 2005 to 2.7% in 2006. In **Japan**, despite contraction in public spending, sustained growth in domestic demand along with buoyant

## Global Economy: Recent Trends and Prospects

The increased momentum in global economic activity witnessed since 2003 has been sustained in recent years with robust growth expected to continue. According to the IMF's World Economic Outlook, September 2006, global real GDP growth is projected at 5.1% in 2006, as compared to 4.9% in 2005, and is expected to be sustained at 4.9% in 2007 (**Chart 1**). Most regions have exhibited broad-based expansion

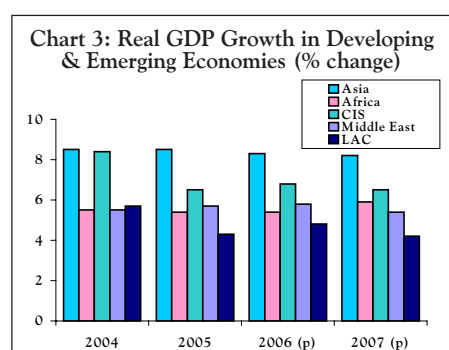
### Advanced Economies

Reflecting signs of continued growth in major economies, overall real GDP growth of the advanced economies is projected to strengthened further from 2.6% in 2005 to 3.1% in 2006. Underlying this trend would be the sustained economic activity in the **US**, with real GDP growth strengthening from 3.2% in 2005 to a projected 3.4% in 2006, supported by strong corporate profitability and investment. Real GDP growth in **Canada** continues to remain strong, underlined by strong macroeconomic policy framework

private investment has continued to underpin continued expansion. Real GDP growth is expected to strengthen further from 2.6% in 2005 to 2.7% in 2006. While fiscal sustainability would be the key challenge of macroeconomic policy, priority areas of reforms would include reforms of government financial institutions, strengthening competition in the services sector, raising productivity growth, and enhancing flexibility in the labour market.

### Developing and Emerging Economies

Economic activity in developing and emerging economies is expected to remain robust, with the main impetus from sustained growth in Asia and Africa, and increased expansion in Latin America, CIS region, and the Middle East (Chart 3).

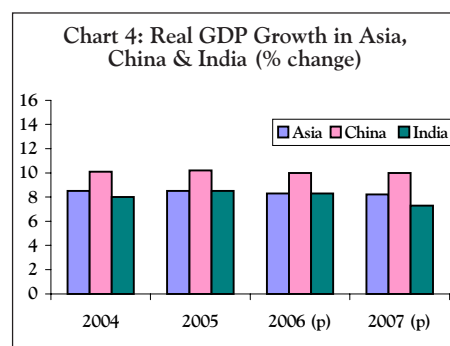


Source: IMF; p - projections

In the *Asian region*, economic activity has continued to remain robust, with overall real GDP growth being sustained above 8% in recent years, underpinned primarily by strong and sustained growth momentum in China and India. Real GDP growth for the region as a whole is projected at 8.3% in 2006, as compared to 8.5% during the previous year (Chart 4). In *China*, with renewed acceleration in investment growth coupled with increased exports, real GDP growth is expected to remain robust at 10.0% in 2006, as compared to 10.2% during the previous year. Further reforms of the banking system and public enterprises and development of domestic capital markets

are crucial for maintaining stability and growth. In *India*, robust growth in economic activity has been underlined by continued strong performance of the manufacturing and services sectors, aided by pickup in activity in the agriculture sector, while the external sector has been characterised by robust rise in both merchandise and services exports. Real GDP growth is projected to remain strong at 8.3% in 2006, as compared to 8.5% in 2005.

Momentum in economic activity on the Newly Industrialised Asian Economies has also strengthened with real GDP growth projected at 4.9% in 2006, as compared to 4.5% in 2005 (Table 1), due to pick up in exports, particularly strong rise in exports of electronics to China, and conducive global environment.



Source: IMF; p - projections

Table 1: Newly Industrialised Asian Economies (NIAE) - Real GDP Growth (% change)

	2003	2004	2005	2006 (p)	2007 (p)
NIAE	3.1	5.9	4.5	4.9	4.4
Hong Kong	3.2	8.6	7.3	6.0	5.5
Korea	3.1	4.7	4.0	5.0	4.3
Singapore	1.4	8.7	6.4	6.9	4.5
Taiwan	3.3	6.1	4.1	4.0	4.2

Source: IMF; WEO Sept. 2006; p - projections

In the ASEAN region, however, momentum in economic growth has slowed down due to the effects of higher global oil prices and monetary tightening. As a result, real GDP growth of the region (ASEAN-4) is projected to slowdown

marginally from 5.1% in 2005 to 5.0% in 2006, before picking up in 2007 to 5.6% in 2007 (Table 2).

Table 2: ASEAN-4 - Real GDP Growth (% change)

	2003	2004	2005	2006 (p)	2007 (p)
ASEAN -4	5.4	5.8	5.1	5.0	5.6
Indonesia	4.9	5.1	5.6	5.2	6.0
Malaysia	5.4	7.2	5.2	5.5	5.8
Philippines	4.5	6.2	5.0	5.0	5.4
Thailand	6.9	6.2	4.5	4.5	5.0

Source: IMF; WEO Sept. 2006; p - projections

In the *African region*, expansion in economic activity is expected to be sustained, with real GDP growth of 5.4% during 2006. High commodity prices, and capacity increases in oil producing countries such as Angola and the Republic of Congo have underpinned the continued momentum in economic activity in recent years. Increased net exports of major oil exporters including Algeria, Angola and Nigeria are projected to contribute to rise in the region's current surplus from 5.2% of GDP in 2005 to 5.5% of GDP in 2006. Further, improved macroeconomic policies and structural reforms have also contributed to the resilience of the region, reflecting thereby in moderate inflation rate in many countries in the region (Table 3).

Table 3: Africa - GDP, Inflation & Current Account Balance

	2003	2004	2005	2006 (p)	2007 (p)
Real GDP Growth (%)	4.6	5.5	5.4	5.4	5.9
Inflation rate (%)	4.9	5.1	5.6	5.2	6.0
Current a/c balance (% of GDP)	5.4	7.2	5.2	5.5	5.8

Source: IMF; WEO Sept. 2006; p - projections

In the *Latin American region*, economic activity has gained momentum boosted by increased domestic demand, and supported by rise in prices of key commodity exports. Reflecting this, real GDP growth for the region is projected to

strengthen from 4.3% in 2005 to 4.8% in 2006 (Table 4). Strong momentum in economic activity in Argentina, together with pickup in growth in Brazil, is expected to boost overall growth in the Mercosur region, while economic growth in the Andean region is expected to be sustained albeit at a lower level during 2006. Sustained growth in the region would call for strengthening macroeconomic policies, while priorities areas would include: labour reforms; deepening financial intermediation; strengthening governance and business environment.

**Table 4: Latin America - Real GDP Growth (% change)**

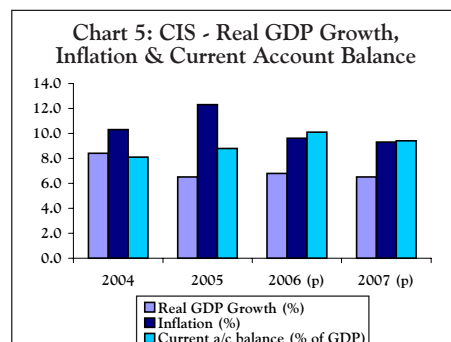
	2003	2004	2005	2006 (p)	2007 (p)
LAC	5.4	5.7	4.3	4.8	4.2
Mercosur region	4.9	6.0	4.2	4.8	4.5
Andean region	5.4	8.0	6.3	5.7	4.1
Mexico	4.5	4.0	3.0	4.0	3.5

Source: IMF; WEO Sept. 2006; p - projections

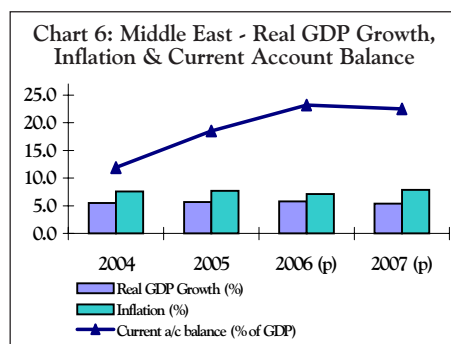
In the **CIS** region, reflecting high commodity prices and strong exports growth, economic activity has picked up, supported by increased domestic demand in major countries such as Russia and Kazakhstan. At the same time, investments show signs of picking up with improved domestic business environment. For the region as a whole, real GDP is projected to increase to 6.8% in 2006, from that of 6.5% in 2005, accompanied by moderation in inflation rate. Further, the current account surplus of the region is expected to rise further to 10.1% of GDP in 2006, as compared to 8.8% of GDP in 2005 (Chart 5), boosted mainly by sharp rise of external surplus in major oil exporting countries.

In the **Middle East**, increased oil export revenues arising from continued high global oil prices and expansion in production have continued to boost economic growth. Real GDP growth for the region is expected to remain robust at 5.8% in 2006, as compared to 5.7% in 2005, accompanied by sharp rise in

current account surplus from 18.5% of GDP in 2005 to 23.2% of GDP in 2006. At the same time, inflation rate is expected to remain well contained at 7.1% in 2006, as compared to 7.7% in the previous year (Chart 6).



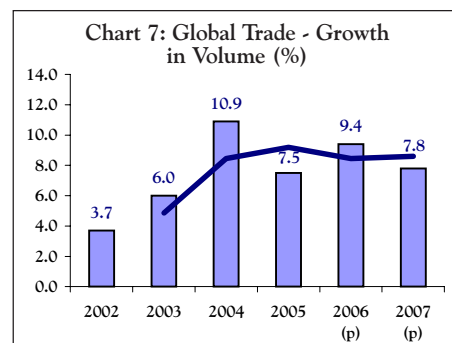
Source: IMF; p - projections



Source: IMF; p - projections

### World Trade

In line with the increased momentum in global economic activity and demand, global trade is projected to register a higher rise on 9.4% in 2006, in volume terms, as compared to 7.5% registered during 2005 (Chart 7). In terms of US dollars, global exports is projected to register a rise of 15% during 2006, to amount to US\$ 11,721 bn, reflecting the continued rise in global trade prices. While global prices of manufactures are projected to rise by a marginal 2.2% in 2006, global prices of oil and non-fuel primary commodities are projected to register continued high increase of 29.7% and 22.1%, respectively, during 2006.



Source: IMF; p - projections

### Rise in Global Prices and Exports of African and CIS Regions

The continued rise in global prices, in particular of oil and non-fuel primary commodities, has significantly boosted exports of countries in the African and CIS region. This can be assessed from the fact that sharp rise in exports (in US\$ terms) of these countries has been primarily due to the significant rise in the unit value of exports, while volume growth of exports has been much lower (Tables 4 & 5).

**Table 4: Africa's Exports - Volume & Unit Value Growth**

	2003	2004	2005	2006 (p)	2007 (p)
Value (in US\$)	25.6	29.1	27.8	23.5	18.7
Volume	6.6	7.2	5.2	4.3	12.2
Unit value (in US\$)	18.0	20.5	21.6	18.8	6.2

Source: IMF; p -projections

**Table 5: CIS Exports - Volume & Unit Value Growth**

	2003	2004	2005	2006 (p)	2007 (p)
Value (in US\$)	26.8	36.7	29.1	28.6	10.8
Volume	12.4	2.8	3.8	4.5	5.8
Unit value (in US\$)	12.9	21.6	24.3	22.4	4.1

Source: IMF; p -projections

# 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, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development are given alongside.

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

Interested exporters need to contact the concerned executing agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai, would be glad to be of help, if you keep us advised. Please contact **Mr. O'Neil Rane** on Tel: 22185272 Extn: 2351.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
<b>Indonesia / Ministry of Public Works</b> Jl. Pattimura 20, Jakarta, Indonesia. Contact: Ir. Siswoko, Director General, Department Water Resources. Tel.: (62-21) 739-6616 Fax: (62-21) 720-82850	<b>Dam Operational Improvement and Safety/</b> The objective of the project is to improve reservoir dams and make them safer.	<b>World Bank</b> US\$ 120 mn
<b>Namibia/ Ministry of Higher Education, Training and Employment Creation</b> Private Bag 13391, Windhoek, Namibia. Contact: Ms. Sandra van Zyl. Tel: (264-61) 270-6300 E-mail: svanzyl@mhevtst.gov	<b>Education and Training Sector Improvement Program/</b> The objectives of the project are to: (a) increase the number of trainable and skilled workers; especially in areas of skills shortage; and (b) strengthen capacity to create and apply knowledge to promote productivity in critical growth sectors.	<b>World Bank</b> US\$ 15 mn
<b>Serbia and Montenegro / PE "Roads of Serbia",</b> 11000 Belgrade, Bul. Kralja Aleksandra 282 Belgrade. Contact: Igor Radovic, Environmental Specialist Tel: +381 30 40 734; Fax: +381 30 40 614. E-mail: radovici@dzp.co.yu	<b>Belgrade Highway and Bypass Project/</b> The proposed project is for the rehabilitation of the Gazela Bridge and approach roads, which is the main bridge in the City of Belgrade and forms an integral part of Trans European Corridor X, and construction of the remaining sections of the Belgrade bypass, which is required to alleviate traffic congestion in the City.	<b>European Bank for Reconstruction and Development</b> US\$ 80 mn
<b>Croatia/</b> Contact: Mr. Zvonimir Nagy Head of Strategic Planning and Development, Hrvatske Ceste/Voncinina 3, 10000 Zagreb Tel: +385 1 47 22 610 Fax: +385 1 47 22 611 Website: www.hrvatske-ceste.hr	<b>Croatia: Rijeka Bypass/</b> The proposed project consists of construction of the last section of the eastern bypass in Rijeka, between Sveti Kuzam and Krizisce. The operation will allow Croatian Roads to complete the bypass, relieving traffic in the heavily- congested city centre and facilitate traffic movement to the south. Development of performance-based contracts for routine maintenance will also be undertaken.	<b>European Bank for Reconstruction and Development</b> US\$ 40 mn
<b>EBRD Resident Office in Belgrade:</b> Bulevar AVNOJ-a 64 A, 5th. Floor, 11070 Novi BELGRADE. Tel: (381) 11 212 0529 Contact: Aleksandar Mihajlovic.	<b>EBRD Resident office, Zagreb 10000, Petrijnska 59. Tel+385 1 48 78 700. Contact: Andrei Krapotkin</b>	



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
<b>Cambodia / Electricite du Cambodge</b> Project Officer: Tianhua Luo (632-6388), Infrastructure Division, CWRD Email: tluo@adb.org	<b>Second Power Transmission and Distribution Project/</b> The goal is to facilitate the formation of joint venture companies.  The works will include: (a) turnkey contract for substations; (b) supply of materials and equipment; (c) resettlement and compensation.  Consulting services required are: (a) preparing preliminary designs and bidding documents for the bidding of the works; (b) supervision of installation and construction; (c) final testing and commissioning; (d) quality assurance; (e) project performance monitoring and evaluation.	<b>Asian Development Bank</b> US \$ 20 mn
<b>Sri Lanka / National Water Supply and Drainage Board, Ministry of Urban Development &amp; Water Supply</b> AsDB Project Officer: Tatiana Gallego-Lizon (632-6416), Urban Development Division, SARD Email: tgallegolizon@adb.org	<b>Jaffna Water Supply and Waste Water Management/</b> The Project will comprise development of integrated urban and rural infrastructure and environmental infrastructure including: (a) urban and rural water supply, (b) sewerage and sanitation (c) solid waste management. (d) strengthening of water resource management.	<b>Asian Development Bank</b> US \$ 50 mn
<b>Ghana/ Ministry of Water, Accra</b> AfDB Contact: Mr. L.K. Litse, Acting Director, Country Operations: West I. Tel: (216) 7110-2047	<b>Accra Sewerage Improvement Project/</b> The project includes: (a) Construction of Stabilization Ponds (b) Construction of sewers and associated pumping facilities; (c) Construction of sea outfall of two coastal sites and discharge to water course for inland site; (d) Construction of public toilets in low income residential areas; (e) Provision of seven sludge discharge points; Consultancy services required.	<b>African Development Bank</b> UA 46 mn
<b>Mozambique/ Ministry of Transport</b> AfDB Contact: Mr. F.N. Black, Director, Country Operations. : South II Tel.No.: (+216) 7110-2042)	<b>Montepuez-Lichinga Road Project/</b> The project civil works will include: (a) Section 2:8 bridge structures between Litunde-Ruaca (b) Section 3:Upgrading of Marrupa-Ruaca (59 km); (c) Section 4:Upgrading of Ruaca-Balama (82 km); and the upgrading of Balama-Montepuez (55 km) Consulting services will be required.	<b>African Development Bank</b> UA 61 mn

## CONTRACT AWARDS

Select contracts secured by Indian companies:

**Vijai Electricals Limited, Hyderabad** Contract for LOT-G Supply of Distribution Transformers for Power Project (04) in Uganda, funded by **World Bank**

**KEC International Limited, Mumbai** Contract for LOT 2 Distribution Network for Energy Access Project in Ethiopia, funded by **World Bank**

**KEC International Limited, Mumbai** Contract for Construction and Commissioning of 500kv Transmission Line in Kazakhstan, funded by **European Bank for Reconstruction and Development**

**Bharat Heavy Electricals Ltd., New Delhi** Design-Build-Turnkey contract for construction of 132/230kv step-up sub-station at Baghabari & extension of existing 132/230kV SS for West Zone Power System Development Project in Ishurdi, Bangladesh, funded by **Asian Development Bank**

**TCE Consulting Engineers Ltd., Mumbai** Consultancy contract for Detailed Engineering Design for Kathmandu Valley Water Supply Demonstration Project in Nepal, funded by **Asian Development Bank**

**Pricewaterhouse Coopers Pvt. Ltd. (India), New Delhi** Consultancy contract for advisory and operational services for Alternative Livelihood Options to Facilitate Coal Sector Restructuring in People's Republic of China, funded by **Asian Development Bank**

## Trends In Global Exports of Services

Recent years have witnessed a rise in global services exports, with India, China, Japan and Ireland being the largest contributors. From US\$ 819.6 bn in 1990, global services exports rose to US\$ 2125.0 bn in 2004 and further to US\$ 2415.0 bn in 2005. India and China reported the strongest growth in service exports, followed by Ireland, Italy, Hong Kong and Japan. India's share in global service exports rose to 2.8% in 2005 from 1.9% in 2004, moving it up to tenth place in 2005. This was a significant jump of six places over the 2004 ranking, reflected in greater software exports and improved coverage of transactions.

India's service exports grew over 70% in 2005 to US\$ 67.6 bn. This is the strongest growth recorded by any of the top ten global service exporters. The key determinants of this rise were India's software exports, which grew from US\$ 0.7 bn in 1995-96 to US\$ 23.6 bn in 2005-06, accounting for about 38.9% of India's total service exports in 2005-06.

China's service exports more than doubled during the period 2001-05, from US\$ 32.9 bn in 2001 to US\$ 81.2 bn in 2005. China accounted for 3.4% of global service exports and was ranked as the eighth largest service exporter in 2005.

The US, UK, Germany, France and Japan continue to be the top five service exporters since 1990, together accounting for 37.3% of the world's total service exports. Even though the US continues to be the top service exporter, its share in global service exports has been steadily declining in recent years from 18.8% in 2000 to 16% in 2003, and further to 14.6% in 2005. As seen in the table, India, China and Ireland have registered a continuous rise in their share in global services exports.

In India, services sector has emerged as the fastest growing sector in terms of exports, with implications on productivity, employment, trade and fiscal prospects for the economy. The services sector has contributed to structural transformation in terms of substantial value added and skill intensive services such as software. Indian services exports were US\$ 60.6 bn in 2005-06 as compared to US\$ 17.1 bn in 2001-02. Between 1970-71 and 2005-06, the share of services in GDP increased from 38.3% to 53.6%. Growth in services sector

has imported considerable resilience to the overall growth of the Indian economy.

Reflecting the importance of services in GDP, their share in global GDP has risen from 61% in 1990 to 68% in 2003. The rise in share of services in GDP has been more rapid in case of low and middle-income countries, from 45% to 53 % during 1990-2003. The services sector in India accounts for about 52% of the GDP.

**Table: Leading Exporters in World Trade in Commercial Services**

(% share in global exports)

Rank in 2005	Global Exports (US\$ bn)	1990 819.6	2000 1472.2	2004 2125.0	2005 2415.0
1	United States	16.2	18.8	15.0	14.6
2	United Kingdom	6.6	7.8	8.1	7.6
3	Germany	6.3	5.6	6.3	5.9
4	France	8.1	5.5	5.2	4.7
5	Japan	5.1	4.6	4.5	4.4
6	Italy	5.9	3.8	3.9	3.9
7	Spain	3.4	3.6	4.0	3.8
8	China	0.7	2.0	2.9	3.4
9	Netherlands	3.5	3.3	3.4	3.1
10	<b>India</b>	<b>0.6</b>	<b>1.2</b>	<b>1.9</b>	<b>2.8</b>
11	Hong Kong, China	2.2	2.6	2.5	2.5
12	Ireland	0.4	1.1	2.2	2.3

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

Source: WTO

### Exim India & India's Software Exports

Exim Bank has been associated with the development of the Indian software industry since 1986. Exim India has a financial package for software exporters to attend to their financial requirements, which includes term loans for capital expenditure, equipment finance for acquisition of advanced computer systems with related software, project finance for the setting up or expansion of software development facilities, and working capital finance to software exporting units.

Exim Bank provides financial support to software companies for implementing strategic export marketing plans aimed at developing / enhancing presence in identified target markets, and also support software exporters in securing international quality certifications such as ISO 9000, TickIT, various levels of CMM-SEI, which would enhance their credibility and dependability in overseas markets.

Further, Exim India has a programme for financing software product development to support the industry move up the value chain towards products, as also R & D by software exporting companies for activities including setting up of R & D centres, development of new tools and technologies. The Bank also provides term loans to Indian companies to part finance their equity contribution in ventures overseas.

The Bank also has a lending programme for setting up/expansion of software training institutes by established software exporting companies to meet the growing requirements for trained manpower.

## Exim Bank's Lines of Credit

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

Exim Bank has extended the following LOCs during the quarter July-September 2006:

- LOC of US\$ 65 mn to the Government of Ethiopia;
- LOC of US\$ 250 mn to ECOWAS Bank for Investment and Development [EBID];
- LOC of US\$ 10 mn to Angola;
- LOC of US\$ 8 mn to Seychelles;

- LOC of US\$ 20 mn each to Myanmar and Mozambique;
- LOC of US\$ 30 mn to Government of Honduras;
- LOC of US\$ 15 mn to Government of Iran.

The LOC of US\$ 65 mn to Ethiopia has been earmarked for financing execution of energy transmission and distribution projects in Ethiopia by an Indian company. The Indian exporter company will get 100% reimbursement of CIF contract value from Exim Bank, upfront upon shipment of equipment and goods and provision of services.

With the member countries of EBID [Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo] constituting important trading partners in the African region, the LOC of US\$ 250 mn to EBID is earmarked for financing export of projects, goods and services from India to the region. The Indian company will get 100% reimbursement of CIF contract value from Exim Bank. The LOC of US\$ 10 mn to Angola is meant for financing export of tractors to Angola while the LOC of US\$ 8 mn to Seychelles has been earmarked for financing export of essential commodities to the country.

The LOC of US\$ 20 mn to Myanmar will be utilised by Myanma Foreign Trade Bank for renovation of Thanlyin Refinery in Myanmar. Another Line of Credit of US\$ 20 mn to Government of Mozambique will be utilised for electrification of Gaza province in Mozambique.

In the case of Honduras, the LOC of US\$ 30 mn has been earmarked for financing export of goods and services including consultancy services relating to

projects for communication, medical and transportation equipments in Honduras. Exim Bank will reimburse 100% of CIF contract value to the Indian exporter.

Another LOC of US\$ 15 mn to Iran was earmarked for financing exports from India to Iran. The Indian exporter company will get 100% reimbursement of CIF contract value from Exim Bank.


Exim Bank has in place 67 Lines of Credit with credit commitments aggregating US\$ 2.15 bn, which are available for financing and promoting India's exports to countries in Africa, Asia, Latin America, East Europe and the CIS. Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters. The LOC is an initiative towards facilitating demonstration of India's capability and expertise in the emerging markets.

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

For further information on LOC, please contact:

**Mr. P.R. Dalal**

Chief General Manager  
Export Import Bank of India  
Center One Building, Floor 21,  
World Trade Centre Complex,  
Cuffe Parade,  
Mumbai-400005.  
Tel: 22162073/22185272 Extn. 2200,  
Fax: [022] 22182460  
E-mail: [eximloc@eximbankindia.in](mailto:eximloc@eximbankindia.in)



## Jubilant Organosys Limited : A Success Story

Jubilant Organosys Limited (JOL) was incorporated on June 21, 1978 as Vam Organic Chemicals Limited and was promoted by Mr. Shyam S. Bhartia and Mr. Hari S. Bhartia. Historically, Company's business focused on the processing of molasses and ethyl alcohol (ethanol) into acetyls, also known as organic intermediates. JOL has since expanded the original product portfolio, both organically and through selective acquisitions, into complementary and value-adding business segments that build on Company's core strength in cost-effective processing of organic intermediates. In 1996, JOL embarked on a shift in business model to leverage Company's strong position and experience in their traditional chemical product markets, including chemicals R&D, in order to build global positions in the market for certain higher-margin, knowledge-driven speciality chemicals and pharmaceuticals and life science products.

JOL has emerged as an integrated pharmaceutical industry player having presence across the pharmaceuticals value chain. JOL product range inter-alia includes drug discovery and development services, custom research and manufacturing services, advance intermediates, fine chemicals, APIs, dosage forms and regulatory affairs services. JOL is one of the largest Indian Custom Research and Manufacturing Services (CRAMS) and Drug Discovery Services companies in India.

JOL has four manufacturing locations in India situated at Gajraula (in Uttar Pradesh), Nanjangud (in Karnataka), Nira (in Maharashtra) and Samlaya (in Gujarat) and a US FDA approved

manufacturing facility for dosage forms in Maryland, USA.

JOL has three subsidiary companies in India - Jubilant Biosys Limited for bio/chemo informatics databases & drug discovery services, Jubilant Chemsys Limited for medicinal chemistry services and Jubilant Clinsys Limited for clinical research.

JOL has international subsidiaries in USA, Belgium and China. PSI N.V. and PSI Supply N.V., in which Jubilant Organosys holds 80% equity, are the Belgium based pharmaceuticals companies providing regulatory affairs services and supply of dosage forms to European generic companies. Jubilant Pharmaceuticals, Inc., a subsidiary of Jubilant in USA, is a generic pharmaceutical company having a US FDA approved manufacturing facility in the USA. Clinsys, Inc., a wholly owned subsidiary, is a clinical research organization (CRO) operating out of the USA. Jubilant Organosys also has marketing subsidiaries in USA and China. JOL products are sold across the globe in more than 60 countries.

Research Development and Application studies form the backbone of JOL's local and global presence. JOL has well equipped laboratories and pilot plant facilities that synthesise organic compounds and polymers. R&D efforts are directed to achieve primarily four basic objectives: development of new products, improvement in the quality and performance of existing products, increasing efficiencies in manufacturing processes and supporting customer through product application.


Globally, Jubilant Organosys is a leading manufacturer in defined product segments, including select APIs (e.g., Carbamazepine and Citalopram), Pyridine and its derivatives, Solid polyvinyl acetate, Vinyl Pyridine Latex and Organic Intermediates (e.g., Ethyl Acetate and Acetic Anhydride). 15 of the top 20 pharmaceutical companies and 7 of the top 10 agrochemical companies in the world are JOL customers.

JOL association with Exim Bank dates back to 2002, when company was embarking upon major capital expenditure plans for capacity expansion in Pharmaceuticals and Life Science Chemicals business segment. Exim Bank

matched the exponential growth of JOL by extending financial assistance, for day-to-day operations, overseas acquisitions, project financing etc. The association which started during formative years of JOL has blossomed into an ideal case of public – private partnership.

JOL net sales for FY 2006 increased by 28.6% to Rs. 15.05 billion with revenues from international market rising by 41.7% to Rs. 5.95 billion. The Pharmaceuticals and Life Science Chemicals business, which is the focus business area, was the fastest growing business recording a growth of 41.2%. A significant part of JOL's revenues come from international markets. Europe, North America and China are the major international markets. The company focuses on regulated markets of North America, Europe and Japan, which contributed 60.3% of the international sales. The profit after tax increased by 8.8% to Rs. 1.3 billion resulting in an EPS of Rs. 8.58 on a fully diluted basis for a Re. 1 share.

JOL entered the dosage forms market of USA by acquiring Trinity Laboratories, Inc. (renamed Trigen Laboratories, Inc.) along with its wholly owned subsidiary - Trigen Laboratories, Inc. (renamed Jubilant Pharmaceuticals, Inc.). Jubilant Pharmaceuticals, Inc. has a US FDA approved manufacturing facility for solid dosage forms and has 7 approved Abbreviated New Drug Application in its portfolio. JOL also acquired Target Research Associates, Inc. (renamed Clinsys, Inc.), a US based Clinical Research Organization (CRO) involved in clinical operations for phase II to IV, clinical data management, bio statistics, QA and regulatory services and contract staffing. This acquisition made JOL the only Indian CRO having presence in the US market. During FY 2006, the Company has filed 7 new patents and currently 56 patent applications are pending whereas 9 patents have been granted. Export revenues increased by 30.6% to Rs.4.76 billion from Rs.3.64 billion.

JOL efforts on community development align with the Millenium Development Goals of the United Nations. JOL has been consistently demonstrating its corporate competence with out compromising on societal responsibilities. In JOL, India has found a global leader for integrated pharmaceutical. 

## Strengthening R&D Capabilities in India

There is a strong correlation between economic growth and research and development (R&D) being carried out in a country. R&D expense as a share of Gross Domestic Product (GDP) is a good indicator for the importance being given to R&D in a country.

### Global R&D Scenario

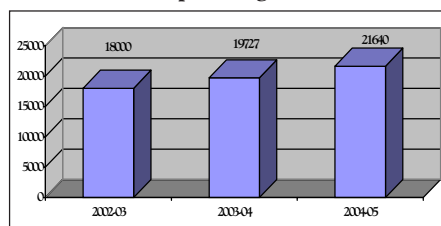
World Investment Report 2005 from UNCTAD estimates global R&D spending at US \$ 677 billion in year 2002. Major countries spending on R&D in absolute terms are USA (40% of world spending on R&D), Japan (20%), Germany (7%), France (5%) and UK (4%). Developing countries such as China, Korea, Taiwan, India and Mexico have also witnessed increasing R&D spending during the period 1991-2002. However, when considered the R&D expenditure as a share of GDP, Israel tops the list with a share of 4.72%, followed by Finland (3.46%), Japan (3.12%), Iceland (3.09%), South Korea (2.91%), Germany (2.52%) and China (1.23%).

### R&D Scenario in India

India has a well-established legal framework with the enactment / amendments to the Patents Act, Designs Act, Trade Marks Act, and Geographical Indications of Goods (Registration and Protection) Act. Besides, India has institutional framework with an estimated 3000 R&D institutions, including national laboratories and industrial R&D units.

According to Department of Science & Technology, Government of India, a total

R&D Spending in India



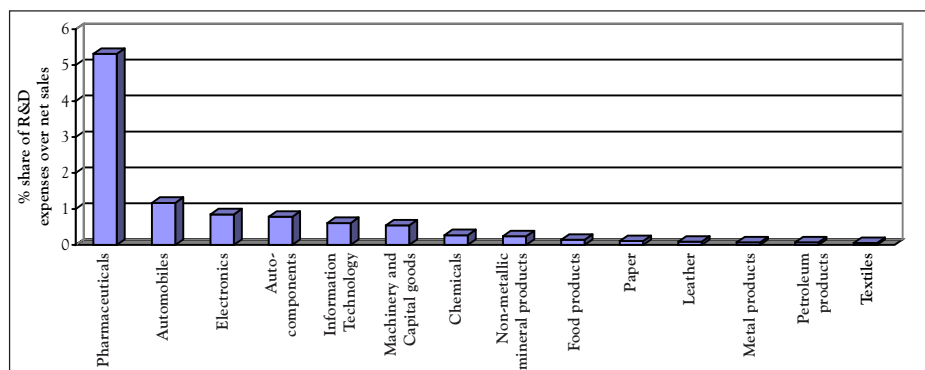
Source: Department of Science and Technology, Government of India

Rs 216.4 bn were spent on various R&D activities in India in the year 2004-05. Central government accounted for over 60% of total R&D expenditure followed by private sector (20%), state governments (nearly 10%), public sector (5%) and higher education sector (4%).

At firm level, R&D expenditure was estimated to be Rs 45.0 bn. R&D intensity (Ratio of R&D expenditure to sales turnover) of business firms was estimated to be around 0.5% in year 2002-03 which is lower than the global standards. As compared to this, R&D intensity of business firms is estimated to be 1.5% for Canada, 1.8% for EU-15, 2.6% for USA, 3.1% for Japan, 2.7% for Korea and 0.9% for China.

Sectoral break-up of R&D intensity of business firms gives a different scenario with some sectors having greater intensity than others. It may be noted that R&D expenses as a percentage of sales was higher in the pharmaceuticals sector (5.31%), followed by automobiles (1.17%), electronics (0.85% and auto-components (0.78%). To promote R&D activities and to encourage indigenously developed R&D, government has come up with various incentive plans.

Sectoral R&D Expenses as Percent of Net Sales in India



Source: Compiled from CMIE data on corporate performances

## India – An Emerging Destination of Global R&D

India has been receiving global R&D since many decades. However, in the initial years, R&D investments by transnational corporations were limited to adaptation or product development suitable for Indian market. Subsequently FDI became the window for R&D activities of transnational corporations.

A study by UNCTAD has marked USA and UK as top most destinations for R&D internationalisation. Amongst developing countries, China has been placed as the top most destination, followed by India. A survey conducted by INSEAD and Booz Allen Hamilton has identified low cost skill base, availability of skilled workers, and markets as major determinants of R&D base in favour of India. The survey has identified that China is scoring more as compared to India in terms of proximity to markets; and USA, Germany, UK and France are scoring more in terms of availability of technological clusters / institutional network. It is thus important to leverage and strengthen the capabilities of India to emerge as prime destination for R&D.

### Strengthening R&D Capabilities in India

Various measures such as tapping of global knowledgebase, strengthening of innovation system, strengthening of education system, strengthening the IPR regime, increasing government funding in R&D, increasing the involvement of private sector firms in R&D, strengthening the incentive regime for R&D, and strengthening of international S&T cooperation are required for India to emerge as a R&D hub for the world.

## Growth Potential of Indian Automotive Industry

A robust economic growth, rising disposable incomes and easy finance options has given a tremendous boost to the automotive industry in India. Mirroring the optimism in the automobile industry, the automobile ancillary industry has also reported burgeoning sales.

Indian automobile industry witnessed a growth of 19.35% in April-July 2006, over the growth in the corresponding period of 2005. The main segments of the industry reported the following growth rates:

- Passenger car sales rose by 24.68% during April-July 2006
- Utility Vehicles sales increased by 11.67% during April-July 2006
- Commercial Vehicles sales reported an ascent of 40.76% during April-July 2006
- Two-wheeler market grew at 17.78% during April-July 2006
- Three-wheeler market rose by 23.80% during April-July 2006

On an annual basis all segments of the automotive sector grew steadily, with the exception of scooters, which registered a

Automobile Domestic Sales Trends (In Nos)			
Category	2003-04	2004-05	2005-06
M&HCVs	161395	198506	207446
LCVs	98719	119924	143237
<b>Total CVs</b>	<b>260114</b>	<b>318430</b>	<b>350683</b>
Passenger Cars	696153	820179	882094
Utility Vehicles	146388	176360	194577
MPVs	59555	65033	66366
<b>Total Passenger Vehicles</b>	<b>902096</b>	<b>1061572</b>	<b>1143037</b>
Scooters	886295	922428	908159
Motorcycles	4170445	4964753	5815417
Mopeds	307509	322584	332741
<b>Total Two Wheelers</b>	<b>5364249</b>	<b>6209765</b>	<b>7056317</b>
Three Wheelers	284078	307862	360187
<b>Grand Total</b>	<b>6810537</b>	<b>7897629</b>	<b>8910224</b>

Source: Society of Indian Automobile Manufacturers (SIAM)

marginal decline of 1.54% in 2005-06, as compared to 2004-05. But the two-wheeler market did well overall with a rise of 13.63% in 2005-06.

In terms of numbers, the two-wheeler segment recorded the highest sales in the export market to reach 513,256 during 2005-06. The largest market for Indian two wheelers is Asia, with revenues of around US \$ 111.41 million earned during 2005-06. With infrastructural projects on the rise, the Middle East is now the largest market for transportation vehicles, netting earnings of US \$ 43.75 million during the previous fiscal.

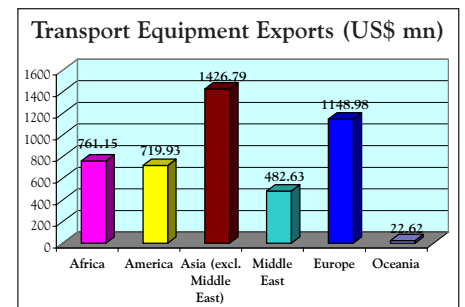
The Indian automobile industry is largely dominated by two or three players and is a closely held market. In the passenger car segment, Maruti is still the market leader

with almost 49% of the market share. The two-wheeler segment is closely contested by Hero Honda holding more than 53% of the market share, with Bajaj Auto gaining market share and coming in second with 29%. The commercial vehicle segment has two major players with Tata Motors and Ashok Leyland on an even keel.

### Auto Ancillary Industry

The auto ancillary industry has emerged as a preferred outsourcing destination for automobile multinationals that have set up shop in the country. India has around 450 companies making branded auto parts, with another 5,000 in the unbranded segment. Manufacturing hubs are centred around automobile industries.

According to the Automotive Component Manufacturers Association of India, production figures registered an increase of 14.94% in 2005-06, over the previous year to touch US \$ 10,000 million. This is the highest rise the industry has witnessed in over ten years. Exports from the industry have also climbed to US \$ 1,800 million during 2005-06, reinforcing the fact of India's growing clout among Asian countries as an auto component exporter.

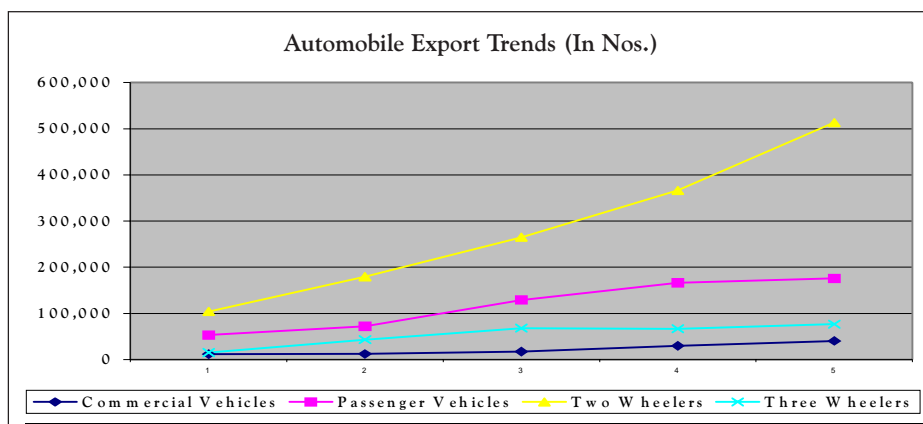


Source: DGCIS Data


India's largest market for transport equipment in Asia is Singapore, which earned revenue of US \$ 660.08 million in 2005-06. This was followed by markets in Sri Lanka (US \$ 316.57 million) and Malaysia (US \$ 110.78 million).

Exports of auto components are expected to reach US \$ 20 billion by 2015. Average capital expenditure is pegged at Rs. 2,000 per annum and is set to increase to optimise production capacities.

India manufacturers a comprehensive range of automotive parts. A majority of the production, around 31% is centred on engine parts. With a comprehensive range of production of auto parts, India has become the preferred source of auto components.



Source: Society of Indian Automobile Manufacturers (SIAM)



## Exim Bank's Recent Co-operation Pacts

Exim Bank, as part of its export facilitation initiative, has been endeavouring to assist exports of products from rural, small and micro enterprises. With the objective of strengthening the institutional framework, and to provide international market access to products produced by rural and grassroot enterprises, Exim Bank took up the initiative of partnering with select non-governmental organisations (NGOs) in different states of India.

Exim Bank has in the past entered into partnership arrangements with:

- DHAN Foundation, Madurai, Tamilnadu, a professional development organisation working for poverty reduction through capacity building;
- BASIX, Hyderabad, Andhra Pradesh, a new generation livelihood promotion institution and pioneer micro-finance institution in India;
- URUVU, an NGO trust based in Wayanad, Kerala, engaged in development of bamboo based rural products; and
- CARE – India, an international developmental and humanitarian organisation established with the objective of fighting poverty in India.

Exim Bank is enhancing the canvas of such institutional network in order to effectively supporting the export marketing efforts of rural and grassroot enterprises.

Exim Bank has recently entered into a cooperation arrangement with the Confederation of NGOs of Rural India (CNRI). CNRI has been set up with the specific objective of strengthening, coordinating and facilitating the working of Non-Government Organisations at the grassroot level for integrated development of rural India. Exim Bank has participated actively in a National Meet 'Advantage Rural India', organised by CNRI. Both CNRI and Exim Bank have felt the need of organising interactive sessions with the objective to help familiarise the rural and grassroot enterprises on the Bank's initiatives and financing programmes. Accordingly, interactive sessions on 'Linking Rural Industry to Global Market – Role of Exim Bank' was organised at Chennai and New Delhi. The programme at Chennai included display of products by self-help groups of southern states of India.

Exim Bank has also entered into a co-operation arrangement with the Coir Board. The Board has been set up with the objective of promotion and development of coir industry in India. Through this arrangement, both Exim Bank and Coir Board would provide technical assistance to micro and small enterprises in the farm and non-farm sectors in other developing countries and to institutions that promote such enterprises.

Exim Bank has also signed a Memorandum of Cooperation with SEWA Trade Facilitation Centre (STFC), Ahmedabad, for active promotion of hand-crafted products of STFC members. STFC is a unique (grassroot) commercial enterprise formed by more than 15,000 rural artisan-shareholders. STFC currently offers apparels, home furnishings, accessories, and life style products. STFC has partnered with National Institute of Fashion Technology (NIFT), to establish a decentralised three-tiered production structure with a Common Production Centre in Ahmedabad. The tie-up with

Exim Bank would help STFC to expand its presence and product range in the overseas markets. The Bank will also help STFC in enhancing product quality, marketing channels and training in number of areas including strategy formulation.

Exim Bank, leveraging its relationship with International Finance Corporation (IFC), Washington, has tied up with Pangea Artisan Market and Café (PAMC) to hold an India-Day Programme 'Rural Development and Sustainability in India' in October 2006. In this event, products produced by number of NGOs / SHGs in India will be displayed by Exim Bank.

The primary purpose of PAMC is two-fold:

- to promote a positive public image through awareness of the work that the World Bank Group and other development institutions are performing in support of bottom-of-the pyramid types of development; and
- to build market access and generate exposure and sales for the products of artisans from developing countries.

Besides promoting merchandise trade, PAMC aims to project positive image through interactive multi-media exhibits, lectures and artisan demonstration.

In sum, Exim Bank seeks to strengthen the institutional mechanism for export of rural products on an ongoing basis. All these partnership arrangements aim at promoting exports, especially from the rural areas, for the products made by these partners and their associates / members. Exim Bank, in the past, has assisted exports of honey, financed setting up of food processing plants in select states, exports of hand made paper, dried flowers, medicinal plants.



## Exim Bank's IEDRA Award 2005

### The Award

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

### IEDRA Award 2005

The year 2005 was the seventeenth year of the Award. Mr. T.C. Venkat Subramanian, Chairman & Managing Director, Exim Bank, announced the Exim Bank IEDRA Award 2005 at an Award function held on September 5, 2006 in Mumbai. Dr. Rashmi Banga received the award for her Doctoral dissertation titled "*The Nature, Pattern and Impact of Japanese and U.S. Foreign Direct Investments in Indian Manufacturing*". The Award and Citation

were handed over by the Chief Guest, Mr. S. T. Devare, Visiting Senior Research Fellow, Institute of Southeast Asian Studies, Singapore. Mr. Devare also released Exim Bank's Occasional Paper based on the Award winning thesis. Commenting on the Award winning thesis, Mr. Venkat Subramanian emphasised the importance to enhance investment-related research with a view to identify policy recommendations towards achieving higher levels of investment in the days to come. The Chairman of the Award Jury, Prof. D. M. Nachane, Senior Professor, Indira Gandhi Institute of Development Research was also present at the occasion. The other members of the Jury were Dr. A. Ramanathan, Professor & Head of the Department, Department of Humanities & Social Sciences, IIT Bombay, Mumbai and Dr. Rajesh Mehta, Senior Fellow, Research & Information System for Developing Countries (RIS), New Delhi.


### Winner and the Winning Thesis

The winner of the IEDRA Award 2005, Dr. Rahmi Banga obtained her Doctorate from the University of Delhi, New Delhi in 2005 and at present is working as an Economist with the UNCTAD-India Programme, New Delhi. Dr. Banga completed her thesis under the supervision of Prof. Aditya Bhattacharjea, from the Delhi School of Economics and Prof. B. N. Goldar from the Institute of Economic Growth, New Delhi.

Dr. Banga's doctoral dissertation illustrates how the source of FDI could affect the nature and pattern of FDI and its impact on exports and productivity growth of the recipient industries. Based on their home country environment, foreign investment from different source countries will have different ownership advantages, will come with different levels of technology, will

have different modes of transferring technology. Therefore, they might differ in terms of their nature of operations, industrial pattern and impact on the host country. Dr. Banga's thesis addresses this issue. The study focuses on nature of operations, in terms of corporate financial structures of Japanese and U.S. firms in India. The industrial pattern is also compared and finally, the direct as well as indirect impacts in terms of spillovers are examined from Japanese and U.S. FDI on the exports and productivity growth in Indian industries. The period of study is 1993-94 to 1999-2000.

According to the study, U.S. FDI is found to be mainly concentrated in sectors such as pharmaceuticals, organic chemicals, electrical components, food processing, and personal care, while Japanese FDI is found to be concentrated more in automobiles and auto parts, electronic-consumer goods and glass & glass products. The study shows that the industrial characteristics that attract Japanese FDI are very different from those that attract U.S. FDI. For example, Japanese FDI is found to be attracted to large scale, labour intensive, low-tech industries that produce standardised products and have high outward orientation. U.S. FDI is found to be attracted to concentrated industries that are domestic market oriented, produce differentiated products, have low degree of outward orientation and high degree of vertical integration. Comparing a number of financial ratios the study found that Japanese firms are more debt-oriented in nature unlike U.S. firms and they follow the corporate financial structures of their parent firms more closely as compared to U.S. firms. The study also found that, as compared to U.S. firms, Japanese firms operate at a lower scale of production, with lower capital intensity but higher rate of output growth.



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## EXIMIUS CENTRE COLUMN

In the third quarter ending September 2006, the Centre organised a number of programmes including the following:

- ❖ A series of interactive sessions on “**Business Opportunities in British Islands**” was organised at different centers viz., **Ahmedabad, Kolkata, Coimbatore, Hyderabad and New Delhi during July – August 2006.** The British Midlands region is a strategically located manufacturing hub of UK, with skilled and flexible workforce.
- ❖ An interactive session on “**Opportunities for Investment in Victoria**” was organised on **August 7, 2006 at Bangalore**, with the objective of informing the advantages, facilities and incentives offered by the State of Victoria, Australia, to the potential investors. Mr. Wayne Lewis, Commissioner to India, Invest Victoria, highlighted the opportunities for bilateral trade and investment with Victoria.
- ❖ A seminar on “**Quality Standards and Certification Requirements for Export of Agricultural and Food Products**” was organised in association with the Indian Chamber of Commerce and Industry, in **Cochin on August 25, 2006.** The seminar covered aspects such as: international food regulations, ISO 9000 /14000, HACCP and Quality Systems in food industry, CODEX, US-FDA and food safety regulations. Food technologists / experts from the Central Food Technological Research Institute, Mysore, served as faculty in this seminar.
- ❖ A series of seminars were organised with a view to promote export activities of grassroot enterprises. These include: interactive sessions on ‘**Linking Rural Industry to Global Markets – Role of Exim Bank**’ organised in association with Confederation of NGOs of Rural India at **Chennai (July 23-24, 2006) and New Delhi (July 28, 2006)**; workshop on ‘**Handmade Floor Tiles**’ at **Athangudi, Tamil Nadu (July 31, 2006)** in association with National

Housing Bank; and a seminar on “**Expanding Coir Export Business Horizons**” (**August 11, 2006**) at **Alleppey** in association with Coir Board.

- ❖ The Bank has entered into its **25th year of operations.** In commemoration of its Silver Jubilee, the Bank intends to organise series of programmes to unveil the export potential of agriculture and food products in select states. Accordingly a seminar on “**Potential for Export of Agricultural / Food Products from Bihar**” was organised in association with the Bihar Industries Association in **Patna on September 9, 2006.** Among other agricultural products, the seminar has focussed on Fox Nut / Gorgon nut, commonly known as Makhana. A similar programme was organised at Raipur on **September 15, 2006**, in association with Chhattisgarh Chamber of Commerce & Industry.

The calendar of programmes for the next quarter include:

- ❖ Seminar on ‘**Development of Domestic Consulting Services**’ in association with Consultancy Development Centre and Asian Development Bank, at **New Delhi on November 6-7, 2006** and at **Mumbai on November 9-10, 2006.**
- ❖ A series of seminars on ‘**Investment Opportunities in Poland**’, during **October / November 2006 at various centres.**
- ❖ A series of seminars / workshops focussing on **SMEs / handicrafts / agricultural / food products at various centers** such as **Siliguri, Srinagar, Chandigarh, Lucknow, Bhubaneswar, Vishakapatnam, Mysore, Udupi, Sagar, Kolkata, Madurai, Guwahati, Ahmedabad and Baroda.**

The Centre welcomes suggestions on its future agenda.

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

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## BOOK REVIEW

### **Global Development Finance, The Development Potential of Surging Capital Flows, 2006, World Bank**

World Bank’s annual publication, Global Development Finance 2006, is a review of global financial conditions facing developing countries and presents an analysis of key trends and prospects, including the coverage of capital originating from developing countries themselves.

This edition focuses on “The Development Potential of Surging Capital Flows”, giving an overview of the growth and transformation of private capital flows, South-South capital flows and challenges facing the countries in managing these capital flows and economic prospects for the global economy.

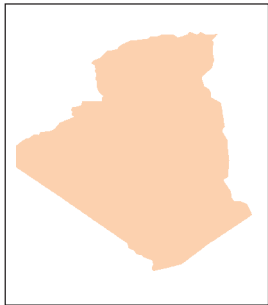
Private capital flows to developing countries expanded in 2005, reflecting robust global growth and a favorable financing environment. Most of the record US\$ 491 bn in net private capital that went to the developing world in 2005 went to a small group of middle-income countries, many of which used these to improve their external debt profiles and accumulate official foreign exchange reserves.

Global growth has been led by developing countries with GDP growth in 2005 of 6.4%, more than twice the rate of high-income countries. High oil prices, rising interest rates and building inflationary pressures are expected to restrain growth in most developing regions over the next two years, but these regions are still expected to outperform high-income economies. Deepening financial integration among developing countries is evident from the increased South-South capital flows.

Possibilities of high oil prices and fall in non-oil commodity prices could adversely affect developing and poor economies. It is remarked that if developing economies have to survive global shocks, they would have to strengthen their economies and ensure continued macroeconomic stability.

## Algeria

High prices boosted economic activity in the hydrocarbons, construction and

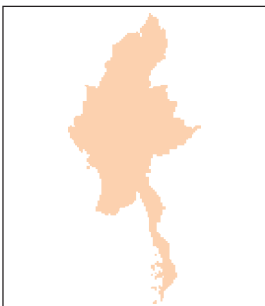


services sector and sustained real GDP growth at 5.8% in 2005. Reflecting increased oil and gas output, real GDP growth is expected to

rise further to 6.6% in 2006. The government is making efforts to attract more FDI in the non-hydrocarbons sector. Gains from the flourishing hydrocarbons sector are reflected in Algeria's foreign exchange reserves which now exceed US\$ 60 bn, according to the government. Algeria plans to repay all of the US\$ 8 bn debt owed to the Paris Club before the end of 2006, as also its US\$ 1 bn commercial bank debts restructured through the London Club by late 2006.

## Myanmar

Myanmar's economy has exhibited strong growth of 5.2% in 2005, with strong export growth boosted by strong sales of natural gas, which is Myanmar's largest single export commodity. Thailand is Myanmar's largest export market. Exports to Thailand, which are dominated by natural gas, rose by 32.7% to US\$ 1.8 bn in 2005. Trade and investment ties with Thailand have improved lately. In January 2006, Thailand's PIT Exploration & Production announced its plans to invest heavily in exploration in Myanmar in the next five years, with test wells planned in several offshore blocks. Also, in

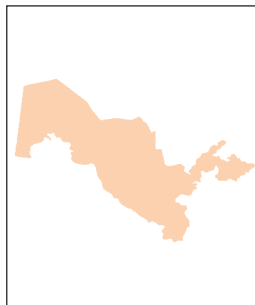


January 2006, the state-owned Myanma Oil & Gas Enterprise (MOGE) signed a MoU with China's state-owned energy firm, PetroChina. The consortium developing the gas fields also includes

India's Gas Authority of India & ONGC Videsh, and South Korea's Daewoo and Kogas. Myanmar's reliance on soft loans is reflected in the two recent agreements signed in June 2006. The Central Bank of Myanmar and China Export Import Bank signed a soft loan agreement for US\$ 200 mn to enable government ministries to import goods from China.

## Uzbekistan

Transport & communications are the fastest growing sector in Uzbekistan, where the output grew by 7.3% in the first quarter of 2006, backed mainly by new investment in the telecommunications sector. Transport & communications received 30% of total capital inflows into Uzbekistan in 2005. Further investment is expected in 2006-07 in Uzbekistan's hydrocarbons & telecommunications sectors. With the acquisition by VimpelCom of two Uzbek operators, Bakri Uzbekistan Telecom (Buztel) & Unitel, Russian-owned companies dominate Uzbekistan's telecommunications sector. Russia's Mobile TeleSystems (MTS) is the majority owner of Uzdunrobita, the country's largest operator. Russia, which is the most important trading partner of Uzbekistan, is also the largest consumer of its vehicle exports. Nearly 19% of Uzbekistan's export revenue was from Russia from sales of natural gas, vehicles, cotton fiber and some services.

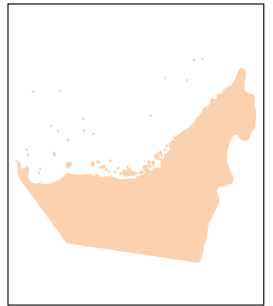


## UAE

Recent times have seen several developments in UAE's telecommunications sector. UAE and Pakistan agreed to a US\$ 2.6 bn deal under which Etisalat, the state-owned telecom monopoly, will take a controlling 26% stake in the state-run Pakistan Telecommunications. Etisalat has mini-monopoly in new developments such

as Dubai Internet City and Dubai Media City (DMC). As

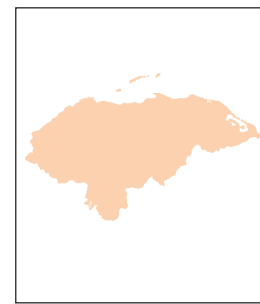
part of its commitments to WTO, UAE is required to open its telecom market to competition. With its services considered to be



the best in the region and comparable to service levels of developed countries, Etisalat is well equipped to face international competition. Emirates Integrated Telecom Company (EITC), won the UAE's second national licence in December 2005, was to begin operations in 2006.

## Honduras

Growth in the transport & communications was underpinned by an expansion in the telecommunications sector, following a reduction in tariffs for international calls from 2006 and increased demand for mobile phone services. Capital inflows in 2004 were



boosted by new loans to the private sector to finance investments in several sectors, including telecoms. Hondutel, the state owned

telecommunications operator, announced its plans to launch new telephone connections, including wireless connections. With dominance of mobile telephony and plans for future expansion as mobile operators plan to invest about US\$ 40 mn in 2006 to increase coverage and procure new data transmission equipment, Hondutel is keen to enter the mobile market in partnership. With a modification of the Budget, Hondutel has now been permitted to form partnership with private players to enter the cellular market. The telecommunications sector could attract greater FDI with further liberalisation.



## Currency Currents

### Singapore Dollar (SGD)-

The Singapore dollar is managed under floating rate regime where the exchange rate is determined by the demand and supply in the foreign exchange market. Since 1981, Singapore sets its monetary policy through Singapore dollars trade weighted exchange rate than interest rates. The Monetary Authority of Singapore (MAS) manages the Singapore dollar against a trade weighted basket of currencies of Singapore's major trading partners and maintains it broadly within an undisclosed target band. In its Monetary Policy Statement (MPS) on April 11, 2006 MAS has announced that it will continue with the modest and gradual appreciation of the Singapore dollar on trade weighted basis, which it has been following since April 2004. The Singapore dollar has been appreciating against the USD and rose to a eight and a half high year high of 1.5595 to the USD on May 10, 2006. According to a latest government forecast, Singapore's economy is expected to grow

at a rate between 6.5 percent p.a. to 7.5 percent p.a. Singapore dollar has also benefited from the decision of China's Central Bank to raise interest rates and allow the Chinese Yuan to appreciate further against the US dollar. The medium term forecast in a recent poll of various banks by Reuters showed the Singapore dollar at 1.55 to the USD by the end of December 2006. The Singapore Dollar was quoted at 1.587 to the USD as on September 30, 2006.

### Columbian Peso (COP)-

The Central Bank of Columbia (Banco de la Republica) targets the inflation through intervention in interest rates. The inflation figure for August 2006 was at 4.72% within the target range of 4% & 5% given by Central Bank. The Central Bank has hiked interest rates in April, June and August 2006 by 25 basis points each time, to contain inflationary pressures. Columbian Peso depreciated from a level of 2280 to the USD in January 2006 to 2650 in June 2006 as investors pulled out from emerging markets like Columbia. However with strong economic fundamentals and external demand, the Columbian Peso is expected to appreciate in the short term. The Columbian Peso was quoted at 2397.25 per dollar as on September 30, 2006.

### Swiss Franc (CHF)-

The Swiss Franc considered as a safe haven currency has been appreciating against Euro and USD on account of weakness in global equity

markets, Middle East tensions and demand for defensive currencies. The Swiss economy growth has a large correlation with growth in the EU region with 60% of exports going to this region. Switzerland's Institute for Business Cycle Research (commonly referred to as KOF) leading indicator of business sentiment in July 2006 rose to its highest level in six years signaling robust economic growth. The Swiss Central Bank (SNB) has been following a monetary policy tightening since December 2005. The SNB specifies a range for the three-month Swiss franc LIBOR rate and aims to hold it at the mid-point within the target band. SNB has raised its target range by 25 basis points in each of the past four quarters. The current target range for the three-month LIBOR is 1.25%-2.25%. Month on month, the Swiss consumers price index was up by 0.2 percent in August, taking the annual inflation rate to 1.5 percent, well below the SNB ceiling of 2 percent. Switzerland's Purchasing Managers Index (PMI) rose to a record high of 68.2 in August 2006 from 65.1 in July 2006. With the Swiss economy expected to grow around 3 percent this year, the SNB is likely to continue its tightening stance. The monthly foreign exchange poll conducted by Reuters in September 2006 has predicted the CHF at 1.18 to the USD by six months. As on September 30, 2006, CHF was quoted at 1.2504 to the USD.



## Growth Inducing Commodities in India's Exports in 2005-06

The year 2005-06 was a landmark year in the history of India's foreign trade. India's exports crossed the unprecedented mark of US\$ 100 billion to stand at US\$ 102.7 billion, on account of a robust 23% growth over the previous year. It may be noted that exports increased by over 20% for the fourth year in a row in 2005-06 reflecting increasing international competitiveness of India's exports. Given this healthy trend, it would be interesting to identify the commodities, which contributed most to the export growth in 2005-06.

In general, two approaches are considered in an attempt to identify the commodities,

which contribute most to the growth in exports. These are:

- ❖ Commodities which have registered the most impressive growth rates;
- ❖ Commodities, which have registered the maximum increase in absolute terms.

However, the above two approaches have their own limitations. In case of the first, commodities would be ranked irrespective of their size in the export basket. Similarly, the second approach would reflect a bias towards traditional high-value export items and could ignore impressive performances of fast-growing non-traditional export commodities. A third approach, which ranks commodities in the order of their increasing share in the export basket, could be more appropriate in this regard. Change in share would typically take into consideration both the magnitude as well as the growth rate of the commodity.

Table 1 lists the top-20 commodities, which registered the maximum rise in shares between 2004-05 and 2005-06, and were the most growth inducing export commodities. Together they amounted US\$ 38.7 billion or accounted for 37.7%

of India's total exports in 2005-06. Key observations in this regard may be noted as below:

- ❖ In tune with the recent trend, petroleum products emerged as a major foreign exchange earner for India. Exports of petroleum products went up by 64.8% in 2005-06 to stand at value of US\$ 11.5 billion. While exports rose significantly to major markets like UAE, Netherlands, UK, USA, Sri Lanka and Brazil, markets such as Korea, South Africa, Nepal, Greece, Colombia and Turkey also emerged distinctly.
- ❖ Eight of the twenty commodities had a share of more than 1% in India's exports and could be termed as traditional export items. However, the large presence of non-traditional export items reflects the essence of diversification of India's exports, which is crucial for sustaining the current growth momentum. Particularly, the robust growth in exports of raw cotton had an important contribution to India's export earnings. The key reason behind the performance was a substantial rise in exports to China, which grew from US\$ 20.2 million in 2004-05 to US\$ 395.9 million in 2005-06.

- ❖ Manufactured export items, led by transport equipment, continued to boost India's exports in 2005-06. Exports of transport equipment grew to all the major markets, with notable increases in case of Singapore (334%), UAE (189%), South Africa (263%) and France (134%). Among new markets, Malaysia emerged distinctly with 382% rise in exports of transport equipment.

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

Export-Import Bank of India, Centre One Building, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005.

Tel: (022) 2218 5272 Fax: (022) 2218 2572

E-Mail: cag@eximbankindia.in

Website: www.eximbankindia.in

Table 1: Top-Ranking Commodities (as per change in Export Shares)

Rank	Commodity	2004-05 (US\$ mn) {1}	2005-06 (US\$ mn) {2}	% Share in 2004-05 {3}	% Share in 2005-06 {4}	Change in share {5}={4}-{3}
	All Commodities	83501.6	102710.0	...	...	...
1	Petroleum products	6986.5	11512.9	8.37	11.21	2.84
2	Transport equipment	2828.5	4565.9	3.39	4.45	1.06
3	Cotton raw including waste	94.0	630.5	0.11	0.61	0.50
4	Non-ferrous metals	764.6	1361.2	0.92	1.33	0.41
5	Machinery & instruments	3717.8	4795.3	4.45	4.67	0.22
6	Oil meals	706.9	1089.9	0.85	1.06	0.21
7	Processed minerals	805.2	1136.8	0.96	1.11	0.14
8	Readymade garments cotton incl. accessories	5041.8	6347.0	6.04	6.18	0.14
9	Dyes intermediates & coal tar chemicals	1189.4	1606.6	1.42	1.56	0.14
10	Readymade garments of other textile materials	241.3	415.0	0.29	0.40	0.12
11	Paper/wood products	720.1	1000.7	0.86	0.97	0.11
12	Sugar	33.3	125.8	0.04	0.12	0.08
13	Residual chemicals & allied products	512.1	714.4	0.61	0.70	0.08
14	Pulses	134.1	249.0	0.16	0.24	0.08
15	Readymade garments manmade fibres	738.9	989.7	0.88	0.96	0.08
16	Meat & preparations	423.9	597.9	0.51	0.58	0.07
17	Coffee	237.8	356.2	0.28	0.35	0.06
18	Carpet handmade	607.8	807.3	0.73	0.79	0.06
19	Dairy products	102.1	177.4	0.12	0.17	0.05
20	Guargum meal	153.4	235.4	0.18	0.23	0.05

Source: Directorate General of Commercial Intelligence and Statistics

Contact Numbers : Ahmedabad : 2657 6852, Bangalore : 2558 5755, Chennai : 2522 4714, Guwahati : 259 9135, Hyderabad : 2330 7816, Kolkata : 2283 3419, Mumbai : 2283 0761, New Delhi : 2332 6625, Pune : 2645 8599

Budapest : (361) 338 2833, Johannesburg : (2711) 442 8010, London : (44) 2073538830, Singapore : (65) 653 26464, Washington D.C. : (202) 223-3238