

EXIMIUS:



EXPORT ADVANTAGE



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EXPORT-IMPORT BANK OF INDIA

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Latin American Countries: An Overview

Reflecting weakness in the global economy, heightened political uncertainty in a number of countries in the region especially Argentina, and reduced inflows of foreign direct investment, most countries in the region registered a slowdown in economic activity during 2001, while prospects for economic recovery vary considerably across countries. Reflecting these developments, real GDP growth for the region as a whole registered a marginal growth of 0.7% in 2001 as

compared with a growth of 4.0% in 2000. While GDP growth in the Mercosur region and in the Central American and Caribbean region registered sharp deceleration, the Andean region also witnessed slowdown in growth rate (Table).

During 2001, most of the countries in the region registered weakening terms of trade due to decline in prices of major export items. Oil exporters such as Venezuela, Colombia and Mexico were severely affected by the sharp decline in oil prices, while adverse movements in copper prices impacted Chile. As a result, the current account deficit of the region rose to 2.9% of GDP in 2001 from that of 2.4% during the previous year. At the same time, private capital flows to the region declined to US\$ 44.3 bn in 2001 from that of US\$ 56.6 bn during the previous year.

Recent Developments

In *Brazil*, following strong recovery from the 1998-99 recession, the economy was affected by a series of adverse shocks during 2001 including political uncertainties and serious energy crisis which required stringent electricity rationing. These, coupled with deterioration in terms of trade and pressure on the Real emanating from the crisis in Argentina, forced the government to tighten monetary policy. GDP growth decelerated to 1.5% in 2001 from a growth of 4.4% during the previous year. The country's current account deficit rose to 4.6% of GDP in 2001 from that of 4.1% in the previous year. During 2002, due to easing of the power crisis, improving domestic

confidence, and recoveries in Europe and in the US, growth in Brazil is expected to strengthen with GDP projected to grow by 2.5%, and further by 3.5% in 2003. Underpinned by increasing fiscal discipline and a floating exchange rate regime, Brazil's resilience to shocks and regional contagion has strengthened. However, vulnerabilities remain especially in view of Brazil's large external financing requirements.

In *Mexico*, real GDP declined by 0.3% in 2001 as compared to an impressive growth of 6.6% in the previous year. The contraction in economic activity was primarily due to the downturn in US business cycle and weaker domestic demand. Unlike in other countries of the region, the crisis in Argentina had a net positive effect on the economy of Mexico, as the international market viewed Mexican assets as an attractive intermediate combination of risk and return. In response to recovery of the US economy, the recession in Mexico is now showing signs of bottoming out. The authorities have pursued disciplined demand management policies and both public and external debt are relatively low. Further, international reserves are the highest in the region. During 2002, real GDP growth is projected to bounce back with a growth of 1.7% and further to 4.9% in 2003. The floating exchange rate regime and the country's high international reserves would continue to cushion the economy against unexpected shocks. While integration with the US economy has boosted Mexico's exports and imports in recent years, it has also made the economy more sensitive to the US business cycle. To step up growth on



a sustainable basis, therefore, Mexico will have to enact structural reforms. In the medium term, such reforms will have to focus on encouraging private investment in the electricity and energy sectors, making the labour market more flexible, and reducing the fiscal dependence on oil revenue. The most important challenge facing the administration is to forge an effective coalition so that the reforms agenda is moved forward.

In *Argentina*, overvalued real exchange rate, loss of market access, divisive politics, inability of the authorities to successfully manage the situation, and eventual run on the banking system culminated in the worst financial crisis in *Argentina's* recent history. Output contracted sharply by 3.7% in 2001. Eduardo Duhalde, who assumed the presidency on January 1, 2002, ended convertibility, devalued the peso, introduced a dual exchange rate, and declared that the freeze on bank deposits would continue. The inability of *Argentina* to take advantage of IMF support to eliminate underlying structural weakness had resulted in the collapse of investor confidence, default on its public debt and a run on its banking system. *Argentina's* short-term economic prospects remain uncertain, and further contraction in output appears unavoidable. During 2002, domestic demand is likely to decline substantially due to rise in unemployment, lower confidence, the freeze on bank accounts and other pressures on incomes and spending. The depth and duration of the economic downturn will depend primarily on the new government's economic programme and how effectively it is implemented. The government would need to make headway towards a credible and comprehensive economic programme to secure an agreement with the IMF. Of key importance would be to reduce the fiscal deficit to a level that can be covered by available, non-inflationary sources of finance. The signing of a 14-point agreement with the provincial governments in April 2002, which

contains the reform measures needed for a viable economic programme, marks a shift towards a more market-oriented approach, and progress would need to be effected in this regard.

Reflecting close trade ties with *Argentina*, as also in the financial and tourism sectors, uncertainty arising from developments in *Argentina* sharply reduced economic activity in *Uruguay* during 2001. Real GDP growth registered a sharp fall of 3.1% during 2001. At the same time, the country's foreign exchange markets and international reserves came under pressure, leading the authorities to widen the currency-trading band to 12% from 6%. Worsened fiscal conditions also resulted in downgrading the country's sovereign credit rating.

In the *Andean region*, global slowdown combined with weakening of certain commodity prices had constrained output growth during 2001. Real GDP growth slowed down to 2.2% in 2001, from a growth of 3.3% during the previous year. Adverse movements in prices of oil, of particular importance for *Venezuela* and to a lesser extent for *Colombia* and *Ecuador*, prices of copper and other metals (*Chile* and *Peru*), and coffee prices (*Colombia*) had affected economic activity. Reflecting worsened external conditions, lower oil output (under production cuts agreed with OPEC), and dwindling investor confidence, the *Venezuelan* economy grew by 2.7% in 2001, down from a growth of 3.2% during 2000. Due to sharp reduction in the current account surplus and sizeable losses of international reserves, coupled with fiscal pressures, the authorities, in February 2002, replaced the exchange band system by a floating exchange rate regime and announced a significant reduction in government spending. While these are measures in the right direction, firmer policies would be required to strengthen fiscal position and help reduce interest rates, and foster business confidence to stimulate private investment.

In *Ecuador*, the economy grew by 5.2% in 2001, reflecting greater economic

stability due in part to dollarisation of the economy and higher private investment in the oil sector. The dollarisation, however, has sharply appreciated the real effective exchange rate, which in turn has impacted international competitiveness and non-oil export activities. In *Chile*, despite the slowdown in growth, the economy has remained fundamentally sound. Real GDP registered a rise of 2.8% in 2001, down from 4.4% in the previous year. Due to low fiscal and current account deficits, moderate external debt, low inflation and political stability, *Chile's* vulnerability to developments in *Argentina* has been limited to the exchange rate and equity markets. During 2002, economic activity is expected to pick up with real GDP growth projected at 3.0%, and further to 6.0% in 2003. The pick up in *Colombia* may be more subdued due to slow recovery of domestic demand, falling oil output and exports, and weak financial sector. During 2001, *Colombia* registered a lower growth rate of 1.5%, as compared with that of 2.8% during the previous year. Low economic growth and declining revenue would adversely affect fiscal performance raising concerns about fiscal sustainability. Early action by the new government to reform the staterun social security system, and consolidation in the financial sector are important priorities for improving fiscal performance and accelerating economic growth. Towards this end, the new President-elect, Alvaro Uribe, has highlighted the imperatives of jump-starting the economy, and has also called upon the support of multilateral institutions.

Outlook

With the global economic slowdown having contributed to the deterioration of the external position and slower growth in most Latin American countries, prospects for the Latin American region as a whole would be strongly influenced by economic development in the developed countries, while varying widely across the region,



Table: Select Latin American Countries - Real GDP and Consumer Prices

	Real GDP Growth (%) (annual % change)				Consumer Prices (%) (annual % change)			
	2000	2001	2002f	2003f	2000	2001	2002f	2003f
Western Hemisphere	4.0	0.7	0.7	3.7	8.1	6.4	8.2	7.4
Mercosur*	2.9	0.2	-0.9	3.0	5.0	4.9	10.5	9.7
Argentina	-0.8	-3.7	-12.5	-3.0	-0.9	-1.1	-27.5	32.5
Brazil	4.4	1.5	2.5	3.5	7.0	6.8	6.1	3.9
Uruguay	-1.3	-3.1	-1.7	3.0	4.8	4.4	7.1	9.4
Andean Region	3.3	2.2	2.1	4.0	13.0	8.8	8.7	7.6
Chile	4.4	2.8	3.0	6.0	3.8	3.6	2.3	3.0
Colombia	2.8	1.5	2.5	3.3	9.2	8.0	7.1	5.3
Ecuador	2.3	5.2	3.1	6.0	96.2	37.0	15.5	8.0
Peru	3.1	0.2	3.7	5.0	3.8	2.0	1.8	2.3
Venezuela	3.2	2.7	-0.8	1.3	16.2	12.5	20.8	20.2
Central America & Caribbean	6.0	0.2	1.9	4.6	8.8	6.6	4.5	4.0
Dominican Republic	7.8	3.0	3.5	5.2	7.7	8.9	3.7	3.9
Guatemala	3.6	1.8	2.3	3.5	5.1	8.7	5.0	3.9
Mexico	6.6	-0.3	1.7	4.9	9.5	6.4	4.3	3.8

* - Includes Argentina, Brazil, Bolivia, Paraguay & Uruguay
f - forecast

Source: International Monetary Fund & Institute of International Finance.

and also through the financial flows that are required to meet the region's high external funding requirements. At the same time, political developments in individual countries would determine the direction of macroeconomic policy. While there are serious problems in a number of countries that remain to be resolved and structural reforms that need to be carried through, the region as a whole is demonstrating a greater resilience to adverse external conditions than in the past.

Notwithstanding the adverse economic developments in Argentina, contagion from Argentina has remained relatively limited. Strong fundamentals and sound policy management have proven to be the key factors stemming potential contagion from Argentina. In Brazil, fiscal discipline and a floating exchange rate regime have increased the country's resilience to shocks and regional contagion, while in Chile and Mexico

relatively sound policy management and strong fundamentals have insulated these economies. If the risk of contagion is to be reduced, a lasting economic recovery programme would need to be implemented in Argentina. This would include measures to reduce the structural weaknesses in the country's public finances, steps to unfreeze the banking deposits and measures to ensure resumption of the supply of consumer and corporate credit needed for the economy to begin to return to normal.

Exim Bank's Lines of Credit to the Latin American Region

With a view to enhancing trade and investment relations with countries in the Latin American region, the Export-Import Bank of India (Exim Bank) has extended Lines of Credit (LOCs) to select banks in the region. Lines of Credit of US\$ 10 million each have been extended to Banco Bradesco SA, Brazil,

Corporacion Andina de Fomento (CAF - Andean Development Corporation), Banco Industrial de Venezuela (BIV), Banco Nacional De Comercio Exterior, S.N.C. (Bancomext), Mexico, Bancoldex (Colombia) and Central American Bank for Economic Integration (CABEI) to promote India's exports to the region. In addition, Exim Bank is in discussion with select banks in Chile for a possible LOC facility. The Lines of Credit seek to expand exports of product groups identified as those with potential to increase bilateral trade. As the borrowing institutions in these countries are strong Regional Development Financial Institutions or Specialised Agencies, the Lines of Credit extended by Exim Bank to these institutions in the region provide a safe mode of non-recourse financing option to Indian exporters, particularly small and medium enterprises (SMEs).

Exim Bank's Lines of Credit : Salient Features

Line of Credit (LOC) is one of the financing mechanisms through which Exim Bank extends finance to support export of goods and services from India. Exim Bank extends Lines of Credit (LOCs) to overseas governments, to agencies nominated by them, or to overseas financial institutions, including regional development banks and commercial banks. Exim Bank has been using the LOC mechanism for promoting Indian exports to new markets in developing countries, which need deferred credit for buying Indian goods.



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), European Bank for Reconstruction and Development (EBRD) and Japan Bank for International Cooperation (JBIC) 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, World Trade Centre Complex, Mumbai would be glad to be of help, if you keep us advised. Please contact Ms. Karishma Borgohain/ Ms. Geeta Pruthi on Tel: 2185272 Extn: 2305/2301.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Philippines/ National Transmission Corporation (TRANSCO) NPC Complex Agham Road cor. Quezon Avenue Diliman 1104, Quezon City Contact : Mr. Menardo T. Nunez, Project Director Tel: (632) 922-4052 Fax: (632) 921-2468	Electricity Market and Transmission Development Project/ The objective of the project is to develop necessary infrastructure for the power sector restructuring, i.e. (i) to establish the Wholesale Electricity Spot Market (WESM) so that electricity generation is dispatched on a competitive basis to meet the power demand; and (ii) to upgrade the critical transmission lines and substations as required in the Transmission Development Plan to ensure the reliability of power supply.	Asian Development Bank US\$ 40 mn
Uruguay/ ANEP - Administracion Nacional de Educacion Publica (National Administration of Public Education), Soriano 1045 Contact Person: Javier Bonilla, Director of ANEP Tel: (5982) 9013457 Fax: (5982) 9023491	Third Basic Education Quality Improvement Project/ The objective of the project is to increase equity, quality and efficiency in providing preschool and primary education.	World Bank US\$ 42 mn
China/ Inner Mongolia Communications Department (IMCD), No. 68 Dizhiju South St., Xincheng District, Hohhot, China, Tel: (86-471) 696-7173 Fax: (86-471) 629-8539 Contact: Mr. Bao Jianshe, Deputy Director	Inner Mongolia Highway Project/ The project aims at improving the efficiency, safety and cost-effectiveness of the transport infrastructure, to support the development of the Inner Mongolia Autonomous Region by improving accessibility to its poorer areas, and reducing the region's socioeconomic disparity.	World Bank US\$ 100 mn
Yemen/ Ministry of Public Health And Population Ministry of Public Health and Population, PO Box 8622, Sana'a, Republic of Yemen Contact Person: H.E. Abdul Nasser Al-Munibari Tel: 967-1-252193 Fax: 967-1-252247	Health Reform Support Project (HRSP)/ The objectives of the project are to increase access for women and children to a package of integrated maternal and child health services provided in selected district hospitals and health centers and to improve the effectiveness of national public health programs; and resource allocation within the public health sector in Yemen.	World Bank US\$ 27.53 mn



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Lao PDR/ Ministry of Communication, Transport, Post and Construction Vientiane, Lao PDR Contact: Mr. Khamlouat Sidlakone, Vice Minister Fax: (856-21) 412250	Small Towns Development Project/ The goal of the project is to enhance productivity as well as the quality of life of the small urban communities with spin off benefits for their respective rural hinterland. Specific objectives are to improve basic urban infrastructure, amenities and services; to establish urban institutional and management frameworks for effective urban service delivery; and to uplift livelihoods in selected small towns that play vital a role as market and service centers.	Asian Development Bank US\$ 15 mn
Lithuania/ Head of Project Implementation Unit D.Gudavičius SS SJSC “Kauno vandenys” Aukštaičių 43 3000 Kaunas Tel. +370 37 301 888 Fax. +370 37 301 730	Kaunas Water and Environment Project - Phase II/ The objective of the project is construction of a biological waste water treatment plant, extension of water supply and waste water network and water purification projects in the city of Kaunas.	European Bank for Reconstruction and Development US\$ 13.8 mn
Ghana/ Ghana Highway Head Office. Chief Executive. PO Box 1641. Accra, Ghana. Tel: (233-21) 663-922 Fax: (233-21) 665-571	Tema-Aflao Rehabilitation Project/ The principal objective of the project is to promote regional integration and to contribute toward the Government’s goal of poverty reduction and economic development by reducing the travel time and vehicle operation cost, resulting in reduced road user costs for both passengers and freight	African Development Bank US\$ 18.4 mn
Zambia/ Director, Economics and Marketing, Ministry of Agriculture of Agriculture, Food and Fisheries (MAFF) PO Box 15100, Lusaka Tel/Fax: (260-1) 250-504/253-967.	Agricultural Diversification Project/ The project comprises (a) crop development (b) mushroom development, (c) capacity building and training, as well as (d) credit facility and infrastructure (buildings, irrigation and roads).	African Development Bank US\$ 7.5 mn

CONTRACT AWARDS

Select contracts secured by Indian companies during the quarter:

Larsen & Toubro Ltd., Mumbai	Contract for construction of Electricity and Water Training Institute, secured in Kuwait .
MDP Consultants (Pvt.) Ltd., New Delhi	Consultancy contract for the development of an Integrated Financial Management System (IFMS) for Central Treasury under Structural Adjustment Technical Assistance Credit Project, secured in Armenia , funded by World Bank .
KEC International Ltd., Mumbai	Turnkey contract for Transmission Line Project, secured in Tunisia funded by European Investment Bank .
Micro Labs Ltd., Bangalore	Contract for supply of Anti-TB Drugs under Decentralized HIV/ AIDS and Reproductive Health Project, secured in Kenya , funded by World Bank .
Voltas Ltd., Mumbai	Turnkey contract for construction of chilled water plant with associated works for Conference Palace Hotel Project, secured in UAE .
BHEL, New Delhi	Turnkey contract for Gas Turbine based Power Station Project, secured in Oman .
Aventis Cropsience India Ltd, Mumbai	Contract for supply of insecticide (Deltametrin) under Health Services Project, secured in Sri Lanka , funded by World Bank .
National Council of Applied Economic Research, New Delhi	Consultancy contract for assessing the impact of Transport and Energy Infrastructure on Poverty Reduction, funded by Asian Development Bank .



Review of the Project Exports Scenario: 2001-02

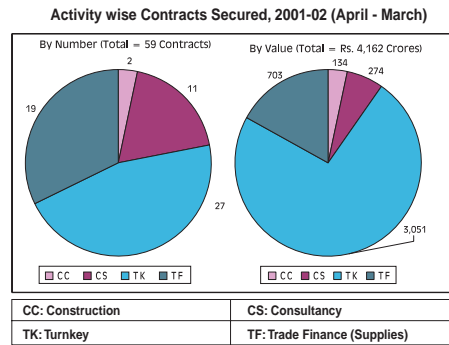
Project Exports from India commenced with a modest beginning in the late 1970s. Since then, they have evolved over the years, exhibiting expertise in a wide range of activities. The nature of Project Exports being undertaken now reflects the technological maturity and industrial capabilities in the country.

Exim Bank has undertaken a review of the Project Exports scenario during the year 2001-02 (April – March). Exports of projects and services can be broadly categorised into (i) civil engineering construction projects, (ii) turnkey projects, (iii) consultancy services, and (iv) exports of capital goods and industrial manufactures. The data analysed covers on bids/contracts considered by the inter-institutional Working Group, Exim Bank as also cases where exporters have approached Exim Bank for funded/non-funded facilities and those for which commercial banks have approached Exim Bank for participation.

Activity-wise Analysis

During the year 59 export contracts worth Rs. 4162 crore, covering 26 countries, were secured by 34 Indian exporters with Exim Bank's support as against 38 contracts worth Rs. 1833 crore covering 23 countries secured by 21 Indian exporters during the previous year. Export contracts secured during the

year consisted of 27 turnkey contracts valued at Rs. 3051 crore, 19 supply contracts valued at Rs. 703 crore, 11 service contracts valued at Rs. 274 crore and 2 construction contracts valued at Rs. 134 crore.



(i) **Construction Contracts:** Construction contracts secured comprised road rehabilitation and rail overbridge project in Bangladesh and steel water storage tanks project in UAE.

(ii) **Consultancy Contracts:** Technical consultancy and services contracts secured included operation and maintenance of cement plant in Saudi Arabia, modernisation of petroleum refining plant in Kuwait, contract for a petrochemical company in Iran, road improvement and maintenance project in Bangladesh, maintenance of locomotives in Malaysia and study for privatisation of a regional development bank in Uganda.

(iii) **Turnkey Contracts:** Major turnkey contracts secured included refinery dismantling project in Netherlands, transmission line projects in Oman and Algeria, supply and erection of gas turbine generators for power projects in Iraq and Australia, electro-mechanical work for an air force base project in Qatar, heating, ventilation and air-conditioning work for Queen Mary ship in France, and telecom network project in Saudi Arabia.

(iv) **Supply contracts:** Supply contracts secured included export of manufacturing equipment to Iran, irrigation pump sets to Zambia, stainless steel slabs to USA, LPG cylinders to Iraq, welded pipes to Nigeria and metal working machinery to Kenya.

Destination Analysis

New markets where Indian companies secured export contracts, with Exim Bank's support, for the first time during the last five years included Algeria, Australia, France, Netherlands and Uganda. With regard to contracts secured by number, Kenya (8) was the primary destination followed by Iraq (7), while value-wise Oman accounted for 22%, followed by Iraq (19%). Indian bidders have gained more confidence, expertise and have diversified their markets for project exports. Also, recent trends indicate developed countries increasingly becoming part of Indian exporter's target markets. The project exports portfolio pertaining to Iraq is under the United Nations' *Oil for Food* Programme. Iraq has been an attractive market for Indian goods and services in the past, and again in recent times through the opening up of export opportunities albeit under the United Nations' programme.

Exporter-wise Analysis

During the year, 59 contracts were secured by 34 exporters. KEC (6) was the foremost, followed by Engineers India Limited (4) and BHEL (3). In terms of value, the highest was KEC securing contracts amounting to Rs. 729 crore, followed by BHEL (Rs. 678 crore) and L&T (Rs. 640 crore).

Conclusion

The opening up of economies in developing and transition countries, and focus on quality has created an increasingly competitive environment. It is necessary to garner sustained efforts to maintain high growth and achieve a larger share. While India's export basket is moving towards including high-value-high-tech and value added products to developed countries, companies would need to position themselves to take advantage of the opportunities in emerging markets in Latin America, CIS and Africa. It is essential to ensure a growing participation of Indian exporters in projects funded by multilateral agencies and ensure that they respond to the discipline and rigour involved in advance planning and structuring of bids, which would augur well for Indian Project Exports.



Performance Highlights of African Development Bank and Asian Development Bank – FY 2001

Performance highlights of African Development Bank in year 2001

The year 2001 was a significant one for the African Development Bank (AfDB) Group activities in that operations increased to reach US\$ 2.98 billion, the highest level in 10 years and representing an increase of 20% over the previous year.

The salient features of the operational activities of AfDB in FY2001 are summarised below:

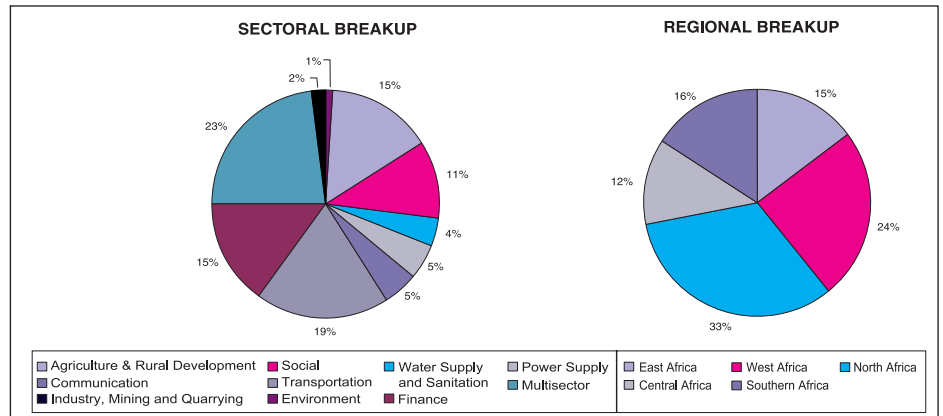
- Africa's real GDP grew at 3.4%, resulting in an average per capita income growth of slightly above 1%.
- The Bank Group also succeeded in mobilising close to US\$ 4 billion through its co-financing operations.
- At the end of 2001, 20 African countries had qualified for HIPC debt relief and the Bank Group's total commitments to these countries stands at over US\$ 1.6 billion.
- The total assets stood at US\$ 11.56 million, up from US\$ 11.37 million in 2000, and total reserves stood at US\$ 1.60 million last year, from US\$ 1.45 million in the previous year.

The sectoral and regional breakups of the AfDB Funding 2001 are shown in Box 1.

India's share in 2001 was 0.6% of total disbursements to all regional and non-regional members of AfDB. Thus, there exists substantial potential for Indian companies to increase their share in the available business opportunities.

- 72 loans totalling over US\$ 5301 million for 57 projects were made with government guarantee – US\$ 3940 million from ordinary capital resources and US\$ 1362 million from the Asian Development Fund.

Box 1 : AfDB Funding 2001; US\$ 2.98 Billion



Performance highlights of Asian Development Bank in year 2001

In 2001, Asian Development Bank approved 76 loans totalling US\$ 5.3 billion, 3 equity investments worth US\$ 30.4 million, 257 technical assistance projects amounting to US\$ 146.4 million, and grants for 16 projects totalling US\$ 93.8 million.

Some of the other salient features of the operational activities of AsDB in FY2001 are summarised below:

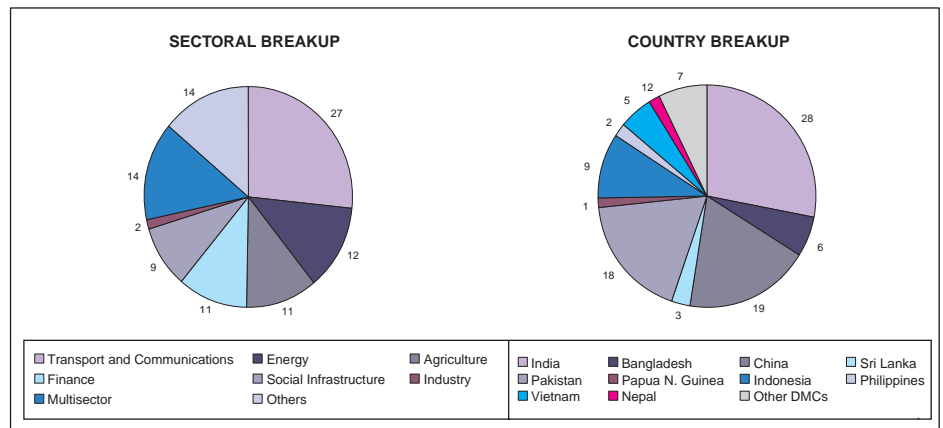
- AsDB approved US\$ 5.3 billion for 76 loans covering 60 projects in the various sectors.

The sector and country wise breakup of AsDB Funding 2001 is graphically represented in Box 2.

India and AsDB:

India has contributed 6.4% of the total subscribed capital of both regional and non-regional member countries and enjoys voting power of 4.8% of the total voting power. India was the highest recipient borrower of AsDB lending (US\$ 1500 million) in the category of project loans and fourth largest recipient of technical assistance grants (US\$ 8.0 million) during the year 2001.

Box 2 : AsDB Funding 2001; US\$ 5.3 Billion



Zydus Cadila - Charting new routes to growth and success

From a modest beginning in the post-independence era of the 1950s, through a period of consolidation in the 1980s, to the restructuring of operations in the 1990s and accelerated growth thereafter, Zydus Cadila has emerged as one of India's leading healthcare groups. Established in 1952 by the late Shri Ramanbhai Patel as Cadila Laboratories, the group's association with the industry spans five decades. With a core competence in the field of healthcare, Zydus Cadila provides total healthcare solutions ranging from formulations, active pharmaceutical ingredients, biologicals, vaccine, diagnostics, herbals and animal healthcare to cosmetics. Headquartered in Ahmedabad, the group is spearheaded by Chairman and Managing Director, Mr. Pankaj R. Patel.

On a growth path since 1996, the group has been registering a CAGR of 25 % in its sales from Rs. 221 crore in 1996 to Rs. 862 crore in 2002. The group's profits have soared from Rs. 4.3 crore in 1996 to Rs. 86 crore in 2002, a CAGR of 65%. The turnaround in operations has been an impressive one. Ranked 16th amongst the top pharmaceutical companies in India in 1995, the group rose to the 9th position

within a year. Since then, the group has been steadily moving up the chart and is currently ranked the fourth largest player in the industry (ORG, April, 2002).

Zydus Cadila's strategic focus has been on fast growing therapeutic segments such as cardiovasculars, gastrointestinals, pain management, preventives, anti-infectives, neuropsychiatry, respiratory and women's healthcare. New product introductions have also contributed to growth with Zydus Cadila having launched as many as 75 products over the last 5 years. The group is currently the leader in the cardiovascular and gastrointestinal segments.

Zydus Cadila has a global presence in 43 countries worldwide. The group registered a 35% growth in exports in 2001-02. This has been on account of high growth in both exports of branded formulations and APIs. The group has emerged as the largest Indian group in formulation sales in Sri Lanka and is amongst the top 5 Indian companies in Myanmar, Uganda, Vietnam, Mauritius and Singapore.

The Company's successful operations in the domestic and international market and strengths in research are backed by a strong infrastructure network. The plant has received approvals from some of the world's leading regulatory authorities such as the MCA of U.K., MCC of South Africa, BFAD of Philippines, NMA of Romania, NDA of Uganda and MoH of Latvia and Namibia.

To meet the challenges faced by Indian pharmaceutical companies in terms of product patents coming into force in 2005 the group has been working on a strategic gameplan. In the year 2000, the group successfully tapped the capital markets with an IPO. Consolidating its operations, the group has been looking at strategic acquisitions to add value to its operations. In one of the largest ever M&A transactions in the Indian pharmaceutical industry, Zydus Cadila acquired German Remedies in 2001. The group also added India's No 1 anti-hypertensive drug, Aten (Atenolol) to its product portfolio. This acquisition

catapulted Zydus Cadila to the No.1 position in the cardiovascular market.

Zydus Cadila is one of the leading investors in research, investing 7.7% of its turnover in research. The Zydus Research Centre has a team of 160 research scientists working in the frontier areas of New Chemical Entities, New Drug Delivery Systems and Biotechnology. The company has filed 20 patent applications in various research disciplines like medicinal chemistry, non-infringing process research, biotechnology and new drug delivery systems.

To meet the twin challenges of growth and competition in the coming years, Zydus Cadila has undertaken several strategic initiatives. With 60 major brands accounting for sales close to \$40 billion going off patent over the next ten years, there is a tremendous opportunity in store for the Indian pharma industry. Exports are expected to grow at 20 per cent over the next five years and will be a major demand booster especially with the huge opportunity in the generics market.

As growth in the future will be driven by research, the group will continue to step up investments in R&D. The group has also entered into research agreements with Pantheco of Denmark and Onconova Therapeutics Inc., of U.S.A to undertake collaborative research. To drive growth in the formulations business, Zydus Cadila will enhance its position in the high growth therapy areas related to lifestyle disorders.

Exim Bank has been tracking Cadila's growth path since 1995-96 and has been supporting with loans for setting up manufacturing facilities for formulation, for setting up R&D centre, product development activities, acquisition of brands, acquisition of companies and working capital.

National Seminar on “Export Of Agricultural Products: Prospects and Challenges” - Chennai

Exim Bank of India in association with Corporation Bank organised a two day (May 23-24, 2002) National Seminar on “Export of Agricultural Products: Prospects and Challenges” at Chennai. This was the second, in the series of seminars that EXIM Bank has planned to organise in the country with the aim of creating a better awareness of potential and challenges for Indian agri-exports and gearing up the agri-sector to cope with the emerging post World Trade Organisation (WTO) scenario.

The seminar, inaugurated by Shri Balasaheb Vikhe Patil, Hon'ble Minister of State for Finance, Government of India, brought together officials of international trade organisations, industry specialists, representatives from Government, corporates and senior bankers who interacted directly with agricultural producers, progressive farmers, farmers' organisations, suppliers of agri-inputs and exporters. Speakers from International Organisations such as Japan External Trade Organization (JETRO), European Union and Australian Trade Commission (AUSTRADE) also participated in the Seminar.

Shri Balasaheb Vikhe Patil, Hon'ble Minister of State for Finance,

Government of India stressed the need for enhancing the agri-exports from India in the light of the immense potential it has, and current marginal share of 1. 1% that India holds in the total International agri-exports. He also announced that the Government of India would consider setting up a Task Force with representation from government, agri-export agencies, Exim Bank, Commercial Banks, agri-experts and farmers. The Task Force will examine all aspects relating to agri-exports and advise on strategies to enhance India's agri-exports and exploit the export potential. The Minister said that under the WTO all countries have committed to substantial improvement in market access and reduction in and phasing out of export subsidies. However, developed countries continued to increase subsidy support to agriculture. Recounting the measures announced in the Union Budget 2002-03, to assist agriculture, Shri Patil stated that the Government would not hesitate to modify policies and procedures in the genuine interests of the farmer. Shri Patil also called for involvement of small and marginal farmers in the export sector.

The well-attended two-day seminar discussed various macro issues, which impinge upon world trade in agriculture. Five technical sessions in the seminar addressed by experts covered export strategies and international marketing of agri commodities; organic farming; export potential of medicines and aromatic plants; implications of WTO trade for agriculture, issues of food safety and quality standards and financing agri-exports.

Shri Sompal, Member Planning Commission, Government of India suggested mission-oriented approach to solve the problems of Indian agriculture and Mr. T.C. Venkat Subramanian, Managing Director, Exim Bank outlined the Bank's strategy for promoting and financing agri-exports and the steps taken by the Bank in implementing this strategy.

Policy Changes Crucial for Indian Agriculture to Emerge as A Force for Economic Growth, Poverty Alleviation and Global Competitiveness: Per Pinstrup-Andersen

Delivering the **Seventeenth Annual Commencement Day Lecture** of Exim Bank, Dr. Per Pinstrup-Andersen, Director General, International Food Policy Research Institute, Washington D.C. and 2001 World Food Prize Laureate, stressed on the need for appropriate policy changes, for Indian agriculture to emerge as an important force for economic growth, poverty alleviation and competitiveness in the global economy.

Sketching out the current food security situation in India, Dr. Andersen focussed on significant issues facing Indian agriculture. He highlighted the need for a broad-based agricultural growth strategy and the place of science, technology and public policies in such a strategy. He emphasised that making agriculture more market-oriented does not reduce the importance of sound public administration. Reforms should encompass measures both on the input and output side with appropriate policy changes .

Food and agricultural policy must shift from poorly targeted subsidies to a focus on investment, with an emphasis on human resources, public goods and meeting the needs of the poor . Key investment targets include private irrigation, research and development and infrastructure. Dr. Andersen concluded by saying that globalisation can be shaped to benefit the poor with needed shifts in domestic food and agricultural policy. To achieve this, he stressed on the need for developing countries to convince developed countries to reduce their trade barriers to exports, and other trade distorting policies.



Agricultural Exports of Developing Countries and Market Access

One of the important objectives of the world agricultural trade reforms is to expand market access opportunities across products and countries. The process of tariffication and reduction in tariffs was expected to provide market access to products from efficient producers of agricultural commodities. But given the volatility of agricultural commodity markets and the inability of farmers in developing countries to bear risks arising out of violent fluctuations in international prices, an effective safeguard mechanism for preventing a surge in imports becomes absolutely essential for preserving the livelihoods of farmers.

The opening of the markets, in the post Uruguay Round phase, has taken place mainly in the developing countries. The share of exports from developing countries, which constitute over three fourths of the WTO membership, continues to remain at 30% of the world trade in agriculture. This is less than what it was 25-30 years ago. The anticipated increase in exports from developing to developed countries, thus, has not materialised. Among the three major developed regions, Western Europe is the most important market for agricultural exports from developing

countries, but the share of total agricultural exports from developing countries into Western Europe has declined from 28.5% in 1994 to 28% in 1998. The share of agricultural exports of developing countries into Japan has also fallen from 14.5% to 11.5% during this period.

Market Access in the developed countries is also hampered by their maintaining high tariffs on products of interest to developing countries besides a plethora of non-tariff barriers. In a recent study of 14 countries, Food & Agricultural Organisation (FAO) concluded that there was little change in the volume exported or in diversification of products and destination. Tariff peaks continue to block exports from developing countries to the developed world. Tariffs still remain very high in certain sectors, specially, in cereals, sugar and dairy products. Tariff escalation (increase in tariff with successive stages of processing) block exports of value-added products from developing countries to the developed countries. Stringent Sanitary and Phytosanitary (SPS) measures continue to be a major barrier in diversifying exports in horticulture and meat items. Fresh commitments have, therefore, to be negotiated to substantially improve market access for products of particular interest to developing countries. Since entry of newcomers is difficult in the existing tariff quota (TRQ) regime, India is demanding substantial expansion of TRQs pending their eventual abolition. It is also essential that administration of tariff quotas should become more transparent and equitable.

In several country studies done by FAO on implementation of the Agreement on Agriculture (AoA) in developing countries, it has been observed that there was “asymmetry in the experience between the growth of food imports and the growth of agricultural exports. While trade liberalisation had led to an almost instantaneous surge in food imports,

these countries were not able to raise their exports”. It has further been observed that the process has marginalised small producers and added to unemployment and poverty. The studies conclude that the challenge for these countries lies in being able to maintain an appropriate mechanism to safeguard the livelihood of the people engaged in agriculture.

As per the AoA, the member countries are to convert non-tariff barriers such as quantitative restrictions into tariffs and then progressively reduce these over a period of time. While developing countries such as India have been fixing nominal import tariffs on items taken off the QR list (for eg: 10% import duties in the case of edible oils), developed countries have been indulging in “dirty tariffication” by fixing prohibitive tariffs that impede market access for agri exporters from developing countries. Average tariffs in OECD countries for 1995 stood at 214% for wheat, 197% for barley and 154% for maize, while the average import duties in developing countries were 94% for wheat, 90% for maize and 89% for rice. Thus, bound tariff rates in India should be maintained at current levels and major crop sectors should be protected by utilizing the bound tariff levels.

An appropriate formula with a cap on tariff bindings should thus be evolved to effect substantial reduction in all tariff levels including peak tariffs and tariff escalations in developed countries. As a special and differential measure, the developing country members should be allowed to maintain appropriate levels of tariff bindings keeping in mind their developmental needs and the high distortions prevalent in the international markets. The appropriate levels of tariff bindings will have to necessarily relate to the trade distortions in the areas of market access, domestic support and export competition being practiced by the developed countries.

Performance Highlights of Exim Bank

Financial Performance

- Net Profit (after tax) at Rs. 171 crore, an increase of 11%.
- Net worth of the Bank increased to Rs. 1853 crore from Rs. 1616 crore.
- Dividend to GOI: Rs. 42 crore (pay out of 24.6% of the post-tax profit) as compared to Rs. 38 crore in 2000-01.
- Capital to Risk Assets Ratio (CRAR): at 33.13% compared to 23.83% in previous year.
- Debt instruments enjoy highest rating (AAA) from rating agencies, CRISIL & ICRA.
- Full compliance with Reserve Bank of India's prudential norms.

Business Performance

- Fifty nine Project Export Contracts amounting to Rs. 4162 crore, covering twenty six countries, were secured by thirty four Indian with Exim Bank's support, an increase of 127%.
- Loan Sanctions: Rs. 4241 crore, an increase of 95%.
- Disbursements: Rs. 3453 crore, an increase of 82%.
- Loans Outstanding: Rs. 6610 crore, an increase of 17%.
- The Bank extended lines of credit, amounting to US\$ 95 million, to Corporación Andina de Fomento (covering Andean Region); Eastern and Southern African Trade and Development Bank; Banco Nacional de Comercio Exterior, Mexico; Banco Centroamericano de Integración Económica (covering Central America); Vnesheconombank, Russia; Banco Industrial de Venezuela, Venezuela; Banco Bradesco S.A., Brazil; Banco de Comercio Exterior de Colombia, S.

A., Colombia; Bank Markazi Jomhuri Islami Iran.

- Government of India (GOI) to route its Line of Credit for US\$ 200 million to Iran through Exim Bank.
- Guarantees sanctioned and issued: Rs. 545 crore and Rs. 416 crore respectively.

New initiatives

- Bank has put in place an 'Agri Business Cell', which will identify and support viable projects and export transactions in agriculture sector. Bank is setting up an agro-portal, in-house, which is an IT initiative to promote knowledge-based agriculture enterprise. Bank brings out a bi-monthly newsletter 'Agri Export Advantage' to facilitate information dissemination.
- Bank now offers 'Export Marketing Service' for Indian Companies. Bank's network of overseas offices will play an active role and the service will be offered to well reputed and quality conscious Indian companies, particularly in the SME sector, on a success fee basis. The Bank will serve as a facilitator to help conclude deals with buyers/importers overseas.
- Global Trade Finance Private Limited (GTF), a Joint Venture, promoted by Exim Bank, with WestLB, Germany and IFC, Washington D.C., commenced business in September 2001. GTF offers, for the first time in India, structured foreign trade financing products such as forfaiting and factoring.

Institutional Linkages

- With a view to enlarging networking with international organisations and other service providers, Bank entered into co-operation agreements and Memoranda of Understanding (MOU) with UTI Bank Ltd.; DEIK (Foreign Economic Relations Board), Turkey; PT Bank Ekspor (BEI), Indonesia; and Hatton National

Bank Limited, Sri Lanka. A high-level delegation from The Export-Import Bank of China visited the Bank during October 2001.

Promotional Programmes

- Under arrangement with IFC, Washington D.C. and other international agencies, the Bank supported Indian consultants for overseas assignments in Bangladesh, Bosnia, Ghana, Kenya, Namibia, Nigeria, Swaziland and Vietnam in areas such as Housing Finance, Agro-processing, Pharmaceuticals, Trading House, and MIS.
- Bank carried out research studies and published 7 Occasional Papers on international trade and investment and a book on Business Practices of Successful Indian Exporters.
- Bank's Eximius Centre at Bangalore conducted 23 programmes on international trade and investment related topics.

ADFIAP DEVELOPMENT AWARDS 2002

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) has instituted the ADFIAP Awards starting Year 2002 in line with their 25th anniversary. The Award recognises and honours ADFIAP member institutions, which have assisted projects that have created a development impact in their respective countries. Awards are given to member institutions that have implemented or enhanced outstanding and innovative development projects during the year.

The Bank won the award under the 'Trade Development' category which involves the development of a financing program / facility that assisted the country in developing, promoting and boosting its international trade.

Exim Bank Study Highlights Potential for Enhancing Bilateral Trade and Investment with Mercosur Countries

Exim Bank's Occasional Paper on "**Mercosur: A Gateway to Latin American Countries**" was released by the Commerce Secretary, Shri Dipak Chatterjee, at a function organized by Exim Bank in New Delhi. The Study indicates high potential for increasing bilateral trade and investment between India and the Mercosur member countries. Bilateral trade has witnessed a robust rise in recent years; India's exports to the Mercosur Countries **have more than doubled** from US\$ 195.3 million in 1995-96 to US\$ 476.5 million in 2000-01, while India's imports from the Region have also risen from US\$ 492.8 million to US\$ 603.1 million during the same period.

Mercosur (the Southern Common Market), whose members are Brazil, Argentina, Paraguay, Uruguay with Chile and Bolivia as associate members, have a combined GDP of US\$ 1009 billion, exports of US\$ 105.3 billion and imports of US\$ 104.2 billion in 2000.

The Mercosur countries offer opportunities for a wide range of products. India's potential export items include pharmaceuticals, machinery and instruments, transport equipments, inorganic/organic and agro chemicals, plastic and linoleum products, dyes and pigments, and electronic goods. These countries can also be important sources for import of petroleum and products, machinery, non-ferrous metals, metaliferous ores and metal scrap, crude minerals and raw wool. Further, these countries offer potential for investment in sectors such as pharmaceuticals, engineering goods and consultancy, infrastructure, automobiles and e-commerce.

Indo-Sri Lankan Trade and Investment Potential: Exim Bank Study

Exim Bank's Occasional Paper titled "Sri Lanka: A Study of India's Trade and Investment Potential" was released at the hands of Prof. G. L. Peiris, Minister for Investment Promotion, Government of Sri Lanka at a seminar on "Investment Opportunities in Sri Lanka" jointly organised by Exim Bank and Consulate of Sri Lanka in Mumbai. The study explores bilateral commercial relations and identifies potential areas where Indo-Sri Lankan trade and investment relations could be further enhanced.

The study highlights that Sri Lanka is one of the most dynamic economies in the South Asian region, and has continued to encourage private participation in economic development. India's exports to Sri Lanka have witnessed a sharp rise from that of US\$ 175 million in 1990-91 to US\$ 635 million in 2000-01. However, Indo-Sri Lankan trade balance is heavily in favour of India.

Examining products having high demand in Sri Lanka and India's supply capability, the study has identified 17 items under 2-digit HS code classification which have export potential. Broadly these items include dairy products, cereals, diamonds, man-made staple fibres, cotton, woven fabrics, laminated textile fabrics, electrical machinery and equipment, iron & steel and plastic and paper products, among others. Similar analysis has identified marine products, especially crustaceans, tea, spices, rubber products, leather goods and articles of apparel and clothing as potential import items from Sri Lanka. Given India's standing in the Information Technology sector and Sri Lanka's commitment to emerge as a major IT player in near future, the study has also called for increased commercial co-operation in the service sector.

Exim Bank Study Highlights the Challenges and Prospects of the Indian Silk Industry

Exim Bank's Occasional Paper on '*Indian Silk Industry: A Sector Study*' was released at the hands of Mr. Joy Oommen, Member Secretary and CEO, Central Silk Board in Bangalore. The Study highlights the prospects for the Indian silk industry, both from supply and demand sides. On the supply side, rapid industrialisation in China and Republic of Korea would open more export opportunities for India, as these countries are likely to reduce land allocation for sericulture practice. On the demand side, the Study identifies that, apart from expected growth in developed countries, developing countries of Asia are also showing an increasing interest in silk products.

India is the world's second largest producer of raw silk after China and silk exports account for 1.2 percent share in total Indian exports and 4.4 percent share in total textile exports in 2000-01.

The Study identifies a number of constraints faced by the sector. Apart from the usage of conventional rearing, reeling, throwing and dyeing technologies, the sector is also facing competition from emergence of new synthetic fibres. The Study recommends that scientific ways of increasing silk productivity and adhering to international quality are two important requirements for penetrating into developed country markets. To ensure safety, reliability and customer satisfaction, the Study further suggests adoption of eco-parameters as identified by many European countries.

The Study concludes that large-scale sericulture production could be achieved by way of entry of corporates and foreign investment in this industry. India could adopt Chinese model of corporatising Indian sericulture industry, towards achieving this objective.



EXIMIUS CENTRE COLUMN

In the second quarter of 2002, the Centre organised the following three programmes:

The first programme was a 'Seminar on Investment Opportunities in Sri Lanka'. This programme was organised at Mumbai in association with Consulate of Sri Lanka, Mumbai, in honour of the visit of an Investment Promotion Delegation led by Prof. G. L. Peiris, Minister for Enterprise Development, Industrial Policy and Investment Promotion, Government of Sri Lanka. The seminar was also addressed by Mr. Arjunna Mahendran, Chairman and Director General, Board of Investment, Sri Lanka, and Dr. R. Srinivasan, Advisor, Economic Division, Ministry of Commerce, Government of India.

The second programme was on the same subject held at Bangalore organised jointly by Exim Bank and Federation of Karnataka Chambers of Commerce and Industries (FKCCI). The seminar was addressed by Mr. Arjunna Mahendran, Chairman and Director General, Board of Investment (BOI), Sri Lanka; Mr. B S Patil, Secretary, Industries and Commerce, Government of Karnataka; Mr. Sumith Nakandala, Deputy High Commissioner, Deputy High Commission of Sri Lanka, Chennai; and Mr. C Ignatius, Senior Manager-Investment, BOI, Sri Lanka.

The third programme was a Workshop on 'International Regulations and Export of Drugs and Pharmaceuticals'. This programme was jointly organised by Exim Bank and Federation of Andhra Pradesh Chamber of Commerce and Industry (FAPCCI), at Hyderabad. The workshop was addressed by Mr. Imtiyaz Basade, Senior Manager, Regulatory Affairs, Dr. Reddy's Lab; Mr. Pravir Choubey, Senior Manager, Regulatory Affairs, Dr. Reddy's Lab, Hyderabad;

Mr. V. Rajasekaran, Vice President and Head - Quality Assurance, Sashun Chemicals; and Mr. K K Vinupal, Deputy General Manager, Sashun Chemicals, Chennai.

The Calendar of programmes for the next quarter include:

- Workshop on 'Risk Management in Foreign Currency Transactions';
- Seminar on 'Investment Opportunities in Bahrain';
- Workshop on 'International Regulations and Export of Drugs and Pharmaceuticals';
- Seminar on 'Co-operation Opportunities with Israel';
- Workshop on 'Strategic Alliances and IT Procurement in Europe'; and
- Seminar on 'Doing Business with Venezuela'.

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.R. Roopa in Bangalore on Tel: (080)5589106, Fax: 5550893 E-mail: eximius@giasbg01.vsnl.net.in

BOOK REVIEW

China in the World Economy – an OECD Publication

This study was undertaken by the OECD Secretariat in the framework of the ongoing OECD-China programme of dialogue and cooperation. The Study documents the impressive progress China has made in transforming its economy during the reform era indicating the important engines that have driven China's growth in the past which are now losing their dynamism.

The main reason is that China's economy has become severely fragmented and segmented, which has led to increasing inefficiency and under utilisation of resources. The Report covers the adjustments and policy challenges facing the key sectors of the economy over the next decade, and their implications for the policies that will be critical to success in meeting these challenges. The basic question that the Study addresses is 'how can China best reap the benefits of its opening and other economic reforms over the next decade in order to meet its basic development objectives?'

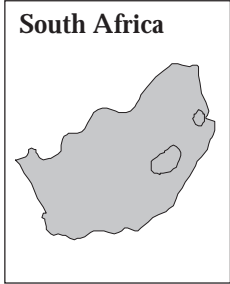
The Report also analyses the current problems impeding China's economic development and identifies key priorities and objectives, along with some suggested specific steps. The emphasis is on interdependence and increasing need for coordination of policies in different areas. Rather than highlighting particular sectors, reforms now need to focus more on 'economywide' policies to promote more efficient allocation of resources and to bolster the effectiveness of markets. The Study also highlights three objectives as the key to the success of China's overall reforms over the next decade. In achieving these objectives, reforms need to be both concurrent and carefully sequenced. Individual reforms that address particular problems need to be accompanied by complimentary reforms in other areas in a comprehensive and coordinated fashion that is mutually reinforcing.



COUNTRY SCAN

South Africa

A gradual economic recovery appears to be on the way for South Africa, after



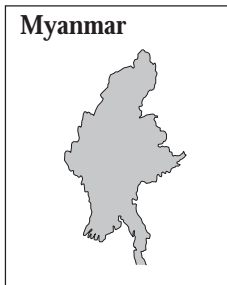
registering a marginal real GDP growth of 2.2% in 2001. The lower growth was caused by the slowdown in global economic scenario, weak

gold prices and falling platinum prices. Being an open economy, the recovery is expected to be export-led, with rising export growth being driven by a global economic recovery. By 2003, average real export growth is expected to be substantially stronger at 3.9%. The effects of a stimulatory fiscal policy, accompanied by stronger export growth, are expected to partially offset by the effects of higher interest rates in 2002. Therefore, real GDP is expected to grow at a slower pace of 2.3% in 2002. The value of the Rand fell sharply in 2001 to end the year at R12.13: US\$1, a 60% drop against the US Dollar in nominal terms. The Rand is however forecast to weaken more modestly against the US Dollar to reach R12.80: US\$1 by end 2002.

Myanmar

After surging by 10.9% in 1999, real GDP growth slowed down to 6.2% in 2000 and further to an estimated 5.0% in 2001.

After two years of successive good harvests of rice and other crops, agricultural output was hit by



flooding in 2001. Erratic and costly power supplies combined with weak external and domestic demand and sluggish foreign direct investment inflows will continue to hold back growth of the industrial sector which is

expected to be 6.3% on average in 2002. The good harvest and a drop in the rice prices brought a marked slowdown in inflationary pressures in 2000 to -0.1%. But the continued monetisation of the fiscal deficit, and supply side factors such as rising food prices and a leap in imported price pressures, brought a surge and the inflation rate reached an estimated 20% in 2001. The inflation rate is expected to further increase to an annual average of 30% in 2002.

Bulgaria

After registering an estimated growth of 4.3% in 2001, real GDP growth is expected to slowdown to 3.4% in 2002,



before recovering to 4.2% in 2003. The slowdown would be due to the expected weakening of gross fixed investment, government consumption and

exports, especially to Western Europe. Weak growth in the EU – Bulgaria's most important foreign market – would be the main factor behind the slowdown in the export growth in 2002. The current account deficit for 2001 as a whole was US\$ 885 million (6.8% of GDP). The government has recently passed the New Privatisation Act and proposes to privatise most state-owned firms including all seven electricity distribution companies, the state owned river and ocean-going fleets, and all but the largest hydroelectric plants by end-2002.

Malaysia

Malaysia's real GDP growth plunged to an estimated 0.4% in 2001 from a growth of 8.3% in 2000. The downturn was due to fall in the manufactured exports as the US economy went into recession, resulting in overcapacity and a drop in capital investment in the dominant export-oriented industries. The economy is expected to revive in 2002. Overall

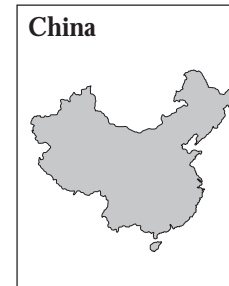
gross domestic fixed capital formation is forecast to contract by 0.3% in 2002, after falling by 2.1% in 2001.

An expected pick-up in both consumption and investment will lift domestic demand sharply in 2002. Export volumes and revenue will recover in 2002 and the current account surplus is forecast to widen from an estimated 7.3% of GDP in 2001 to 8.7% in 2002. Overall GDP growth is thus projected to increase by 3.2% in 2002.



China

The estimated real GDP growth in 2001 for China was 7.3% as compared to 8.0%



in 2000. The slowdown is the result of a combination of weak overall domestic demand and a deteriorating external position,

exacerbated by the impact of September 11 on an already decelerating world economy. In 2001 merchandise export growth lagged behind import growth for the third year in a row, but a much sharper deceleration in import growth, which fell from 35.8% in 2000 to 8.2%, than in export growth, which fell from 27.8% in 2000 to 6.8%, prevented the trade surplus from shrinking much; at US\$ 22.6 billion compared to US\$ 24 billion in 2000. For the fourth consecutive year, China successfully maintained its exchange rate stable to the US dollar at Rmb 8.28 = US\$ 1. Growth in 2002 is estimated to continue at the same rate of 7.3%, the main driver of the growth being fixed investment by the government supported by large inflows of foreign direct investment.



Select Currencies

THAILAND

The Thailand Baht (THB) is managed under the floating exchange rate system since July 2, 1997. During the period 1945-1997 it was either pegged to major currency/gold or basket of currencies. The THB was quoted at 24.92 in 1995, 31.36 in 1997, 41.36 in 1998, 37.82 in 1999 and 44.43 in 2001 against 1 USD, touching the lowest of 56 in Jan 1998. This indicates that after the contagion effect of South East Asian currency crisis in 1997, the THB has weakened by 12% p.a. in last 5 years. The Bank of Thailand, the Central Bank of the country, allows market forces to determine the exchange rate and intervenes occasionally to prevent excessive fluctuations. THB is freely convertible with no foreign exchange controls on contracts initiated for investment or commercial purposes in Thailand. However, individual investors are restricted from engaging in non-investment/commercial foreign exchange transactions (e.g., spot, swap, forward and/or options contracts) and from engaging in borrowings or overdrafts exceeding THB 50 million. Most of the financial assistance received by Thailand in 1998 from IMF after South East Asian crisis, has been gradually repaid. Between 2000 and 2002 (up to quarter 2) the THB has been range bound at 40.11- 44.43 per

USD, mainly due to increase in reserves and a healthy current account position. Post September 11, 2001 THB has weakened due to lower revenue from exports of goods and services, weaker foreign direct investment inflows. The GDP growth estimate for 2002 has been revised upward to 4% from 3.6% and coupled with comfortable international reserves; the THB is expected to be stable during the current year. As on June 28, 2002 THB was quoted at 42.11 per USD.

SOUTH KOREA

Independently floating exchange rate system is being followed in Korea. Under this arrangement, the exchange rate is market determined and any intervention by Bank of Korea, the Central Bank is aimed at moderating the fluctuations. The Korean Won (KRW) has depreciated from 771 to 1 USD in 1995 to 1291 in 2001 indicating average erosion of 11.27% p.a. during last six year period. It had touched a historic average low of 1401 in 1998 in the aftermath of 1997 South East Asian currency crisis and recouped subsequently, stabilising at 1,200-1,300 per 1USD. This has mainly been the result of the steady rise in foreign exchange reserves, inflow of direct and portfolio investment and a dearth of foreign currency borrowing by South Korean entities. In 1997 crisis Korea suffered from a liquidity problem and to avoid a repeat, the Central Bank is building up FX reserves. At end-2001 foreign exchange reserves (excluding gold) stood at USD 102.80 billion, one of the highest levels in the world. Primary drivers of KRW are the USD rates against JPY (Japanese Yen) and domestic rates of inflation, mainly due to the fact that South Korean and Japanese exports compete directly in the third world markets. The KRW was quoted at 1320 per USD as on June 28, 2002 and is expected to strengthen in the current year.

COLOMBIA

The currency of Colombia is the Colombian Peso (COP). In 1990 a policy of gradual currency liberalization was

initiated by allowing foreign exchange holdings abroad and currency transactions were decentralized to commercial banks. Monetary policy using the exchange rate as an inflationary anchor together with the liberalization of capital account caused the COP to appreciate against the USD until 1995. The COP began to weaken since 1995 due to the growing economic crises in Russia and Latin America combined with internal violence, rising fiscal deficit and the downgrading by the international credit rating agencies. The COP has ranged between 913 to a USD in 1995 to 2300 in 2001 indicating an average 25.32% depreciation annually. A collapse in investor confidence in end-1998 precipitated a recession, with GDP contracting by 4.2% in 1999. Until this period an exchange rate band system was followed with +/- 10% from the mid-rate. Since September 25, 1999, the central bank abandoned the band system and allowed the COP to float freely in the market. The Banco de la Republica, the Central Bank, intervenes only to smoothen sharp fluctuations. The COP then stabilized, supported by an announcement of support from IMF. It had slipped to 2357 per USD on September 11, 2001 and closed at an all-time low of 2398 per USD in June 2002 due to the continuing political uncertainty and the crisis in Argentina. Thus in the last six months (i.e. Dec 2001 to June 2002), the COP has depreciated by about 5.33%. Full-scale hostilities between the armed forces and the Fuerzas Armada Revolucionarias de Colombia, the country's largest guerrilla group has resumed following the decision of the president, Andres Pastrana, to break off peace talks with the rebels. In view of the internal political crisis and the forthcoming presidential elections, the COP is further expected to depreciate in the near future. The high level of political risk will contribute to the exchange-rate volatility although continued IMF support will serve to underpin the COP. As of June 28, 2002 the COP was quoted at 2398 per USD.

Export-Import Policy 2002-07

The Export-Import (Exim) Policy 2002-07 was announced by the Government on March 31, 2002. The Policy is effective from April 1, 2002 and will be co-terminus with the Tenth Five Year Plan (2002-07).

Highlights of the Exim Policy 2002-07 are given below:

Special Economic Zones (SEZs) - Offshore Banking Units (OBUs) have been permitted in SEZs. Units in SEZs have been permitted to undertake hedging of commodity price risks. Further, External Commercial Borrowings (ECBs) have been permitted for a tenure of less than 3 years in SEZs.

Agriculture - Restrictions on export of all cultivated (other than wild) varieties of seed, except jute and onion, have been removed. 20 Agri Export Zones have been notified.

Cottage Sector and Handicrafts - Units will be entitled to the benefits of Export House Status on achieving lower export performance of Rs 5 crore (as against Rs 15 crore for others). Rs 5 crore has been earmarked under Market Access Initiative (MAI) for promoting cottage sector exports coming under the Khadi and

Village Industries Commission (KVIC).

Towns of Export Excellence (Industrial Clusters) - With a view to encouraging further development of centres of economic and export excellence, or industrial clusters, such as Tirupur for hosiery, Panipat for woollen blanket, Ludhiana for woollen knitwear, the Exim Policy has made available a number of benefits to the small-scale sector. While common service providers in these areas will be entitled for facility of Export Promotion Capital Goods (EPCG) scheme, recognised associations of units in these areas will be able to access funds under MAI for creating focussed technological services.

Strategic Package for Status Holders - For Status Holders, Licence/Certificate/Permissions and Customs clearances for both exports and imports would be on self-certification basis. 100% retention of foreign exchange in Exchange Earners' Foreign Currency (EEFC) accounts, and enhancement in normal repatriation period from 180 days to 360 days have also been effected. Further, Status Holders have been exempted from compulsory negotiation of documents through banks.

Electronic Hardware - The Electronic Hardware Technology Park (EHTP) scheme is being modified to enable the sector to face the zero duty regime under ITA (Information Technology Agreement).

Reduction in Transaction Time and Costs - A new 8-digit commodity classification, ITC (HS), is to be adopted by DGFT, Customs and DGCI&S, to eliminate classification disputes, and same day licensing has introduced in all regional offices of DGFT. Further, the maximum fee limit for electronic application under various schemes has been reduced from Rs. 1.5 lakh to Rs. 1 lakh.

Focus Africa & Diversification of Markets - "Focus Africa" programme has been launched to accelerate trade with

African countries. The first phase of the programme will include 7 countries viz. Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana. Exporters to these markets shall be given Export House Status on exports of Rs 5 crore. Further, links with CIS countries are to be revived, and "Focus CIS" programme is to be launched in 2003-04. The Policy also envisages setting up of "Business Centres" in Indian Missions abroad for visiting Indian exporters/businessmen.

Gems and Jewellery - Customs duty on import of rough diamonds has been reduced to zero percent, and licensing regime for rough diamonds is being abolished, to help the country emerge as a major international centre for diamonds.

Textiles - Sample fabrics have been permitted duty free within the 3% limit for trimmings and embellishments. Duty Entitlement Pass Book (DEPB) rates for all kinds of blended fabrics have also been permitted.

Chemicals and Pharmaceuticals - Measures include reimbursement of 50% of registration fees for registration of drugs. Free export of samples without limit has also been permitted.

Miscellaneous - Transport subsidy for exports to be given to units located in North East, Sikkim and Jammu & Kashmir so as to offset the disadvantage of being far from ports.

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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