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In this issue

Economic Overview of the African Continent

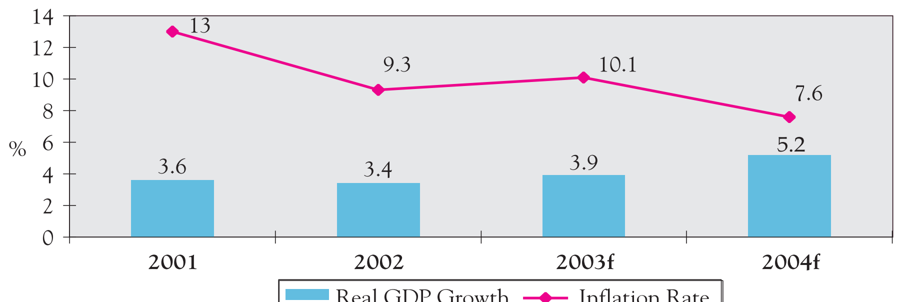
Reflecting strengthened macroeconomic stability, improvements in the security situations and debt relief under the Highly Indebted Poor Countries (HIPC) Initiative, Africa has exhibited resilience in economic activity in recent years. But protracted weakness in commodity prices, continued conflicts and political instability, and lower OPEC production quotas kept economic activity at lower level in Africa in 2002. The overall GDP growth moderated to 3.4% in 2002 from 3.6% in 2001. Poor weather conditions resulted in a sharp decline in agricultural output in many countries in the Horn of Africa, Southern Africa, and the Western Sahel in the second half of 2002. In addition, the continuing turmoil in Zimbabwe and an insurgency in Cote d'Ivoire has had serious effects on growth in these economies and their neighbours (particularly landlocked countries such as Mali, Burkina Faso, and Niger).

African GDP growth is projected to pick up to 3.9% in 2003 aided by continued policy strengthening, global recovery, and higher non-fuel commodity prices. But these would critically depend on an early improvement in weather conditions and a marked improvement in the security situation in West Africa.

Macroeconomic policies in Africa have improved considerably in recent years, which is reflected in the single inflation digits in most countries, aided by reduction in fiscal deficits since the mid 1990s. Notable exceptions are Angola and Zimbabwe, where inflation rate stood at 108.9% and 140.0%, respectively, during 2002, and to a lesser extent in Ghana, Nigeria and Democratic Republic of Congo. For the region as a whole, inflation stood at 9.3% during 2002, down from 13.0% in 2001, and 14.3% in 2000.

Total exports from Africa has increased from US$ 96 bn in 1980 to an estimated US$ 139 bn in 2002, while Africa's imports also rose from US$ 80 bn to US$ 133 bn during the same period. Despite the rise in trade, the share of Africa in global trade has registered a decline – from 5% in 1980 to 2.2% in 2002 in the case of exports, and from 4% to 2% in the case of imports.

The central challenge in Africa remains to put in place the conditions necessary to achieve the Millennium Development Goals – notably a sustained reduction in poverty. Africa's efforts need to be accompanied by additional assistance from the



Source: IMF

international community, including higher aid, debt relief, and, most important, improved market access.

Recent Development – Region-wise

In **North Africa**, the *Algerian* economy grew by 3.1% in 2002, following the 2.1% growth achieved in 2001, due to sharp increase in crude oil production and rise in exports. The growth rate is expected to rise to 3.5% in 2003, driven by further expansion of crude oil production. The resultant surge in exports is expected to offset the impact of the weak manufacturing output, while construction will also contribute to growth as the government addresses the critical national housing shortage. Growth will also be driven by increasing investment, both domestic and foreign. Important advancements in trade liberalisation have been achieved in Algeria in recent years. After a customs tariff reform was enacted in 2001, an Association Agreement with the EU was signed in 2002. In addition to the customs tariff reform and EU Association Agreement, Algeria has also submitted an application to join the WTO. In contrast, economic activity slowed down in *Morocco* due to a contraction in government spending and a continued weak consumption growth, resulting in a lower growth of 4.5% in 2002 as compared to 6.5% growth in 2001. The growth, is however, expected to increase to 5.5% in 2003 with the expansion in agriculture following good autumn rains and strong growth in the building sector. A recession in tourism and agriculture – hit by a third year of drought – as well as sluggish growth in industry, has been responsible in bringing down the real GDP growth rate of *Tunisia* to only 1.9% in 2002 as compared to 5.2% in 2001. The recession in tourism was due to the terrorist attacks on the US and in Tunisia itself. Growth in industry was held back by weak domestic demand. The GDP growth is expected to accelerate to 5% in 2003 as agriculture picks up following the heavy winter rains, although continued sluggish growth in Europe will restrain the expansion of industrial exports.

In **West Africa**, macroeconomic imbalances have widened considerably over the past two years to unsustainable levels in *Nigeria*. Despite high oil prices, the fiscal deficit has risen sharply, accompanied by mounting short term debt and external arrears to official creditors. The real GDP growth thus registered a growth rate of only 0.5% in 2002 as compared to 2.8% in 2001. However, as OPEC significantly relaxed its oil production quotas in January and February 2003, Nigerian oil production is set to rebound. Real GDP growth is thus projected to be high at 6.7% in 2003. In *Cote d'Ivoire,* political uncertainty along with the advent of civil war in late 2002 has reduced economic activity. The continuing war has affected agriculture though it will benefit from the buoyant coffee prices. The war will also have an impact on the service and industrial sectors. Thus the real GDP is expected to contract by 2% in 2003. In contrast, the *Ghanaian* economy grew by 4.5% in 2002 and is expected to rise to 4.7% in 2003 owing to the increased production of, and high international prices for, gold and cocoa.

In **East and Central Africa**, erratic mid-year rains, low investor confidence, lack of donor support and uncertainties associated with elections had kept economic activity low in *Kenya* at 1.2% in 2002. On the other hand *Uganda* posted a high growth rate of 6.6% in 2002 following a good harvest along with higher world coffee prices and increase in the export receipts. But the Ugandan economy is expected to grow at a lower 5.7% in 2003 following the unfavourable weather, which disrupted food-crop harvest in late 2002 and early 2003. In *Sudan,* real GDP growth, which registered a growth of 5% in 2002, is expected to remain strong, driven largely by developments in the nascent oil industry. There should also be sizeable injections of foreign capital into the power industry in 2003, as capital spending on the large Merowe Dam Project begins. There has also been a marked increase in domestic investment and strong domestic demand, which should continue into 2003, as recent high oil earnings continue to flow into the domestic economy. An expected improved harvest in 2003, coupled with the end of the ban by Gulf Arab states on Sudanese meat exports, will boost non-oil exports, which will amount to 22.7% of total exports, and strengthen domestic incomes and therefore consumption. Overall real growth is thus estimated to reach 5.8% in 2003. The *Ethiopian* economy grew at an estimated 5% in fiscal year 2002 (fiscal year ending July 7th) as compared to an estimated 7.7% growth in FY 2001, which reflected a poor harvest in 2002. Grain production in the main agricultural areas was down by 20-30% and cereal harvest was down by 25% in 2002 as compared to 2001. The HIPC debt relief (likely to total US$ 4 bn excluding food aid) in the coming 30 months and gradual reductions in military spending should improve the prospects for growth, but these will be outweighed by the scale of the agrarian crisis. Thus the real GDP is expected to contract by 2% in 2002-03.

Southern Africa experienced a second successive year of poor harvests. *Malawi, Zambia* and *Zimbabwe* were most affected, and because agriculture constitutes a large share of their economies, incomes and consumption spending were depressed. However the effects were quite localised. *South Africa* experienced a bumper maize harvest, which gave a strong boost to domestic spending. Thus, against a backdrop of weak global demand but reasonably strong domestic demand, the overall GDP growth was at 3% in 2002 and is estimated to be lower at 2.8% in 2003.

Table: Real GDP Growth & Inflation in Select African Countries

	Real GDP Growth (%)				Consumer Prices (%)			
Countries	**2001**	**2002**	**2003f**	**2004f**	**2001**	**2002**	**2003**	**2004f**
Africa	**3.6**	**3.4**	**3.9**	**5.2**	**13.0**	**9.3**	**10.1**	**7.6**
Mahgreb	**4.1**	**3.3**	**4.5**	**4.3**	**2.6**	**2.2**	**3.3**	**3.1**
Algeria	2.1	3.1	3.5	4.3	4.2	1.4	4.2	4.0
Morocco	6.5	4.5	5.5	3.4	0.6	2.8	2.0	2.0
Tunisia	5.2	1.9	5.0	6.0	1.9	3.1	3.3	2.9
Sub-Sahara	**3.8**	**3.5**	**4.2**	**6.4**	**21.6**	**12.2**	**13.9**	**10.3**
Ethiopia	7.7	5.0	-2.0	6.4	-7.1	-7.2	4.5	3.0
Sudan	5.3	5.0	5.8	6.2	4.9	6.0	5.0	5.0
Congo	-2.1	3.0	5.0	6.0	356.7	25.7	13.3	6.1
Kenya	1.2	1.2	1.8	3.1	5.8	2.0	4.8	2.4
Tanzania	5.6	5.9	6.0	6.0	5.2	4.7	4.2	3.8
Uganda	5.5	6.6	5.7	6.2	4.5	-2.0	1.0	3.5
Angola	3.2	17.1	4.7	10.6	152.6	108.9	75.6	19.3
Zimbabwe	-8.8	-12.8	-11.0	5.1	76.7	140.0	450.0	350.0
Ghana	4.2	4.5	4.7	5.0	32.9	14.5	11.8	6.5
Nigeria	2.8	0.5	6.7	4.2	18.9	12.9	15.3	12.6
Cameroon	5.3	4.3	4.7	5.0	2.8	4.5	3.4	2.7
Cote d'Ivoire	0.1	0.5	-2.0	3.0	4.4	3.5	4.0	3.5
South Africa	**2.8**	**3.0**	**2.8**	**3.2**	**5.7**	**10.0**	**8.5**	**5.7**

f - Forecasts
Source: International Monetary Fund

"Focus Africa" Programme

With a view to significantly enhance India's trade with Africa, an integrated programme "Focus Africa" was launched from the year 2002-03 by the Government of India. The main objective of the programme is to increase interactions between the two regions by identifying the areas of bilateral trade and investment. The "Focus Africa" programme would focus on the Sub-Saharan African region with added emphasis on seven major trading partners of the region, namely, Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana, which together account for around 69% of India's total bilateral trade with the Sub-Saharan African region. Effective April 1, 2003, the "Focus Africa" programme has been extended to cover 17 more countries in Africa (Angola, Botswana, Mozambique, Zambia, Zimbabwe, Namibia, Senegal, Cote d'Ivoire, Uganda, Madagascar, Seychelles, Egypt, Tunisia, Sudan, Algeria, Libya and Morocco), taking the number of countries covered to 24.

Specific focus products for exports to these countries have been identified, which in turn can be broadly classified into the following major product groups: cotton yarn, fabrics and other textile items; drugs and pharmaceuticals; machinery and instruments; transport equipments; and telecom and information technology. At the same time, the "Focus Africa" programme envisages enhancing India's exports to the region through integrated efforts of the Government of India, India Trade Promotion Organisation, Export Promotion Councils, Apex Chambers of Commerce and Industry, Indian Missions and institutions such as the Exim Bank of India and ECGC. The "Focus Africa" programme would also supplement the Lines of Credit which the Government of India have already extended to African countries including Tanzania, Mozambique, Zambia, Uganda, Kenya, Seychelles, Mauritius, Zimbabwe and Ghana.

Business Opportunities Update: Upcoming Projects

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

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

Country / Executing Agency	Project / Brief Scope	Loan from Funding Agency
Burkina Faso / Ministry of Infrastructures Transport and Housing (MITH), Projet Sectoriel des Transports, 03 BP 7048 Ouagadougou 03 Tel: (226) 30-61-18/19 E-mail: pasect@fasonet.bf, Contact: Jean-Bertin Ouedraogo	**Transport Sector Project** / The project aims to increase the mobility possibilities for people and goods in a socially, financially, and economically sustainable fashion. The project comprises two components: the first component focuses on institutional support and sectoral reforms while the second component invests in the road network improvement.	World Bank US$ 92 mn
Cambodia / Seila Task Force Secretariat, Council for Development of Cambodia, Government Palace, Sisowath Quay, Wat Phnorn, Phnom Penh, Cambodia Fax: (855) 2398-1257 E-mail: yanara@camnet.com.kh Contact: H.E. Chhieng Yanara	**Rural Investment and Local Governance Project** / The development objective of the project is to contribute to rural development and poverty reduction through supporting provision of priority public goods and services at the commune level, as well as to promote good local governance through support of decentralised and deconcentrated participatory local governance systems at the commune and provincial levels.	World Bank US$ 22 mn
Bangladesh / ADB Contact: Jouko Sarvi, Education Specialist, Social Sectors Division, SARD Tel: (632) 632-6831 Email: jsarvi@adb.org	**Second Primary Education Development Program** / The project aims to reduce poverty through universal primary education and contribute to sustainable socioeconomic development and equity in Bangladesh society.	Asian Development Bank US$ 100 mn
Afghanistan / AsDB Contact: Hasan Masood, Project Engineer (Transport), South Asia Transport and Communications Division Tel: (632) 632-6818 Email: hmasood@adb.org	**Emergency Infrastructure Rehabilitation and Reconstruction Project** / The main objective of the project is to help the Islamic Transitional Government of Afghanistan restore key infrastructure in the transport (roads) and energy (power and gas) sectors.	Asian Development Bank US$ 150 mn

Country / Executing Agency	Project / Brief Scope	Loan from Funding Agency
Hungary / Contact: C/o Arthur Schankler, EBRD Email: schankla@ebrd.com	**MOL-Duna Wastewater Treatment Plant Outsourcing Project** / The project aims to expand and upgrade the wastewater treatment facilities of the Hungarian oil and gas company MOL at its Duna refinery in Szazhalombatta close to Budapest.	European Bank for Reconstruction and Development US$ 20.5 mn
Uzbekistan / EBRD Contact: Tel: (44 20) 7338 6534 Fax: (44 20) 7338 7472 Email: procurement@ebrd.com	**Tashkent Water Supply Improvement Programme** / The project comprises: (i) the replacement of existing water pumps, valves and transformers as well as the installation of a water distribution unit, pumping station, water meters and construction of a reservoir, and (ii) preparation and implementation of a Financial and Operational Performance Improvement Programme for the Tashkent Water Company.	European Bank for Reconstruction and Development US$ 9.8 mn
Lesotho / Department of Social Welfare, Ministry of Health and Welfare / Director of Planning, PO Box 514, Maseru 100 Tel: (266) 324-561 Fax: (266) 323-010 E-mail: hpsuhis@lesoff.co.ls. AfDB Contact: Mr. A.D. Mtegha, Director, Country Operations: Projects financed by the African Development Fund Tel: (216) 7133-3511	**Health and Social Welfare Project** / The main components of the project are: (a) social welfare services development, (b) mental care systems development, and (c) human resources development.	African Development Bank US$ 10.9 mn
Gambia / Department of State for Agriculture, The Quadrangle, Banjul Tel: (220) 202-322 Fax: (220) 228-998 AfDB Contact: Mr. G. Taylors-Lewis, Director, Country Operations: West Tel: (216) 7133-3511	**Farmer-Managed Tidal Irrigated Rice Project** / The project seeks to provide a basis for sustainable rice production in the Central River Division concentrated around the Sapu Agricultural Research Station. It will emphasise on Tidal-Irrigation techniques, which are less costly to operate, and easy to maintain as compared to pumped irrigation.	African Development Bank US$ 6.8 mn

CONTRACT AWARDS

Select contracts secured by Indian companies during the quarter:

Mohan Exports (India) Pvt. Ltd., New Delhi	Contract for supply of cables for Emergency Infrastructure Reconstruction Project, secured in **Afghanistan**, funded by **World Bank**.
Larsen & Toubro Limited, Mumbai	Turnkey contract for Surma Cement Plant Project, secured in **Bangladesh**, funded by multilateral agencies, including **World Bank and Asian Development Bank**.
Tagros Chemicals India Limited, Chennai	Contract for supply of chemicals for HAMSET Disease Control Project, secured in **Eritrea**, funded by **World Bank**.
Tech Fab International, New Delhi	Contract for supply of general hospital equipment for Community Social Infrastructure Project, secured in **Russian Federation**, funded by **World Bank**.
Mekins Agro Products Limited, Hyderabad	Contract for supply of meteorology and survey equipment for Rural Infrastructure Rehabilitation Project, secured in **Tajikistan**, funded by **World Bank**.
Plethico Pharamceuticals Limited, Mumbai	Contract for supply of medicines for HIV / AIDS Control Project, secured in **Uganda**, funded by **World Bank**.
Intercontinental Consultants and Technocrats Pvt. Ltd., New Delhi	Consultancy contract for Capacity Building for Reconstruction and Development Project, secured in **Afghanistan**, funded by **Asian Development Bank**.
Bharat Heavy Electricals Limited, New Delhi	Turnkey contract for Al-Jabal Al-Gharbi Gas Turbine Based Power Project, secured in **Libya**.
Engineers India Ltd., New Delhi	Consultancy contract for Front End Engineering Design (FEED) for Ras Laffan topsides and berths, secured in **Qatar**.

Export Potential of the Services Sector

The globalisation of world markets in recent years has been due to the internationalisation of the services sector. This can be seen from the fact that global export of services has grown at a much faster rate than global merchandise trade. During the period 1995-2002, world exports of services registered an annual average growth of 4.3%, as compared to 3.4% for merchandise exports. Trade in services in now increasingly being seen as a groundwork for giving a major impetus to exports.

According to the WTO latest data, India accounted for 1.3% of global commercial services exports during 2002, as compared with the share of 0.8% of global merchandise exports. The importance of the services sector in India's external sector can also be gauged from the fact that India's current account balance, for the first time in 24 years, registered a surplus of US$ 1.35 bn during 2001-02, due primarily to the buoyancy in earnings by the services sector. At the heart of this exceptional growth in services exports lies software exports which rose from US$ 7.6 bn in 2001-02 to US$ 9.5 bn during 2002-03, reflecting a robust growth rate of 25.0%.

Services in the WTO Era and Opportunities for India

Since January 1995, world trade in services has come under a basic framework of rules – the General Agreement on Trade in Services (GATS). New negotiations under the WTO-GATS offer an important opportunity to reap the benefits of greater openness in services markets worldwide. India, with its large pool of English speaking skilled manpower, is in a position to exploit the opportunities arising from the liberalisation of trade in services sector.

In general, the comparative advantage of a developing country like India lies in labour intensive services, although India has strength in software and other highly skilled services as well (e.g. health and construction services). India can hope for gains out of the GATS as a result of reduction in local protection, which helps in promoting both efficiency of domestic resource allocation and transfer of skills from overseas.

With a wide range of labour intensive services such as banking and financial services, hotel operation and tourism, construction and engineering services, India is in a better position to take advantage of its skilled manpower. The liberalisation of services trade in GATS is thus of great economic significance for India, particularly in sectors other than software.

Liberalisation of trade in banking and financial services widens the scope for financial intermediaries' activities enabling them to exploit economies of scale. Internationalisation of money and capital markets coming in the wake of expansion of global business and convertibility of currencies has contributed to the growing significance of financial services. Trade liberalisation in financial services reduces costs, improves quality of services, reduces the systemic risk for small financial markets and improves resource allocation.

Another area that offers excellent prospects is, distribution services – a sector that is labour intensive and contributes substantially towards employment. Being closely linked to other services sectors such as tourism, manufacturing industries such as food processing industry and recreational and entertainment services, any developments in distribution services will have implications in other sectors of the economy.

As regards tourism, which again is a high potential area, the sector is far from being mature which can be judged by the fact that India has not been able to attract foreign tourists in large numbers. For instance, while the number of inbound tourists in Indonesia rose from 2.2 mn in 1990 to 5.2 mn in 2001, inbound tourists in India rose from 1.7 mn to 2.5 mn in 2001. In China and Malaysia, inbound tourists numbered 33.2 mn and 12.8 mn, respectively, during 2001. As regards international tourism receipts, India's tourism receipts at US$ 3.0 bn during 2001 is significant lower that that for China (US$ 17.8 bn), Indonesia (US$ 5.4 bn), and Malaysia (US$ 4.9 bn). Fresh efforts needs to be made to bring in innovations, advanced marketing techniques and huge investments.

Another area which offers good prospects are the back-office operations that focus broadly on distant delivery (typically offshore) of routine administrative functions, customer services and technical support. The falling cost of global communications makes subcontracting of clerical and professional services from high wage developed countries to India a very attractive proposition. The categories of industries where back-office operations are becoming common include airlines, brokerage firms, credit-card processing companies, marketing businesses and all other businesses having high volume transactions.

To sustain export momentum and enhance future export prospects, service exports cannot be neglected. They are the rising stars of tomorrow, which need to be nurtured. An important element of future export strategy would be to focus on technology related exports, which would serve to enhance earnings from related services such as technicians' and professional fees, consultancy fees, technical know-how, royalties, and software.

Performance Highlights of African Development Bank in 2002

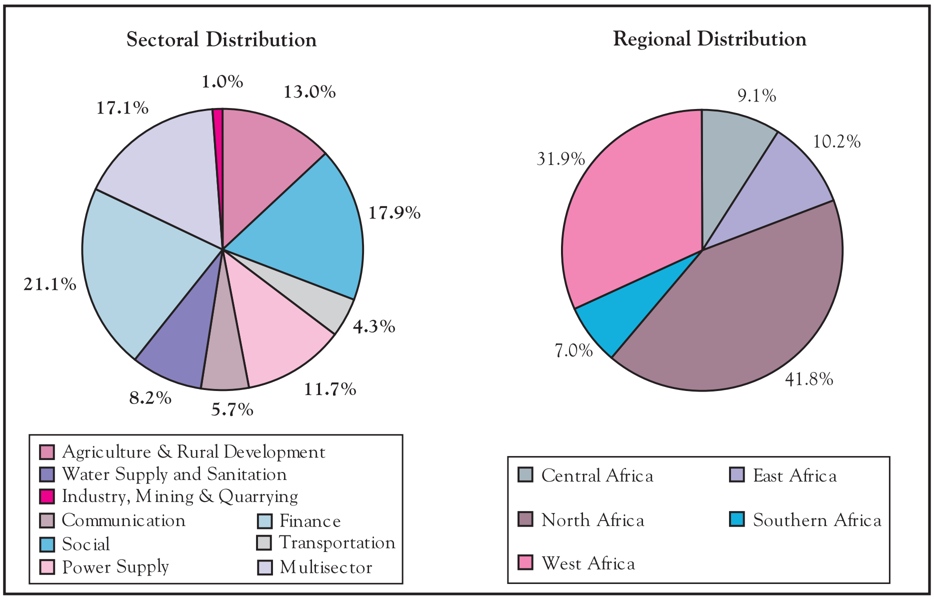
The African Development Bank (AfDB), founded in 1964, operates to "contribute to the economic development and social progress of its regional members – individually and jointly". Apart from having 53 member African countries, AfDB has 6 Asian, 14 European, 2 North American and 2 Latin American countries as its shareholders. However, the lending operations and non-lending activities of this multilateral development bank are focussed on Africa. AfDB provides financial assistance using its ordinary capital resources and funds raised from capital markets. African Development Fund (ADF) complements AfDB's efforts by providing concessional funds for development projects to the poorer countries in the continent. ADF was replenished by US$ 3.5 bn in September 2002.

The salient features of the operational activities of AfDB including key trends in Africa in FY 2002 are summarised below:

- Africa's ten largest economies, with 76% of Africa's GDP and 55% of its population grew by only 2.2%.
- Africa's average growth rate of 2.8% in 2002 is still far below the7% required to attain the millennium development goals and external debt is still a crucial problem for Africa at 57% of GDP in 2002. However, 14 countries achieved growth rates higher than 5%.
- 22 African countries qualified for HIPC as at December 31, 2002, while debt service of HIPC countries improved from 21.1% in 1998 to 14.8% in 2002.
- AfDB Group approvals including HIPC amounted to US$ 2.77 bn in 2002.
- AfDB approvals totalled US$ 1.45 bn in 2002, the highest level in 8 years and ADF approvals totalled US$ 1.31 bn in 2002, although the ninth replenishment of ADF was concluded in September 2002.
- In 2002 the Bank Group was able to mobilise US$ 3 bn through co-financing operations.

The sectoral and regional distributions of the AfDB funding are shown in the following charts in Box 1.

Box 1: Total AfDB Funding 2002 : US$ 2.77 bn



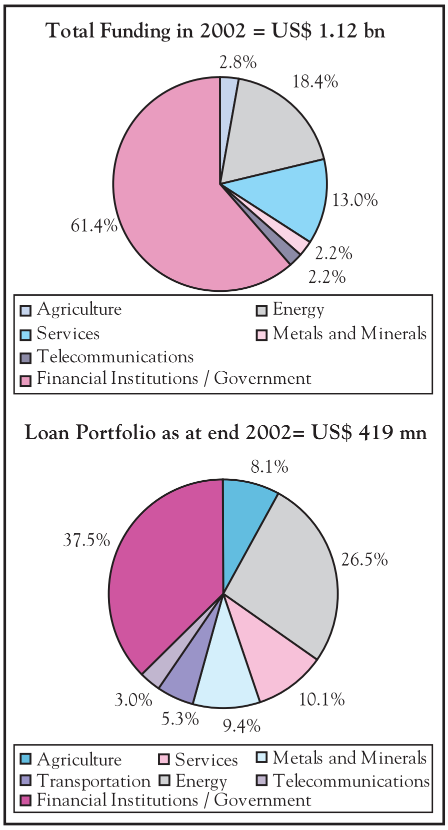
Performance Highlights of African Export-Import Bank in 2002

The African Export-Import Bank (Afreximbank) was established in Abuja, Nigeria in October 1993 by African Governments, African private and institutional investors as also non-African financial institutions and private investors for the purposes of financing and promoting intra-and extra-African trade.

The Bank, headquartered in Cairo, has a mandate of facilitating, promoting, and expanding intra- and extra-African trade with a mission to stimulate a consistent expansion, diversification and development of African trade, while operating as a first class profit-oriented financial institution and a centre of excellence in African trade matters.

The Bank (see Box 2) achieved a modest expansion in approvals up by 2% to US$ 1.12 bn in 2002. The loan portfolio expanded by 20% to reach US$ 419 mn as at end 2002.

Box 2: Afreximbank-Sectorwise



Success Story: Alkyl Amines Chemicals Limited

Alkyl Amines Chemicals Limited (AACL), Mumbai, is a public limited company engaged in manufacture of Aliphatic Amines. Established in 1979 with an aim to substitute imports, AACL set up its first plant in 1982 for manufacture of ethylamines and cyclohexylamines at Patalganga, Maharashtra in technical collaboration with Leonard Process Co. Inc, USA. Today, AACL is a leading manufacturer of widest range of amines and its product range includes aliphatic amines, amine derivatives, speciality chemicals and fine chemicals. The Company was promoted by DSP Financial Consultants Limited and Kothari family, Mr. Yogesh Kothari and Mr. Hemendra Kothari. Mr. Yogesh Kothari, Chairman and Managing Director of the Company is a technocrat entrepreneur, a chemical engineer with an experience of more than 25 years. AACL is managed by a 10 member Board of Directors and a team of technocrats and professionals having varied experience in the industry.

AACL is an ISO 9002 certified company with manufacturing facilities located at Patalganga and Kurkumbh in Maharashtra with total capacity of 25,000 TPA.

Though the initial technology for manufacture of amines was imported from Leonard Process Co. Inc, USA, AACL, with its strong R&D base, has developed all its subsequent products inhouse. The Company's client base includes Inchem Chemiehandel GmbH, Germany, VOS B V, Netherlands, BASF Antwerpen N V, Belgium, Benco, USA, Itochu Europe, Japan, Plantex Chemical Industries, Israel, Brentay, Italy. AACL's domestic clientele include Colorchem Industries Ltd., United Phosphorus Ltd., Bayer India Ltd., ICI Ltd., NOCIL, Ranbaxy Laboratories Ltd., IPCA Laboratories Ltd.. The Company's Contract Manufacturing division provides services including technology, product development, scale-up, as well as custom manufacturing support to clients in the agrochemical, pharmaceuticals and speciality chemical industries. The Company has recently set up a bioprocess division to conduct R&D in the field of industrial biotechnology with special emphasis on Bioseparations, Biotransformations, Biotreatments and Biocatalysis.

Over the last decade, the Company's revenues have consistently increased from Rs. 28 crores in 1994 to Rs. 105 crores in 2003. In 1992, the Company embarked on a strategy to increase its sales by exploring new markets beyond the Indian shores aware that the domestic market would soon be open to global competition. It identified its core strength in ethylamines and expanded its amines capacity to reach global manufacturing volumes. Thus, with a modest export orientation of 0.5% at exports of Rs. 16 lakhs in 1994, the company achieved an export orientation of 27% in 2003 with exports of Rs. 28 crores and export destination of more than 30 countries in North America, South America, Europe, Africa and Asia. As regards profitability and margins, after a consistent track record of profits right from inception, the Company recorded a loss of Rs. 8 crores for the first time in 2001. This was mainly due to high interest and depreciation costs on account of capital expenditure of Rs. 36 crores incurred by the Company. Besides, the Company's performance was adversely affected on account of fall in selling prices of amines and derivatives due to competition from China and simultaneous rise in input costs. The Company immediately took steps including modification in product mix, which was enabled by the capital investment made in production facilities, penetrated newer markets, embarked on a massive cost reduction exercise and was able to arrest the situation and turn around successfully within one year and recorded a profit of Rs. 2 crores in 2002. The Company has also been able to revive Diamines and Chemicals Limited, Baroda, a sick company acquired for revival from BIFR.

Exim Bank has assisted AACL throughout its expansion / modernisation phase with timely financial support enabling the Company to achieve growth in terms of volume, products and market reach. In August 1996, AACL set up Multi Purpose Plants (MPP-I and MPP-II) for production of amine derivatives and in January 1997 commissioned MPP III for manufacture of Dimethyl Amino Propyl Amine and Dimethyl Cyclo Hexyl Amine at Kurkumb near Pune in Maharashtra. Exim Bank provided financial support to the Company by way of term loan of Rs. 16.20 crores for the project in 1999 under its lending programme for Export Oriented Units. Exim Bank has also provided a term loan of Rs. 5 crores for replacement of high cost debt thereby assisting the Company in improving its bottomline. This has enabled the Company to reach global manufacturing volumes and contributed to Company becoming one of the fastest growing and a leading player in niche field of Aliphatic Amine globally.

Capital Account Liberalisation in India: Recent Developments

The Tarapore Committee on Capital Account Convertibility in its report in 1997 advocated a phased liberalisation of the capital account, indicating preconditions of fiscal consolidation, a mandated inflation target and above all, strengthening of the financial system. Recent favourable developments in the external sector have consolidated India's financial position and therefore, have created a conducive atmosphere for further opening up of the capital account. A capital account surplus of over a bn US dollars in 2001-02, which emerged out of strong foreign investments and inflows in Non-Resident deposits (chart), together with a current account surplus to the tune of US$ 2.8 bn during April-December 2002 resulted in steady accretion of foreign exchange reserves. India's Foreign exchange reserves stood at an unprecedented US$ 82.4 bn on June 13, 2003. These, along with the strengthening the Indian rupee with respect to the dollar encouraged the Government to undertake bold policy measures with a view to easing overseas investment by Indian individuals and corporates.

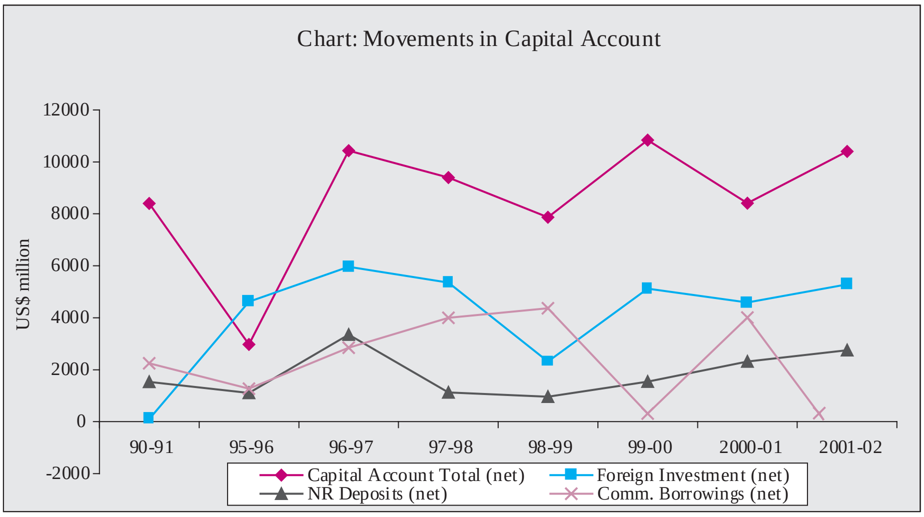
Mutual funds have been permitted to invest upto US$ 1 bn in companies listed on overseas stock exchanges and having at least 10% shareholding in a listed Indian company. Similarly, Indian companies have been allowed to invest upto 25% of their net worth in companies listed on overseas stock exchanges and having at least 10% shareholding in a listed Indian company. The corporates have also been permitted to set up their offices abroad and to acquire immovable property overseas for the purpose of meeting business or residential needs. In addition, the limit of retaining American Depository Receipt / Global Depository Receipt (ADR / GDR) proceeds for future export requirements by corporates has been withdrawn.

With a view to facilitating exports, the Government has removed all limits on trade-related loans and advances by Export Earners Foreign Currency (EEFC) account holders. However, the transactions will continue to be reported to the Reserve Bank. Moreover, the limit of US$ 20,000 for remittances under the Employees Stock Option Programme (ESOP) has been removed.

As far as individuals are concerned, Indians have been permitted to invest abroad in companies, which are listed on overseas stock exchanges having at least 10% shareholding in a listed Indian company. The guidelines on investment limits are yet to be announced by the Government. Considerable liberalisation has been made towards release of foreign exchange for individual residents for the purpose of overseas travel and Indian citizens have been allowed to maintain foreign currency deposits out of foreign exchange earned or retained from overseas travel.

Authorised dealers have been permitted to allow remittance up to US$ 1 mn, out of balances held in Non-Resident Ordinary (NRO) accounts / sale proceeds of assets, subject to Indian taxes. Also, existing dispension of permitting different amounts for the purpose of education, medical, sale proceeds of immovable property etc. has been removed. It is mentionworthy that the Union Budget 2002-03 has made the non-resident schemes fully convertible. The Non-Resident Non Repatriable (NRNR) account was discontinued from April, 2002 with a view to bring in full convertibility of NRI deposit schemes.

These policy initiatives hint at the commitment towards gradually approaching full convertibility in the capital account. However, it is important to understand that full convertibility is not indispensable. Higher degree of freedom in the capital account would result in a rise of two way capital flows and therefore, the impact of these flows should be tackled cautiously and efficiently so as to avoid a financial crisis similar to the East Asian crisis.



Source : Economic Survey 2002-03

Anti-Dumping: Current Issues Under WTO

Article VI of the GATT 1994 allows a member country to apply anti-dumping measures on the imports of a product whose export price is below the comparable price of the product in the domestic market of the exporting country (termed as normal value) if such imports cause or threaten to cause material injury to the domestic market of the concerned member country. The objective behind imposing anti-dumping duties is to restrict distortions in international trade so as to safeguard the domestic industry. However, there have been instances where countries have used the Agreement on Anti-Dumping for providing unjustified protection to the domestic industry. For instance, in the period 1995-2002, out of the 155 cases reported by Australia in WTO against alleged dumping, the Dispute Settlement Body (DSB) directed anti-dumping measures in only 40 of them indicating the success rate of investigations in Australia's favour to be a low of 26%. It is worth mentioning that although India ranks as a forerunner in initiating dumping cases in WTO, it has achieved a success rate of 66% in the investigations.

The Doha Round of Ministerial Conference has provided an opportunity for negotiations under WTO, aimed at *clarifying and improving disciplines under the Agreement on Anti-Dumping* ensuring the effectiveness of these agreements, and taking into account the needs of the developing and least-developed members. During negotiations, the members are required to indicate the provisions including disciplines on trade distorting practices that they seek to clarify and improve in the subsequent phase. This will give an opportunity to the developing countries to eliminate or reduce the rules that lead to an imbalance between the developed and the developing countries. For example, the present set of rules do not provide for any adjustment for inefficient operations of the domestic industry, which often results in protectionism. Now with the scope of clarifications and improvement in the disciplines of the Agreement, initiatives ought to be taken to take care of such trade distorting mechanisms.

Apart from raising their voices against unfair, protectionist trade practices of the developed countries, the developing countries have also been vocal against dumping activities by the developed nations. Table 1 depicts the dominance of developing countries over the developed countries as far as initiation of anti-dumping investigation cases are concerned in 2002. Sectoral classification of investigations initiated in 2002 reveals that majority of the products belong to the base metal category, which includes iron, steel and aluminium products. Chemicals follow as the second most affected sector.

Till date, China has faced the most number of dumping investigations, followed by Korea, US and Chinese Taipei. However, the total number new investigations against them have registered a decline from 106 in 2001 to 83 in 2002. This is in tune with a general trend and an overall decline in new investigations in 2002. However, there have been exceptions to this trend. Eastern Europe nations like Russia, Poland, Romania, Kazakhstan have faced more number of investigations in 2002 than in 2001. Number of new investigations also increased from 12 to 13 against exports from India.

A unique feature can be observed while considering the issue of success achieved from dumping investigations by major reporting countries. India (331)[1] , USA (292), European Community (267), Argentina (180) and South Africa (160) all share a success rate ranging between 61-67%. In 2002, however, these countries have cumulatively reported of less number of investigations than in 2001. In 2002 only Thailand has reported of a significant rise in new investigations as compared to 2001.

Table : Anti-dumping Investigations in 2002

Period	*Total Number of Initiations*	*Initiations by Developed Countries*	*Initiations by Developing and Least Developed Countries*
January 1-June 30, 2002	104	37	67
July 1-December 31, 2002	149	40	109

Source: WTO Press Release dated May 2, 2003 and October 23, 2002

[1] Figures in brackets indicate the number of investigations initiated during 1995-2002. Source: WTO

Working Paper on "Strategy for Quantum Jump in Exports: Focus on Africa, Latin America and China"

Exim Bank's forthcoming working paper on **'Strategy for Quantum Jump in Exports: Focus on Africa, Latin America and China'** proposes that India could target developing country markets in the regions of Latin America, Africa and China in order to achieve a quantum jump in exports. The baseline assumption of the study is that India could aim to achieve a share of 2 percent of imports of Latin America (in 100 identified potential products), 5 percent of imports of China (in 64 identified potential products), and 10 percent of overall imports of Africa.

The study estimated that India could aim to achieve minimum target exports of US $ 18 bn to Africa region, by the year 2007, as against the export level of US $ 2.8 bn in 2001-02. The study has identified 64 products for exports to China and projected that export of these products to China could cross US $ 4 bn by 2007, from the present level of US $ 0.8 bn, if proper strategies are devised. For the Latin America region, the study identified 100 target product groups for exports from India. The study estimates that India could aim to achieve an export level of US $ 1.8 bn in 2007 from these product groups, from a level of US $ 0.58 bn in the year 2000.

The Working Paper suggests that Indian manufacturers in the identified sectors should become increasingly competitive and strengthen their manufacturing base, by way of technology sourcing and strengthening of R&D.

Occasional Paper on "Export of Organic Products from India: Prospects and Challenges"

Exim Bank's forthcoming Occasional Paper on **'Export of Organic Products from India: Prospects and Challenges'** outlines that though very nascent, Indian organic industry has already made inroads into the world organic market in certain key sectors such as tea, coffee, spices, fruits and vegetable products and rice.

The study reveals that the world organic market is estimated to be valued at US $ 26 bn, cultivated on an area of around 20 mn hectares. However, the production and consumption of organic products account for less than 1 percent of world conventional agriculture production and consumption. Over 95 percent of the consumption is in developed countries.

Against this global scenario, the study depicts the scenario of Indian organic industry, which is estimated to be valued at US $ 20 mn (Rs. 100 crores). This is negligible when compared to the current conventional agricultural production, valued at US $ 62 bn.

The study estimates that India has a global market share, in quantity terms, of 35 percent for organic tea, less than 1 percent share for organic coffee and 11 percent share for organic spices.

The study concludes that North Eastern region offers high potentials for development of organic farming in India, as major part of this region is organic by default. The study suggests that organic exports can be given a fillip by focusing on value added organic exports, creation of awareness through promotional programmes and through creation of an exclusive nodal agency for undertaking such promotional efforts.

"Focus CIS" Programme

The Government of India launched the "Focus CIS" programme with effect from April 1, 2003. The main objective of the programme is to increase mutual direct interactions among businessmen by identifying the areas of bilateral interest and investment. The programme would focus at the countries in the CIS region with emphasis in the first phase on seven countries, viz. Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, Tajikistan, Azerbaijan and Ukraine.

There is vast potential for enhancing trade with countries in the CIS region. India's total trade with these countries stood at US$ 1706 mn in 2001-02, with exports amounting to US$ 968 mn and imports worth US$ 738 mn. The programme has identified focus product groups / technology / service sectors.

The "Focus CIS" programme is envisaged to be an integrated effort of the Government of India and other institutions / agencies including the Exim Bank, ECGC, Export Promotion Councils, India Trade Promotion Organisation, Apex Chambers of Commerce and Industry, and Indian Missions.

With a view to enhancing trade and investment relations with the region, Exim Bank has taken several initiatives which are in line with the Government's renewed focus on the region. These activities include: (i) extending Lines of Credit to Bank for Foreign Trade (Vneshtorgbank) and Bank for Foreign Economic Affairs (Vnesheconombank) of Russia, (ii) confirmation of Letters of Credit by Exim Bank under the Trade Facilitation Programme of the European Bank for Reconstruction and Development (EBRD), (iii) supporting Indian consultants for projects in Central and Eastern Europe under IFC's Private Enterprise Partnership (PEP), and (iv) institutional linkages with financial institutions, trade and investment promotion agencies in the region.

Workshop on "Export Marketing and Sourcing for Fine and Speciality Chemicals"

Exim Bank, in association with the Centre for Promotion of Imports from Developing Countries (CBI), The Netherlands, organised a series of workshops on "Export Marketing and Sourcing for Fine and Speciality Chemicals" at Mumbai and Ahmedabad in March 2003. The workshops were aimed at promoting exports of Indian speciality chemical products to European Union (EU). CBI, an agency set up by the Government of Netherlands, supports small and medium sized enterprises (SMEs) from developing countries in their efforts to export to the European Union.

Delivering the welcome address at the well-attended workshop in Mumbai, Mr. T C Venkat Subramanian, Managing Director and CEO, Exim Bank, dwelt upon the role of Exim Bank in supporting SMEs to market their products and services in the demanding and discerning markets like Europe, and stressed the need to comply with Occupational Safety and Process Safety Standards, in order to penetrate European markets.

The workshops covered various issues including trade channels in EU chemical industry, product stewardship and non-tariff trade barriers, and CBI's Export Development Programme for fine and speciality chemicals which would be implemented in association with Exim Bank. The technical sessions were followed by one-on-one meetings between the CBI faculty and the participating firms.

Exim Bank has a long-standing working relationship with CBI, The Netherlands. Exim Bank has organised such workshops and training programmes, focusing on various sectors that have high potential for exporting to European Union.

Release of "Indo-LAC Business" Magazine

Exim Bank, in association with World Trade Centre (WTC), organised a programme in April 2003 built around the launch of a new publication "Indo-LAC Business" which focusses on doing business with Latin America and the Caribbean (LAC) region. Indo-LAC Business, a quarterly news magazine of New Media Communications, was released by Dr. V.S. Gopalakrishnan, Director General, World Trade Centre.

The bilingual (English & Spanish) magazine provides enhanced information about business opportunities in the region, and would serve as a useful reference to the Indian business enterprises seeking to expand trade with the countries of Latin America and Caribbean region.

The LAC region presents significant business opportunities for Indian companies, both by way of trade and investment. Considering the potential that the region offers, an integrated programme called "Focus LAC" was launched by the Ministry of Commerce and Industry.

Exim Bank has also taken several initiatives to support such activities, which mesh well with Government of India's "Focus LAC" programme. To enhance bilateral trade and commercial relations with the region, Exim Bank has extended Lines of Credit of US$ 10 mn each to Banco Bradesco, Brazil; Banco de Comercio Exterior de Colombia (Bancoldex), Colombia; Corporacion Andina de Fomento (CAF); Banco Industrial de Venezuela, Venezuela; Banco Nacional Comercio Exterior S.N.C. (Bancomext), Mexico; and Central American Bank for Economic Integration (CABEI) to promote Indian exports to the region. The lines of credit seek to expand exports of product groups identified as those with potential to increase trade between the two regions.

Seminar on "Development of Domestic Consulting Services"

Recognising the potential for increasing effective participation by Indian consultancy firms in Asian Development Bank (ADB) funded projects, a seminar was organised on "Development of Domestic Consulting Services" by ADB and Consultancy Development Centre (CDC) in association with Exim Bank in April 2003. The main focus of this two-day seminar was to improve awareness among Indian consultants (individuals and firms) of opportunities in ADB funded projects, and to provide them with a deeper understanding of all aspects that would lead to increased prospects for securing business.

The team from ADB comprised Mr. Huang Yin Guo, Principal Consulting Services Specialist and Mr. Patrick R. Lizot, Senior Procurement Specialist. The seminar focused on the nature of business opportunities, procurement policies and guidelines of ADB and on effective participation in ADB funded projects. The seminar also presented to Indian corporates a forum for direct interaction with officials from ADB.

Projects funded by multilateral funding agencies such as ADB, present attractive business opportunities for suppliers, contractors and consultants.

Exim Bank of India, through its links with multilateral agencies, financial institutions, trade promotion agencies and services providers, offers a wide range of services to supplement its financing programmes. Such seminars are in line with Exim Bank's objective of proactively supporting the globalisation efforts of Indian companies. Exim Bank operates an active programme to promote effective participation by Indian companies in opportunities offered by multilateral funded projects by providing a range of project related information, advisory and support services.

EXIMIUS CENTRE COLUMN

In the first quarter of 2003, The Centre organised the following programmes:

- A Workshop titled *'Intellectual Property Issues: Pharmaceutical, Biotech & IT sectors'* was held at the Eximius Centre in Bangalore. The Workshop was addressed by Mr. D. Calab Gabriel, Partner and Mr. J. Abhayan, Attorney, Kumaran & Sagar, a full service Intellectual Property law firm based in New Delhi and having a branch in Bangalore. The Centre made a presentation on 'The Role and Services of Exim Bank' in the Workshop which was attended by 26 participants.
- A Seminar on *"Turnaround Strategies/Mergers/Acquisitions"* was held at the Eximius Centre. Mr. S. Ramanujam, Sr. Corporate Vice President, The UB Group, gave an overview on the Importance of Mergers and Acquisitions. Mr. S. Krishnaswamy, S. Krishnaswamy & Co, Chartered Accountants spoke on Business Valuation and Mr. Rajendra Rao, Rajendra Rao & Associates covered the accounting aspect. The Centre made a presentation on 'The Role and Services of Exim Bank.' The seminar was attended by 16 participants.
- A Workshop on *'Enhancing Capabilities of State-Level Trade Promotion Agencies'* was held in Noida. The Workshop was jointly organised by World Association for Small and Medium Enterprises (WASME) and Exim Bank. The Workshop was inaugurated by Mr. S. K. Tuteja, Secretary, Small Scale Industries, Government of India. Presentations were made by Mr. Philip A. W. Williams, Senior Adviser on Institutions Aspects of Trade Promotion, International Trade Centre(ITC), Geneva and Mr. Amiram Bukshpan, Consultant, Israel Export & International Co-operation Institute. The keynote address was given by Dr. J. S. Juneja, Workshop Director. There were 21 participants who were Senior officials from State Directorates of Industries, Trade Promotion Organisations and exporters associations from Delhi, Haryana, Himachal Pradesh, Punjab, Rajasthan, Uttaranchal and Uttar Pradesh.
- A similar Workshop was also held at the Centre, jointly organised by WASME and Exim Bank. The Workshop was inaugurated by Mr. R. Roshan Baig, Hon'ble Minister for Small Scale Industries & Haj, Government of Karnataka. The highlight of the Workshop were presentations by Mr. Philip A. W. Williams, Senior Adviser on Institutions Aspects of Trade Promotion, International Trade Centre(ITC), Geneva and Mr. Amiram Bukshpan, Consultant, Israel Export & International Co-operation Institute.

The Centre has also conducted the following programmes in the month of June, 2003:

- ★ Quality Standards for the Export of Food Products.
- ★ Garment Export Strategy from India.

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 E-mail: eximius@giasbg01.vsnl.net.in

BOOK REVIEW

Building Competitive Firms – Incentives and Capabilities – *World Bank*

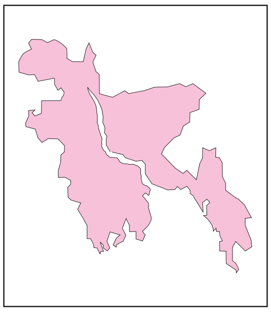
The book presents a framework that emphasises the economic and policy incentives needed to create competitive firms and national economies. It also explains the key capabilities that firms must develop in-house in order to become more competitive. The framework provides a link between important policy issues such as corporate governance, foreign direct investment, innovation readiness, intellectual property rights, e-commerce, skills training, and supply chain management.

According to the book, in today's global economy, firms face an increasingly competitive trade and production environment that requires continued vigilance to stay ahead of rivals. Competitiveness is therefore a major preoccupation of national, regional, and local governments worldwide as they seek to strengthen the investment climate in their jurisdictions. There is a growing recognition that competitiveness requires more than a liberal trade environment–that domestic policies and institutions, the so-called "behind-the-border" issues, are critical for countries that wish to reap the full benefits of trade liberalisation. While firm-level competitiveness is influenced by a host of macro and micro-economic factors, the focus of this book is micro-level determinants.

The papers presented here emphasise that, while individual firms must take the lead in enhancing competitiveness, the role of public policy remains vital. Efforts by corporate management to increase productivity benefit considerably from government policies that redress market failures and information asymmetries. The book carries examples of such complementarities between private effort and public policies.

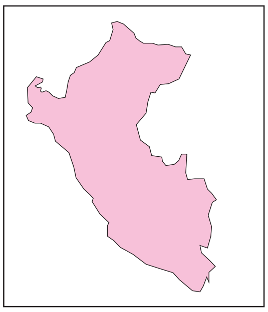
Bangladesh

The real GDP growth is projected at 4.9% in 2003, which is an increase from 4.8% in 2002 reflecting an increase in merchandise exports and agriculture output. The World Bank and the IMF have directed Bangladesh to speed up the privatisation process, to reduce the budget deficit and shift to a free floating currency to avail US$ 1.8 bn in loans under the poverty reduction growth facility (PRGF). Foreign Direct Investment (FDI) will be allowed in the ready made garments sector provided the investor sets up at least one supplier link with in the country. Banking reforms have been passed which are aimed at greater autonomy, transparency and accountability. The UK and the Netherlands will provide a grant of US$ 37 mn for implementation of Financial Management Reform Programme (FMRP). The World Bank has granted a credit of US$ 18.2 mn for a social investment project. Sweden has granted US$ 1.5 mn for HIV / AIDS prevention project.



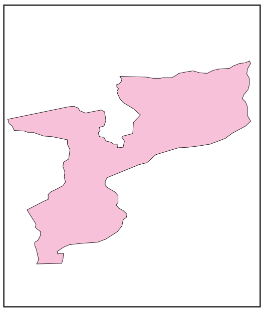
Peru

In the depressed economic environment of the Latin American region in general, and following its own four years of relatively low growth in particular, Peru made a rapid recovery with an estimated 5.2% growth in 2002. Impetus to growth came from mining, agriculture and construction sectors. This Andean Community member is a major exporter of gold, copper and zinc, and is also a leading source of marine products. Peru has been reasonably successful with fiscal management and has maintained a stable exchange rate. With recent attempts to improve the competitiveness of ports and benefiting from the Andean Trade Promotion and Drug Eradication Act of October 2002, Peru's exports are likely to register a 16% growth in 2003. Imports, which are primarily sourced from US and the LAC region, are also expected to rise by 14%. Peru has a weighted average tariff level of 12.9%. In its liberal foreign investment regime, mining, telecommunications and energy sectors have continued to be the major recipients of FDI. Growth is expected to remain strong in the face of recent initiatives focusing on investment promotion, fiscal consolidation, modernization and public debt management.



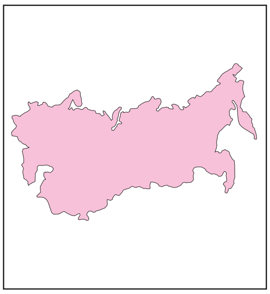
Mozambique

Real GDP growth rate is expected to be robust at 9% in 2003, owing to the high levels of FDI directed towards large-scale investment projects, including the expansion of the Mozal aluminium smelter and the construction of a gas export pipeline to South Africa. Given the government's initiatives to further tighten its monetary and fiscal policies and achieve currency stability in 2003, the average consumer price inflation is expected to decline to 7% from 15.2% in 2002. Mozambique remains one of the most popular destinations for FDI in Sub-Saharan Africa, and according to the World Investment Report 2002, received US$ 481 mn of FDI in 2001 (as compared to US$ 139 mn in 2000)– the fourth largest recipient in Sub-Saharan Africa. The increase was prompted by the construction of the Mozal aluminium smelter.



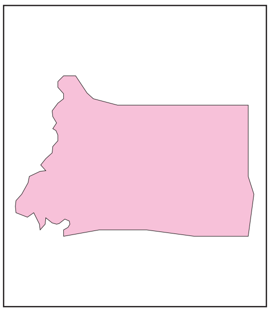
Ukraine

Access to commercial capital is expected to expand in Ukraine with the government planning to place another US$ 600 mn in bonds in 2003, after having placed a total of US$ 400 mn in Eurobonds during the last two months of 2002. Despite highly restricted access to external capital for most of the private sector in Ukraine, one of the two leading mobile telecomm-unications providers, Kyivstar, successfully issued a US$ 100 mn Eurobond in November 2002 and a second US$ 60 mn placement in March 2003. Despite greater borrowing expected during 2003-04, Ukraine's relatively strong real GDP growth and nominal currency stability against the US Dollar are expected to hold down any increase in the total foreign debt stock to GDP ratio, which currently is less than 30% and is likely to fall below 25% by end-2004. WTO accession remains a key trade policy objective of the Government.



Equatorial Guinea

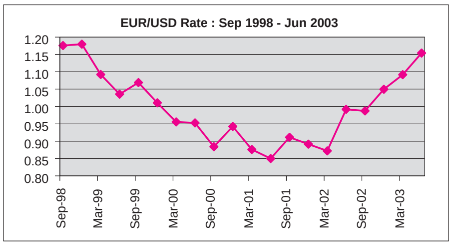
The discovery of large deposits of oil and gas in the 1990s has transformed an aid-dependent Equatorial Guinea into Africa's fastest growing economy and one of the main destinations of investment in the continent. The country has estimated oil deposits of 740,000 barrels and new deposits are still being discovered. Most of the oil importing countries are looking to spread its oil import basket to Equatorial Guinea and other West African countries and reduce its dependence on Gulf oil. The oil sector accounted for almost 90% of GDP in 2001, having made no contribution only a decade earlier. The real GDP grew by an estimated 23.8% in 2002, and the country boasts of one of the highest level of GDP per head in Africa (an estimated US$ 5144 in 2002). But the agriculture continues to stagnate and poverty is still widespread.



Select Currencies

EURO AREA

Euro (EUR) is the common currency of Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and



Greece. The Euro was introduced on January 1, 1999 at 1 EUR = USD 1.1796 by replacing 1 ECU with 1 EUR, and the exchange rates of participating currencies were irrevocably set against Euro. From January 1, 2002 member states introduced euro banknotes and coins. The Euro has been falling against USD since its launch touching the lowest of 0.85 in Jun 2001 and it remained in the range of 0.90 to 0.95 per USD till Dec 2002. This was primarily due to relative strength of United States economy compared to Euro area. However, a trend reversal has taken place since Dec 2002 and the EUR has appreciated sharply, reaching US$ 1.09 per EUR by March 2003. The exchange rate movement of EUR is shown in the Graph. The strengthening of EUR can be attributed to a GDP growth of 1.30 % in the EURO Area in the last quarter of 2002 which is also expected to continue in the year 2003. The trade balance of the Euro area was recorded at EUR 26.57 bn in the last quarter of 2002. The average rate inflation in 2002, at 2.1% was significantly lower than 2.6% average in 2001. In the first 5 months of 2003, the inflation has been hovering around 2% level. The above factors have been driving the Euro against USD. The sharp appreciation of the Euro can also be attributed to weak investor sentiment towards the USD. Before the rate cut of 50 bps from 2.50% to 2.00%, by the European Central Bank on June 5, 2003, the exchange rate touched a peak of 1 EUR = USD 1.1841 and since then retraced to 1.1540 level as on June 23, 2003 and it is expected to strengthen in the coming months of 2003.

SOUTH AFRICA

The South African Rand (ZAR) has been stable at around 8 per USD in the first half of 2003. Between 1995-2001, ZAR had depreciated from 3.60 in 1995 to 13.85 in December 2001 per USD indicating 285 % fall in 6 years at an average of 47 % p.a. During 2002, ZAR has been strengthening from 11.90 in March 2002 to 8.57 on December 31, 2002. The ZAR has been freely convertible since March 1995. The crisis in Zimbabwe in the year 2001 had threatened to destabilise the region and had a negative impact on ZAR resulting in about 37% fall in that year. However, during the year 2002, the GDP has grown by 3%, and foreign exchange reserves are at a comfortable level, which is expected to cover imports of around 20 weeks. Inflation was at 11.2 % in March 2003, which was much lower than the 14.4% that prevailed in December 2002 and is expected to fall further in the current year. As on June 23, 2003 Rand was quoted at 7.93 per USD and is expected to be move in the range of 7.50 –8.50 against USD in the current year.

BRAZIL

The currency of Brazil, Brazilian Real (BRL), has been floating independently against USD since Jan 18, 1999. The BRL against USD has been gradually depreciating over the period of last seven years from 1.039 in 1996 to 3.53 in 2002, indicating a depreciation of 240 % at an average of 34 % p.a. The problems of Brazil arose mainly due to higher current account deficit in 2001 and 2002. With the financial turbulence in Argentina in 2002, the woes of Brazil began with the speculative attacks on BRL, thus forcing a bailout package of USD 30 bn by IMF in first week of August 2002. The foreign exchange reserves level (excluding Gold) declined from USD 39.91 bn in September 2001 to USD 32.87 bn in April 2002, a record fall in the last 6 years before improving to USD 37.68 bn at the year end. The net public debt of Brazil in August 2002, was USD 288 bn which is equivalent to two-thirds of Brazilian GDP, up from 30% in 1994. As a result the exchange rate of BRL had depreciated from 2.31 as on December 31, 2001 to 3.53 as on December 31, 2002, about a 53 % decline in the last year.

Central Bank's initiatives in stabilising inflation coupled with Government's commitment to the IMF programme by putting the structural reforms in the right direction, have imbibed confidence into the Brazilian economy. This is reflected in a steady inflow of capital through the first half of 2003, resulting in a strengthening of the BRL. The overnight lending rate was cut from 26.5% to 26% in the third week of June and is expected to be cut further during the year to combat rising inflation. However, the BRL remains vulnerable in the face of Brazil's external debt servicing burden. As of June 23, 2003 BRL is quoted at 2.89 per USD and is expected to be range bound in the current year.

Business Opportunities in Iraq in the Post-Conflict Scenario

Events in Iraq culminating in the recent regime change have opened up a vast array of business opportunities. Project exporters from India have accumulated significant experience with working in Iraq. The sectoral focus of Iraqi reconstruction efforts is governed by the country's large reserves of petroleum and by the devastation inflicted on its basic infrastructure by several years of war and economic sanctions. Key sectors that would require significant investment by way of reconstruction projects are:

- **Petroleum**: Iraq's oil reserves have not been fully exploited, with only 15 of its 73 fields been developed so far. Thus, a large number of business opportunities exist in the areas of oilfield exploration and management, pipeline construction and operation, pumping stations, storage tank farms, repair after war damage and upgradation of shipping terminals where tankers can load up and related infrastructure by way of road and railway linkages, housing for workers, health and education facilities. One contract has already been awarded to *Halliburton's Kellogg Brown & Root Unit* for Oil Infrastructure repair.
- **Transport Infrastructure**: Iraq's two international airports at Baghdad and Basra have been damaged in the war. All these are in need of odernisation and civil reconstruction. Key seaports are at Umm Qasr and Basra, both of which have suffered damage in the war. A contract has already been awarded to *Stevedoring Services of America* for Management of Port of Umm Qasr worth US$ 4.8 mn. The Iraqi railway system also offers a further set of opportunities by way of maintenance and operation of existing rail lines as well as by way of expansion.
- **Other Infrastructure**: like power, telecommunications, water:
  - **Power**: Demand for power in Iraq is in the region of 6.6 gigawatts, while supply of electricity is barely 4.4 gigawatts which implies high demand for power generation, transmission and distribution projects including generators, sub-stations, transmission lines.
  - **Water**: With the water and sanitation network in Iraq been severely impaired due to war damage, poor maintenance and shortage of spare parts due to sanctions, significant civil works and consultancy is anticipated to be required in this sector.
  - **Telecommunications**: The landline network in Iraq is badly damaged. Significant investment both in landlines (including switches and exchanges) as well as mobile cellular systems is required.
- **Agriculture**: The sanctions have stunted the growth of the agricultural sector and significant investment in irrigation management and de-desertification is required to restore yields to pre-war levels.
- **Privatisation**: A wave of privatisation of state owned Iraqi companies is expected to be launched and thus offers a good opportunity for Indian companies to acquire companies or set up joint ventures in areas of strategic interest to them.

Three major stages where Indian companies can secure business are:

- **Stage I:** At present, the only project investments being made in Iraq are under the auspices of the U.S. Agency for International Development (USAID) and some contracts from the U.S. Department of Defense. Indian companies can secure business as sub-contractors to US contractors.
- **General Trade**: Indian companies have a much wider scope to secure business in a multiplicity of areas ranging from foodstuffs (tea, fruits, grains), consumer goods (clothing, durables), intermediates and industrial goods.
- **Multilateral agency financed projects**: The World Bank Group will in due course begin supporting the reconstruction work in Iraq. By nature of its constitution, the World Bank cannot actually commit funding in the absence of a recognised national government and this is likely to delay the approval of projects. Once this legal hurdle can be overcome, business opportunities for Indian companies would be numerous.

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

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