

EXIMIUS: EXPORT ADVANTAGE



September 2003

EXPORT-IMPORT BANK OF INDIA

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Resurgence in East Asian Countries

2002 was a year of solid recovery in much of East Asia. Regional GDP growth rose from 3.5% in 2001 to 5.8% in 2002. Exports was one important driver in the recovery while robust household consumption was the

other major contributing factor for the recovery.

In 2002, regional exports rose by about 9% in dollar terms, after having fallen by 7% in 2001 as a result of the global slowdown and the deep recession in world high tech demand. Intra-regional exports were especially strong, particularly exports to China, which is emerging as a major hub for production and trade networks. Rebounding export growth made a crucial contribution in the regional recovery in 2002. By the fourth quarter, regional exports in US dollar terms were up 18% from a year earlier, and were especially strong in China and Korea, where they were rising at 25-30 percent in the last quarter. The dollar export growth continued to be strong in the early months of 2003.

The most important reason for recovery was due to a surge in intra-regional trade and exports to China, the economic recovery and reviving import demand in the US. East Asian exports to the U.S. in 2002 rose by 18%, contributing about 46% of the increase in the region's total exports. Exports to the US were particularly strong in China, Malaysia, Philippines and Vietnam. Rising US demand helped offset weakness in regional exports to Japan, which fell to 3% in 2002.

The other factor was the bottoming out in the unprecedented recession in the global high tech industry, benefiting East Asian countries with significant electronics or high tech exports – Korea, Taiwan, Singapore, Malaysia, Thailand,

Philippines and China. Worldwide billings for silicon wafers (the basic building material for semiconductors) increased by about 6% in 2002, after falling 31% in 2001. Semiconductor sales within Asia (excluding Japan) surged by 30% in 2002, making it the largest regional semiconductor market in the world.

The resurgent economic growth in these countries is reflected in the sharp improvement in trade performance. After a dismal performance in 2001, foreign trade of most of the economies in the region has witnessed a rebound since 2001 (See Table). In 2002, China's exports registered a rise of 22.4% as compared with a rise of 6.8% in 2001. Malaysia's exports rose by 6.1% (-10.4% in 2001). Korea's exports rose by 8% (-12.7% in 2001). Thailand's exports rose by 5.8% (-7% in 2001). Philippines exports rose by 9.5% compared to the negative growth of 15.6% in the previous year.

In line with the upswing in the growth of exports, the imports of these economies have also witnessed a sharp rebound in 2002. The upsurge in imports has been underpinned by the strong revival of domestic demand due to the economic recovery and the self-sustaining rebound in intra-regional trade.

Various factors-global, regional and country-specific have contributed to the resurgence in the exports of these economies. At the global level, these factors include:



- Rise in world output: The growth rate of world output has increased from 2.2% in 2001 to 2.9% in 2002 and is expected to maintain a growth rate of 2.9% in 2003 and increase further to 3.7% in 2004.
- Rise in world trade: World merchandise exports in volume terms rose by 2.5% in 2002 after the contraction in the preceding year. The vigorous expansion of domestic or intra-regional demand in Asian economies led to a higher trade growth in 2002.

At the regional level, the common factors behind the rebound in trade include:

- Firstly, the surge of FDI inflows in the aftermath of China's accession to the WTO, resulted in a jump in China's real imports and second, the recovery of imports in the developing East Asian economies of nearly 9% in 2002 compared to a decline of 8.5% in the previous year.
- The general economic recovery of the Asian countries: China's real GDP maintained a growth of 8% in 2002 (7.3% in 2001); Indonesia GDP rose by 3.6% in 2002 (3.5% in 2001); Malaysia GDP rose by 4.1% in 2002 (0.3% in 2001); Philippines GDP rose by 4.6% in 2002 (3.2% in 2001); Thailand GDP rose by 5.2% in 2002 (1.9% in 2001); Korea's GDP rose by 6.3% in 2002 (3.2% in 2001).
- Exports of electronic items, semiconductors have been strong and overseas demand is expected to grow further as telecommunication technologies continue to advance.

Apart from these, certain factors specific to individual countries have also served to boost trade performance.

Table: Foreign Trade Data of Select East Asian Economies, 2001-2003

	(US\$ bn)			
	2001	2002	2003 (Q1)	2003 (Q2)
China				
Exports	266.1	325.6	86.4	103.9
% Change	6.8	22.4	33.6	34.3
Imports	232.0	281.5	83.3	93.9
% Change	8.1	21.3	52.3	38.3
Indonesia				
Exports	56.3	56.7	14.9	15.2
% Change	-9.2	0.7	15.8	4.0
Imports	27.6	27.8	7.8	7.1
% Change	-6.8	0.6	32.7	10.6
Malaysia				
Exports	87.9	93.3	23.2	24.3
% Change	-10.4	6.1	7.8	5.9
Imports	69.3	75.1	17.5	18.2
% Change	-9.9	8.4	2.4	-5.0
Philippines				
Exports	32.2	35.2	8.5	8.6
% Change	-15.6	9.5	4.9	0.0
Imports	33.1	35.4	9.2	—
% Change	-4.2	7.2	22.4	—
Korea				
Exports	150.4	162.5	43.1	46.1
% Change	-12.7	8.0	20.8	14.6
Imports	137.9	148.8	43.4	40.6
% Change	-13.3	7.8	30.9	12.0
Thailand				
Exports	63.2	66.9	18.2	18.9
% Change	-7.0	5.8	21.0	16.7
Imports	54.6	57.1	15.4	15.7
% Change	-2.8	4.5	19.2	12.1

Source: Institute of International Finance

China

Import growth has accelerated with China's accession to the World Trade Organisation (WTO) and strengthening of domestic demand. Strong export growth has been outpaced by an even faster expansion of imports. Chinese demand remained strong for South Korean information technology products.

Indonesia

Textiles and garments and crude and petroleum products were the major exports of Indonesia in 2002. Exports registered a 0.7% increase as compared to the negative growth of 9.2% in the previous year.

Malaysia

Semiconductors, electrical equipment and electrical machinery were the major exports of Malaysia in 2002 accounting for 59.8% of total exports in 2002. Tourism is Malaysia's second largest foreign exchange earner after exports of electronics.

Philippines

Imports registered a growth of 7.2% in 2002 as compared to the negative growth of 4.2% in the previous year with the imports of electronics and components being the major factor in the import growth.

Thailand

Exports increased to all the major markets like US, Japan, Singapore, Hong Kong and China except EU. Thailand's exports to Association of South East Asian Nations (ASEAN) rose by 7.4% in 2002. The imports grew strongly because of robust domestic demand. Electrical appliances and agricultural products recorded higher growth in 2002. The increase in agricultural exports was due to higher prices of rice and rubber.

Korea

Imports increased by 7.8% in 2002 as compared to the 8% increase in exports. Electronic products, passenger cars and machinery and equipment were the major exports of Korea in 2002. Vehicle exports particularly cars continue to increase with China as the major export destination.

In case of Philippines, Indian exports increased by 90.3%. In case of Korea, India's exports increased from US\$ 473 mn in 2001-02 to US\$ 646.3 mn in 2002-03.

Future Outlook

External shocks such as the Iraq crisis and the outbreak of Severe Acute Respiratory Syndrome (SARS) have hampered East Asia despite strong growth of nearly 6 percent in the last year. Given the range of uncertainties, the World Bank's estimates that East Asia growth will fall by almost a percentage point in 2003, to 5 percent, before rebounding in 2004.

Stronger OECD growth and world trade this year, higher world agricultural prices boosting incomes in South East Asia, especially in rural areas, falling spreads on high yield debt suggests that world capital markets are looking at emerging economies with a keen eye and the build up of high levels of foreign reserves in the region indicate the optimistic outlook for the East Asian region. Furthermore, the Iraq war turned out to be short, and oil prices have receded from their peaks and are expected to fall further.

India's Trade with Select East Asian Countries

India's exports to select East Asian Countries stood at US\$ 5.4 bn during 2002-03, which is 10.3% of India's total exports to the world. Among the East Asian Countries selected, Indian exports registered a higher growth percentage in case of China. India's exports have increased to the East Asian countries except Malaysia. India's exports to China increased by 105.8% in 2002-03 to stand at US\$ 2 bn due to the increase in the exports of primary & semi-finished iron & steel and iron ore. The other major exports to China are plastic and linoleum products, ores & minerals and marine products. During 2002-03, India's exports to Indonesia registered an increase of 54.6% to US\$ 828.1 mn from US\$ 535.5 mn in 2001-02.

India's Exports to Select East Asian Countries, 2001-2003

(US\$ Mn)

	2000-01	2001-02	2002-03
China	830	955.2	1966.2
Indonesia	394.9	535.5	828.1
Malaysia	601.1	776.3	748.7
Thailand	528.7	635.3	712.6
Korea	447.2	473.0	646.3
Philippines	201.6	248.6	473.2

Source: DGCIS, Ministry of Commerce

PROJECT OPPORTUNITIES

Business Opportunities Update: Upcoming Projects

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Algeria/ Ministry of Post and Telecommunications, 4 Blvd. Krim Belkacem, Alger, Algérie Tel: (213-21) 731-769 Fax: (213-2) 712-007 E-mail: ucsp@postelecom.dz younsioui@postelecom.dz Contacts: Mme. Sayah Salihah, Project Coordinator, M. Younsioui Ali, Secrétaire Général	ICT Development Support/ The objective of the project is to create an enabling environment to (a) improve access to efficient and affordable information and communications technology (ICT) services, (b) facilitate private sector growth in ICT, (c) improve the competitiveness of national firms, and (d) enhance the efficiency of government services delivery.	World Bank US\$ 22.5 mn
Brazil/ Fundação de Desenvolvimento Municipal (FIDEM), Rua das Ninfas 65, Boa Vista, CEP 50070-050, Recife, PE, Brazil Tel: (55-81) 421-2813 Fax: (55-81) 222-0793 E-mail: idpresi@fisepe.pe.gov.br Contact: Amelia Reynaldo and Barbara Kreuzig	Recife Urban Upgrading Project/ The project seeks to improve living conditions of poor slum- dwellers in the Recife Metropolitan Region by expanding their access to water, sanitation, housing, transport and drainage systems and services.	World Bank US\$ 46 mn
Russia/ EBRD Contact: Tel: (44 20) 7338 6534 Fax: (44 20) 7338 7472 Email: procurement@ebrd.com	Russia Road Sector Reform 2 Project/ The proposed project involves construction of two sections of the St Petersburg Eastern Bypass and two sections of the Chita-Khabarovsk Road in the Russian Far East, together with project implementation assistance and construction supervision.	European Bank for Reconstruction and Development US\$ 290 mn
Poland/ PKP Energetyka Ltd., Ul. Hoza 63/67, 00-681 Warszawa, Poland Tel: (48 22) 524 19 00 Fax: (48 22) 524 14 79 Email: energetyka@pkp.com.pl Contact: Mr Z Szafranski, Dyrektor d/s Technicznych	PKP Energetyka Network Management Project/ The project is designed to assist PKP Energetyka, supplier and distributor of electricity to the Polish railway system, to continue modernization and to achieve cost savings in operating costs and maintenance expenditure.	European Bank for Reconstruction and Development US\$ 17.4 mn

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: 2185272 Extn: 2301.



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Vietnam/ Ministry of Health Hanoi Contact : Dr. D. Huy Lieu, Director, Dept. of Planning Fax: (844) 846-3703	Health Care in the Central Highlands Project/ The objectives of the project are to (i) improve availability of, and access to, quality health services, especially for the poor and disadvantaged, (ii) improve affordability and utilization of health services, especially for the poor, and (iii) strengthen the capacity of the health system to address effectively the health needs of the people.	Asian Development Bank US\$ 20 mn
Sri Lanka/ Ministry of Home Affairs, Provincial Councils and Local Government Contact: K.P.M. Speldwinde, Secretary, 330 Union Place, Colombo 2, Sri Lanka	North East Province Coastal Community Development Project/ The project comprises: (i) Coastal Resource Planning; (ii) Natural Resource Management and Development; (iii) Livelihood Improvement in Vulnerable Communities Outside the Special Management Areas; (iv) Provision of Fisheries Infrastructure; and (v) Project Implementation Support.	Asian Development Bank US\$ 20 mn
Zambia/ Ministry of Works and Supply/Roads Department, Lusaka Tel: (260-1) 253-088, 801 Fax: (253-1) 252-787, 253-404. AfDB Contact: Mr. G. Girogis, Director, Country Operations: North, East And South, African Development Bank, Tunisia Tel: (216) 7133-3511	Lusaka-Chipata Road (Phase II) Project/ The project consists of (a) civil works for the rehabilitation of the Katete to Mwami border road section (106 km), (b) consulting services for the civil works supervision, and (c) project audit services.	African Development Bank US\$ 16.5 mn
Gambia/ Department of State for Education, Willy Thorpe Place Bldg., Banjul Tel: (220) 225-066 E-mail: lbruce@qanet.gm AfDB Contact: Mr. G. Taylors-Lewis, Director, Country Operations: West, African Development Bank, Tunisia Tel: (216) 7133-3511	Basic Education Project/ The project comprises: (i) basic education access and quality, (ii) school maintenance, (iii) girls' secondary education, (iv) studies to improve technical education and vocational training, and (v) support to program management.	African Development Bank US\$ 13.8 mn

CONTRACT AWARDS

Select contracts secured by Indian companies during the quarter:

CBM Industries Pvt. Ltd., New Delhi	Contract for supply of traffic signs and road marking for Road Rehabilitation and Maintenance Project, secured in Bangladesh , funded by World Bank .
Intercontinental Consultants and Technocrats Pvt. Ltd., New Delhi	Consultancy contract for Ulaanbaatar Services Improvement Project, secured in Mongolia , funded by World Bank .
RITEs Ltd., New Delhi	Consultancy contract for Road Development Program Project, secured in Uganda , funded by World Bank .
Ajanta Pharma Limited, Mumbai	Contract for supply of pharmaceuticals for National Health Support Project, secured in Vietnam , funded by World Bank .
Lyka Labs Limited, Mumbai	Contract for supply of pharmaceuticals for National Health Support Project, secured in Vietnam , funded by World Bank .
Consulting Engineering Services (I) Pvt. Ltd., New Delhi	Consultancy contract for Protected Areas Management Project, secured in Yemen , funded by World Bank .
Angelique International Limited, New Delhi	Contract for supply of machine shop equipment for Education Sector Investment Project, secured in Yemen , funded by World Bank .
B. Seenaiiah & Co. (Projects) Ltd., Hyderabad	Contract for Rehabilitation of Kandahar Spin Boldak Road, secured in Afghanistan , funded by Asian Development Bank .
Siemens Ltd., Gurgaon	Turnkey contract for Dhaka Power System Upgrade Project, secured in Bangladesh , funded by Asian Development Bank .

Exim Bank's Line of Credit to Djibouti

Export-Import Bank of India has extended a Line of Credit (LOC) of US\$ 10 mn to Central Bank of Djibouti, to support India's exports to Djibouti. An Agreement to this effect was signed between the two Institutions in Mumbai in July 2003.

Under the LOC to Djibouti, the importers from Djibouti, are required to make an advance payment of 10 % of contract value to the Indian exporters and the balance 90% of contract value will be reimbursed by Exim Bank to the Indian exporters, upfront upon the shipment of goods. The credit period available to the importers, through Central Bank of Djibouti, is upto 10 years.

Exim Bank's Line of Credit to ABSA Bank, South Africa

Export-Import Bank of India has extended a Line of Credit (LOC) of USD 10 mn to ABSA Bank Limited, to support India's exports to that country. An Agreement to this effect was signed in Pretoria, in July 2003, in the presence of India's External Affairs Minister Mr. Yashwant Sinha and South Africa's Minister of Foreign Affairs Dr. Ms. Nkosazana Zuma, during the 5th Session of Indo-South Africa Joint Commission.

ABSA Bank is the largest private sector commercial bank in South Africa, with total assets amounting to over 25 bn US Dollars. The Bank, together with its subsidiaries and associate companies, offers a comprehensive range of financial products and services, ranging from wholesale banking, retail banking and asset management services.

For further information on all the LOCs, please contact:

Mr. P.R. Dalal
General Manager
Tel: (022) 22185272
Fax: (022) 22182460
email: prdalal@eximbankindia.com

EXIM BANK'S OPERATIVE LINES OF CREDIT (As on September 30, 2003)

Sr. No.	Borrower	Amount of Credit	Terminal Dates for utilisation	
			Opening of L/C	Disbursement
1.	Offshore Development Company (Pty.), Namibia	Rs. 20 crs.	24-10-2004	24-04-2005
2.	Korea Development Bank, South Korea	US\$ 20 mn.	Open ended	Open ended
3.	Corporacion Andina de Fomento (Andean Development Corporation) (covering Bolivia, Colombia, Ecuador, Peru and Venezuela)	US\$ 10 mn.	26-08- 2005	26-02-2006
4.	Eastern and Southern African Trade and Development Bank (PTA Bank) (covering 16 countries in the eastern and southern African region) *	US\$ 10 mn.	17-03-2004	17-09-2004
5.	Banco Nacional De Comercio Exterior S.N.C. (Bancomext), Mexico	US\$ 10 mn.	8-01-2005	8-07-2005
6.	Central American Bank for Economic Integration (covering Honduras, Nicaragua, Guatemala, El Salvador and Costa Rica)	US\$ 10 mn.	20-01-2005	20-07-2005
7.	Vnesheconombank, Russia	US\$ 10 mn.	29-01- 2004	29-07- 2004
8.	Bank Markazi Jomhourī Islami Iran, Iran	US\$ 20 mn.	—	19-08-2004
9.	Banco de Comercio Exterior de Colombia, (Bancoldex), Colombia	US\$ 10 mn.	20.03.2005	20.09.2005
10.	Banco Bradesco S.A., Brazil	US\$ 10 mn.	12.05.2005	12.11.2005
11.	Banca Comerciala Romana (BCR), Romania	US\$ 10 mn.	28.08.2005	28.02.2006
12.	Vneshtorgbank (Bank for Foreign Trade), Russian Federation	US\$ 25 mn.	13.11.2004	13.05.2005
13.	Seychelles Marketing Board, Seychelles	US\$ 5 mn	4.06.2004	4.12.2004
14.	Iran (Seven Iranian Commercial Banks)	US\$ 200 mn	—	31.12.2005
15.	Hatton National Bank Ltd., Sri Lanka	US\$ 5 mn	19.09.2004	19.05.2005
16.	TIDCORP, Philippines	US\$ 2 mn	To be made effective	
17.	ABSA Bank, South Africa	US\$ 10 mn	To be made effective	
18.	Central Bank of Djibouti, Djibouti	US\$ 10 mn	To be made effective	

* PTA Bank covers Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Somalia, Sudan, Tanzania, Uganda, Zambia & Zimbabwe.

Note

1. A pro-rata service fee at the specified rate is to be paid by the exporter before claiming disbursement from Exim Bank.
2. Exporter may contact Exim Bank for the current amount available for utilization under LOC.
3. Terminal Dates for Utilization are subject to modifications as and when necessary.

Performance Highlights of World Bank in FY 2003

World Bank was founded at Bretton Woods in 1944 with the purpose of assisting member countries in post-war reconstruction efforts. Although reconstruction and rehabilitation have remained as priorities of the Bank, over the years the prime focus has shifted to that of poverty alleviation and social development of the developing world.

The International Bank for Reconstruction and Development (IBRD), the leading lending wing of the Bank, extends loans and development assistance to middle-income countries and creditworthy poorer countries, while the International Development Association (IDA) is a concessional lending arm of the Bank providing key support to poverty-reduction initiatives. IBRD and IDA together with the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID) form the World Bank Group. IFC promotes private sector investments, while MIGA and ICSID encourage foreign investments in member developing countries with guarantees and other facilities. Therefore, the World Bank Group, with 183 members, can be identified as a multilateral development institution, which operates with a primary concern for poverty alleviation

and social development, supplemented by efforts to develop the private sector and expand the horizon of capital flows in its member countries.

In the fiscal year ended June 30, 2003, the World Bank approved loans and grants amounting to US\$18.5 billion for 240 projects in developing countries worldwide. During the past fiscal year, the IBRD approved loans worth US\$ 11.2 billion for 99 projects across the world. Loans to Latin American member countries, at US\$ 5.7 billion, represented more than half this total, while lending to Europe and Central Asia amounted to US\$ 2.0 billion.

While only two countries - Brazil and Turkey - made up roughly 45% of total lending in the 2002 fiscal year, in the past fiscal year Argentina, Brazil, China, Colombia, and Mexico accounted for 49% of total lending by the IBRD. IDA commitments totalled US\$ 7.3 billion in the past fiscal year, including US\$ 1.2 billion in grants, to support 141 projects. The largest share of IDA resources - US\$ 3.7 billion for 60 projects - went to Africa, with South Asia the next largest recipient with US\$ 2.1 billion for 29 operations.

World Bank President James D. Wolfensohn remarks that "the amounts of aid needed globally by all the developing countries to reach the Millennium Development Goals (MDGs) represent a fraction of what is spent on agricultural subsidies by developed countries."

During the past year, the international community sharpened its focus on aid effectiveness, donor coordination, environmental sustainability, and progress toward meeting the MDGs by 2015 through a special focus on specific action in four priority sectors that are key to meeting the MDGs: education for all; HIV/AIDS; water and sanitation; and health. World Bank loan and grant approvals for education reached a record US\$ 2.3 billion in the past fiscal year. Approvals for health and social services projects totalled US\$ 3.4 billion, while loans for water, sanitation and flood prevention projects reached US\$ 1.4 billion, compared with US\$546 million in the previous fiscal year.

Trade Bank of Iraq to Assist Iraq's Rehabilitation

The US Coalition Provisional Authority has created the Trade Bank of Iraq (TBI) as a separate government entity, independent of the Central Bank of Iraq. It will provide financial and related services to facilitate the importation and exportation of goods and services to and from Iraq as part of efforts to assist Iraq's rehabilitation and resumption of normal trade flows, specifically by issuing and confirming letters of credit. TBI will have a paid-in capital of US\$ 5 million and callable capital of US\$ 95 million.

Existing Iraqi banks are at present ill-equipped to support trade and investment activities. They lack sufficient expertise and international links. Moreover, existing financial institutions within Iraq are fully engaged in re-establishing basic banking services and have limited capacity for specialized trade services. TBI will facilitate the transition from state owned enterprises to greater privatization.

TBI will provide expertise and a point of contact within Iraq to bolster confidence between trading partners that funds will be received in exchange for goods delivered. TBI will work with commercial banks (the Operating Consortium), and other export-import banks. The Export-Import Bank of the United States (US Exim) has offered a US\$ 500 million facility that would provide US Exim's short-term export insurance to cover transactions with TBI. U.S. estimates indicate business at the bank could swell considerably, from US\$ 100 million a month initially to as much as US\$ 500 million a month, when the country's oil sector recovers.

Success Story – Chambal Fertilisers & Chemicals Limited

One of the latest entrants in the Fertilizer Industry, Chambal Fertilisers & Chemicals Limited (“CFCL”) is a part of Rs. 4000 crores plus KK Birla Group. CFCL was incorporated on May 07, 1985 as a Public Limited Company in the name of Aravali Fertilizers Limited. The name was subsequently changed to CFCL on January 12, 1989. Company’s primary activities include manufacture of Urea, one of the important fertilizers. It also has a textile division. CFCL’s plant at Gadepan near Kota, Rajasthan comprises two ammonia plants (one each based on gas and naphtha) and Urea manufacturing plants. The Urea plant has capacity of 2350 tons per day (TPD). CFCL’s commercial production commenced at Gadepan in January 1994, though the plant was set up in August 1993. The delay in commencement of commercial production was due to delayed receipt of gas from Gas Authority of India

Limited. Subsequently, Company undertook expansion programme and set up naphtha-based ammonia production facilities.

CFCL has improved its financial performance over the past few years. The net sales have grown from Rs. 746 crores in FY1997 to Rs. 1948 crores for FY2003. While the Company had no international markets through exports in FY1997, it exported goods worth Rs. 24 crores in FY2003. It may be noted here that export of fertilizer is not permitted. Company has textile division, which manufactures man-made fibre/yarn. This division undertakes exports.

Zuari Agro Chemicals Limited (ZACL), another company of KK Birla Group and promoter of CFCL, is a manufacturer of Di Ammonium Phosphate (DAP) and complex fertilizers. It uses phosphoric acid as one of the key raw materials. It used to procure phosphoric acid requirements from Office Cherifien des Phosphates (OCP), Morocco. ZACL was planning for almost doubling the production capacities of DAP and required assured, steady and regular supply of DAP. Morocco is a major source of phosphates. ZACL had long standing relationship with OCP for procuring phosphoric acid. It was also envisaged at that time that the demand for phosphate might increase, which would result in hardening of prices of phosphates and therefore affecting the delivery schedules.

In order to mitigate the risk in supply of phosphoric acid, CFCL decided to set up a Joint Venture (JV) in Morocco in association with OCP for manufacture of phosphoric acid and supply to ZACL. As envisaged during its inception, the JV now provides facility for manufacture of 3300 tons per day of Sulphuric acid, 1000 tons per day of phosphoric acid and 25 MW captive power plant at Jorf Laser adjacent to OCP’s existing phosphoric acid plant.

The JV has sourced technology from Prayaon and Monsanto for phosphoric acid production and for sulphuric acid production respectively.

The JV further envisaged equal participation in equity and representation on the Board of JV. The Board has wide powers for smooth functioning of the Company. The day-to-day affairs are to be taken care of by the Chairman. While CFCL was to provide technical support in terms of participation in Project Management Team and Operating Team, OCP was to provide marketing assistance and infrastructural support including utilities, personnel and administrative support. CFCL participates in the management of the day-to-day activities through managerial executives in the financial and technical functions of the JV. The entire cost of setting up of Morocco-based JV, Indo- Maroc Phosphore S. A., Morocco (IMACID) was estimated at US\$ 227.4 million, which was financed by equity of US\$ 65 million (28.57% of the project cost, contributed equally by both the partners) and debt of US\$ 162.4 million.

Considering the credentials of the project, Exim Bank extended term loan of Rs. 96.16 crores (being 80% of the equity participation by CFCL). The JV has since been established and commercial production had commenced. It has been consistently operating at high level of capacity utilization and is currently operating at near 100% capacity utilization. IMACID has been a profitable joint venture earning cash profits consistently. CFCL has been receiving payments envisaged under the Joint Venture Agreement including Technical Assistance Charges from IMACID. As a result of Exim Bank’s timely assistance to the project, the Company has established JV in Morocco thereby assuring raw material supply to group company and improving group’s competitiveness.

Exim Bank International Economic Research Annual (IERA) Award 2002

Dr. Praveen Kumar and Dr. Brati Sankar Chakraborty are the co-winners of the Exim Bank International Economic Research Annual (IERA) Award, 2002 for their doctoral dissertations titled *“Increasing Wage Inequality in Developed Countries – Role of Changing Trade, Technology and Factor Endowments”* and *“Essays on Trade in Goods and Factor Movements Under Increasing Returns to Scale”* respectively. Dr. Kumar obtained his doctorate from the University of Maryland, USA in 1998 under the guidance of Prof. Arvind Panagariya and is currently working as a Senior Country Economist, World Bank, Washington. Dr. Chakraborty obtained his doctorate from the Indian Statistical Institute, Kolkata in 2002 under the supervision of Prof. Abhirup Sarkar and at present is a lecturer in Economics, Department of Economics, Indian Statistical Institute, Kolkata.

Established in 1989, the Award is given for doctoral dissertations in the area of international economics, trade and related financing. The year 2002 was the fourteenth year of the Award. The Award carries a prize of Rupees One Lakh and a Citation. The Award aims to stimulate research in the areas of international economics, trade and related financing by Indian nationals at universities and academic institutions in India and abroad.

The Award function held in July 2003 at Mumbai was a well attended programme, and the Award and Citation were handed over by the Chief Guest, Dr. Nagesh Kumar, Director General, Research and Information Services for the Non-

Aligned and other developing Nations (RIS), New Delhi. Exim Bank's Occasional Papers based on the Award winning dissertations were also released at the event.

Dr. Kumar, in his dissertation has analysed the impact of globalisation on increasing wage inequality in the developed countries. The simulation exercises in the dissertation are extensions of the Krugman's North-South general equilibrium model and support a low-trade-low-wage-impact insight of Krugman. However, Dr. Kumar has also discussed about the insufficiency of the model to be interpreted as a general support for the use of factor content of trade for inferring change in relative factor prices due to trade. Broadly, his dissertation supports a small role for trade-induced wage inequality and a big role for technical progress as large changes in the relative supply of educated labour have substantially contained a wage differential.

Dr. Chakraborty's dissertation comprises various essays with a common backdrop of trade in goods and factor movements in the presence of increasing returns to scale. In his first essay, where Dr. Chakraborty has developed a model of trade in intermediate goods incorporating the features of monopolistic competition, he concludes that the endowment basis for trade is crucial in determining trade across the stages of production. In another essay, he discusses the issue of brain-drain in a structure with a traded sector subject to constant returns to scale and a non-traded sector with increasing returns to scale. The essay highlights the importance of repatriated earnings under such circumstances. Another essay investigates the welfare consequence of exogenous capital inflow for the host country when the source country implements voluntary export restraint. The final essay discusses a model, which explores the consequence of tariff protection in a model with increasing returns to scale and complementarity in production.

Exim Bank Wins Best Developmental Financial Institution Award

The Foundation of Indian Industry and Economists (FIIIE) has awarded the 'Best Developmental Financial Institution of the Year-2002 Award', to Export-Import Bank of India. The Award was presented by Dr. Sahib Singh Verma, Hon'ble Minister for Labour, Government of India during the International Conference on "Strategic Value Creation for Corporates- Opportunities and Challenges" organised by FIIIE in July 2003 in New Delhi.

The FIIIE Corporate Excellence Awards recognises outstanding performance by institutions and individuals during the year. The Award is in recognition of Exim Bank's wide range of lending, service and support programmes towards development of international trade. The Bank has extended Lines of Credit (LOC) to a number of banks and financial institutions overseas, including Latin America, the Caribbean, and Commonwealth of Independent States. These LOCs serve as effective market-entry mechanisms particularly for smaller enterprises and foster expansion of international trade. In addition, the Bank provides value added business advisory services including joint venture partner identification, export marketing service and brings out a number of research publications relating to international trade.

In the past, the Bank had received the 'Book of Honor' Award by the US based World Trade Centers Association (WTCA), in recognition of its contribution to world stability through trade. The Association of Development Financing Institutions in Asia and Pacific (ADFIAP) conferred the 'Trade Development Award', to the Bank in 2002 for its programme that provides financial support to undertake structured and systematic market development activities with particular focus on highly competitive and discerning markets.

Issues in Foreign Exchange Reserves Holding of Developing Countries

The primary objectives of holding Foreign Exchange Reserves (FER) by countries are to provide a support to the monetary and exchange rate policies and to reduce external vulnerability. The latter has been a major reason behind the steady accretion of reserves by countries in recent times, particularly by the developing nations. Accretion of FER by developing countries, which was US\$ 52.9 bn in 1997, declined abruptly to US\$ 16.6 bn in 1998, only to grow steadily and reach US\$ 110 bn in 2002, thereby increasing the stock of developing countries' reserves to US\$ 888 bn¹. Developing countries accounted for more than 57% of global FER as on March 2003².

Though Japan is the world's largest holder of official reserve assets (US\$ 556 bn as on July '03), USA and Germany are the only developed countries with reserves more than US\$ 80 bn. However, among developing countries, China (US\$ 361.4 bn as on July '03), South Korea (US\$ 136.2 bn as on Aug. '03), Hong Kong (US\$ 112.6 bn as on July '03), Singapore (US\$ 87 bn as on June '03) and India (US\$ 89 bn as

on Sept. '03) have built up significant amount of foreign exchange reserves. It is therefore evident that reserve accumulation has been primarily dominant amongst the developing countries in South and East Asia. Among Latin American and Caribbean countries, Mexico and Brazil are the major FER holders, while in Africa, Algeria, Morocco and Nigeria hold sizeable amount of FER.

As far as reserve adequacy is concerned, the two widely accepted benchmarks are the ratio of short-term debt to FER and import cover of FER. According to Global Development Finance (GDF) 2003, "for all developing countries, net foreign exchange reserves are currently about two-and-a-half times of their short-term debt". Among South Asian economies, FER are over 800% of their short-term debt, while the same for East Asian and Pacific countries is around 550%. This reflects the effort of the South and East Asian economies in recent times in building up high reserves with a view to reduce external vulnerabilities similar to the East Asian financial debacle of 1997-98. However, for Latin American and Caribbean nations FER just cover their short-term debt, while for Africa the ratio is slightly better. In India, as on March 2003, FER amounted to a very comfortable 18.4 times of its short-term debt.

With regards to trade-based adequacy, GDF 2003 reports that, "for all developing countries, net foreign exchange reserves are equivalent to about six months of imports, which are above the commonly assumed safe level of three months of imports". The maximum is for South Asian economies (10 months), while the minimum is for Sub-Saharan Africa (less than 4 months). For East Asian and Pacific countries as well as Middle East and North Africa, the average import cover is around 9 months. However, for LAC countries it is slightly more than 4 months. In

case of India, as on September 2003, import cover of FER stood at around 16 months.

Developing countries, like the developed countries hold FER primarily in US dollars. In 2002, 61.3% of FER of developing countries were held in US dollars, followed by 16.8% in euro, 5.8% in pound sterling and 4.3% in Japanese yen³. Many developing countries like Brazil, Chile, Hungary, Korea take into account the currency composition of sovereign debt while determining their reserve management strategy.

Countries usually attach a greater weightage on security and liquidity over that of return on investments while investing their reserves. Highly rated sovereign bonds, deposits with rated commercial banks and the Bank of International Settlements (BIS), corporate bonds and equities are typical investment instruments opted by developed as well as developing countries. However, countries like Mexico, Latvia and Botswana put considerable emphasis on returns. As for example, Botswana maintains a *Pula Fund* with its FER, which invests assets in long-term bonds and equities with the expectation of earning a higher return than conventionally managed reserve portfolios. In India, the Reserve Bank of India maintains a money market portfolio which comprises instruments with maturity of less than one year, while the bonds portfolio consists of long-term holdings, up to a maximum of 10-year residual maturity.

It can be concluded that, in the light of the East Asian Financial crisis and the currency crisis in Argentina, developing countries need to grow more resilient against similar financial debacles. Effective FER management is, therefore, assuming an increasing importance in the present era of globalisation.

¹ Financial Flows to Developing Countries, *Global Development Finance 2003, World Bank*

² Appendix I, *IMF Annual Report, 2003* ³ Appendix I, *IMF Annual Report, 2003*

Cancún 2003 – Implications for India

India has reasons to be pleased about the developments at Cancún, despite the failure of the WTO in balancing the interest of the rich nations with that of the poor to ensure further liberalisation of global trade. Developed countries have shown their resistance to phase out billions of dollars of export subsidies and domestic assistance that they give to protect their farm sector while seeking to extract new concessions from developing countries in the form of negotiating mandate on Singapore Issues.

With developing countries having withstood awesome pressure for the second time, a repeat of Doha, a clear trend has been established that the richer nations cannot get away with their demands, which are detrimental for the developing and the least developed countries. These negotiations have shifted perceptibly India's stand from the defensive to the proactive. In WTO, India's demand for liberalising agricultural trade through the reduction of subsidies carries moral legitimacy. What further reinforces this moral high ground is the fact that in terms of dollars, it is not Indian exports which would be major beneficiaries but exports from countries like Brazil and Argentina where agriculture is a industry. The failure of the talks means that the rich countries will continue to maintain huge subsidies and domestic

support. While trade liberalisation is bound to be pursued, the stalemate at Cancún would send the message across to the influential members of the WTO that extracting concessions from the poor is not going to be easy in the future.

Where India has lost out is probably in services where the pace of negotiations is likely to slow down. Though there was no major understanding on services, the future now depends on the post – Cancún progress of negotiations. Any attempt at compromise would have led India, and other developing countries, to agree on various issues including investment. By staying firm on keeping Singapore issues away, countries like India have managed to assert their authority against anti-poor policies.

Thus Cancún would be remembered for the ability of developing countries to hold together till the end despite heavy pressure exerted by the world's biggest economic and political powers. It heralds a new beginning for the multilateral trade negotiations even though the talks have collapsed. For India, Cancún represents a moral victory. There has been a wide-spread support for India's principled resistance to Singapore Issues. India is thus poised to play a more important role in shaping world trading system in future by providing leadership to developing countries.

It will however be unfortunate if the deadlock gives an excuse to developed countries to revert to greater protectionism or go the regional and bilateral route seeking trade liberalisation. Developing countries do need better and freer access to markets of the richer countries and they will be at a disadvantage if trade majors forsake the multilateral process.

Road Beyond Boundaries (The Case of Select Indian Healthcare Systems)

Exim Bank recently brought out a study entitled 'Road Beyond Boundaries', in an attempt to develop a roadmap for the internationalisation of Indian healthcare systems. The book was released by His Holiness, Poojyashri Jayendra Saraswati Swamigal at a function coinciding with the International Herbal Products Expo 2003 and Seminar, held in Chennai in July 2003.

The study has identified seven tracks of ISM products viz., human medicines, veterinary medicines, nutraceuticals, cosmeceuticals, agriculture related products, dietary and health supplements and healthcare services. The study infers that promoting exports of these seven tracks calls for a phased approach with the aim of eventually exporting the entire Indian systems of medicine as a comprehensive package. It has also classified the possible destinations of ISM exports into four zones with clearly identifiable distinguishing features. While Zone A comprises markets where ISM is recognized, at least in some form, as traditional healthcare systems, Zone B consists of markets where traditional systems of medicines is the dominant form of healthcare. Zone C includes developed country markets, where ISM usage is on the rise and Zone D encompasses developed country markets with relatively stricter regulations and greater conservation in responding to traditional systems of healthcare in general and ISM in particular. The endeavour of such a classification of products and markets has been to explicate a market-product segmentation matrix and illustrate how these destinations could respond to export efforts.

To supplement this effort, the study has made an attempt to outline country and region specific strategies for the development and globalisation of the ISM sector.

Export Potential of Steel in India

Indian steel industry after having seen the worst of times has finally come out of red in recent periods, due to the painful restructuring and impetus in exports provided by China and USA.

The latest *International Iron and Steel Institute's* release "World Steel in Figures: 2003" revealed that, for the year 2002, China emerged as the leading producer followed by Japan and USA. India occupied the ninth position. In terms of apparent consumption, the top three slots were again occupied by top three producing nations as above, with, India at the seventh spot. On the trade front, Japan, Russia, Ukraine constituted the major global exporters while USA, China, Germany formed the prominent importing countries. However, CIS countries emerged as the largest net exporters whereas Africa and the Middle East together formed the largest net importers of steel.

An analysis of *Joint Plant Committee* statistics for the period 2002-03 (April-February) illustrated that Indian finished steel exports reached a record level of 3.46 million tonnes making export orientation of the steel industry to 11.6%. Flat products were the main export items within which GP sheets, HR coils and plates formed the major

constituents. Long items exports constituted mainly of bars and rods. According to the *DGCIS* data (value-wise), iron & steel exports in the year 2002-03 were 106% higher than the year 2001-02. Such a massive surge in exports was primarily due to impressive increases in exports to Asia and America. Within Asia exports to China increased by almost 31 times while exports to other Asian countries like Nepal, Taiwan, Bangladesh and Indonesia also shot up by more than 100% in the year 2002-03 as compared to the year 2001-02. China's share in Indian exports increased from almost 2% to 26% making China the single largest importer of Indian iron and steel, while exports to USA increased by 2.4 times during the same period. Other prominent markets comprised UAE, Hong Kong and Italy.

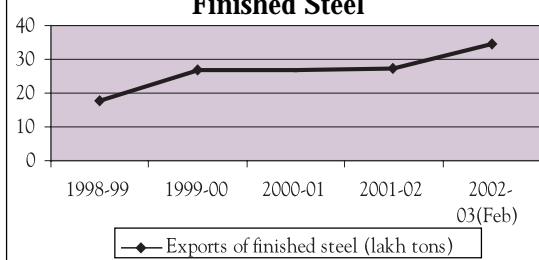
restructuring has helped the Indian players to acquire the much-needed competitive edge. Tisco, Essar & JVSL have all become globally cost competitive. Although lately, there have been concerns about rupee appreciation and anti-dumping duties eroding price competitiveness, momentum provided by exports to China, USA and UAE have helped to dampen such fears.

Enrichment of product mix, greater customer orientation and capacity utilization have helped the Indian firms acquire the much-needed edge. Innovative professionals complemented with apt technology have led Indian players manufacture products of global standards. On the trade front, requisite incentives by the government have provided the necessary impetus to Indian players.

To make the Indian steel industry globally more competitive following steps may be taken: stepping up of R&D expenditure; allowing greater participation of international players, thereby enhancing competition; formulation of effective human resource policy; regular skill upgradation; and effective handling of steel trade related issues at the international forums. This last point is extremely essential, as Indian steel exports have been subjected to antidumping duties. Also India is negotiating with OECD for continuance of support to steel industry by developing countries to balance advantages enjoyed by developed country's counterparts.

Indian steel industry is poised for greater heights due to increase in export demand resulting from sanctions imposed by US on EU and other nations, continued off-take from China, improvement in domestic demand arising from infrastructure projects and firming of global prices. Care must be taken to derive full advantage of this opportunity to turn the Indian steel industry in a world-class one.

Table: Trend in India's exports of Finished Steel



Source: *Joint Plant Committee*

Export potential of Indian steel vitally depends on its cost and price competitiveness. The Indian steel industry is characterised by integrated players having large steel manufacturing capacities both in private and public sector, helping them reap benefits of economies of scale. Indian steel industry possesses comparative advantage in the form of abundance of raw materials, highly skilled technical manpower and competitive labour. Most players have become competitive at operating level primarily due to improvement in material and energy consumption ratios of inputs such as iron ore, coke, coal, power, fuel and diesel, despite increase in cost of these inputs. This coupled with workforce rationalization and financial

EXIMIUS CENTRE COLUMN

In the first quarter of 2003, The Centre took part in the following programmes:

- 'International Herbal Products Expo 2003' was held at Chennai Trade Centre, Chennai, in July 2003, in Association with Voluntary Health Education and Research Development Society (VHERDS), with Exim Bank as the Main Sponsor. It was inaugurated by Shri C.H. Vidya Sagar Rao, Union Minister of State for Commerce and Industry. Exim Bank released a study titled 'Road Beyond Boundaries' on July 6, 2003.
- The Centre organised a Workshop on 'Pre-Treatment & Finishing of Textiles & Apparels' at the Eximius Centre, Bangalore in July. The workshop was organised in association with the Textiles Committee (Govt. of India, Ministry of Textiles). The Workshop was addressed, among others, by Mr. S. Periasamy, Dy. Director, Textiles Committee, Bangalore and Mr. Lakshman G Yadalam, Executive Director, Ram Kumar Mills Pvt. Ltd, Bangalore.
- A seminar was organised on 'Investment Opportunities in the UK' at the Centre in July in association with the British Trade Office, Bangalore. Mr. Stuart Innes, Dy. High Commissioner, Dy. High Commission, Chennai, addressed the gathering. Mr. Kelvin Green, Second Secretary, British Trade Office, Bangalore and Mr. Simon Dadd, Entry Clearance Officer, British Deputy High Commission, Chennai were the other speakers.
- The Centre organised a seminar on 'Investment Opportunities in Europe/ Quality Certification -IT' at Bangalore in August in association with The Indo-German Chamber of Commerce, (IGCC), and TÜV Rheinland, Bangalore. Ms. Audrey D'Souza, General Manager, Indo-German Chamber of Commerce, made a presentation on 'Marketing

Software in Europe'. Mr Trygve Hoepfner, Managing Director, TÜV Rheinland (India) Pvt Ltd spoke on TÜV and its Services.

- A Seminar on 'Doing Business with China' was organised by Eximius Centre in August at Bangalore in association with The Consulate General of the People's Republic of China, Mumbai. The Keynote address was delivered by Mr. Hou Wei, Consul (Commercial), People's Republic of China, Mumbai. Mr. Zhu Darong, Consul (Economic & Commercial); Dr. (Mrs.) V.S. Bharucha, Former Economic Adviser, Ministry of Commerce, Government of India and at present Consulting Adviser were some of the guest speakers.
- A Workshop on 'Financial Aspects in Exports' was organised in Mumbai at the World Trade Centre, in September in Association with CBI, Netherlands. The workshop was inaugurated by Mr. T. C. Venkat Subramanian, Managing Director & CEO, Exim Bank. The Chief Guest was Mr. Frits J. M. Mahieu, Consul General, Consulate General of the Netherlands. The workshop conducted by Mr. Christiaan Joop and Mr. Hans L. Verhulst, covered export cost price calculation, controlling costs, export financing, pricing strategies, risk management and contractual issues.
- A Workshop on 'Foreign Currency Risk Management for Corporate and Bank Treasuries' was organised at the Centre in September with faculty support from IIM, Bangalore.

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@iasbg01.vsnl.net.in

BOOK REVIEW

China – Enabling a New Era of Changes – World Economic Forum

Drawing together a broad array of expertise, regional analysis and concrete business judgments, this book sets a benchmark in synthesizing and clarifying the diverse factors that are shaping China's century. The book provides deep insight by leading economists and thinkers from China and abroad giving provocative analyses of China's strategic relations, globally and with East Asia and Japan in particular.

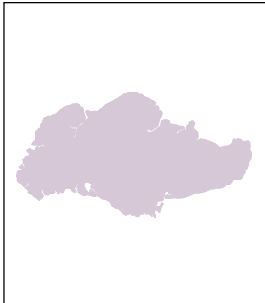
The book provides careful and forward-looking perspectives on the challenges China faces in managing its entry into the WTO and reforming its financial system, as well as opportunities for a new, mutually beneficial division of labour in Asia.

As China marks a quarter century of economic change and transformation, it stands poised to enter a new era. With the accession of China into WTO, the country is undergoing a new wave of changes in every sense. The book attempts to capture expertise and ideas for maintaining the pace of China's growth at a critical point in the country's development. This book is both a thought-provoking commentary on China's evolution, as well as a handbook for charting the country's continuing development. While providing a guide on the main forces that is shaping China's growth, the book also serves readers who are interested in tapping into the emerging opportunities.

COUNTRY SCAN

Singapore

The real GDP growth was 2.2% in 2002, compared to a negative growth of 2.4% in 2001 due to the improvement in

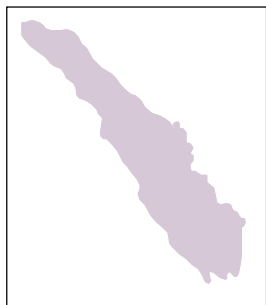


domestic and external demand. Singapore has become the first country in Asia and only the fifth in the world to sign a free-trade

agreement (FTA) with the US. The trade pact will help in improving the competitiveness of Singaporean manufacturers exporting to the US. The Joint Study Group Report on India-Singapore Comprehensive Economic Cooperation Agreement (CECA) concluded that the CECA between India and Singapore would provide significant benefits for both countries, in terms of the potential for increased trade and investment, and through economic cooperation. The CECA will be India's first Free Trade Area (FTA) outside South Asia and Singapore's first FTA in South Asia.

Indonesia

Driven largely by private consumption, Indonesia's economy is expected to show modest growth of 3.4% in 2003 and 4% in 2004. Inflation is expected to moderate to 10.0% in 2003 and 8.5% in 2004 from 11.9% in 2002 as a result of tight monetary policy. A new state finance law was approved to enhance transparency and accountability in the use of public funds. Export growth will be modest in the face of international competition. Indonesia's exports are likely to face

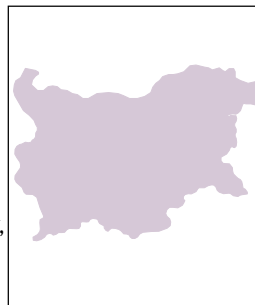


strong competition in the region, especially from the People's Republic of China and Vietnam. The World Bank's

Executive Board in June 2003 approved three projects to Indonesia for a community development project, an energy reform program, and a water resources and irrigation systems project. The three projects, amounting to around US\$ 460 mn, are part of an overall program to support Indonesia's transition into a democratic, decentralized development environment, while supporting the country's overall poverty reduction goals.

Bulgaria

Bulgaria has made progress in attracting foreign investors into the modernization of the power sector, largely in the Maritsa Iztok (Maritsa East) region and Italy's Enel has signed up to the reconstruction of the one the power plants. Privatization which was moving at a slow pace saw some success with the sale of DSK Bank, Bulgaria's second largest bank to Hungary's OTP. The level of foreign reserves is expected to rise rapidly. The IMF and World Bank have called for faster progress in structural reform, especially in judicial reforms and privatization, measures to lower barriers to entry and expansion of firms and continuation of reform in railway, health and energy sectors.

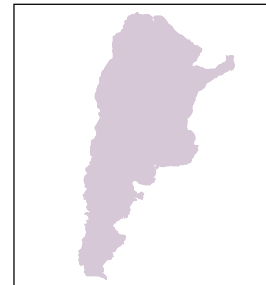


However entry to EU is a distant prospect and might be extended beyond its target date of 2007.

Argentina

Following a recession since 1999, Argentina's economy is on the track of a recovery in 2003. Real GDP is estimated to have grown by 5.4% in Q1 of 2003 and has remained robust in Q2. Investments, which grew by over 20% in Q1, have significantly contributed towards a revival in domestic demand. Led by strong performance of the manufacturing sector, industrial production is estimated to have grown by 20% and 15% in Q1 and Q2 of 2003

respectively, over similar periods in 2002. The Argentinean peso has strengthened reasonably in 2003 primarily due to



repression in the demand for dollars. Moreover, the Government has announced imposition of barriers to short-term capital flows

with a view to stabilize the peso and reduce vulnerability in capital flows. There has also been a significant rise in both exports and imports, particularly in Q2. India's commercial relations with Argentina is likely to improve, the latter being a member of the MERCOSUR trade bloc, with whom India has recently signed a Framework Trade Agreement.

Chad

Chad joined the ranks of the world's oil producers with the first flow of oil in July 2003 from wells in the south of the country. The Doba Oil Project commenced its production one year ahead of schedule, due to the accelerated construction work of the 1000 km long pipeline to Cameroon, funded mostly by the World Bank. The project is expected to result in nearly US\$ 2 bn in revenues for Chad and US\$ 500 mn for Cameroon over the 25 year production period. The first oil from the wells is expected to reach international markets via loading facilities off the coast of Cameroon



around the end of 2003. Thus real GDP growth will be driven by oil production resulting in an expected real GDP growth of 15% in 2003. With

production of oil reaching even higher levels, it is expected that Chad would emerge as one of the fastest growing countries in the world.

Select Currencies

AUSTRALIA

The Australian Dollar's (AUD) exchange rate is market determined and has been floating independently since 1984. However, the central bank, Reserve Bank of Australia (RBA), intervenes as and when there is volatility in the currency market and moderates the volatility. The AUD is responsive to the movement of the prices of commodities like gold, nickel, wool as these are predominantly exported by Australia. AUD's movement is largely dependent on the USD and the Japanese Yen (JPY). The market also expects that beyond a certain 'acceptable limit' of current a/c deficit the AUD will start falling. During the period 1998-2002, AUD was in the range of 0.6293 in 1998 to 0.5452 touching a historic low of 0.4780 in April 2001 against USD. It has been recovering since December 2002 from 0.5612 to 0.6750 in August 2003 indicating an appreciation of about 25% in the first 8 months in the current year. The main reason for the strengthening of AUD is that the Overnight Cash Rate of RBA at 4.75% has been kept stable since June 5, 2002 where as the Federal Reserve of USA has reduced the FED Rate on several occasions to the current

level of 1%. Thus, the higher interest rate differential is favouring strong AUD against USD. AUD has also strengthened against Euro and Yen due to relatively strong Australian economy and increase commodities prices in 2002. The foreign exchange reserves have increased from USD 34 bn in Jan 2001 to USD 37.50 bn in December 2002. The current account deficit at around 5% of GDP in 2002 is expected to increase to 6% of GDP 2003, which is considered to be within manageable limits. As on September 30, 2003 AUD was quoted at 0.6800 per USD, and in view of the above factors, AUD, also known as 'Aussie', is expected to strengthen further in current year.

UNITED ARAB EMIRATES (UAE)

The currency of UAE is the Dirham (DH). The Dirham is pegged to the US Dollar at US\$1 = DH 3.67. In the UAE, with the fixed exchange rate arrangement, the conduct of monetary policy is guided by the pursuit of price stability and hence, preserving the internal and external value of the currency. Monetary developments in UAE reflect to a large extent the effect of oil prices on government revenues and the impact of government expenditure on non-oil sector activity. Economic performance is closely linked to the fortunes of the oil industry. The crude oil sector accounts for almost 28 % of the country's GDP. The pegging of Dirham to the USD protects prices from some of the pressures of higher inflation as US is an important source of imports for the country. Real GDP growth rate is expected to improve due to recovery in UAE's service sector. Forex reserves are at comfortable levels at US\$14.3 bn as on March 2003. Strong oil prices coupled with high output are expected to provide a boost to export earnings. Relatively low inflation at 2.5%, increasingly tight fiscal policy, high oil revenue, large current account surpluses and healthy average levels of foreign reserves are expected to contribute towards maintaining the fixed rate peg of Dirham.

INDONESIA

Indonesia, once one of the most powerful Asian economies, was hit exceptionally hard by the crisis that crippled the region in 1997. Bank Indonesia (BI), the central bank, has been trying to permit gradual adjustment in the exchange rate of Indonesian Rupiah (IDR) in line with the industrial world's abandonment of the fixed regime since mid 70s as evident from successive devaluations in 1978, 1983 and 1986. During the period 1987-1997, BI permitted a gradual depreciation of IDR to avoid further devaluations. However, it could not sustain the market force's speculative attack in 1997 and resulted in currency crisis. IDR found a low of 10,013 against USD in 1997-98 and started recovering thereafter. IDR was quoted at an average of 9085 in 2002. The October 2002 Bali bombing halted a Rupiah recovery in 2001-02, which also pushed the stock market down to four-year lows. However due to positive developments in the economic front, IDR remained steady during first half of 2003. The average inflation rate, which was as high as 58% in 1998, has gradually declined to 14% in March 2002 and 7.12% in March 2003. It is hovering around 5.79% in July 2003. The GDP growth rate also increased from the negative growth of 13.2 % in 1998 to 3.6% in 2002 and 2.6% in Q1 of 2003. The net foreign currency reserves have increased from USD 18.50 bn in March 2002 to USD 21.70 bn in Dec 2002 and USD 23.40 bn in July 2003. Currently exports are performing well and as a result of stronger export and investment growth, the economy is forecasted to grow by 5.2 % in 2004. From January 2003 IDR has strengthen from 8975 as on December 31, 2002 to 8,490 as on August 31, 2003 indicating a appreciation of 5.70% in first 8 months of the current year. As on September 30, 2003 IDR stood at USD1 = IDR 8,485 and is expected to stabilize further.

International Trade in Agriculture : Emerging Scenario – Rt. Hon. James Bolger

Rt. Hon. James Bolger, ONZ, Chairman, Advisory Board, World Agricultural Forum, St. Louis, USA and former Prime Minister of New Zealand, delivered the Eighteenth Commencement Day Annual Lecture of Exim Bank. Mr. Bolger, emphasizing on further trade liberalisation and globalisation, negated that poverty is due to globalisation. He reiterated that the poor are poor not because of too much globalisation, but because of too little. Too many barriers still remain that prevent workers in poorer countries benefiting from their labours. With over 60 percent of the workforce in most developing countries, including India, engaged in agriculture or food production, liberalising world trade in agriculture is the key to unlocking the door to faster development.

Mr. Jagdish Capoor, Chairman, Agriculture Finance Corporation, and former Deputy Governor of Reserve Bank of India, presided over the function. Mr. T.C. Venkat Subramanian, Managing Director and Chief Executive Officer of Exim Bank, welcomed the guests.

Stressing the need for both developed and developing countries to support a rule based system of international trade, which is embodied in the World Trade Organisation (WTO), to ensure that gains from further trade liberalisation benefit all concerned nations, Mr. Bolger pointed out that negotiations in the

WTO must address the huge distortions caused by massive subsidies, high tariff and import protection offered by most developed economies to their food and fibre producers.

Quoting the examples of trade policies adopted by developed countries such as the subsidies received by America's 25,000 corporate growers, which is three times the total USA aid to Africa; similarly, African farmers in Senegal have to overcome a 150% tariff to export their peanuts to the US and the EU has a 200% tariff on beef, wheat into Japan faces a 350% tariff and the tariff on butter into Canada is 360%, he stated that current policies have put poorest farmers in an unequal battle with the world's biggest treasuries. There is no freedom in that and it has to stop. These circumstances, according to him, demand that world leaders firmly deal with the one big global agenda that would guarantee a return to forward momentum in the world economy, and that is the Doha Development Round of trade negotiations under the aegis of WTO.

Economic freedom is a dream, not a reality for countless millions. To make it a reality, according to Mr. Bolger, countries need to take definitive and determined steps to open up opportunities for rich and poor countries alike. Sustainability from this perspective is a resource oriented, long-term global concept, allowing current generations to satisfy their needs without jeopardising the capacity of future generations to meet theirs. Further, the issue of sustainability encompasses not only producing food in a responsible manner, but also the commerce of food distribution, minimising disadvantages by having a more open and ethical world trading system.

Expressing his concern over global warming and climate change, Mr. Bolger said the world cannot walk away from these issues, as there is new and stronger

evidence that most of the global warming over the last 50 years is attributable to human activities. One of the more serious enduring implications of rising sea levels is the increase in the salinity of ground water. Water supplies over vast areas of the globe will be affected. The implications for agriculture and the environment from such developments, while as yet unquantified are clearly huge.

With the need for a strong committed voice to articulate the requirements of developing countries and so focus on the negotiations on the changes required, Mr. Bolger pointed out that India, as the world's largest democracy, has the opportunity, if not the obligation, to take up that leadership role and so help guide the participants to a just and sustainable outcome. And for India to carry out this important role, the Government of India must re-examine all its domestic policies to make them consistent with the ambition to usher in, for the first time ever, international trade policies that treat the rich and poor countries with equal fairness.

Mr. Bolger concluded with his strong observation that India as the world's largest democracy, with its huge home market, an entrepreneurial middle class, plus a commercial history that stretches back through time, is positioned to play a pivotal role in deciding how the world safely negotiates the complex range of issues that it now confronts.

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 mn

1 lakh : 100 thousand

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