

# EXIMIUS: EXPORT ADVANTAGE



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## In this issue

- Rural Grassroots Enterprises:  
Catalysts for Poverty Reduction 6
- Exim Bank's Lines of Credit 7
- Himatsingka Seide Ltd:  
A Success Story 8
- CIS Region: A Study of India's  
Trade and Investment Potential 9
- Indian Food Processing Industry:  
A Perspective 10
- Indian Construction Industry 11
- Recent Trends in India's  
Services Exports 12
- South-South Trade :  
Recent Features 16

Among the changes that occurred were the decentralization of operations, the reorganization of production, and the reinforcement of scientific management and strategic planning. The combined effect of such changes has resulted in a significant increase in production and foreign investment and, consequently, a rise in the gross national product (GNP) of these countries.

### Economic Growth in the Region

The sustained growth of global economy, strengthening domestic demand, and further increase in commodity prices supported Latin America's economic expansion in 2006. Driven by acceleration of growth in Brazil, Mexico, Colombia and Peru, real gross domestic product (GDP) of the region increased to an estimated 4.9 percent in 2006, up from 4.1 percent in

2005. The growth of regional domestic demand reached a two-decade high rate of 6.9 percent on the back of rising income, buoyant sentiment and generally accommodative macroeconomic policy. **Table 1** reveals the real GDP growth rate of major economies in the region.

It shows that Venezuela had the most rapid growth rate in the region followed by Argentina. Additional support to the region came from the growth acceleration in Mexico (from 3.0 percent in 2005 to 4.8 percent in 2006), Colombia (from 5.2 percent in 2005 to 6.5 percent in 2006) and Peru (from 6.4 percent in 2005 to 8.0 percent in 2006).

### LAC Region and the Global Trade

The trend in international trade of the LAC region is presented in **Table 2**.

## Recent Economic Developments in Latin America and Caribbean (LAC) Region

### Introduction

More than a decade ago, some Latin American and Caribbean (LAC) countries transformed from closed to open economies. In doing so, they entered into a world of great competence and diversity. This movement provoked dramatic changes in the internal structures of these countries.

Table 1: Real GDP Growth Rates of Latin American Countries

In percent

Countries	Year			
	2005	2006e	2007f	2008f
Argentina	9.2	8.5	7.2	5.4
Brazil	2.3	2.9	3.8	3.5
Chile	6.3	4.2	5.0	4.8
Colombia	5.2	6.5	5.4	4.4
Mexico	3.0	4.8	3.5	3.3
Peru	6.4	8.0	5.5	4.5
Venezuela	10.3	10.3	7.0	5.0
<b>Latin America</b>	<b>4.1</b>	<b>4.9</b>	<b>4.5</b>	<b>3.9</b>

Source: *Regional Overview*, IIE  
 e: Estimates; f: forecast



**Table 2: Trend in Global Trade of LAC Region**

(US\$ bn)

Year	Exports	Imports	Total Trade
1999	308.4	317.4	625.8 (5.5)
2000	363.4	382.3	745.7 (5.8)
2001	348.5	378.1	726.6 (5.9)
2002	325.8	381.0	706.8 (5.5)
2003	339.1	427.5	766.6 (5.1)
2004	419.3	529.1	948.4 (5.2)
2005	491.7	628.0	1119.7 (5.4)

Source: *Direction of Trade Statistics Year Book 2006*, IMF.  
Values in parenthesis show percentage share in global trade.

Further, it provides the shares of the region in global trade. Exports of the region have increased from US\$ 308.4 bn in 1999 to US\$ 491.7 bn in 2005. Imports also have gone up from US\$ 317.4 bn in 1999 to US\$ 628.0 bn in 2005. This reveals the faster increase in imports to the region than exports from LAC. The region's share in global trade has remained stable at over 5%.

Latin American and Caribbean trade is benefiting from persistently strong international demand, especially from China and the United States, and from highly favourable terms of trade. In addition, the region has been enjoying ready access to international financial markets at low interest rates. This is a positive result when viewed from the standpoint of the region's medium-term and potential growth trends, but is less heartening when compared with the considerably higher rates being recorded in emerging economies in Africa, Asia and Eastern Europe. In real terms, Latin America and the Caribbean recorded the second-largest increase in exports, after China, in 2005.

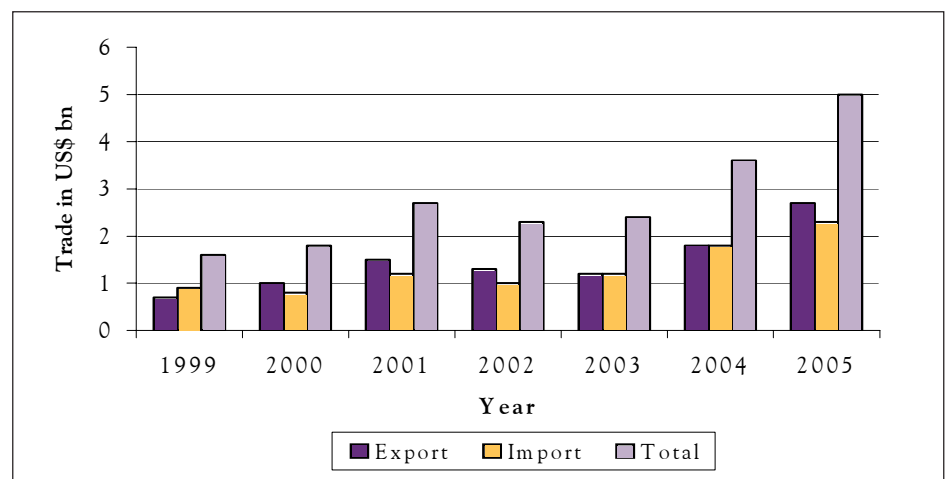
The Latin American and Caribbean region has reaped the benefits of rapid growth in

the United States, which is its main export market. In fact, the United States absorbs half of Latin America's exports and accounted for 40% of the increase in the region's external sales in 2005, although this share varies sharply across countries, standing at over two thirds in the case of Mexico and Central America, one half in the case of the Andean Community and only a small fraction for the MERCOSUR countries.

From Japan's standpoint, the Latin American and Caribbean region is a relatively small market, and its importance as a trading partner is waning. In fact, in 2005 the region accounted for only 4% of Japan's exports and 3% of its imports. Meanwhile, Japan absorbed less than 2% of the Latin American and Caribbean countries' exports in 2005, except in the cases of Chile (12%), Bolivia (5%), Peru (4%) and Brazil (3%). China, on the other hand, accounts for a much larger percentage. Trade between Mexico and Japan expanded considerably in 2005, due to the 'Agreement between Japan and Mexico for the Strengthening of Economic Partnership', which came into effect in April 2005. Japan is a relatively significant source of FDI for Latin America and the Caribbean, since it contributed US\$ 6.4 bn of a total of US\$ 45 bn in FDI inflows in 2005. Japan has invested quite heavily in Brazil (mainly in transport equipment, food and some services sectors) and Mexico (transport equipment and textiles). The upswing seen in Japanese FDI in Mexico since the two countries signed a free trade agreement (FTA) shows that FTAs may be a way of encouraging Japan to invest in the region. Japan is currently negotiating an FTA with Chile.

Remittance by the Latin Americans working abroad reached an estimated US\$ 60 bn in 2006, nearly twice the net

**Chart 1: Trend in India's Trade with LAC Countries, 1999-2005, (US\$ bn)**



Source: *Direction of Trade Statistics Year Book 2006*, IMF



foreign direct investment flows to the region with Mexico leading the region with 42 percent of the total remittance.

### LAC's Trade with India

The Latin American and Caribbean market is still not very significant for India, although it is gaining in importance. In 2005, the region's import from India amounted to US\$ 2.7 bn (2.8% of India's exports) and exports to India amounted to US\$ 2.3 bn (1.7% of India's imports), which yielded a trade surplus in favour of India (**Chart 1**). Nevertheless, these figures indicate that exports to the region tripled and imports doubled in the past two years. Trend in India's Trade with LAC regions is presented in Chart 1. As in the case of China, India's pattern of trade with South America is different from the pattern it maintains with Central America and Mexico. Under existing trade agreements with India, the countries of MERCOSUR and Chile export mainly vegetable oils, minerals and their concentrates, sugar and honey to India. Similarly, imports of these countries comprised refined petroleum products, medicines and pharmaceutical products, organic chemicals and textiles. On the other hand, Mexico and Central America primarily export oil, pharmaceutical products and telecommunications equipment to India and import automobiles and automobile parts as well as textiles and clothing from India, items that seem to offer a comparative advantage to the region.

### Outlook for the Region

External demand will continue to help drive growth in Latin America and the Caribbean due, as also, to a 6% improvement in the region's terms of trade in 2007, which will mainly benefit oil- and metal-exporting countries. The economies that stand to gain the most will be Venezuela, Bolivia, Chile and Peru, which will see their terms of trade increase by 25%, 22%, 18% and 14%, respectively. As a result, exports and imports in current

dollars will expand by 20% and 17% in 2007, respectively. Just over half of this rise will reflect higher export prices, while in the case of imports, only one fifth of the increase will be attributable to prices and the remainder to volumes. Projections point to a continuation of the uptrend in the region's trade balance for goods, expressed in current dollars, which began in 2001. Costa Rica, the Dominican Republic and Mexico are the only countries to have posted merchandise trade deficits since 2001. According to Economic Commission for Latin America and Caribbean (ECLAC) projections, in 2007 Latin America's exports will expand at a similar rate as 2006 in terms of volume, that is, between 7% and 8%, although with large differences across countries.

The greatest risk in the outlook period is inflationary pressure, owing to the persistently high prices of petroleum and some other commodities, especially metals, both in the United States and in other developed countries.

### Export-Import Bank of India in the LAC Region

Export-Import Bank of India (Exim Bank) operates a range of lending, services and support programmes to facilitate and promote India's trade and investment relations with countries in the LAC region.

Exim Bank has currently 10 operative Lines of Credit (LOCs) amounting to US\$ 133 mn covering 17 countries in the LAC region. These LOCs have been extended to governments, regional banks and national banks in the region. These include, LOCs of US\$ 30 mn, US\$ 19 mn and US\$ 16 mn extended to the Governments of Honduras, Guyana and Suriname, respectively; LOCs of US\$ 10 mn each extended to Banco de Comercio Exterior de Colombia S.A. (Bancoldex), Colombia; Corporacion Andina de Fomento (Andean Development Corporation) (covering Bolivia, Colombia, Ecuador, Peru and Venezuela); Banco Nacional De Comercio Exterior S.N.C. (Bancomext), Mexico;

Banco Bradesco S.A., Brazil; Uniao De Bancos Brasileiros S.A. (Unibanco), Brazil; and Central American Bank for Economic Integration (CABEL) covering Honduras, Nicaragua, El Salvador, Costa Rica and Guatemala. Further, the Bank has an LOC of US\$ 8 mn with the Republic Bank Ltd., Trinidad & Tobago. It may be highlighted that the LOC to Guyana was earmarked for the construction of a cricket stadium for the Cricket World Cup in 2007.

Indian companies have implemented numerous contracts in the LAC region with Exim India's support in sectors/areas such as ethanol plant project and construction of railway network in Colombia; pharmaceuticals and textiles in Mexico; pharmaceuticals in West Indies; bauxite and textiles in Brazil; bauxite in British Virgin Islands; automobiles in Dominican Republic; El Nino emergency assistance project and strengthening procurement administration of the government in Guyana; shipping in Cayman Islands; textiles in Peru and Argentina; and transmission lines & substation projects and heavy machines in Suriname.

With a view to building up institutional linkages, Exim Bank has signed MOUs with Banco de Inversion Y Comercio Exterior S.A. (BICE), Argentina; Central American Bank for Economic Integration (CABEL/ BCIE), Honduras; Caribbean Association of Industry & Commerce, Trinidad & Tobago; and Banco Mercantil (Banco Universal) C.A., Venezuela.

Exim Bank has also conducted a number of research studies focusing on enhancing trade and investment relations with the LAC region. Further, Exim Bank also helps bring out a quarterly bilingual (English & Spanish) publication titled "Indo-LAC Business", which aims to facilitate business information between India and the LAC region and also provide a platform for business communities to express their views on the scope for enhancing trade and commerce between India and LAC countries.

# PROJECT OPPORTUNITIES

## Business Opportunities Update: Upcoming Projects

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

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

Interested exporters need to contact the concerned executing agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai, would be glad to be of help, if you keep us advised. Please contact **Mr. O'Neil Rane** on Tel: 22172631

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
<b>Chad/ Ministry of Land Planning, Urban Development and Housing</b> Tel: (235) 52 04 44 Fax: (235) 52 39 35 WB Contact: Mr. Franck Bousquet, Task Team Leader AFTU2 Tel: (202) 473 0309 Email: fbousquet@worldbank.org	<b>Urban Development Project/</b> The project is aimed at the sustainable expansion of access to basic services and infrastructure by the residents of Chad's five main cities. The project components include extension of water networks through: <ul style="list-style-type: none"> <li><input type="checkbox"/> construction of standpipes,</li> <li><input type="checkbox"/> building of drains,</li> <li><input type="checkbox"/> construction of earth roads.</li> </ul>	<b>World Bank</b> US\$ 15 mn.
<b>Moldova/ Ministry of Finance</b> 7 Cosmonautilor St., S.E. "Fintehinform" Building, Room 13, MD 2005 Chisinau, Republic of Moldova. Contact: Oleg Hirbu, Head of the Project Office. Tel: (373-22) 228-852 Fax: (373-22) 238-844 E-mail: ohirbu@yahoo.com, emarenco@minfin.moldova.md	<b>Public Financial Management Project/</b> The project involves: <ul style="list-style-type: none"> <li><input type="checkbox"/> supply and installation of the Financial Management Information System (FMIS) for the Ministry of Finance which will integrate public finance management tools used by national public institutions,</li> <li><input type="checkbox"/> establishment of technical infrastructure,</li> <li><input type="checkbox"/> development of application software,</li> <li><input type="checkbox"/> training of end-users and IT specialists.</li> </ul>	<b>World Bank</b> US\$8.55 mn.
<b>Romania/ S.C. Compania De Apã Oradea S.A</b> Str. Duiliu Zamfirescu nr. 3, Bihor, Oradea 410202, Romania. Tel: +40 259 436934/436909 EBRD Contact: Dana Craciunescu, Operation Leader Tel: +44 20 7338 6794 Fax: +44 20 7338 7472 Email: craciund@buh.ebrd.com	<b>Oradea Water and Wastewater Extension/</b> The proposed project entails the construction of <ul style="list-style-type: none"> <li><input type="checkbox"/> 108 km of new water supply pipework</li> <li><input type="checkbox"/> 140 km of new sewers</li> <li><input type="checkbox"/> 99 km of new rainwater collectors and</li> <li><input type="checkbox"/> secondary stage pumping system to ensure sufficient pressure to supply water in the network extension.</li> </ul>	<b>European Bank for Reconstruction and Development</b> Euro 12 mn.
<b>Armenia/ Armenian Water and Sewerage Company</b> EBRD Contact: Paul Covenden, Operation Leader, Tel: +44 20 7338 6794 Fax: +44 20 7338 7472 Email: covendep@tbl.ebrd.com	<b>Lake Sevan Basin Environmental Project/</b> The objective is to improve wastewater treatment for municipalities discharging wastewater into the Lake Sevan basin. The operation will: <ul style="list-style-type: none"> <li><input type="checkbox"/> build small wastewater treatment plants</li> <li><input type="checkbox"/> rehabilitate wastewater networks: The objective is to enable mechanical and enhanced aeration treatment of wastewaters discharged.</li> </ul>	<b>European Bank for Reconstruction and Development</b> Euro 7.5 mn.



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
<b>Kyrgyz Republic/ Ministry of Education, Science and Youth Policy</b> Central Implementation Unit for the Second Education Project, 257 Tynystanova Street Bishkek 720040, Kyrgyz Republic.  Contact: Mrs. Imanalieva E.S., Deputy Minister Tel: 996(312) 66 62 90 Fax: 996(312) 66 69 17 E-mail: mba@ktnet.kg	<b>Second Education Project/</b> The project includes the following components: <input type="checkbox"/> Modernizing curriculum and developing new learning materials <input type="checkbox"/> Modernizing learning assessment <input type="checkbox"/> Improving Participation and Quality in Rural Schools Civil Works: Renovation of 90 (ninety) rural schools all over Kyrgyz Republic Goods: Computers, Office and Education Equipment.	<b>Asian Development Bank</b> US\$ 15.5 mn.
<b>Cambodia/ Ministry of Public Works and Transport</b> 2nd Floor, Eastern Building, Corner Norodom Buld and 106 Street, Phnom Penh, Cambodia.  Contact: Mr. Chhin Kong Hean Tel.: (855) 23 723708 Fax: (855) 23 723708  Project Officer: Mr. Paul J. Vallely, Vietnam Resident Mission Email: pvallely@adb.org	<b>CAM: GMS Southern Coastal Corridor Project/</b> The project will complete the Greater Mekong Subregion Southern Coastal Corridor (GMS-SCC) in Cambodia and Vietnam. The project will include the following components: <input type="checkbox"/> Rehabilitation and improvement of national highway and transport infrastructure in Cambodia and Vietnam, <input type="checkbox"/> Construction of two large bridges <input type="checkbox"/> HIV/AIDS and trafficking awareness and prevention <input type="checkbox"/> Road maintenance.	<b>Asian Development Bank</b> US\$ 13.00 mn.
<b>Ethiopia/ Ministry of Energy</b> Addis Ababa.  AfDB Contact: Mr. L. Rakotobe, Director, Country Operations East II. Tel: (216) 7110-2040	<b>(N) Universal Electricity Access Project (UEAP)/</b> The project will involve: <input type="checkbox"/> construction of 33 KV Medium voltage lines, distribution transformers, low voltage lines etc. to supply electricity to 131 towns, <input type="checkbox"/> Construction of 2,117 km of 33 KV, 1,265.8 km of LV distribution lines with all necessary distribution transformers, MV distribution equipment and LV distribution lines and equipments.	<b>African Development Bank</b> US\$ 120 mn.
<b>Uganda/ Ministry of Education and Sports</b> Procurement and Disposal Unit, King George IV Way. 7th Floor, Embassy House, Room 7.2., PO Box 7063 Kampala, Uganda. Tel: (256-41) 252-603, 343-626. Fax: (256-41) 340-685, 343-626	<b>Education III (Support To Post- Primary Education And Training) Project/</b> The project includes: <input type="checkbox"/> Construction of classrooms, laboratories, libraries, administrative blocks, toilets, sickbays, kitchens and multi-purpose halls. <input type="checkbox"/> Laboratory equipment and reagents for general laboratory use.	<b>African Development Bank</b> US\$ 29.13 mn.

## CONTRACT AWARDS

Select contracts secured by Indian companies:

**Bharat Heavy  
Electricals Ltd.,  
New Delhi**

Turnkey contract for  
Siddhirganj 2x120mw  
Peaking Power Plant  
in Power Sector  
Development Project in  
Bangladesh, funded by  
**Asian Development  
Bank (AsDB)**

**Power Grid  
Corporation of  
India Ltd.,  
Gurgaon**

Consultancy contract  
for Power Transmission  
& Distribution Project  
in Afghanistan,  
funded by **Asian  
Development Bank  
(AsDB)**

**Infrastructure  
Professionals  
Enterprise (P)  
Ltd., New Delhi**

Technical Assistance  
contract for project  
preparation of Second  
Community and Local  
Government Support  
Sector Project, in  
association with Inti  
Hexa Semesta (IHS),  
PT. (Indonesia) for  
National Development  
Planning Agency  
( B A P P E N A S ),  
Indonesia, funded by  
**Asian Development  
Bank (AsDB)**.

**Auro Avenida  
Exports Pvt Ltd.,  
Hyderabad**

Contract for Supply,  
Delivery and  
Installation of  
Laboratory Equipment  
and Accessories for  
Zambia National  
Response to HIV/AIDS  
(ZANARA) Project,  
funded by **World Bank  
(WB)**

**McML Systems  
Private Limited,  
Bangalore**

Contract for supply and  
installation of  
equipment and safety  
devices for eight  
crossings levels for  
Infrastructure Transport  
Investment Project in  
Madagascar, funded by  
**World Bank (WB)**



## Rural Grassroots Enterprises: Catalysts for Poverty Reduction

### Introduction

India has a very rich and diverse base of artisan-related village industry that is highly employment intensive, eco-friendly and based on traditional skills. Typically these employ simple manufacturing processes that use hand tools or simple machines with no or low energy usage for fulfilling the local market needs. Such products may be handmade textiles like khadi, handicrafts, bamboo products, artwork like paintings, artifacts, metal-based products, etc. and are generally produced in clusters. Rural and traditional sector enterprises are estimated to contribute to about 15% of total output of small-scale industries and about 40% of the workforce is employed in the sector.

### Rural Entrepreneurship and Poverty Reduction

Entrepreneurship development, like for any other developing country, is critical for India, more so if the country wishes to achieve the status of an economic super power with equitable income distribution. The spirit of entrepreneurship is clearly mirrored in any country's village and small enterprises. The village and small scale sector in India, which has a substantial rural base, plays a vital role in entrepreneurial development and export orientation of the economy. The sector accounts for over 90% of industrial units in the country, 40% of value addition in the manufacturing output, and approximately 35% of India's exports. Further, the sector is a significant contributor to gainful employment for over 26 million people.

The grassroots enterprises, i.e. rural and village non-farm sector, has an immense potential to generate new jobs in India with relatively low direct investments, by utilising

local skills and resources or by meeting local demands by adoption of simple techniques. Development of this sector would also prevent migration of rural population to urban areas in search of employment, reduce the pressure of increasing urbanisation and facilitate poverty reduction. Rural entrepreneurship development is necessary both at the farm-level, in the processing industries (agro-processing enterprises) and in the rural non-farm sector. Although enterprise promotion is a necessary strategy to promote rural growth, it not only entails access to productive and affordable technologies, but must also be simultaneously complemented by measures which empower the poor directly, such as basic education, health services, and in general, the provision of a rural infrastructure. Asset creation for improving the household's livelihood security is a necessary complement to enterprise promotion and must be part of a strategy for rural income generation.

A dynamic rural grassroots enterprises sector can reduce, if not stop, skill drain from the countryside, if sufficiently lucrative alternatives for employment are provided. Rural industrialisation will also have a significant spin-off for agricultural development. By creation of better rural infrastructure it could raise agricultural productivity through provision of better roads, canals, storage facilities, commerce, transport and communication facilities, etc. Further, a thriving rural grassroots enterprise sector would also help in reduction of regional disparities through location of industrial units in backward areas. Rural industries would thus help in generation of new employment opportunities, creation of new skills, opening up space for rural entrepreneurship and eventually facilitate eradication of poverty.

### Exports from Rural Grassroots Enterprises: Catalyst for Poverty Reduction

The other important mode of poverty reduction through rural income generation is improved access to international markets. This can be achieved by innovative marketing strategies to urban markets in the developing world, and also to the consumer markets in neighbouring or/and industrialised countries. For both attempts, the competitiveness of rural grassroots

enterprises must be significantly strengthened. This can be achieved through trying out various methods to link rural areas to dynamic international markets.

Markets for the rural poor are being restructured by trade liberalisation and globalisation. While trade liberalisation has brought stiff competition by way of cheap imports, it has also opened up several opportunities for expanding production due to improved prospects for stepping up exports of certain labour intensive, artisan and cheap raw material based rural non-farm products. Equal access to markets and asset control, as well as improved skills, generally help the poor to gain from liberalisation. Liberalisation without preparing the rural people for the economic and social consequences of open markets has not benefited the poor. Typically, the rural poor face high physical and transactions costs in accessing markets. They are also constrained by lack of information about markets, lack of business skills and collective organisation that can interact with large market intermediaries.

In order to make rural products of marginal areas more competitive in international markets, the interventions should emphasize on innovative marketing strategies which go beyond the past efforts of "fair trade". So far, fair trade marketing through labels and through NGOs have achieved – a considerable, no doubt – market share, but these are restricted only to "niche markets". Efforts should also be aimed at tackling mainstream markets as well, in order to have a significant impact.

To achieve growth, rural areas need productive activities which produce rural exports: goods and services that can be traded outside rural areas. The most important are likely to be agricultural products, but natural resource extraction (forestry, mining, fishing), allied agricultural activities (stall-fed livestock, bees, silk, aquaculture), rural tourism, traditional craft products, rural industry and rural remittances through migration also have potential as rural growth engines. In general, however, competitive advantage is found in sectors in which, inter alia, labour is cost sensitive and can exploit low opportunity cost of labour off-season, and the rural population have specialised skills (e.g. arts and crafts).



## Exim Bank's Lines of Credit

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

Exim Bank has extended the following LOCs during the quarter January-March 2007:

- LOC of US\$ 25 mn to the Government of Guinea Bissau;
- LOC of US\$ 2.1 mn to the Government of Guyana;
- LOC of US\$ 11 mn to the Government of Senegal;
- LOC of US\$ 7.5 mn to the Government of Jamaica; and
- LOC of US\$ 48.0 mn to Government of Sudan.

Exim Bank has, at the behest of Government of India, extended a Line of Credit (LOC)

of US\$ 25 mn to the Government of Guinea Bissau, under the 'Team-9 Initiative'. The LOC has been earmarked for financing India's exports to Guinea Bissau for execution of projects in electricity, food processing/agricultural sectors. Team-9 envisages a special cooperation model between India and 8 countries of West Africa, viz. Burkina Faso, Chad, Cote d'Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali and Senegal.

Exim Bank has also extended a Government of India supported Line of Credit (LOC) of US\$ 2.1 mn to the Government of Guyana. The LOC is earmarked for setting up a traffic signalling system in Guyana. Exim Bank in the past has also extended a Line of Credit (LOC) of US\$ 19 mn for financing a cricket stadium in Georgetown, Guyana, which is one of the venues for the ICC Cricket World Cup 2007. Guyana is a South American country with significant Indian diaspora population of about 50% and is endowed with rich natural resources.


The LOC of US\$ 11 mn to the Government of Senegal is meant for financing India's exports to Senegal to support the women poverty alleviation programme, as also the acquisition of 400 vehicles from India. Credit line to Government of Senegal has been extended under the 'Team-9 Initiative', under which, Government of India provides LOCs through Exim Bank to Team-9 countries to finance setting up of various projects by Indian companies in these countries. Under the LOC to Senegal, Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods.

LOC of US\$ 7.5 mn to Government of Jamaica, is earmarked for financing of export of water pumps to Jamaica. This is the first ever Line of Credit (LOC) extended by Exim Bank to the Government of Jamaica. The LOC being extended by Exim Bank is yet another initiative towards facilitating the demonstration of India's capability and expertise in the emerging market of

Latin America and the Caribbean region. Under the LOC to Jamaica, Exim Bank will reimburse 75% of contract value to the Indian exporters, upfront upon the shipment of goods.

Another Line of Credit (LOC) of US\$ 48 mn to Government of Sudan is being extended for financing five projects, namely: (i) supply of agricultural inputs for the Sudanese Agricultural Bank (US\$ 15 mn); (ii) technical and laboratory equipments to higher educational institutions (US\$ 15 mn); (iii) scientific equipments for Ministry of Science & Technology (US\$ 3 mn); (iv) solar electrification (US\$ 5 mn); and (v) meeting requirement of Sudan Railways (US\$ 10 mn).

Exim Bank has in place more than 70 LOCs covering over 80 countries in Africa, Asia, Latin America & Caribbean region, Europe and the CIS, with credit commitments amounting to US\$ 2.21 bn, available for utilization for financing exports from India. Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters.

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

For further information on LOC, please contact:

**Mr. P. R. Dalal**

Chief General Manager

Export-Import Bank of India

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## Himatsingka Seide Ltd: A Success Story

Incorporated in 1985, Himatsingka Seide Ltd. (HSL) was promoted by Mr. Ajoy Kumar Himatsingka and Mr. Dinesh Himatsingka. The company brought out its IPO in 1986 and commenced commercial production in December 1987. HSL has emerged as the largest manufacturer of silk and silk blended fabric in India and of high-end silk furnishing in the world. The company aims to be a design-led, fully integrated global home textiles company.

Starting with a capacity of 0.53 mn metres at its unit in Bangalore, the company focused on high quality, consistency and innovation in design, witnessing a steady growth in turnover from Rs. 5 crore in 1988-89 to Rs. 62 crore in 1996-97, and further to Rs. 151 crore in 2005-06. Net profit also grew in line with turnover, from Rs. 62 lakh in 1988-89 to Rs. 29 crore in 1996-97, and to Rs. 46 crore in 2005-06. HSL has consistently maintained high operating margins of 30%. With a capacity of 2.3 mn metres of fabric and 250,000 kg of yarn, HSL operates one of the largest integrated silk mills in the world.

HSL's product range includes dress material, furnishing and wall-covering fabric, material for ties and scarves, Dupion fabric, satin and taffeta. Besides, the company also manufactures silk in various weights in both Dobby and Jacquard designs. HSL has a

flexible manufacturing system to enable the company to offer a large number of exclusive products to its distributors. Order processing, production monitoring and process flow are seamlessly integrated through a company-wide computer network.

HSL's silk fabrics and yarn are offered across design-sensitive markets such as Germany, France, England, Italy, Belgium, Australia and USA. Nearly 90% of HSL's sales are to the US, UK, Italy and Germany and are routed through specialised distributors (export OEMs). The company has a strong customer base including some of the world's most celebrated furnishing houses and fashion designers like Jab, Christian Fibbacher, Zimmer & Rhode, Schumacher and Donghia.

HSL is one of the select band of companies globally that has successfully trumped Chinese competition. China is the world's largest producer of silk fabric, but Chinese players are primarily focused on the mass market. HSL by contrast sources its raw material from China but is able to leverage its flexible production facilities, innovative design and quality products to target the premium market segments, thus giving it superior margins.

In 1995, HSL received the ISO 9001 certificate from TUV Germany for establishment of quality systems in the manufacture of natural silk fabrics and yarns. The company has the distinction of receiving the 'Largest Silk Exporter' award from the Indian Silk Export Promotion Council for eleven consecutive years.

In 2003, HSL forayed into the domestic retail market through its wholly owned subsidiary Himatsingka Wovens Private Ltd. It established a luxury home furnishing brand 'Atmosphere' and opened exclusive showrooms in Bangalore, Delhi, Mumbai, Chennai and Hyderabad. At present 'Atmosphere' has eleven stores in the country. The company will shortly open another 'Atmosphere' store at Dubai.

In 2004, the company established its wholly owned subsidiary in USA, Himatsingka America Inc., with a view to strengthening its distribution network and setting up a design studio. Continuing its global foray, in 2005, HSL raised US\$ 60 mn through the issue of 20.96 mn Global Depository Receipts. The issue was oversubscribed and the company issued GDRs to global investors for the maximum amount of US\$ 60 mn, for which it had shareholders' approval. The GDRs have been listed on the Luxembourg Stock Exchange.

In 2006, HSL embarked on a Rs. 400 crore greenfield project at the Hassan Special Economic Zone, Karnataka, to manufacture bed linen products for both the domestic and international markets. The integrated manufacturing facility, which is expected to commence commercial production during 2007-08, will be amongst the best of its kind and will have an installed capacity of 60,000 meters/day of Wider Width Cotton fabrics and 8000 sets/day of exquisite made-up products. Exim Bank has extended term loan assistance of Rs. 150 crores to HSL to finance the project.

In February 2007, HSL completed the acquisition of 70% equity stake (€ 23.75 mn) in Giuseppe Bellora SpA, Italy, using the proceeds of the GDRs raised in 2005. The luxury brand 'Bellora' has a strong presence through exclusive stores, department stores and multi brand outlets across Europe. The acquisition is in line with the company's strategy of investing in luxury brands and distribution networks in the home textile space.

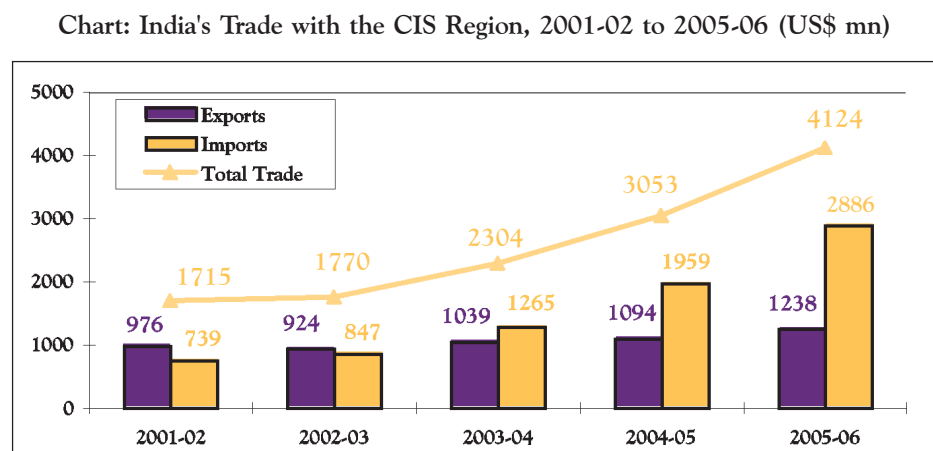
Exim Bank has extended its support to HSL since the company's inception, under a number of lending programmes, including term loans for export oriented units and export marketing finance. The expansion of the company's weaving project at Dodaballapur near Bangalore undertaken in 2004 was completed with Exim Bank's financial assistance.

## CIS Region: A Study of India's Trade and Investment Potential

Exim Bank's latest study titled "CIS Region: A Study of India's Trade and Investment Potential" delineates potential to further enhance bilateral commercial relations. Besides sustained growth momentum in the CIS region, buoyant foreign trade and sharp rise in FDI inflows, India's trade relations with the CIS region has witnessed an upturn in recent years, while the region is also increasingly emerging as a major destination for India's overseas investments.

In light of these developments, the study analyses, *inter alia*, recent economic performance of the CIS region, trends and structure of India's trade and investment relations with the region, and endeavors to identify potential areas for increased two-way flow of trade and investment between India and the CIS region.

Reflecting synergy in bilateral trade relations, India's total trade with the CIS region has risen more than two-fold from US\$ 1.7 bn in 2001-02 to US\$ 4.1 bn in 2005-06. Potential items of exports to the CIS region, based on India's export capabilities and demand in the region, would include: machinery and transport equipment, chemical and related products including pharmaceuticals, food and related products, articles of apparel and clothing, cotton and synthetic yarn, plastics and articles, iron and steel products, ceramic products. In the area of investments, opportunities for Indian investments exist in sectors such as food processing and agri-business, retailing, pharmaceuticals, information technology, infrastructure development, financial services, energy - oil and gas, power generation and distribution,



(Source: Ministry of Commerce & Industry, Govt. of India)

Note: Data for Imports do not include oil imports

healthcare, medical equipment and supplies, tourism.

Broad strategy and recommendations to enhance two-way transfer of trade, investment and technology between India and countries in the CIS region could encompass: effective dissemination of relevant information about trade and investment opportunities; closer institutional linkages with key investment promotion agencies in the CIS region; endeavours by Indian companies to emerge as key knowledge and technology partners; cooperation in IT and banking/financial sectors; focus on multilateral funded projects in the region; cooperation in entertainment industry; understanding local cultures and business practices to facilitate interactions.

With a view to creating an enabling environment for enhanced commercial relations with the CIS region, Exim Bank has put in place a comprehensive range of financing and support programmes. Besides four operative Lines of Credit (LOCs) - US\$ 10 mn to Bank TuranAlem, Kazakhstan (covering all the 12 CIS member countries), US\$ 25 mn to Vneshtorgbank (Bank for Foreign Trade), US\$ 10 mn to Vnesheconombank, and US\$ 10 mn to Absolut Bank, Russia, Indian companies have executed several projects as also set up joint ventures in the region with support of Exim Bank, across various sectors.

To provide for mutual co-operation in co-financing and enhancement of export credit to CIS and Central & Eastern European

regions, Exim Bank has in place an arrangement with the European Bank for Reconstruction and Development (EBRD) called the Export Credit Loan Arrangement Technique (ECLAT), while the Bank's arrangement with the International Finance Corporation (IFC), under the latter's Private Enterprise Partnership (PEP) programme, provides support to Indian consultants to execute short-term assignments in IFC sponsored projects in the region. Further, Exim Bank's joint venture, Global Procurement Consultants Ltd., set up in partnership with leading consultancy firms in India, has undertaken project audit assignments for World Bank in a number of countries in the CIS region.

Towards export development and export capability creation, Exim Bank has rendered technical assistance to a number of institutions worldwide, including in CIS member countries such as Armenia and Ukraine, while the Bank's MOUs with Export-Import Bank of the Russian Federation and Vnesheconombank, Russia; Belvensheconombank Belarus; UZBEKINVEST - National Export-Import Insurance Company, and National Bank for Foreign Economic Activity, Uzbekistan, are endeavours to strengthen institutional linkages. To facilitate dissemination of trade and investment related information, Exim Bank also helps bring out a quarterly, bilingual (English and Russian) publication "Indo-CIS Business" for the benefit of Indian and CIS businessmen and investors.

## Indian Food Processing Industry: A Perspective

Global processed food market (including domestic sales) was estimated at around US \$ 3.2 trillion in 2005, accounting for about three-fourth of global food market. The share of processed foods in global food trade is increasing: over the last 20 years, it has increased from nearly 50% to over 60%.

India produces over 90 million litres of milk (highest in the world), over 150 million tonnes of fruits and vegetables (second largest), over 200 million tonnes of food grains (third largest), over 6.3 million tonnes of fish (third largest), and has the world's largest livestock population (485 million heads). However, India's share in global food exports is estimated to be little over 1% (US \$ 8 billion in calendar year 2005), and consists mainly of commodities and primary processed items. Opportunities therefore exist to increase the share of India in global food trade.

Several initiatives are being taken by the Government to promote the food processing sector. In India, the sector has been declared as a priority sector, with no requirement of industrial license, except in the case of a few items reserved for SSI sector and for alcoholic beverages. Foreign equity, including investments by non-resident Indians, is allowed in this sector upto 100% in general and upto 24% in items reserved for SSI sector. As part of the strategy to develop this sector, the Ministry of Food Processing Industries (MoFPI), Government of India has been proactively pursuing the task of setting up of food parks in different parts of the country.

The immense growth prospects in the Indian food processing industry have attracted some of the global retail majors with sourcing opportunities. Wal-Mart, Tesco and Carrefour are already sourcing processed foods from India and have plans to increase their sourcing volume. The industry is increasingly attracting investment from multinational corporations. Besides, the industry is also attracting investments from Indian corporates, largely in the form of expansion projects, setting up of joint ventures, acquisitions and mergers, and entering into new product segments.

According to the Agriculture Outlook (2006-15), jointly prepared by Organisation for Economic Cooperation and Development (OECD) and United Nations Food and Agriculture Organisation (UN-FAO), the evolution of new technologies, in tandem

with increasing globalisation, and integration of agri-business supply chain would continue to alter trade flows with more share for processed agriculture products. The findings also suggest that location of world agriculture market is shifting towards developing countries. Increasing population, higher income and integration of transport and product distribution systems in developing countries is likely to present greater export opportunities for processed foods exports from developing countries like India.

The Vision Document of MoFPI reveals that India has the potential to achieve a 3 per cent share in world trade of agricultural and food products by 2015 assuming an annual growth rate of 14% till 2010 and 15% during 2010 to 2015.

### Exim Bank's Interface with Indian Food Processing Sector

Exim Bank has set up an Agri-Business Group, with the objective of financing and promoting export worthy agri-business projects, including processed food products. Term loans and export credits have been extended to finance manufacture / export of a wide range of processed food products. Bulk import finance is extended to companies to facilitate bulk imports of raw materials, consumable inputs and canalized items. Overseas Buyer's Credit is extended to foreign corporates to finance their agri-imports from India. Some of the leading processed food companies supported by Exim Bank include TATA Coffee, Global Green Company Ltd., Accelerated Freeze Drying Company Ltd., Vadilal Industries, MTR Ready Meals, Jain Irrigation Systems Ltd., Foods and Inns Ltd., Olam Group, Champagne Indage. Exim Bank financed one of the early acquisitions in the processed food sector by TATA Tea, when it acquired Tetley, UK and has also recently assisted TATA Coffee in acquiring Eight O' Clock Coffee, USA.

Exim Bank has established a formal and operational framework of cooperation with MoFPI, Government of India, with the objective of synergising the efforts of the Bank and MoFPI in developing Indian food processing sector. In order to create capacity in the food processing industry, the Bank has entered into a tripartite agreement with National Bank for Agriculture and Rural Development, and Agriculture and Processed Food Products Export Development Authority, for joint identification, formulation and financing of eligible units. Another cooperation arrangement has been established with Central Food Technological Research Institute (CFTRI), Mysore, with the objective of promoting research undertaken by CFTRI in the areas of food science and technology. Exim Bank, through its Eximius Centres of Learning, has conducted result oriented workshops and training programmes for the Indian processed food industry, in wide areas, such as quality certification; international standards, such as CODEX Alimentarius, Hazardous Analysis Critical Control Point (HACCP); and export marketing strategies. Awareness is being created amongst agri-business community through a bi-monthly publication 'Agri-Export Advantage', brought out by the Bank in English, Hindi and ten other regional languages. A web-portal [www.eximbankagro.in](http://www.eximbankagro.in) has also been launched by the Bank to promote knowledge based agri-business enterprises.



## Indian Construction Industry

The construction industry in India is an important indicator of development as it creates investment opportunities across various related sectors. It is estimated that the Indian construction industry had contributed Rs. 218,131 crore to the national GDP in 2005-06. The industry is labour intensive; according to the 2001 census figures, the industry employed around 11.6 million workers, around 8% of the total number of employed individuals across all sectors.

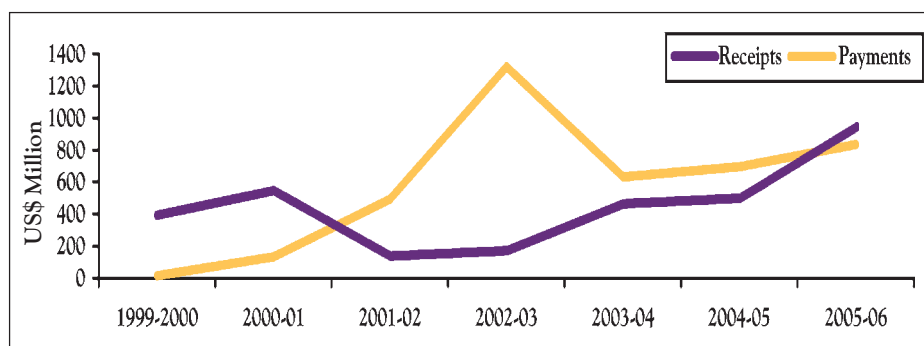
Indian construction sector has been awarded industry status since 2000. Thereafter, more initiatives are being taken by the Government to undertake projects on a public-private partnership. These initiatives have resulted in more private ownership of Build-Own-Transfer (BOT), Build-Own-Operate-Transfer (BOOT) and Build-Operate-Lease-Transfer (BOLT) projects.

### Global Construction Scenario

According to Davis Langdon & Seah International (DLSI), the size of world construction market is estimated at around US\$ 4.4 trillion in 2005. USA dominates the global market with the maximum amount of construction spending (around US\$ 1 trillion), followed by Japan (estimated at US\$ 700 billion). Other major construction markets are Germany, Italy, France and UK. Amongst the developing countries, China was the largest spender in construction activities in 2005, with an estimated spending of US\$ 500 billion. Other major construction markets in the developing countries are Brazil and Mexico.

Multilateral funding agencies have been instrumental in the growth of global construction industry by way of their support to infrastructure creation and development in the regional member countries. Since infrastructure creation and development stimulates the construction activity, they

### Trends in Construction Services Trade



Source: Balance of Payments Statistics, Reserve Bank of India

play a major role in boosting cross border construction services.

### Export of Construction Services from India

According to the Reserve Bank of India statistics, India has achieved net surplus of US\$ 63 million under the construction services (in the balance of payment statistics) for the year 2005-06. While the total payments (imports) under this head were US\$ 853 million, total receipts (exports) were of the order of US\$ 916 million, in 2005-06. The receipts under the construction services accounted for 1.5% of total receipts (of US\$ 60.61 billion) under the services category in the year 2005-06.

### India's Competence in World Construction Market

India is increasingly being seen as a competent participant in the global construction market. Multilateral funding agencies such as World Bank, Asian Development Bank (AsDB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD) support developmental projects in member countries that provide business opportunities for Indian construction industry to export its capabilities.

Indian construction companies through competitive bidding process of multilateral funded projects have been successfully securing contracts. However, analyses of construction contracts secured by select countries (China, Malaysia, Korea and Turkey) in World Bank funded projects reveal that the ratio of construction contracts secured abroad to the domestic market is relatively high for China, Malaysia, Korea, and Turkey as compared to India. In the AsDB and AfDB funded projects, China has secured more number of contracts, as also in value terms, than India during 2004 and 2005.

### Exim Bank's Support to the Indian Construction Industry

As of December 31, 2006, there were 46 ongoing construction projects including turnkey projects with construction elements, involving 18 Indian companies supported by Exim Bank. These projects span across 15 countries with a total contract value of over Rs. 14,000 crore. Exim Bank is also providing support to construction contracts secured by Indian companies in domestic markets as deemed export contracts. The value of ongoing deemed export construction contracts secured in India, supported by Exim Bank, as of December 2006, amounted to over Rs. 5500 crore. Further, Exim Bank extends lines of credit (LOCs) to financial institutions, regional development banks, sovereign governments and other entities abroad. Some LOCs are oriented towards construction projects abroad and provide opportunities for Indian construction companies.

### Challenges and Prospects

The Indian construction industry is influenced by rapidly changing economic environment, privatisation of public utilities, internationalisation of services. Some of the challenges currently faced by the Indian construction industry are with regard to their ability to access low cost financing, need for technology upgradation, need for upgrading select skill-sets, regulatory challenges abroad and low level of international exposure.

The construction industry requires strengthening through concerted approach by way of developing the domestic construction sector through encouragement to technology transfer, efforts towards diversification of markets and increasing international exposure, strengthening financing capabilities and development of select skill sets.

## Recent Trends in India's Services Exports

Services sector with double-digit growth during the past two years (2004-05 to 2005-06) has further strengthened its place as the leading sector of the Indian economy. Services sector now accounts for more than 60 per cent of Indian GDP. The stagnation in invisible receipts during the 1980s gave way to level shifting during the 1990s, as reflected in the share of invisibles in the current receipts rising to 47 percent in 2005-06 from 29 percent in 1990-91.

The invisible surplus continued to rise to reach a level of US\$ 40.9 bn in 2005-06, emanating from buoyant services exports and sustained remittances from migrant workers overseas. In tandem with the growth momentum in the services sector and its rising contribution to GDP, the comparative advantage of India in services exports is reflected in India's services exports growing at above 20 per cent, on an average, since the mid-1990s. **Table** reveals the domination of software services in the services sector. In the year 2005-06 software services contributed 38.9 per cent in the total export in services. The trend shows that the composition of all the sectors such as travel, transportation, insurance, G.n.i.e. and software services are declining. But the percent contribution of non-software miscellaneous services is revealing an increasing trend.

### Travel

Receipts under travel consist of expenditure by foreign tourists towards hotel accommodation, food and beverage services and goods and services purchased including domestic travel. The deceleration in travel earnings, a fall out of global slowdown in tourist growth in the 1990s due to geo-political uncertainties and global recession,

**Table : Composition of India's Services Exports** (Per cent)

Year	Travel	Transportation	Insurance	G.n.i.e.*	Software Services	Non-Software Miscellaneous Services**	Total Services
1990-91	32.0	21.6	2.4	0.3	-	43.6	100.0
1995-96	36.9	27.4	2.4	0.2	-	33.1	100.0
2000-01	21.5	12.6	1.7	4.0	39.0	21.3	100.0
2001-02	18.3	12.6	1.7	3.0	44.1	20.3	100.0
2002-03	16.0	12.2	1.8	1.4	46.2	22.4	100.0
2003-04	18.7	11.9	1.6	0.9	47.6	19.2	100.0
2004-05	15.4	10.8	2.0	0.9	40.9	29.9	100.0
2005-06	12.9	10.4	1.7	0.5	38.9	35.6	100.0

Source: RBI Bulletin, November 2006.

\*Government not included elsewhere \*\* Include business and professional services

reversed with renewed buoyancy in travel receipts. Though in percent terms the contribution of travel to total services exports has gone down, tourism earnings continued with their buoyancy witnessed since 2003-04, reflecting both business and leisure travel.

### Software Services

India has become one of the most favoured destinations for software and IT enabled services, achieving exports of US\$ 23.6 bn in 2005-06. As the global IT spending has been expanding at a rate of above 5 per cent, global IT services market is estimated to reach US\$ 396 bn by 2005. India has remained attractive because of its low cost of operations, high quality of product and services and readily available skilled manpower. IT services exports are growing at an estimated 36 per cent and are expected to touch US\$ 18.1 bn in FY07. New areas of application and infrastructure management and testing are gaining traction with their share in the business mix growing steadily. BPO operations continue to grow in scale, the report said, as total exports for this segment are expected to exceed US\$ 8.3 bn in FY07, a growth of 32 per cent over the previous year.

Software exports remain the mainstay of the service sector with the US (67 per cent) and the UK (15 per cent) still remaining the dominant markets. FY07 export growth is likely to beat forecasts and exceed 32 per cent as firms are keenly exploring new areas for business development.

### Business and Professional Services

Business services comprise of merchanting services, trade related services, operational leasing services without operating crew, including charter hire, legal services, accounting, auditing, book keeping and tax consulting services, business and management services, advertising, trade fair, market research and public opinion polling service, research and development services, architectural, engineering and other technical services, agricultural, mining and on-site processing services, audio-visual and related services and personal and cultural services. The business services payments have also witnessed sharp increase in the recent period, reflecting the ongoing technological transformation of the economy and modernisation of Indian industry with a great deal of focus on technological upgradation on sustained basis.

Increasing traction in offshore product development and engineering services is supplementing India's efforts in its own Intellectual Property (IP) creation. This group is growing at 22-23 per cent and is expected to report US\$ 4.9 bn in exports. Worldwide technology-related spends are forecasted to reach US\$ 2.1 tn by 2010. Growth in global sourcing is expected to outpace growth in total spends, with up to US\$ 110-120 bn of the total amount spent on software and services in 2010 likely to be sourced through the global delivery models.



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## EXIMIUS CENTRE COLUMN

**I**n the third quarter of 2006-07, the Centre has organised the following programmes:

- ❖ One of the important factors for successful exports is proper compliance with export procedure and documentation requirements in conformity with the regulatory framework and guidelines, as also the uniform customs and practices relating to international trade.

To provide information on export procedures to the existing and potential SME exporters, three one day Seminars on “*Export Procedures & Documentation*” were organised at Tumkur (January 23, 2007); Cochin (February 08, 2007) and Visakhapatnam (March 02, 2007).

In these programmes, Senior officials from DGFT, Customs, RBI, ECGC, GTF and Exim Bank discussed in detail the various aspects of foreign trade policy, customs formalities, foreign exchange regulations, documentary credit, Exim Bank’s financing products and services, and export credit insurance.

- ❖ The year 2006-07 marked an important milestone in the history of Export-Import Bank of India (Exim Bank). Having commenced operations on March 1, 1982, the Bank celebrated its 25th year of contributing in its endeavour to contribute to the growth of India’s international trade through enhancing the international competitiveness of Indian corporates. As part of its Silver Jubilee celebrations, Exim Bank organised a series of seminars at select centres, highlighting key themes focussing on India’s globalisation endeavours.

The first such seminar was held in Patna, on September 09, 2006, with the theme “*Potential for Export of Agricultural Products from Bihar*”. The seminar was conducted jointly with Bihar Industries Association.

The next in the series was a seminar titled “*Globalisation Through Overseas Investment*”, held in Kolkata on November 25, 2006, conducted in association with the Indian Institute of Social Welfare and Business Management (IISWBM). A seminar on “*Potential for Export of Agricultural Products from North Eastern Region*” [in association with the Federation of Industry & Commerce in the North Eastern Region (FINER)], was held in Guwahati, on December 05, 2006. The seminar “*Trade and Investment Potential between Indian and GCC Countries*” marked the inauguration of the Dubai office of Exim Bank on December 10, 2006.

A Seminar on “*Indian Industry: Journey Towards a Borderless World*” was organised at Chennai on January 20, 2007. Dr. Vinayshil Gautam, Professor, Department of Management Studies, IIT, Delhi delivered the keynote address. Other distinguished speakers included Mr. K.V. Rangaswami, Director, Larsen & Toubro Ltd., Mr. V.M. Rajasekharan, CEO, Incense Business, ITC Ltd, Mr. M.S.N. Murthy, General Manager, Progressive Constructions Ltd.

A seminar on “*Globalisation: Opportunities and Challenges for Indian Companies*” was held on March 30, 2007 in Mumbai. Focus was on the globalisation opportunities for Indian corporates and the challenges they need to surmount in the process. Besides the keynote address of Dr. Ajay Dua, Secretary, Govt. of India, Ministry of Commerce & Industry, Dept. of Industrial Policy & Promotion, there were thematic presentations by select leading players from different sectors, who shared their experiences in their endeavours to globalise and discussed the factors that contributed to their success.

For details on future programmes contact:  
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## BOOK REVIEW

### Global Economic Prospects 2007, World Bank

“Global Economic Prospects 2007: Managing the Next Wave of Globalisation (GEP)” explores the next wave of globalisation, and builds on an analysis of short-term prospects for the world economy to present the scenario for its future, analysing the challenges that policy makers confront today in shaping the world economy of tomorrow. While the medium-term outlook for the world economy remains fairly bright, demographic trends will be a major driver of future events and the benefits of globalisation are likely to be uneven across regions and countries.

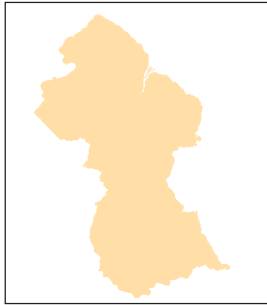
Looking at a set of growth scenarios covering the years 2006 to 2030, the report analyses the opportunities and stresses of integration in order to bring into sharper relief the choices facing the world today. Three prominent features in the next wave of globalisation are: the growing economic weight of developing countries in the international economy; the potential for increased productivity that is offered by global production chains; and the accelerated diffusion of technology. The GEP also analyses three possible consequences: growing inequality, pressures in labor markets, and threats to the global commons. All are very evident in the current wave of globalisation, but in coming years they are likely to become more acute. If these forces are left unchecked, they could slow or even derail globalisation and thus, adversely affect growth and development in many developing countries. The report is premised on the idea that the threats to continued global growth and poverty reduction from environmental damage, social unrest, or new increase in protectionist sentiment are potentially serious, and it is worth exploring ways that these disruptive forces might be addressed now, in order to see sustainable global growth in the future.



# COUNTRY SCAN

## Guyana

Guyana's economy depends largely on extractive industries and agriculture.

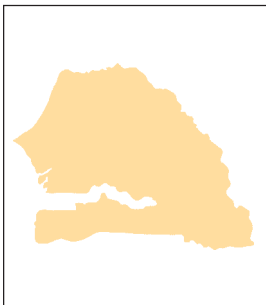


The leading exports are gold, sugar, seafood, rice, bauxite and timber. In 2005 agriculture, fishing and forestry accounted for 35% of GDP and

over 50% of exports. The sector is estimated to employ about one-third of the country's workforce. The sugar industry, which accounted for 12% of GDP in 2005, is controlled by the state-owned Guyana Sugar Corporation (Guysuco). Most of Guyana's sugar exports are sold to the EU region under a preferential trading arrangement (PTA). Economic growth prospects for the year 2007 have been subdued by falling EU sugar prices. However, the Cricket World Cup 2007 in the Caribbean region is expected to give a short-term boost to the tourism industry, hence, and thereby to real GDP growth. In August 2006, an Irish-owned company, Digicel, signed an MOU with the Govt. of Guyana for participation in Guyana's mobile communication sector.

## Senegal

In 2007, the services sector, which generates nearly two-thirds of GDP, is forecasted to grow strongly, driven mainly by the continuing rapid expansion of the telecommunications sector. Construction activity related to large infrastructure projects will also remain robust. As a result of these trends, real GDP growth is to remain strong, at 4.5% in 2007 and 4.8% in 2008. New tourist development projects are under way, some of which will be finalised during 2007 and 2008,



and these are expected to boost tourism receipts. Textile sector in Senegal has been included as one of the engines of growth. In order to promote growth in exports and employment opportunities, an industrial and commercial agreement was signed in September 2006, between a Senegalese textile company, Indosen, and the North American firm Stafford, providing for US\$ 43 mn of investments by Stafford in Senegal over three years.

## Canada

The Canadian economy is running close to full employment, putting upward pressure on wages and worker productivity. Reflecting the combination of strong household demand and business investment, it is estimated that Canadian GDP growth will average 2.5% in 2007 and 2.8% in 2008. Over the past decade, Canada has gone from a non-player in the world diamond industry to the third biggest producer after Botswana and Russia. A series of new projects are now in pipeline, which is set to expand Canada's market share. As per Statistics Canada estimates, Canadian producers' share of the world diamond market could grow to over 20% within the next five years. The global diamond giant, De Beers, is currently building two mines in the Northwest Territories and the northern Ontario.



## Netherlands

Netherlands' real GDP is expected to stabilise around 2.6% in 2007 and 2.7% in 2008, as a result of revival in investments, increase in consumer demand, and exports. The average inflation rate is forecasted to increase slightly to 1.6% in 2007 and 1.5% in 2008, due mainly to expected strong growth of economy. Business investments are buoyant due mainly to strong profits, good financing conditions, and the increased

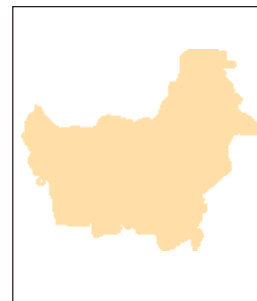
needs for modernisation. Services are the largest sector, accounting for 74.1% of total GDP, followed by industry (23.1%), and agriculture (2.8%) in 2005.



With a view to meet EU targets regarding the share of renewable energy in total energy use in a bid to cut pollution and reduce dependence upon crude oil imports, the government has introduced a compulsory rule of blending of bio-fuels with diesel and petrol, from January 2007.

## Indonesia

Real GDP growth in Indonesia is expected to accelerate to 6% in 2007, up from 5.4% in 2006, as interest rate and inflation fall, private consumption picks up and measures to improve business environment and encourage investment begin to take effect. Exports will continue to grow at slower rates of 9.8% in 2007 and 7.7% in 2008, due to weaker economic growth in Indonesia's export market and lower commodity prices. Imports, on the other hand will grow strongly



on the back of a recovery in private consumption and strengthening demand for capital and investment goods. In a drive to promote bio-fuels, an

agreement was signed for a US\$ 5.5 bn project involving Indonesia's Sinar Mas Agro Resources Technology (SMART), the state-owned China National Offshore Oil Company (CNOOC) and Hong Kong Energy (Holdings) to develop palm oil biodiesel and sugarcane and cassava-based bioethanol. The giant project, which will be implemented in three phases over eight years, includes the development of 1 mn hectare of plantations in Papua and Kalimantan.



## Currency Currents

### Yen-

The Japanese Yen appreciated 2.4% and touched 117.50 against the USD on February 27, 2007, its biggest daily correction since July 2005. A month ago on January 29, 2007, the yen touched a four year low of 122.19 against the USD as investors were borrowing cheaply in yen and investing in higher yielding assets abroad, an investment strategy known as carry trade. The yen is the lowest yielding currency among industrialised nations. The Bank of Japan's (BOJ) overnight lending rate is 0.5% p.a compared to 5.25% p.a in the United States and UK and 3.75% p.a in the Euro zone. Expectation that the BOJ would not raise its overnight lending rate again in the near future also resulted in investors selling yen in favour of higher yielding high-risk assets and using it as a funding currency in carry trade. Japan's economy is now in its largest post-war growth period. The Economic growth accelerated to an annualised 5.5% in October- December 2006 as a result of increase in personal consumption. Personal consumption makes up for 55% of GDP growth in Japan. Unemployment rate is 4.0%, which is the lowest in nine years with eight straight

quarters of growth and fastest expansion since January- March 2004. On February 27, 2007 a sudden weakness in the global equity markets triggered by a sharp fall in the Chinese equity market resulted in unwinding of carry trades. Increase in volatility coupled with risk reduction saw investors rushing to pull out of riskier assets resulting in a sharp appreciation of the yen. A major increase in risk aversion and a global equity market slump can result in further appreciation of the yen. A Reuter's poll of 60 currency strategists on Japan's foreign exchange outlook has predicted the Yen at 112.00 per dollar in 12 months. The Yen was quoted at 117.80 per USD as on **March 30, 2007**.

### Chinese Yuan-

China had followed a dual exchange rate policy since 1979. In 1994, it unified the rate to create a crawling Yuan peg. The peg allowed the Yuan to move in a band centered on a rate of 8.28 per USD. The Yuan moved in a band of 8.7 per dollar to 8.3 per dollar till the Asian financial crisis and after that remained virtually fixed at 8.28 per dollar. China revalued its currency by 2.1% on July 21, 2005 to 8.11 per dollar, changing from a fixed rate regime to a floating rate regime. Under this regime, the People's Bank of China, the Central bank, allows the Yuan to rise and fall each day by 0.3% from the Central Bank's middle rate reset each day based on previous day's close. The Chinese economy has been growing at a phenomenal pace with a GDP growth rate of 10.7% in 2006 led by exports. The growth in exports has resulted in a huge trade surplus for China. China has posted a record USD 177.47 bn trade surplus in 2006. The ideal solution for a bulging trade surplus is a stronger exchange rate. But the Yuan has gained only 4.9% since its revaluation, which

is creating trade frictions between China and its other trade partners, particularly the United States. On trade grounds, there will be pressure on China to let the Yuan appreciate further with the possible widening of the band. Dealers and economists have forecast that the Yuan could appreciate by around 5% this year compared to a gain of 3.4% last year. The Yuan touched a high of 7.7255 on **March 29, 2007** and was quoted at 7.7302 to the USD, as on **March 30, 2007**.

### South African Rand-

The South African Rand was very volatile in 2006 with the Rand touching a 3-¼ year low of 7.98 to a dollar in October 2006 as a result of inflation and increasing current account deficit. The Rand has gained since then and was quoted at 7.25 as on **March 30, 2007**. Inflation touched a three-year high of 5.1% p.a in September 2006. The current account deficit has been a major cause of concern with figures of 12.9 bn Rand in October 2006, 10.5 bn Rand in November 2006 and 11.9 bn Rand in January 2007. The Rand has gained since then on account of an increase in the price of gold and platinum. South Africa is the largest producer of gold and platinum in the world. To tackle inflation, the Reserve Bank of South Africa hiked its repo rate four times in 2006 to 9%. With the repo rate at 9%, the Rand is attractive to international currency investors who are looking for returns. The overall yield advantage of the Rand vis- a- vis the USD is likely to increase further if there is no further rate hikes by the US Federal Reserve. The Rand will remain vulnerable in the short term if there is a risk aversion to high-yielding emerging market currencies due to unwinding of carry trades or if there is a decline in commodity prices. 

## South-South Trade : Recent Features

The growing importance of developing countries as drivers of global economic growth could be largely justified by the increasing linkages in south-south trade. Gradual adoption of more outward-oriented development strategies by developing countries, trade reforms and regional trade agreements, backed by rapid economic development in some of the large developing economies, particularly China, have facilitated the strengthening of south-south trade relations. South-south exports have more than doubled to US\$ 2.04 trillion (trn) between 2000 and 2005 at a pace higher than the pace of rise in global exports. As a result, the share of south-south exports in global exports as well as in total exports of developing countries have risen steadily from 15% in 2000 to 19.8% in 2005 and from 40.8% in 2000 to 46.2% in 2005, respectively. This trend has been dominated by developing countries' growing trade relations with Asia. In 2005, 61.5% of the south-south exports were directed to Asia, which is marginally less than 63.9% recorded in 2000. China has played a crucial role in the process. Developing countries' exports to China alone has increased from US\$ 135 bn in 2000 to US\$ 379 bn in 2005, while imports from China have risen from US\$ 158 bn to US\$ 393 bn in the period.

Region-wise analysis of broad commodity categories of exports in recent years reveals that almost all the regions have substantially increased their manufactured exports to developing countries. For example, Asia's exports of manufactured

products to developing countries have increased from US\$ 647 bn in 2001 to US\$ 1.3 trn in 2005, which is reflected in the rise of share of developing countries in Asia's exports of manufactures from 51.8% to 55.7% in the period. 84.8% of such exports from Asia in 2005 were directed to Asia itself. Developing countries are also the major export markets (having a majority share) for manufactures even in the case of CIS and Middle East regions. It may be noted that in the concerned period, exports of manufactures to developing countries have risen fastest from the Middle East region, at a CAGR of 22.3% from US\$ 32 bn to US\$ 71.5 bn.

In case of agricultural products, apart from Africa, most of the exports of developing countries are directed to developing countries. For example, 69.6% of Asia's exports of agricultural products in 2005 were directed to developing countries. The importance of developing countries as destinations for agricultural exports have particularly risen in recent years in the case of CIS and South & Central America. Agricultural exports from the CIS to developing countries have more than doubled from US\$ 8.3 bn to US\$ 17.6 bn during 2001-2005. In absolute terms however, agricultural exports to developing countries are highest from Asia, amounting US\$ 1.1 trn or 69.6% of Asia's global export of agricultural products in 2005. It may be noted that though the general trend has been a greater degree of trade linkages within a region, in case of South &

Central America, the biggest destination for agricultural exports among developing countries has been Asia with total exports amounting US\$ 18.6 bn or 39.4% of the region's total exports of the same to the developing countries in 2005.

Considering fuels and mining products, though developed countries have remained the major exports markets for Africa, CIS and South & Central America, in case of Asia and the Middle East, majority of the fuel and mining exports are directed to developing countries. In 2005, 86.9% of Asia's exports of fuels & mining products and 71.1% of Middle East's exports of the same reached developing countries. In absolute terms these amounted to US\$ 2.2 trn and US\$ 2.7 trn respectively, with US\$ 4.6 trn of the total directed to Asia alone. There has also been a distinct increase in Africa's exports of fuels and mining products to Asia, from US\$ 11.8 bn in 2001 to US\$ 33.4 bn in 2005.

The news items and information published herein have been collected from various sources, which are considered to be reliable. While every care has been taken for authenticity of the material published, Exim Bank accepts no responsibility for authenticity or accuracy of such items.

Note: Indian Rupees are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

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Table : South-South Exports by Broad Commodity Categories (%)

Exporting Regions	Agricultural Products		Fuels & Mining Products		Manufactures	
	2001	2005	2001	2005	2001	2005
Africa	41.3	39.7	25.6	26.6	28.4	35.1
Asia	70.5	69.6	83.9	86.9	51.8	55.7
CIS	62.4	66.3	28.7	23.4	60.9	59.1
Middle East	66.9	68.1	68.4	71.1	50.5	52.8
South & Central America	47.4	50.5	37.2	40.2	42.7	45.5

Note: Figures relate to share of developing countries in total exports of each region.

Source: WTO