FOR PRIVATE CIRCULATION

VOL. XIX ISSUE I

EXIMIUS: EXPORT ADVANTAGE

March 2005

EXPORT-IMPORT BANK OF INDIA

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A Quarterly Publication

In this issue

Africa – An Overview of Recent Economic Developments & Challenges

Despite the many challenges facing Africa, GDP growth in the African countries has exhibited resilience in recent years. Considerable progress has been achieved through improved macro-economic management and continued structural progress in many countries. This has resulted from the strong commitments of many African governments to prudent fiscal, monetary and exchange rate policies.

According to the International Monetary Fund (World Economic Outlook, September 2004), Africa's real GDP registered a rise of 4.3% during 2003, up from 3.5% during the previous year, despite some individual countries continuing to face serious problems. Underlying the pickup in growth, have been improved macroeconomic stability, the global expansion, increased demand for commodities at higher prices, easing of external debt burden through the Heavily Indebted Poor Country (HIPC) Initiative, and improved access to industrial country markets. During 2004, real GDP growth of the African region is projected to increase to 4.5%, and further to 5.4% in 2005, coupled with slowdown in inflation rate (Table 1).

Table 1: Real GDP Growth & Inflation in Select African Countries

	Real GDP Growth (%)				Consumer Prices (%)			
	2002	2003	2004f	2005f	2002	2003	2004f	2005f
Africa	3.5	4.3	4.5	5.4	9.7	10.3	8.4	8.1
Maghreb	3.3	6.2	4.2	4.4	2.1	2.2	4.0	3.1
Algeria	4.0	6.8	4.5	4.4	1.4	2.6	5.4	4.5
Morocco	3.2	5.5	3.0	4.0	2.8	1.2	2.0	2.0
Tunisia	1.7	5.6	5.6	5.0	2.8	2.8	3.4	2.7
Sub-Sahara	3.6	3.7	4.6	5.8	12.1	12.9	9.9	9.6
Cameroon	6.5	4.5	4.8	5.1	6.3	0.6	0.8	1.9
Cote d'Ivoire	-1.6	-2.8	1.7	4.3	3.1	3.3	1.5	2.0
Ghana	4.5	5.2	5.2	5.0	14.8	26.7	10.8	6.0
Nigeria	1.5	10.7	4.0	5.9	13.7	14.4	15.8	11.4
Sudan	6.0	6.0	6.6	7.6	8.3	7.7	6.5	6.0
Congo, DR	3.5	5.6	6.3	7.0	25.3	12.8	5.0	5.0
Kenya	1.0	1.6	2.3	3.6	2.0	9.8	8.1	4.0
Tanzania	7.2	7.1	6.3	6.5	4.6	4.5	4.3	4.0
Uganda	6.8	4.7	5.7	6.0	5.7	5.1	3.5	3.5
Angola	14.4	3.4	11.2	15.5	108.9	98.3	56.1	16.5
Botswana	3.9	5.4	4.5	3.7	5.5	4.7	4.5	4.5
Namibia	2.5	3.7	3.5	3.6	11.3	7.2	5.2	6.4
Mozambique	7.4	7.1	8.4	6.8	16.8	13.5	12.9	7.8
Zambia	3.3	5.1	3.5	4.5	22.2	21.5	18.5	17.4
Zimbabwe	-11.1	-9.3	-5.2	1.8	140.0	431.7	350.0	450.0
South Africa	3.6	1.9	2.6	3.3	9.2	5.8	2.6	5.7

f -forecast

Source: IMF, World Economic Outlook, September 2004

Country specific developments have also boosted overall developments in the region. These positive developments include large increases in oil production in Angola, Chad and Equatorial Guinea, recovery in agricultural output in Ethiopia, Malawi and Rwanda, and improved security situations in Burundi and Central African Republic. While rise in global oil prices have affected oil importers, the rise in global commodity prices is expected to have a positive net impact on the trade balances of many countries.

In the sub-Saharan region, combined real GDP growth stood at 3.7% during 2003, which is projected to increase further to 4.6% in 2004, boosted by sustained growth in most countries. Inflation rate has also moderated in the region, although inflation in Angola and Zimbabwe remains an area of concern. Countries which have registered strong growth include Cameroon, Ghana, Sudan, Congo D.R., Tanzania, Uganda, Angola, and Mozambique. In the Maghreb region, economic activity was sustained with an estimated growth rate of 4.2% in 2004, as compared with 6.2% in 2003, boosted primarily by continued growth in Algeria and Tunisia.

Challenges

While growth has been resilient, Africa continues to face a wide range of development challenges, including political instability that undermine macroeconomic stability and the long-run growth potential; adverse weather conditions and natural disasters that generate high output volatility; infrastructure and health conditions that hold back productivity growth. The need for African countries to redouble their efforts is firmly articulated in the New Partnership for Africa's Development (NEPAD).

As stressed in NEPAD, a multi-faceted strategy is required to address these issues, including policies aimed at reducing conflict and improving political governance; promotion of competition, trade and foreign investment, underpinned by measures to strengthen macroeconomic policy frameworks; and a policy focus on developing the pro-poor sectors of healthcare, education, infrastructure and agriculture. Stimulus to sustained growth would emanate from the deepening of reforms, structural transformation, rebuilding institutional capabilities and sound as well as efficiently managed macro-economic policies.

Table 2: India's Trade with Africa

(US$ mn)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Exports	1922.1	2082.7	1898.3	2360.2	2897.1	3139.9	3825.3
% change		8.4	-8.9	24.3	22.7	8.4	21.8
Imports	2923.3	3816.2	6619.8	2063.3	2616.3	3446.5	3205.6
% change		30.5	73.5	-68.8	26.8	31.7	-7.0
Total Trade	4845.4	5898.8	8518.1	4423.5	5513.4	6586.4	7030.9
Trade Balance	-1001.1	-1733.5	-4721.5	296.9	280.8	-306.6	619.7

Source: Directorate General of Commercial Intelligence & Statistics (DGCIS), Ministry of Commerce and Industry (MOCI), Government of India

Regional Trading Arrangements in Africa

Since the early 1990s, many countries in Africa have made significant progress in opening up their economies to external competition through trade and exchange rate liberalisation, often in the context of IMF and World Bank supported programmes. At the same time, with creation or expansion of a number of important regional trading arrangements in other parts of the world, there has been a revival of interest among policy makers in Africa in regional integration, resulting in the establishment or renewal of such arrangements in Africa.

Major trading arrangements in Africa include the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), Southern African Customs Union (SACU), West African Economic and Monetary Union (UEMOA), Economic Community of West African States (ECOWAS), Central African Customs and Economic Union (UDEAC), Economic Community of Central African States (ECCAS), Cross Border Initiative, Economic and Monetary Community of Central Africa (CEMAC), Economic Community of the Countries of the Great Lakes (CEPGL), Indian Ocean Commission, Mano River Union (MRU).

These trading arrangements are envisaged to foster trade and investment relations amongst member countries by removal of tariffs and other impediments to intra-regional trade flows. In some cases, the arrangement also aims at fostering common economic and monetary union amongst member states, as also a common currency. The success of these arrangements in fostering intra-regional trade has been diverse, with COMESA, ECOWAS and SADC being the more successful ones.

Trends in Indo-African Trade Relations

Synergy that exists between India and Africa can be gauged from the fact that bilateral merchandise trade has risen to as much as US$ 7.03 billion in 2003-

Chart 1: India's Major Export Destinations in Africa (2003-04)

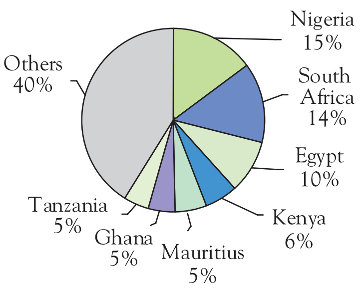


Chart 2: India's Major Import Sources in Africa (US$ Million)

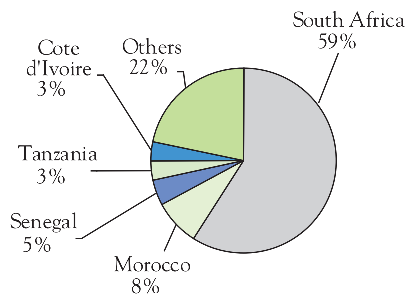


Chart 3: Major Commodities of Exports (2003-04)

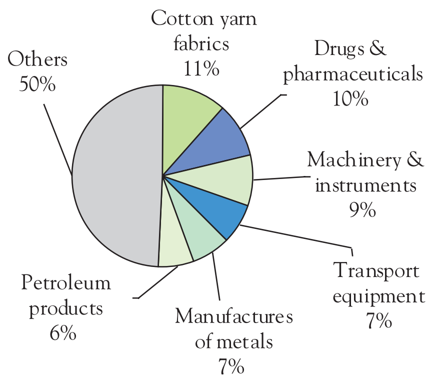
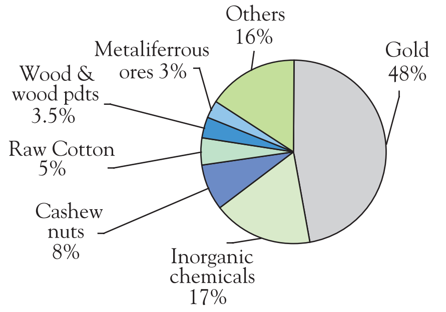


Chart 4: Major Items of Import from Africa (2003-04)



Source: Directorate General of Commercial Intelligence & Statistics (DGCIS), Ministry of Commerce and Industry (MOCI), Government of India

04 from US$ 967 million in 1990-91, due to rise in both exports to and imports from the African region (Table 2). India's exports to Africa have reached US$ 3.8 billion in 2003-04 from a relatively low figure of US$ 394 million in 1990-91. As a result, the share of Africa in India's total exports has risen from a marginal 2.2 percent in 1990-91 to a healthy 6.0 percent in 2003-04.

Concomitant rise in imports from Africa during the comparable period attest to increased two-way trade relations, wherein India's imports from Africa have risen from US$ 573 million in 1990-91 to US$ 3.2 billion in 2003-04, with a resultant 4.2 percent share in India's total imports, up from 2.4 percent share in 1990-91.

Major Trading Partners

As regards major trading partners in the African region, Nigeria replaced South Africa as the leading destination for India's exports during 2003-04, accounting for 15% of total exports to Africa. Other major export destinations include South Africa, Egypt, Kenya, Mauritius, Ghana and Tanzania (Chart 1).

As regards India's imports from Africa, South Africa dominates with a significant share of 59% of India's total imports from Africa during 2003-04. Morocco is the second largest import source, followed by Senegal, Tanzania, and Cote d'Ivoire during 2003-04 (Chart 2).

Major Traded Items

Exports

Cotton yarn and fabrics are the largest items in India's export basket to Africa, with a share of 11% of India's total exports to Africa during 2003-04. Other important items of exports to Africa include drugs and pharmaceuticals, machinery and instruments, transport equipment, manufactures of metals, and petroleum products. (Chart 3).

Imports

Chart 4 shows the major items which India imports from the African region. Import of gold dominates India's import basket from Africa with a significant share of 48% during 2003-04. Other major imports from Africa include inorganic chemicals, cashew nuts, raw cotton, wood and wood products, and metaliferrous ores and metal scrap.

PROJECT OPPORTUNITIES

Business Opportunities Update: Upcoming Projects

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Romania/ National Railway Company for Romania (CFR) 38, Contact: Mr.Vaile Tulbure, General Director, Dinicu Golescu Blvd. 010873 Bucharest 1, Romania. Tel: (40-21) 224-8406 Fax: (40-21) 222-2517 Email: volievschi@central.cfr.ro, olievski@mt.ro National Company for Motorways and National Roads Contact: Mr. Mihail Basulescu, Director General. 38 Dinicu Golescu Blvd. Floor 8, 77113, Bucharest 1, Romania. Tel: (40-21) 223-2606. Fax: (40-21) 312-0984. E-mail: and@ancnet.ro	Transport Restructuring Project/ The transport restructuring project has three components: 1) Technical cooperation and training to improve efficiency of road management and administration 2) Technical cooperation and training for the commercialisation of the railway industry. Systems for quality check 3) Provision of technical assistance to support institutional development for Ministry of Transport.	World Bank US $ 225 mn
Egypt/ Egyptian Electricity Holding Company Contact: Dr.Eng. Kamel Yassin, Executive Director Ramsis St. Ext Abbassia, Cairo 11517, Egypt. Tel: (202) 401-2368 Fax: (202) 401-1630 Email: kyassin@moee.gov.eg, necc@link.net	Eg-El Tebbin Power Project/ The objectives of the project are to build a steam-power plant with two 325-MW units, develop sector policy, implement reforms and build capacity.	World Bank US $ 250 mn
Bulgaria/ “Maritsa East 2” TPP-EAD Contact: Mr. Atanas Dimitrov 6265 Kovacvhevo Stara Zagora Distr. Bulgaria Fax : +(359) 42 662 000 Email: tec2@tpp2.com	Maritsa East II Supply and Installation of Plant and Equipment Project/ The project comprises the installation of Flue Gas Desulphurisation (FGD) plants at two units of the Maritsa East 2 lignite fired thermal power plant. The FGD plants are intended to be based on wet limestone technology	European Bank for Reconstruction and Development US $ 105.76 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. Samantha Peters on Tel: 22185272 Extn: 2313.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Poland/ Project Implementation Unit Miejskie Wodociagii Kanalizacja Sp. z o.o. W. Bydgoszczy ul. Torunska 103 85-817 Bydgoszcz Poland Tel. +(48 52) 32 32 132 Fax. +(48 52) 37 11 297	Bydgoszcz Water Infrastructure Consolidating and Financing Project/ The project includes: Refurbishment of water and waste water pipes, Construction of water and waste water pipes, Delivery and installation of network monitoring equipment, Construction of waste water treatment facilities.	European Bank for Reconstruction and Development US $ 300.10 mn
Indonesia/ PT PLN Persero Attn: Director of Generation and Primary Energy C/o Deputy Director of Primary Energy, 10th Floor, Main Bldg, Jalan Trunojoyo Blok Kebayoran Baru Jakarta Selatan 12160, Indonesia Tel: (62-21) 726-1122	Renewable Energy Development Project/ The Project comprises the design, supply, transportation, construction, installation, testing and commissioning of the complete mini hydropower project. Mini Hydro Power-Package I: Mongango (2x 600 kW), Lobong (2x 800 kW) & Merasap (2x 750 kW)	Asian Development Bank US $ 161 mn
Bangladesh/ Bangladesh Water Development Board Contact: Md. Sharif Al Kamal Project Director, JMREMP Tel: (956)- 8792 Fax: (956)- 7678 Email: jmremp@bangla.net	Agriculture & Natural Resources / Water Resources Management Project/ The project is designed to establish cost effective and sustainable riverbank erosion mitigation measures and supporting institutions to protect the livelihoods of 2 million people living in the two flood protection and irrigation schemes developed with ADB assistance.	Asian Development Bank US $ 42.20 mn
Multinational/ OMVG, 13, Passage Leblanc, B.P. 2353 Dakar, Republic of Senegal Tel: (221) 8223159 Fax: (221) 8225926 Email: omvg@omvg.sn	The Multinational Electric Power Grid Study Project/ The project comprises a hydro-electric study for the benefit of the Gambia River Basin Development Organisation (OMVG) countries	African Development Bank US $ 5.35 mn
Cameroon/ Contact:Entreprise des chantiers navals et industriels du Cameroon B.P. 2 389, Douala Tel : (237) 403-478 Email: tforce@douala1.com	Maintenance & Construction of Infrastructure for Petroleum Industry Project/ The project consists of: Construction of on-shore and off-shore platforms; Acquisition of equipment for workshop and; Capacity upgradation and management of project.	African Development Bank US $ 64 mn

CONTRACT AWARDS

Select contracts secured by Indian companies :

BMW Industries Ltd, Kolkata	Contract for the supply and delivery of steel poles, for the Rural Electrification and Network Expansion Project, secured in Bhutan, funded by Asian Development Bank.
Jagatpur Industrial Estate, Cuttack	Contract for the supply and construction of 33kV substation, for the Rural Electrification, Distribution and Transmission Project, secured in Nepal, funded by Asian Development Bank.
Global Procurement Consultants, Mumbai	Consultancy services contracted for the Strengthening of Procurement Administration, secured in Guyana, funded by World Bank.
KEC International Limited, Mumbai	Contract secured for the supply, erection and commissioning of transmission lines for three lots of the Rural Electrification Project, secured in Ethiopia, funded by African Development Bank.
C&C Constructions Pvt Ltd, Haryana	Contract secured for Construction of the Kandahar to Herat Highway Road Project, secured in Afghanistan, funded by USAID.
Kalpataru Power Transmission, Gandhinagar	Contract for 132 kv Overhead Transmission Line (OHL) for Ras Lafan – Al Sulaimi – Dukkan Project, in Qatar.

Fresh Fruits and Vegetables: India's Potential for Exports to other Asian Countries

There are over 200 countries producing various fruits and vegetables in the world. India is the second largest producer of fruits as well as vegetables following China. According to the data compiled from Food and Agriculture Organisation of the United Nations (FAO), global trade level of fruits and vegetables in 2002 was estimated to be US $ 40 billion. India's share in global exports in 2002 was 2.1% and 1.2% respectively for fruits and vegetables.

Indian Scenario

India is the second largest producer, both in fruits as well as in the vegetables category in the world. Potato is the leading vegetable produced in India, followed by eggplants, tomatoes, cassava, cabbage, dry onions and cauliflower. As regards fruits, banana is the major fruit grown in India, followed by mangoes, oranges, apples, grapes, pineapples and papayas. India exported US $ 166 million worth of fruits (including nuts) and US $ 205 million worth of vegetables in 2003-04. The exports are oriented towards Asian markets. Possible reasons for a large share targeted towards Asian markets could be proximity of the markets, relatively low transportation cost and time, and buying preferences of the consumers in these markets.

India's competitive position in Asian Region

Regionally, India is one of the top five source countries for imports of fruits and vegetables in Asia. India was ranked first as a sourcing partner for countries like Bahrain, Bangladesh, Maldives, Sri Lanka and UAE. India is ranked at second position for imports of fruits and vegetables for countries like Nepal and Qatar. However, India does not rank as a major source partner for imports of fruits and vegetables in countries like Australia, Hong Kong, Indonesia, Iran, Japan, Jordan, Republic of Korea, Lebanon, Mongolia, New Zealand, Pakistan, Philippines, Singapore, Syria and Thailand. In most of these countries, China is one of the leading source countries for import of fruits and vegetables.

Potential Markets and Products

Considering the level of imports in Asian countries, it may be concluded that India has lot of potential in many Asian markets. Potential markets to further enhance export of fruits from India, in the medium term, would be UAE, Saudi Arabia, Taiwan, Malaysia, Singapore, Kuwait, Bahrain and Qatar. In the long term, however, India should try to achieve reasonable market share in countries like Japan, Hong Kong, Republic of Korea, China, Indonesia and Philippines. As regards vegetables, in the medium term, India should focus on markets like Saudi Arabia, Singapore, Israel, Qatar, Kuwait, Pakistan and Oman. The long term plan, however, should be to reach markets like Japan, Indonesia, Hong Kong, Republic of Korea, Kuwait and Lebanon.

Potential fruits identified for increasing the exports include apples, oranges, bananas, watermelons, mandarins, pineapples, and mangoes and guavas. Potential vegetables identified by the study include garlic, cauliflower, tomatoes, potatoes, cucumbers, peas, mushrooms, onions and egg plants.

Strategies and Recommendations

Drawing from the market analysis and India's export potential, it may be concluded that export potential of fresh fruits and vegetables from India is not fully tapped. Problems that come across while exporting fresh fruits and vegetables from India include low productivity (cost competitiveness) as compared to global standards, prevalence of low level of pre-harvest / post-harvest technologies, international quality standards and existence of distortion in market channels. The following suggestions could be highlighted:

- ❖ It is imperative to gain deeper understanding of the different kinds of technologies that are essential in the pre-harvest and post harvest phase, to ensure retention of the quality of the produce. Research institutions could obtain details about the latest technology on storage of various agriculture products and then develop appropriate storage protocols to suit Indian fruits and vegetables.
- ❖ India could attract FDI from Asian countries like Japan, Republic of Korea and Singapore, for creation of cold chain infrastructure and quality / testing facilities in the farmyard. China has been successful in adopting this model and attracted significant FDI for creation of bulk freezing infrastructure for fresh fruits and vegetables.
- ❖ Research and Development, especially, with regard to development of new production varieties, identification of new applications / usage of fruits and vegetables, and innovation in supply chain management, are essential for sustainable exports. Many of the agriculture research institutions could adopt a region for development and undertake R&D, that is region specific.
- ❖ Region specific export facilitation centers could be developed considering the concentration of production of various fruits and vegetables. The role of Agri-Export Zones (AEZs) could also be emphasized further in tandem with the market requirements, especially to give specific thrust on the quality and supply chain requirements of the target markets.

Exim Bank Study on Southern African Customs Union (SACU) Countries

Exim Bank's latest Working Paper titled *"Southern African Customs Union (SACU): A Study of India's Trade and Investment Potential"* was released by H.E. Mr. Nagoum Yamassoum, The Deputy Prime Minister and Minister of Foreign Affairs, Chad, at the 1st Conclave on 'India-Africa Project Partnership 2005' in New Delhi on March 3 2005.

The Southern African Customs Union (SACU) was formed in 1910. SACU brought together the Union of South Africa (now Republic of South Africa) and the other British protectorates (or 'High Commission Territories' (HCTs) as they were called) of Bechuanaland (now Botswana), Basutoland (now Lesotho) and Swaziland. In 1990, Namibia gained its independence and became a formal contracting party to the 1969 SACU Agreement. The new SACU Agreement was signed on October 21st 2002 in Gaborone, Botswana, by the Heads-of-State of all SACU countries.

India's Trade Relations with SACU

India and SACU countries have robust trade relations, with the trade turnover (i.e. exports plus imports) increasing from US$ 900 million in 1997-98 to US$ 2.5 billion in 2003-04. Among the SACU countries, South Africa is the biggest partner accounting for more than 98% of the total trade. Thus, bilateral trade relations between India and the SACU countries depend significantly on the trend in India's bilateral trade with South Africa. Other than South Africa, India has maintained a trade surplus with the rest of the countries.

Export Potential

While India's exports to the SACU countries have witnessed positive growth during the past few years, the Study suggests that potential exists to further enhance exports to the region.

Passenger transport vehicles, machinery for SSI units, garage equipment, portland cement, medicaments, metal structure & parts and printed books & globes are some of the items with export potential in *Botswana*. Items that have export potential in *Lesotho* include goods vehicles, agricultural pumps, tractors, medicaments, portland cement, soap and wooden furniture. Passenger transport vehicles, motor vehicle parts, machinery for SSI units, medicaments and goods vehicles are some of the items that have export potential in *Namibia*. Commodities having potential to be exported to *South Africa* include passenger transport vehicles, office equipment accessories, medical instruments, electrical circuit equipments and special industrial machinery. Knitted/crocheted fabrics, agro/food processing machinery, passenger transport vehicles, goods vehicles, motor vehicle parts and wheat are some of the items that can be exported to *Swaziland*.

Investment Potential

Botswana offers opportunities for Indian investment in mining exploration, financial services, and tourism. *Lesotho* has unexploited investment potential in minerals, agro-based products and tourism. Food processing, textile & garments, tanning of hides and skins, mining and infrastructure are some areas, which offers a lot of investment opportunities in *Namibia*. *South Africa* offers opportunities in the agro-processing industry, textile clothing & apparel, manufacturing and tourism. *Swaziland* holds opportunities in the areas of agriculture, manufacturing, mining and tourism for Indian investors.

Strategy for Boosting Trade and Investment

The Study outlines strategy for enhancing bilateral trade and investment relations between India and the SACU countries, which includes among others:

- The speedy formation of the PTA between India and the SACU countries, with liberalization of the investment regime and other facilitating measures would be an important step towards realising potential bilateral trade and investment between India and the SACU region.
- Dissemination of information relating to trade/investment opportunities to potential exporters and investors in India, as also prospective partners in Africa would prove to be a critical element of the strategy to enhance India's presence in the SACU region. This can be achieved by means of trade/economic missions to and from the SACU countries, an interactive portal for identification of project profiles, partner search, and match making.
- Specialized e-learning courses for providing technology assistance, manufacturing process know-how, trouble shooting and other technical services; training facilities for African entrepreneurs and technical personnel under Government of India's Indian Technical and Economic Cooperation (ITEC) programme would also add to the entrepreneurship development of the human resources in the SACU countries.
- Indian companies can develop South Africa as a regional hub for the entire SACU region, for enhancing bilateral trade and commercial relations. The creation of such a hub would encourage and lend support to prospective companies who are interested in developing commercial relations and establishing presence in the SACU region.
- Encouraging the Indian Entertainment Industry as well as the Indian Tourist Operators to use the virgin locales in the SACU region would also facilitate the increased presence of India in the region.

Success Story – Ayushakti Ayurved Private Limited

Ayushakti Ayurved Private Limited (AAPL), Mumbai, promoted by Dr. Pankaj Naram is engaged in providing ayurvedic health care services and manufacture of herbal-based ayurvedic medicinal products. Originally incorporated in March 1988 as Dr. Pankaj Naram's Herbal Remedies Private Limited, the name of the company was later changed to AAPL in April 1998. Dr. Naram is a renowned practitioner of Indian traditional system of medicines i.e. Ayurveda and he alongwith his wife, who is also an ayurvedic physician, have been practising Ayurveda for last 20 years. Dr Naram also specialises in pulse diagnosis popularly known as 'Nadi Vijanam'. Working with 2000 year-old scriptural texts called Sidha Veda, the Narams have developed a line of over 300 ayurvedic preparations having applications as varied as food supplements, beauty care products and curative medicinal applications. AAPL's products are prepared based on principles cited in traditional ayurvedic knowledge, which aims to improve health and help prevent illness through dietary changes, lifestyle changes and purification techniques which then in turn restores balance to human body.

AAPL's manufacture facility is located at Palghar, Maharashtra. The products manufactured are classified into broad categories viz. Kwath, Churna, Ghrut and Skin care products. These products include medicines, health supplements, herbal beauty and toiletry products in the form of formulations, tablets, liquids, powders, skincare creams, ointments and oils and generic products like chyavan-prash. Besides, AAPL has also set up an Ayurvedic Health Care center in Mumbai managed by qualified doctors in ayurveda comprising Panchkarma Center, Nursing Room, Ayushakti Clinic, Health Club, Cafeteria and in-house ayurvedic medicine store. The health center also conducts training programmes in *Pulse Reading* (Marma). AAPL's in-house Quality Control department enables the Company to maintain highest quality standards required internationally. AAPL follows Good Manufacturing Practices for its manufacturing facility and has also initiated the ISO certification process.

Over the years, AAPL has expanded its horizons and started providing ayurvedic health care services in countries including Italy, Germany, Holland, USA, Canada and Australia. AAPL's ayurvedic products are marketed through clinics, which are managed in collaboration with foreign doctors having interests in Ayurveda. At present, AAPL is exporting its ayurvedic products mainly to developed country markets including USA, Italy and Holland. AAPL has established ayurvedic clinics in these markets, which offer ayurvedic consultancy similar to services offered through its own Health center based in Mumbai. Medicines prescribed through such clinics and direct supply of ayurvedic products through AAPL's marketing and promotion efforts constitute export sales of the Company.

AAPL's turnover has been showing consistent growth over the years. During the year 2003-04, AAPL recorded net sales of Rs. 934 lacs as compared to Rs. 635 lacs for the FY 2002-03, a growth of around 30%. Exports during the year 2003-04 amounted to Rs. 646 lacs reflecting export orientation of 69%.

Exim Bank's association with AAPL has been much before its growth phase, when the Company was in the process of modernising its ayurvedic manufacturing facility. Exim Bank sanctioned a term loan to AAPL to part finance the cost of setting up of manufacturing facility at Palghar. Identifying the export potential of ayurvedic products from India, Exim provided innovative financing to the Company for meeting its export financing needs enabling AAPL to establish itself as a dominant player in the international market. AAPL has since gained considerable foothold in developed overseas markets including USA and Europe. During the year 2003-04, AAPL registered a growth in exports of over 100% in one year as compared to Rs.276 lacs in FY 2002-03.

Having stabilised its operations, the Company has embarked upon a strategy to enhance its global presence through increasing international activities. AAPL is in the process of forging joint venture alliances with existing distributors and agents in foreign markets for marketing and distribution. Company also has plans to set up overseas subsidiary company to effectively control the overseas clinics whereby entire operations of these clinics would be managed and controlled by subsidiary company directly to bring operational synergy. AAPL is in the process of registering its products under the name "Ayushakti" in overseas markets such as USA and Europe. AAPL has also introduced a new range of products under the brand name "Sukhayu" which is currently being exported to USA on pilot basis.

Exim Bank's LOC to PTA Bank

Exim Bank and Eastern and Southern African Trade and Development Bank (PTA Bank) signed an Agreement in New Delhi in March 2005, for a Line of Credit (LOC) of US$ 5 million from Exim Bank to PTA Bank, to promote India's exports to 16 Eastern and Southern African member countries of PTA Bank. The Agreement was signed in the presence of Mr. Natwar Singh, Minister of External Affairs, Government of India, by Mr. T. C. Venkat Subramanian, Chairman and Managing Director of Exim Bank and Dr. Michael Gondwe, President of PTA Bank, at the periphery of the 1st Conclave on "India-Africa Project Partnership 2005" held during March 2-4, 2005. This LOC marks yet another initiative on the part of Exim Bank to promote exports from India to Africa, in line with the "Focus Africa" initiative of Government of India.

This is the sixth LOC extended by Exim Bank to PTA Bank. While the previous five LOCs are on medium term basis, this LOC is on short-term basis and is expected to give a boost to export of raw materials and commodities to the African market. Under the earlier LOCs aggregating US$ 45 million, exports of items like sugar plant, cement plant, sanitary machinery, tissue paper plant, medical equipment and pharmaceutical products, were catalyzed.

PTA Bank is a Regional Development Bank, established in 1985, with the regional member countries being Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Somalia, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. India's exports to the member countries of PTA Bank amounted to US$ 1.47 billion, in 2003-04, representing an increase of 26% over the previous year.

Exim Bank's LOC to Iran

Exim Bank of India has extended a LOC of US$ 15 million to Bank Markazi Jomhouri Islami Iran (Bank Markazi) to support India's exports to Iran. The Agreement was signed by Mr. R. M. V. Raman, Executive Director, Exim Bank and Mr. A. Erfan, Director, Bank Markazi.

The facility can be used by any of the following 6 Iranian Banks, namely, Bank Mellat, Bank Melli Iran, Bank Sepah, Bank Saderat Iran, Bank Tejarat and Bank of Industry & Mine. Under the LOC to Iran, Exim Bank would reimburse to Indian exporters 100% of contract value, upfront upon the shipment of goods. Credit period would be upto 1 year.

The LOC can be utilized for export of capital goods, plant and machinery, industrial manufactures, consumer durables and any other items eligible for being exported under the 'Foreign Trade Policy' of Government of India.

India's exports to Iran rose by more than 40% to US$ 920.02 million in 2003-04 from US$ 656.43 million in 2002-03. A number of Indian companies are engaged in negotiations with their Iranian counterparts for export of Indian equipment and technology to Iran. India's exports to Iran are expected to receive a quantum jump with the establishment of this short-term LOC to Iran by Exim Bank.

Exim Bank's LOCs afford a risk free, non-recourse export financing option to Indian exporters. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool. Exim Bank has in place a number of LOCs for promoting India's exports to countries in Africa, Asia, Latin America, and East Europe.

Exim Bank's LOC to Senegal

Exim Bank of India has extended a Line of Credit (LOC) of US$ 18 million to Government of Senegal, for financing export of 350 Tata buses to Senegal, a leading country in the Francophone West African market.
An agreement to this effect was signed in Mumbai in January 2005 by Mr. R. M. V. Raman, Executive Director of Exim Bank of India and Mr. Amadou Bocoum, Senegal's Ambassador to India.
Speaking at the occasion, Mr. T. C. Venkat Subramanian, Chairman and Managing Director, Exim Bank of India, remarked that the availability of the Credit Line from Exim Bank would enable Tata Motors to achieve this significant breakthrough in Senegal, and this could pave the way for Indian equipment, vehicles and products to penetrate the entire Francophone West African market.

While Tata's have always been active in Africa, the contract now secured by Tatas, in Senegal, with the credit support from Exim Bank, is regarded as a major achievement in a French-speaking, West African market. The 350 buses, which are expected to be exported to Senegal by Tata Motors, over the next 3 months, together with World Bank funded acquisition by Senegal of 480 Tata buses, will be put on roads in Dakar soon. This will create perceptible visibility for Indian vehicles/products/technology in this West African market.

For further information on all LOCs, please contact

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BUSINESS WITH LATIN AMERICA

Exim Bank's latest study titled 'Business with Latin America', was released at the hands of Shri Rao Inderjit Singh, Hon'ble Minister of State for External Affairs, at New Delhi. Mr. R. Viswanathan, Joint Secretary, Latin American and Caribbean Region, Ministry of External Affairs, Government of India has authored this book.

The study outlines the region's increasing stability and prosperity due to irreversibility of economic policies. The shift towards a floating exchange rate regime in most of the countries in this region ensures the timely adjustment of the exchange rate during crisis and makes the exchange rate competitive.

The study delineates that Brazil and Mexico, the biggest markets in this region, offer different platforms for entry into the region. These two regions have emerged as the largest markets in Latin America accounting for over 60 percent (US $ 541 billion) of total trade of Latin America (US $ 858 billion) . Mexico, which has replaced Japan as the second largest trading partner with USA, offers enormous business potential. Further, the study observed that Chile is another important market for Indian business as it is most transparent and well-managed market in the region. The study suggests that Indian exporters should also target Mercosur, Andean, Central American and Caribbean countries, for investment and joint ventures in areas like petroleum, mining, chemicals and information technology.

The study concludes that the growing free trade arrangements would benefit India, since such arrangements would reinforce the strength and growth of the individual countries of the region and would make them bigger and stronger markets for Indian products. The integration would also reduce the marketing efforts of Indian firms, as they could adopt a common approach for the region as a whole, the study observed.

The study outlines that regional integration continues to be an important driving force in Latin American region. It is further observed that all countries except Cuba are part of one or more regional blocs or have signed free trade agreements. The benefits of economic integration would be supported by integration of physical infrastructure including transportation, telecom and energy in the whole of south America and the 'Puebla-Panama' Plan, the study felt.

The study is of the view that the potential offered by the Latin American region is yet to be fully tapped by Indian exporters. There is need for creating substantial awareness about the potential of the region. Exim Bank brings out a quarterly bilingual (English and Spanish) publication titled 'Indo-LAC Business' to help promote awareness of the trade potential in the LAC region. Exim Bank has also extended lines of credit to financial institutions in the LAC region, covering 15 countries involving credit amounts of US $ 103 million, to support export of Indian equipment, goods and technology from India to LAC region. The 'Focus LAC' programme of Government of India and the Exim Bank's Lines of Credit initiatives would work in tandem to tap the business potential of the region.

1st Conclave on "India-Africa Project Partnership"

Recognizing the immense potential to step up trade & investment between Africa and India, Confederation of Indian Industry (CII), organized the first conclave on "India-Africa Project Partnership 2005" in New Delhi during March 2-4, 2005. Ministry of Commerce & Industry, Government of India; Ministry of External Affairs, Government of India; Export-Import Bank of India and African Development Bank partnered CII in this path-breaking initiative.

The Conclave was attended by high-powered delegations from over 20 African countries and more than 10 African financial and Development Institutions. Senior officials from the Ministry of Commerce & Industry, Ministry of External Affairs as well as the African Development Bank also attended the Conclave. The Conclave also witnessed the signing of Exim Bank's sixth Line of Credit with Eastern and Southern African Trade and Development Bank (PTA Bank) of US$ 5 million and release of Bank's Working Paper on Southern African Customs Union (SACU): A Study of India's Trade and Investment Potential.

The Conclave created platforms for decision makers from African countries and relevant multilateral, regional and national funding agencies to meet, in one place, the entire range of Indian companies involved in engineering consultancy, turnkey projects, construction and supply of project goods, among others. The Inaugural sessions of the Conclave were followed by a series of concurrent sessions covering various sectoral opportunities viz. Project Consultancy & Risk Management, Power & Energy, Education and Training, Transportation Systems, Telecom and Information Technology, Water and Sanitation, Minerals & Metals, Oil & Gas, Construction, Agricultural & Food Processing, Healthcare & Pharmaceuticals.

Biotechnology: Emerging Opportunities for India

The term biotechnology originates from "biology"- the science of living organisms and "technology"- tools and processes to make useful things. Hence, biotechnology, in a literal sense refers to the application of biological structures in organisms to useful scientific and industrial processes.

Global Biotechnology Industry

In the year 2000, the global revenues of biotechnology industry (public and private companies) were estimated to be more than US$ 70 billion, with biopharmaceuticals forming the largest chunk accounting for 60% of the market, followed by diagnostics (14%) and industrial enzymes (4%).

Based on the number of biotechnology companies (public and private), USA topped with a little less than 1500 companies, followed by Canada (470) and Germany (340). Latest data for public biotechnology companies showed that the global biotechnology revenues reached US$ 46.6 billion in the year 2003, registering a 17% growth over 2002. Region-wise, USA formed the largest chunk of revenues, at US$ 35.9 billion, which constituted 77% of the global biotechnology revenues followed by Europe (16%), Canada (4%) and Asia-Pacific (3%) in 2003. Even though net profit remained negative, it abated to a net loss of US$ 4.6 billion in 2003 as compared to US$ 12.8 billion in 2002. Globally, the top 13 blockbusters biologics had sales of US$ 21.9 billion. Company–wise, Amgen was at the top of the list with a market share of 22.9% followed by Johnson & Johnson (16.6%) and Roche including Genentech (13.5%).

Indian Biotechnology Industry

The total revenues of the biotechnology industry shot upto Rs. 3265 crore in the year 2003-04 thereby registering a 39% year-on-year growth as compared to 2002-03. Segment-wise, biopharmaceutical products formed the largest chunk having a share of 76% in total revenues, followed by bio industrial products and bio services at 8% share each in 2003-04. The total domestic sales of the biotechnology industry shot up to Rs. 1448 crore in the year 2003-04 registering a 34% year-on-year growth as compared to 2002-03. Exports performed even better; the total exports of the biotechnology industry shot up to Rs.1817 crore in the year 2003-04, thereby registering a 44% year-on-year growth as compared to 2002-03. In the year 2003-04, exports accounted for 56% of the total revenues. Biopharmaceutical products formed the largest chunk of exports having a share of 76%, followed by bio services (14%) and bio industrial products (5%) in 2003-04.

The total manpower strength in the biotechnology industry, which was around 6400 in 2002-03, increased to 9100 in the year 2003-04, thus registering a 42% growth. With respect to players, Biocon was ranked as the number one firm with total sales of Rs.502 crore, closely followed by Serum Institute of India (Rs.491 crore), and Panacea Biotech (Rs.149 crore), in 2003-04.

An analysis of India's standing in the global biotechnology industry highlights a few noteworthy points. Based on the number of biotechnology companies, both public and private, India was at 8th position having approximately 160 biotechnology companies in 2003. In the Asia-Pacific region, India was ranked at second, right after Australia, and followed by China and Taiwan. Cross-sectional analysis of data from India and global values strengthens the belief that India is a major player within the Asia-Pacific region. It also shows that even though the Indian biotechnology industry is gaining momentum both in terms of domestic sales and exports, it still continues to be small as compared to the global biotechnology industry, but with necessary measures it could become a leading player.

In terms of competitiveness analysis, paucity of data only provides some examples, which indicates that the advent of indigenous biotechnology drugs led to a substantial decrease in the prices of drugs available to the masses. It is also estimated that in the West, the cost of bringing a drug to the market is US$ 500-800 million, while it ranges from about US$ 300-500 million for India.

Opportunities & Challenges

India possesses many advantages in the form of highly productive and qualified manpower, state-of-art research labs, strong pharmaceutical sector, rich biodiversity and demography. India is already revealing its prowess in generics, clinical research and trials, bioprocessing, bioinformatics and stem cell research. However, issues pertaining to regulation of the biotechnology industry, switching to WTO compatible TRIPS, provision of sufficient venture capital funding, further improvement in the skill set of trained manpower still need to be addressed fully. In sum, if India can address these basic issues, India has the potential to advantageously ride the biotechnology wave.

Textiles Exports: Post MFA Scenario Opportunities and Challenges

The Multi-Fibre Arrangement (MFA) has governed international trade in textiles and clothing since 1974. The MFA restricted trade in textiles and clothing through a system of quotas. The Agreement on Textiles and Clothing (ATC) mandated progressive phase out of import quotas established under MFA, and the integration of textiles and clothing trading into the multilateral trading system before January 2005. The post quota regime, thus, would provide opportunities and challenges for Indian textile and clothing industry.

Potential Gains

It may be noted that clothing sector would offer higher gains than the textile sector, in the post MFA regime. It is also observed that China, India, Pakistan, Taiwan, Hong Kong, Brazil, Indonesia, Turkey and Egypt would emerge as winners in the post quota regime. The market losers in the short term (1-2 years) would include Carribean Basin Initiative (CBI) countries, many of the sub-Saharan African countries, Asian countries like Bangladesh and Sri Lanka. The market losers in the long term (by 2014) would include high cost producers. The determinants of increase / decrease in market share in the long term, however, would depend upon the cost, quality and timely delivery.

It is estimated that in the short term it would be the apparel market in USA and EU, which would be providing opportunities to developing countries like India. Labour intensity of garment manufacturing would enhance potential gains for developing countries like India.

Estimated Gains in USA and EU For China and India

(US $ Billion)

Markets	Textiles				Clothing				Total	
	Present (2003)		Future (2014)		Present (2003)		Future (2014)		2014	
Gains in	China	India	China	India	China	India	China	India	China	India
USA	3.6 (20)	1.5 (8.4)	13.0 (32)	5.0 (13.5)	12.0 (16.9)	2.3 (3.2)	67 (42)	13 (8)	80 (40)	18 (9)
EU	2.8 (5.3)	1.9 (3.2)	12 (12)	8 (8)	12.3 (12.2)	3.0 (3.0)	60 (30)	16 (8)	72 (24)	24 (8)

Source: Exim Estimates

Indian Textiles and Clothing Industry

The textiles and garments industry is one of the largest and most prominent sectors of Indian economy, in terms of output, foreign exchange earnings and employment generation. The industry includes several sub-sectors, viz., spinning, weaving, knitting and garmenting. Also, the Indian textile industry is multi-fibre based, using cotton, jute, wool, silk and man made and synthetic fibres.

Though India is one of the major producers of cotton yarn and fabric, the productivity of cotton as measured by yield has been found to be lower than many countries. The capacity and technology infusion in this sector is also low and need to be further enhanced in view of the changing fibre consumption in the world. Though there is prevalence of low cost labour, the cost of production is increased due to relatively high interest cost and power tariff. There are also structural anomalies and the productivity level is low due to technological obsolescence. Besides, very few exporters have gone in for integrated production facility. The supply chain in this industry is not only highly fragmented but is beset with bottlenecks that could very well slow down the growth of this sector.

Strategies and Recommendations

While retaining its traditional cost advantages of homegrown cotton and low cost labour, India needs to sharpen its competitive edge by lowering the cost of operations through efficient use of production inputs. There is also need for integration of manufacturing process to achieve operating leverage and demonstrate high bargaining power. This would call for turning towards high technology mode; foreign investments coupled with foreign technology transfer would help the industry to turn into high-tech mode.

The logistics and supply chain management of Indian textile firms are relatively weak and needs improvement and efficiency. Indian players should also improve upon their soft skills, viz., design capabilities, textile technology, management and negotiating skills.

Since the garment manufacturing business is order driven, there is need for changes in contract labour laws.

To sum up, the ability of Indian textile industry to take advantage of quota phase-out would depend upon their ability to enhance overall competitiveness through exploitation of economies of scale in manufacturing and supply chain. The need of the hour therefore is to evolve a well chalked out strategy, aimed at improvement in the levels of productivity and efficiency, quality control, faster product innovation, quick response to changes in consumer preferences and the ability to move up in the value chain by building brand names.

EXIMIUS CENTRE COLUMN

In the first quarter of 2005, the Centre organised the following programmes:

- Orientation Program on *'Law Relating to Export and Management'* was held at the Eximius Centre, Bangalore in January 2005, with faculty support from National Law School of India University (NLSIU), Bangalore. The seminar was addressed by Dr. V. Nagaraj, Additional Professor & Mr. O. V. Nandimath, Asst. Professor, National Law School of India University, NLSIU. Prof. Nandimath's presentations covered Law relating to contracts with special reference to Export Contracts and Product Liability. Dr. V. Nagaraj spoke on quick and amicable ways of settling disputes and dismissals of workman law and practice. There were around 20 participants, from Legal & Human Resources Development departments of manufacturing and exporting organisations.
- A Seminar on *'Business Opportunities in Bahrain'* was organised by Exim Bank in association with Economic Development Board of Bahrain (EDB) in Mumbai in February 2005. The objectives of the seminar were to create awareness and understanding of Bahrain's attributes, explain the favourable frameworks of Bahrain's commercial laws, and outline the opportunity areas, and the services and facilities offered by the Bahrain Government and its agencies. The visiting officials included Mr. Khalid Janahi, Vice-President; Ms. Vivian Jamal, International Offices Cooridinator. Mr. Humood Al-Qahtani, Consul General of Bahrain and Mr. Ganesh Raja, Country Head for Indian Operations, EDB, Bahrain, were also present. The occasion was marked by the signing of an MOU between Exim Bank and EDB.
- A Seminar on *'A Practical Guide to Marketing of Indian Products and Services in Australia'* was organised at the Centre in Bangalore in February 2005. The seminar was addressed by Mr. C Sarat Chandran, Director, Indo-Australian Chamber of Commerce; Mr. David Belham, Commissioner, Queensland Government Trade & Investment Office, India; Mr. Ashok Kumar Anchalia, Senior Advocate & Advisor, Surana & Surana International Attorneys; Mr. S. Sunderarajan, Managing Director, ANZ Information Technology Pvt Ltd; & Mr. Sampat Kasirajan, CEO, Vision Transbiz.

Other programmes on the anvil are

- Business Opportunities with Australia in ICT and Bitotech, with Invest Australia, Mumbai, April 6, 2005
- Seminar on Investment Opportunities in Hong Kong, Bangalore, April 8, 2005
- Workshop on 'Managing Exports, Imports, Customs, Foreign Exchange under Globalisation & WTO Regime' – Bangalore, April 11, 2005.
- Seminar on 'EU Market Access with emphasis on international contracting and non-tariff barriers' on May 2-4, 2005, Hyderabad, May 5-7, 2005, Mumbai, May 9-11, New Delhi
- Seminar on 'Development of Domestic Consulting Services' in association with Consultancy Development Centre (CDC) and Asian Development Bank (ADB), May 2-3, 2005 Hyderabad; May 4-5, 2005, Chennai.

The Centre welcomes suggestions on its future agenda.

For details on future programmes at Eximius Centre, contact:
Ms. Leona Pais in Bangalore on
Tel: (080) 25589106
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BOOK REVIEW

Global Economic Prospects 2005 Trade, Regionalism and Development
World Bank

The Annual World Bank publication 'The Global Economic Prospects' of 2005 deals with Trade, Regionalism and Development. The report is divided into two parts; the first part of the report is about the prospects of the global economy and the second part discusses the role of regional trade agreements in the current economic regime.

With the proliferation of regional trading agreements fundamentally changing the world trade landscape, the book discusses the reasons of formations of such agreements and the possible impact of that on world trade. The report seeks to address two broad questions regarding these agreements. First, it tries to identify what are the characteristics of regional trade agreements that strongly promote or hinder development for member countries. Secondly, it tries to find out whether the proliferation of regional trade agreements poses risks to the multilateral trading system and examines how these risks can be managed.

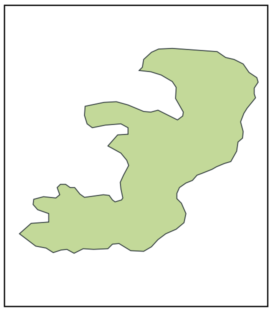
The report argues that agreements leading to open regionalism—that is, deeper integration of trade as a result of low external tariffs, increased services competition, and efforts to reduce cross-border and customs delays costs—are effective as part of a larger trade strategy to promote growth. Such regional agreements can complement a strategy that, on the one hand, includes autonomous liberalization to promote productivity gains and, on the other hand, leverages domestic reforms to enhance market access.

Although, regional agreements can prove beneficial to member countries, the report stresses that they can have adverse effects on excluded countries.

Review by: Mr. Rajarshi Majumdar
Planning & Research Group

Congo D. R.

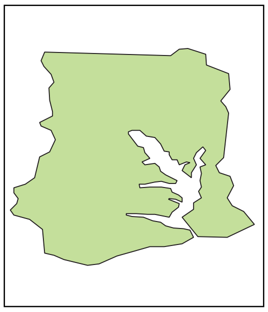
The inflow of donor funds, together with policy reforms and the opportunities for post-conflict catch up growth, will lay



the foundations for a robust recovery. The economy is thus expected to grow at 10% in 2005, slipping back to a healthy 8% in 2006. All sectors of the economy are improving, with diamond mining, construction and public works, manufacturing, transport and communications, and agriculture contributing significantly to growth. Export earnings are expected to increase. Diamond exports are expected to recover as the domestic, economic, and regulatory environments improve. Imports will also expand strongly, owing to import intensiveness of growth and as donor assistance, including capital investment flows in. The Government has unveiled a new economic plan in November 2004 – Minimum Partnership Programme for Transition and Recovery. The aim of the program is to consolidate political and economic recovery in a sustainable manner.

Ghana

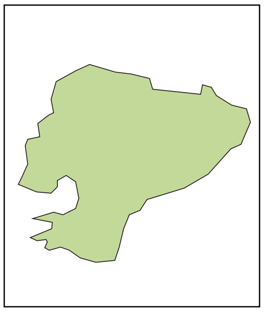
The real GDP growth of the country stood at an estimated 5.4% in 2004, exceeding the Government growth target of 5.2%.



Though almost all the sectors have contributed to this, the agricultural growth has been quite sharp owing to a rise in cocoa production. Ghana continued to run a current account surplus of an estimated US$ 191.8 million in 2004, after recording the first surplus since 1980 in 2003. The growing surplus on the current account reflects the strong performance in current transfers, offsetting the deficits on the trade, services and income accounts. The World Bank has approved US$ 125 million in finance for the West African Gas Pipeline (WAGP) Project. The Project aims to move Nigerian gas to Ghana via a 680 km sub-sea pipeline with spurs running off to Togo and Benin.

Ecuador

The Ecuadorian economy is estimated to have grown by an impressive 6.6% in 2004 with the growth impetus primarily



coming from its buoyant oil sector. Crude oil production increased by over 25% in 2004, which boosted exports of oil and oil products that constitutes over 40% of Ecuador's total exports. Other major exports include banana, canned fish and shrimps. Ecuador's foreign trade remained robust in 2004 with over 25% rise in exports and a 20% increase in imports. However, export growth was somewhat constrained on account of a weakening dollar, as its currency, Sucre is pegged to the dollar since March 2000. Recently, India and Ecuador have agreed to formalise cooperation in the hydrocarbon sector with a Hydrocarbon agreement and also form an inter-governmental mechanism to enhance cooperation in the sector. Also, the Oil and Natural Gas Corporation Limited (ONGC) has shown interest to get a stake in Canadian firm Encana's assets in Ecuador and set up a refinery in Ecuador.

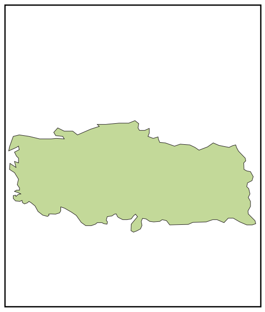
Mexico

Following three years of depressed economic growth, the Mexican economy recovered in 2004 recording an estimated real GDP growth of 4.1%. The acceleration in growth may be explained by a dynamic export sector as well as strengthening of domestic demand. Exports grew by an estimated 13% in 2004 to stand at US$ 186.3 billion, with the major demand coming from the United States, which accounts for around 88% of Mexico's total exports. Imports

also grew by a similar rate in 2004. Though Mexico sources over 60% of its imports from the US, China has emerged as its second biggest import source with a share of over 5% in total imports. Mexico's foreign trade would remain strong in 2005, with an expected gain from the recently signed free trade agreement with Japan. Mexico is India's second most important export destination in Latin America after Brazil, and during April-September 2004-05, India's exports to Mexico stood at US$178.6 million showing a 66% rise over that of the same period in the previous year.

Turkey

Strong macroeconomic performance and policy implementation have boosted market confidence, leading to diminished



financial risks and improved medium-term prospects. Real GDP growth has risen from 5.8% in 2003 to an estimated robust 9.0% in 2004, underpinned by strong consumption growth and surge in private sector investment. Driven by the strength of the lira, improvement in productivity and declining inflation expectations, consumer price inflation has declined steadily in recent years; from 45.0% in 2002 to 25.3% in 2003 and further to 10.7% in 2004. In December 2004, Turkey entered into a new US$ 10 billion three-year standby agreement for 2005-007 with the IMF, while the EU has agreed to begin accession negotiations with Turkey in October 2005.

Select Currencies

Indonesia

Indonesia adopted a managed float in August 1997 from a freely floating rupiah after a flight of capital and a collapse in its value during the 1997 Asian Financial crisis. The rupiah has appreciated from 15000 per dollar to around 7000 per dollar between 1997 and 1999 and has been fluctuating between 8000 per dollar and 10,000 per dollar during the last three years. Although Indonesia was the country worst hit by Tsunami, the economy is not expected to be affected much. Indonesian debt has enjoyed several upgrades in recent months with Fitch upgrading Indonesian debt rating to BB- in January 2005, and Moody's investors service raising its rating outlook to positive in February 2005. Rising infrastructure investment, greater trade deregulation and sustained efforts to lower business costs has resulted in Indonesian economy growing at 5.1 percent in 2004, the fastest since 1996. Foreign direct investment surged to US$ 872.1 million in January 2005 compared with US$ 260.2 million a year earlier. After the recent earthquake on March 28, 2005 the Rupiah touched a 9 month low of 9530 per dollar on March 29, 2005 and was quoted at 9475 per dollar on March 31, 2005.

Argentina

Argentina was following a currency peg system till January 2002. In January 2002, Argentina defaulted on public debt, creating the biggest sovereign debt default in history. Holding dollar denominated debt proved disastrous for Argentina. When the default happened, to sustain the dollar/peso peg, the international reserves were drained. Finally, the peg had to be removed and the currency lost 70 percent of its value. In September 2003, Argentina launched its first debt swap proposal on the guidelines of the IMF/World Bank. But investors did not show any interest as the offer meant a loss on principal of over 92 percent. In January 2005, Argentina again made an improved debt offer with a loss on principal of about 60 percent. The offer, which ended on March 4, 2005, has been a success with an acceptance rate of 76 percent. The success of the US$ 102.6 billion debt swap offer has resulted in heavy buying in the stock markets and an appreciating peso in the foreign exchange market. The peso was quoted at 2.92 to the dollar as on March 31, 2005. The peso has gained 2 percent so far in 2005. The Central bank and the state owned Banco de la Nacion has been intervening daily in the foreign exchange market to prevent the currency from appreciating sharply. The Government has targeted an exchange rate as close to 3 pesos to the dollar to keep the currency competitive for exporters.

Russia

The currency of Russia is Rouble (RUB). The Russian central bank fixes the RUB/US$ rate for the next day based on the weighted average rate of the rouble set at a joint trading session of eight exchanges across Russia. A feature of the Russian economy is that a significant part of the economy is still strongly dollarised, including the cash market. Many Russians still prefer to keep their savings in dollars after the de facto devaluation of Rouble in 1998.The Rouble was re-denominated on January 1,1998 as 1 new rouble =1000 old Rouble. In August 1998,when the Russian economy was not doing too well, the weak financial system was hit by the spillover from the Asian financial crisis. But as more and more Russians and foreign investors sold roubles and bought dollars, the central bank had to spend ever-larger amounts of its precious hard currency reserves to maintain that dollar-link. However the measures of International Monetary Fund and Russia's central bank has resulted in an economic turnaround for Russia. Russia's reserves which fell to around $12 billion at the time of the Russian economic crash in 1998 has risen to US$ 132.4 bn as on February 25, 2005. Russia is the second biggest oil exporter in the world. Strong oil prices and dollar weakness in global markets has resulted in Rouble to rally sharply against the dollar. The Rouble has hit a five-year high against the dollar on March 09, 2005. The Rouble weighted average rate for March 31, 2005 as on March 30, 2005 was 27.8256 per USD. The Russian Central Bank has been buying dollars from the market to curb the currency rise and to preserve Russia's export competitiveness. But this has resulted in the increase of Rouble liquidity in the money market causing the inflation to rise. Annual inflation was 12.7 percent in January 2005 and has exceeded the Central Bank's target of 8.5 percent. The market expects that the Central Bank intervention will decrease in the next few months to curb inflationary pressures and let the currency appreciate.

Trade and Development: Challenges for Developing Countries

Delivering the Twentieth Annual Commencement Day Lecture of Exim Bank, Mr. Rubens Ricupero, Former Secretary General, United Nations Conference on Trade and Development (UNCTAD), called to attention the need for better international arrangements in the monetary and financial areas to ensure an international system that would reduce excessive volatility in exchange rates among major currencies, and provide a measure of stability to international financial flows.

Analysing the links between trade and exchange rates, Mr. Ricupero stressed that international organisations need to take cognisance of the important role of a supportive external economic environment while focusing on domestic reforms adopted by developing countries. The problems suffered by Hong Kong and Singapore during the 1997-98 crisis, according to him, clearly demonstrate that even the very best governance in terms of institutions and policies is no guarantee against the damage wrought by a structurally flawed international monetary and financial system.

Mr. T.C. Venkat Subramanian, Chairman and Managing Director of Exim Bank, welcomed the guests and highlighted that Exim Bank's Annual Lecture series, instituted in 1986 to mark the Bank's Commencement Day, has earned recognition as an important milestone in contributing to the debate and discussions on contemporary trade and development issues impacting global economy. Mr. Tarun Das, Chief Mentor, Confederation of Indian Industry, presided over the function.

Dwelling on the remarkable stability of the international economy witnessed in recent years, despite warnings from various sections about the adverse impacts of the continued US current account, trade and budget deficits – signs of major disequilibria between the US and the rest of the world, Mr. Ricupero opined that it would be better to call the current state of affairs not one of *'unstable equilibrium'* but one of *'stable disequilibrium'* as this puzzling situation has been going on for years.

Explanation for this, according to him, lies in the exceptional nature of the current international scenario which is characterised by a combination of more or less free fluctuation among the major currencies; an unprecedented degree of capital account liberalisation; advanced stage of trade liberalisation between Western countries, in particular the US, and China and Asia; and the internationalisation of production and distribution chains of global corporations. As a consequence, major reorientation of trade flows are taking place, not because of any acquisition of new competitiveness on the part of some and competitive losses on the part of others, but purely on account of dramatic realignments among currencies.

Commenting on the proliferation of Regional Trade Agreements (RTAs) in recent years, and the issue of RTAs evolving into *'stumbling blocks'* instead of *'building blocks'* for global trade, Mr. Ricupero opined that such agreements create new obstacles to trade under the guise of complicated rules of origin or special safeguards. Further, despite the growing trends towards RTAs, such agreements would not replace the multilateral trading system for two basic reasons: developed countries themselves need a multilateral trading system for their own needs, to negotiate new rules and to solve their numerous trade conflicts, and only in a multilateral trade organisation such as the WTO can countries achieve systemic breakthroughs like the GATS, TRIPS and other areas. RTAs may help reduce the resistance to such proposals but they do not lead to truly universal deals.

Mr. Ricupero opined that the greatest of all trade challenges still remain traditional issues including the backlog of barriers and obstacles to developing countries' exports; tariff peaks on sensitive products; the abuse of antidumping and countervailing measures; and above all, the procrastination of agricultural trade liberalisation. Highlighting the emergence of China in manufactures and India in services, Mr. Ricupero concluded that protectionism, if not resisted, would certainly reinforced the old instruments of manage trade which are being threatened against the surge of Chinese textile exports and against the outsourcing of services to India.

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

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