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In this issue

Current Trends in Global Economy: An Overview

The global economy witnessed a sharp upturn during 2004, reflecting increased economic activity in both advanced economies and developing and emerging economies. According to IMF's *World Economic Outlook, April 2005*, global GDP growth increased from 4.0% in 2003 to 5.1% in 2004, with the growth projected to be maintained in 2005 (Table 1).

Growth in global output has been driven by continued growth in the US, pick up in economic activity in Japan and the Newly Industrialised Asian economies, supported by strong performance in Asia, Latin America and other emerging economies. In the advanced economies, real GDP registered a higher growth of 3.4% in 2004, as compared to 2.0% in the previous year, while developing countries and emerging markets registered a growth of 7.2% in 2004, as compared to 6.4% in the previous year.

Regional Developments

The *US economy* registered a robust real GDP growth of 4.4% in 2004, up from 3.0% in 2004, reflecting among others increased business investment and strong

Table 1: Trends in World Output and Trade (% change)

	2000	2001	2002	2003	2004	2005 p	2006 p
I. World output (real GDP)	*4.6*	*2.5*	*3.0*	*4.0*	5.1	4.3	4.4
United States	3.7	0.8	1.9	3.0	4.4	3.6	3.6
Euro Area	3.6	1.6	0.9	0.5	2.0	1.6	2.3
Japan	2.4	0.2	-0.3	1.4	2.6	0.8	1.9
NIAE*	8.5	0.8	5.1	3.1	5.5	4.0	4.8
Hong Kong	10.4	0.5	2.3	3.2	8.1	4.0	4.0
Korea	9.3	3.1	7.0	3.1	4.6	4.0	5.2
Singapore	10.3	-2.4	2.2	1.4	8.4	4.0	4.5
Taiwan	5.9	-2.2	3.6	3.3	5.7	4.0	4.3
ASEAN -4	5.1	2.9	4.3	5.4	5.8	5.4	5.8
Indonesia	4.8	3.4	3.7	4.9	5.1	5.5	6.0
Malaysia	8.3	0.3	4.1	5.3	7.1	6.0	6.2
Philippines	4.4	4.5	4.4	4.7	6.1	4.7	4.5
Thailand	4.6	1.9	5.4	6.9	6.1	5.6	6.2
Latin American countries	4.0	0.7	-0.1	2.2	5.7	4.1	*3.7*
Africa	3.0	3.7	3.5	4.6	5.1	5.0	*5.4*
CIS countries	8.4	6.4	5.1	7.9	8.2	6.5	6.0
Central & Eastern Europe	3.8	3.1	4.4	4.6	6.1	4.5	4.5
II. World trade (vol. Gr. - %)	*13.3*	*-0.3*	*3.5*	*5.3*	*10.7*	*7.9*	*8.0*
Global Exports (US$ bn)	*6,295*	*6,032*	*6,304*	*7,352*	*8,902*	*10,129*	*10,900*

*Note: P = Projections, * NIAE - Newly Industrialised Asian Economies*
Source: World Economic Outlook, April 2005, IMF

profitability, and increased labour productivity. While strong growth in the US has underpinned the upturn in global output, the continued current account deficit of the US remains a matter of concern. In *Canada*, economic expansion gained momentum with real GDP growth at 2.8% in 2004, as compared to 2.0% in the previous year. Increased employment and personal consumption, buoyant business investment and profitability, and strong exports have contributed to overall economic activity during 2004.

A broad based recovery was also evident in the *Euro area* with higher growth of 2.0% in 2004, as compared to 0.5% in 2003, although the upturn has been heavily dependent on external demand. During the second half of 2004, however, domestic demand remained subdued while appreciation of the Euro impacted export growth. Final domestic demand remained strong in France and Spain, although weaker in Italy and Germany. Sustaining the upturn in the Euro area would be contingent upon the region's ability to successfully encounter the challenge of integrating the ten new accession economies into the common market of the European Union. Outside the Euro area, growth remained robust in the UK, underpinned by continued wage growth and strong corporate profits. During 2004, real GDP growth stood at 3.1%, as compared to 2.2% during the previous year.

In *Japan*, real GDP rose by 2.6% during 2004, as compared to 1.4% during the previous year, despite a slowdown in growth momentum in the last three quarters of 2004, owing to weaker global demand for IT products which impacted exports and private sector investment growth. Economic fundamentals have improved in recent years reflected in stronger corporate profitability, strengthened financial position of the banking sector, among others. In the medium term, growth prospects are underpinned by continued progress in reducing financial vulnerabilities in the corporate and banking sectors.

In the *Asian region*, real GDP growth remained strong at 7.8% in 2004, as compared to 7.4% during the previous year, underpinned by increased economic activity in China, the ASEAN region and South Asia. Despite a slowdown in fixed investment in the second quarter, economic activity remained strong in China with real GDP growth of 9.5% in 2004, as compared to 9.3% in the previous year. Continued strong growth in China has in turn boosted economic activity in the rest of East Asia, although GDP growth rates vary across countries depending on the strength of domestic demand. In the ASEAN region, Indonesia, Thailand, Philippines and Malaysia registered a combined real GDP growth of 5.8% in 2004, as compared to 5.4% in 2003.

The newly industrialised Asian countries, viz. Korea, Hong Kong, Singapore and Taiwan, also registered upturn in economic activity, with a combined real GDP growth of 5.5% in 2004, as compared to 3.1% during the previous year. In South Asia, economic activity has been boosted by strong growth in India underpinned by global expansion and supportive monetary conditions, improved macroeconomic performance in Pakistan which has reduced external vulnerabilities, and strong growth in Bangladesh.

In *Africa*, real GDP growth increased to 5.1% in 2004 from that of 4.6% in 2003, supported by the strength of the global economy, including high oil and commodity prices, improved macroeconomic policies and progress with structural reforms. Developments in specific countries have also boosted overall growth, including large increase in oil production (Angola, Chad and Equatorial Guinea), and recovery in agricultural output (Ethiopia and Rwanda). On the inflation front, improved macroeconomic policies have resulted in relatively moderate inflation rates across the region, with the exception of Zimbabwe where inflation remains a matter of concern. In South Africa, real GDP registered a higher growth of 3.7% in 2004, as compared to 2.8% in the previous year, due to buoyant domestic demand and expansionary fiscal policy.

In the *Middle East*, real GDP growth remained strong at 5.5% during 2004, as compared to 5.8% during the previous year, underpinned by a substantial rise in export earnings and supported by sound financial policies and progress with structural reforms. Reflecting these, the region has registered a large current account surplus. Growth in non-oil producing countries in the region has also remained strong, boosted by positive impact of domestic reforms and growth in the oil-producing countries. In Saudi Arabia, real GDP growth stood at 5.3% in 2004, while Kuwait also registered a real GDP growth of 7.2%. Iran registered a continued real GDP growth of 6.6% in 2004, underpinned by high oil prices, reforms that have boosted the non-oil sector, and expansionary monetary and fiscal policies. In Egypt, reflecting strong export performance and revival in domestic consumption, real GDP registered a higher growth of 4.1% during 2004, as compared to 3.1% in the previous year, while in Israel real GDP growth accelerated to 4.3% in 2004 from a growth of 1.3% in the previous year supported by favourable global environment and improvements in security conditions.

In *Latin America*, economic activity picked up strongly during 2004, supported by sound macroeconomic policies and structural reforms, favourable external environment, increased domestic demand, and growth in private consumption and business investment. Reflecting these, real GDP growth of the region registered a higher growth of 5.7% in 2004, as compared to 2.2% in the previous year. In the Mercosur region, Argentina registered a real GDP growth of 9.0% in 2004, as compared to 8.8% in the previous year, while Brazil recorded a real GDP growth of 5.2%, as compared to 0.5% growth in the previous year. Economic activity also picked up in the Andean region, with overall real GDP growth of 7.3% in 2004, as compared to 1.4% in 2003. Upturn in economic activity in the Andean region was underpinned by the sharp recovery in Venezuela which registered a robust growth of 17.3% in 2004, as against a decline of 7.7% in the previous year. In Mexico, economic activity picked up during 2004 with a real GDP growth of 4.4% in 2004, up from 1.6% in 2003, boosted by supportive monetary conditions and strong demand from the US.

In the *CIS countries*, real GDP growth remained strong at 8.2% in 2004, as compared to 7.9% in the previous year. High world prices and demand for crude oil and metals added to the growth momentum in the region. Buoyant export growth has been supported by strong domestic demand, with increased activity in the manufacturing and construction sectors. In Russia, economic activity remained buoyant, with soaring exports strengthening the country's external position. Real GDP growth was sustained at 7.1% in 2004, as compared to 7.3% in the previous year. In Ukraine, reflecting primarily favourable external factors including booming metal prices and increased exports, real GDP growth increased by 12.1% in 2004, as compared to 9.6% in the previous year. Strong regional growth momentum has also contributed to increased economic growth in the other CIS countries.

In *Emerging Europe*, real GDP growth has been robust during 2004 with Turkey and countries in Southern and South-eastern Europe registering sharp rise in economic activity. Rapid rise in domestic credit growth as also export growth has underlined the uptrend in economic activity. However, strong domestic demand has also led to a rise in imports leading to a widening of the current account deficits, which could pose vulnerability for the region. In Poland, reflecting strong exports and large inventory accumulation, real GDP registered a rise of 5.3% in 2004, as compared to 3.8% during the previous year. Economic activity in Hungary and Czech Republic continued to be strengthened with real GDP growth of 4.0% in 2004, as compared to 3.0% and 3.7% respectively in 2003, boosted by rebound in investment and exports. In Bulgaria and Romania, economic growth remained strong, with real GDP growth of 5.7% and 8.3%, respectively, in 2004, fueled by rapid credit growth. In the Balkan region, while growth picked up in Bosnia and Herzegovina, and in Serbia and Montenegro, current account deficits remained high, highlighting the need for structural reforms to boost export competitiveness. In Turkey, real GDP growth accelerated to 8.0% in 2004, up from 5.9% in 2003, reflecting strong macroeconomic policies and structural reforms, alongwith improved confidence, while inflation has also declined. Sustaining the growth momentum would require continued structural reforms, strengthening of the legal and supervisory system for banks, and improving the investment climate to attract FDI inflows.

World Trade

Reflecting the sharp upturn in global economic activity, and boosted by increased commodity prices, global exports rose sharply by 21.1% in 2004 to US$ 8902 billion. World prices of oil and non-fuel primary commodities registered continued rise during 2004, while prices of manufactures witnessed a slowdown. In the case of oil, world prices rose sharply by 30.7% in 2004 as compared to 15.8% rise in the previous year, while world prices of non-fuel primary commodities also registered a rise of 18.8% in 2004, as compared to 7.1% rise in 2003.
In the case of manufactures, world prices registered a lower rise of 8.8% in 2004, as compared to the sharp rise of 13.4% during the previous year.

In terms of volume, world trade registered a robust rise of 10.7% in 2004, as compared to the rise of 5.3% during the previous year. Both advanced economies as well as developing economies and emerging markets registered a rise in volume of trade. In the case of exports, advanced economies registered 8.6% rise in volume of exports in 2004, as compared to 2.9% rise in 2003, while developing economies and emerging markets registered a 13.7% rise in export volume in 2004, as compared to the 10.3% rise during the previous year. As regards imports, volume of imports rose by 9.3% in 2004 for advanced economies, while developing countries and emerging markets registered a robust 16.9% rise in volume of imports during 2004.

Outlook

The strong growth in global economic activity and trade registered in 2004 is expected to be sustained, albeit at a more moderate pace. While global GDP growth is projected at 4.3% and 4.4% in 2005 and 2006, respectively, the volume growth of world trade is projected to be robust at 7.9% in 2005 and 8.0% in 2006.

Business Opportunities Update: Upcoming Projects

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

Interested exporters need to contact the concerned Executing Agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai would be glad to be of help, if you keep us advised. Please contact Ms. Samantha Peters on Tel: 22185272 Extn: 2313.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Lebanon/ Council for Development and Reconstruction, Contact : Mr. Al-Fadl Chalak, President Tel : (961-3) 205-663 Fax : (961-1) 981-252	Bekaa Regional Water Supply and Waste Water Management Project / The project has the following three components: 1) Operate and maintain water and waste water facilities in the Bekaa Region 2) Undertake rehabilitation works using the operations and the investment fund 3) To bill and collect bills on behalf of the Regional Water Utility	World Bank US$ 35 mn
Bangladesh/ Bangladesh Railway Authority Contact: Mr. A.F. Mustafizur Rahman, Director General. Bangladesh Railway Bhaban, Abdul Ghani Road, Dhaka, Bangladesh Tel: (880-2) 956-1200 Fax: (880-2) 956-3413	Export Infrastructure Project / The project is at the stage of being identified. The objectives of the project are: 1) To explore the possibility of expanding the transportation infrastructure of both railways and ports 2) Reduce the time taken to transport export and import goods between Dhaka and Chittagong	World Bank US$ 80 mn
Bosnia & Herzegovina/ Bosnia & Herzegovina Railways Public Corporation Project Implementation Unit, Kneza Milosa 105, 74000 Doboj, Bosnia & Herzegovina Tel : (387) 53 201 000 Fax : (387) 53 241 788	Bosnia & Herzegovina Regional Railway Project / Proposed project will comprise: 1) A programme of track renewal on key sections of the north-south corridor and the east-west section 2) Rehabilitation of the station signaling system 3) Purchase of track machinery	European Bank for Reconstruction and Development US$ 85.40 mn
Azerbaijan/ Lukoil Overseas Contact: Mr. Sergey Kamyshenko Lukoil Overseas Holding Ltd 1, ul. Bolshaya Ordynka, Moscow, 115035, Russia Email: mail@lukoil-overseas.ru	LUKAGIP – Shah Deniz Gas Condensate Field Development Project / The project comprises the drilling of 9 wells at the Shah Denize field from a fixed offshore platform. After processing onshore, the gas is to be sold to Azerbaijan at the gates of the Sangachal terminal and via the South Caucasus Pipeline, to be exported to Georgia and Turkey.	European Bank for Reconstruction and Development US$ 110 mn

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Islamic Republic of Afghanistan/ Ministry of Public Works Contact: Mr. Wali Rasooli, Deputy Minister Tel No: (0093) 20-2301363	Qaisar- Bala Murghab Road Project/ (formerly Herat – Andkhoy Road Improvement II) The project will support 1) Rehabilitation of the Qaisar-Bala Murghab section (90 km) 2) Installation of road tolling facilities, including toll plazas, computers, communications equipment and weighing machines 3) Construction supervision and monitoring and 4) Incremental project management	Asian Development Bank US$ 55 mn
Regional/ Ministry of Energy Contact: Mr. D. Nurmakhmatov, Minister Academician Rajabov Street 734025, Dushanbe, Tajikistan Fax: (992 372) 358692	Regional Gas Transmission Improvement Project/ The project will encourage efficient natural gas trade between Tajikistan and Uzbekistan. The project has two main components: 1) Rehabilitate and modernise the existing gas transmission pipeline with a total length of about 115 km 2) Improve the policy, institutional and regulatory environment governing the natural gas trade between the two countries	Asian Development Bank US$ 10 mn
Egypt/ Egyptian Electricity Holding Company Ramsis St, Ext Abbassia, Cairo, 11517, Egypt Tel : (202) 401-2368 Fax : (202) 401-1630	El Kureimat Thermal Power Project/ The project consists of: 1) Supply and installation of two gas turbines (2x250 MW) 2) Two heat recovery steam generators and one steam turbine (1x250 MW) with accessories	African Development Bank US$ 239.13 mn
Uganda/ Ministry of Transport Plot 28, Kampala Road, P.O. Box 7418 Kampala, Uganda	Road Sector Support Project/ The project consists of: Civil and construction works for the upgrading of gravel surfaced road to bitumen standard with 6.0 metre wide carriageway and 1.5 metre shoulders on both sides from Kabale town through Kisoro to Bungana with a spur to Kyanika Post (98.7 km)	African Development Bank US$ 41.86 mn

CONTRACT AWARDS

Select contracts secured by Indian companies :

Krishna Traders India Ltd, Hyderabad	Contract for the supply and delivery of educational equipment, for the Primary Education Development Project – II in **Bangladesh**, funded by **World Bank**
WAPCOS (India) Ltd, New Delhi	Consultancy services contracted for the Preparation of Technical and Social Guidelines for the Implementation of Rural Sanitation & Piloting of Guidelines in **Mozambique**, funded by **World Bank**
IRCON International Ltd, New Delhi	Contract for the construction and pavement strengthening, for the Roads Network Development Project in **Nepal**, funded by **Asian Development Bank**
Birla NGK Insulators Pvt Ltd, Dist. Hoogly, West Bengal	Contract for the supply of 33 KV pin, tension and suspension insulators, for the Power Sector Development Project in **Sri Lanka**, funded by the **Asian Development Bank**
Meera & Ceiko Pumps Ltd, Hyderabad	Contract for the supply of 2,550 India Mark II Hand Pumps, for the Central Province Rural Water and Sanitation Project in **Zambia**, funded by the **African Development Bank**

Performance Highlights of the Asian Development Bank in 2004

Asian Development Bank (AsDB), a multilateral development finance institution established in 1966, is dedicated to reducing poverty in Asia and the Pacific. It is owned by 63 members, of which 45 are from Asia and the Pacific.

AsDB approved 80 loans (64 projects) and 12 equity investments valued at US$ 5.3 billion in 2004. A total of US$ 3.6 billion was disbursed; of this, US$ 2.4 billion (68%) were for public sector project loans. A total of 323 technical assistance grants amounting to about US$ 196.6 million was approved in 2004.

Of the total lending, loans with Government guarantees were over US$ 4.9 billion for 58 projects. This comprised US$ 3.7 billion for 27 loans from Ordinary Capital Resources (OCR) and US$ 1.2 billion for 47 loans from the concessional Asian Development Fund.

Official co-financing arrangements with bilateral partners and multilateral financial institutions totalled US$ 713.1 million for 24 projects and commercial co-financing totalled US$ 1.7 billion for 10 projects, of which guarantee operations amounted to US$ 75.3 million.

The largest Developing Member Country borrowers in 2004 were the *People's Republic of China* and *India*, each receiving *US$ 1.3 billion* or *24%* of the total. Sectoral distribution of total lending has witnessed a paradigm shift from social and agricultural sectors to the infrastructure sector. The transport and communications sector, received the largest share of loans (38%), followed by the energy sector (14%) and multi-sector projects (12%). Agriculture and natural resources received 3.8% of the total lending, while health, nutrition and social protection received 5.2% of the total lending.

Performance Highlights of the European Bank for Reconstruction and Development in 2004

The European Bank for Reconstruction and Development (EBRD) was established in 1991, to help build market economies and democracies in 27 countries from Central Europe to Central Asia. The EBRD is the largest single investor in the region. Its capital is provided by 60 countries and two international institutions, the European Community and the European Investment Bank.

In 2004, the EBRD financed 129 projects totalling € 4.1 billion, an increase of 11% from the 119 projects financed in 2003, totalling € 3.7 billion. During 2004, the number of projects under development increased to 150 consisting of loans and equity investments amounting to € 4.4 billion, as compared to 133 projects amounting to € 4 billion in 2003. Net cumulative business reached € 25.3 billion by the end of 2004, mobilising € 53.2 billion for a total project value of € 78.5 billion.

In the geographic distribution of investments, Russia accounted for 30% of total investments, valued at € 1.24 billion. The highest investments (47%) were made in early and intermediate countries, valued at € 1.93 billion.

As in the previous year, the EBRD focused on increased financing for small businesses in the European Union accession countries and a new programme to provide financing to local municipalities through the financial sector. In keeping with this principle, the Financial Institutions sector received 36% of total investments, followed by energy sector (19%), infrastructure sector including transport (12%), manufacturing sector (12%), and other sectors (21%).

Performance Highlights of the African Development Bank in 2004

The African Development Bank (AfDB) was established in 1964 and started operations in 1966. AfDB has temporarily relocated to Tunis, Tunisia, completing its first full year of operations there, at the end of the financial year 2004.

The African Development Bank Group consists of three institutions; the African Development Bank (AfDB), the African Development Fund (ADF) and the Nigerian Trust Fund (NTF).

The African Development Bank Group reported a total lending of US$ 4.3 billion in 2004, as compared to the US$ 2.6 billion in 2003, a significant improvement of 66.9%. Out of the total lending, the AfDB reported a lending of US$ 2.3 billion, the ADF recorded a lending of US$ 1.9 billion and the NTF registered a lending of US$ 14.37 million. Net cumulative business from 1967-2004, reached US$ 51.9 billion.

AfDB's authorised capital stood at US$ 34 billion and subscribed capital was US$ 33.54 billion at the end of the financial year 2004. ADF subscriptions were US$ 19.91 billion and NTF resources stood at US$ 540.26 million, for the financial year ended 2004.

The AfDB lending operations in 2004, continued to emphasise priority sectors like the infrastructure sector (including transportation, communication, water supply and sanitation and power supply) with an investment of US$ 1.04 billion or 39% of the total investments. Multisector projects (including public sector management and institutional capacity building), followed with an investment of US$ 698.9 million or 26% of the total investments. Agriculture and Rural Development reported investments of US$ 426.3 million or 15.8% of the total investments in 2004.

Central Asian Republics, Afghanistan & Pakistan: A Study of India's Trade and Investment Potential

Exim Bank's Occasional Paper titled *"Central Asian Republics, Afghanistan & Pakistan: A Study of India's Trade and Investment Potential"* highlights potential areas for enhancing India's trade and investment relations with the Central Asian Republics - CARs (viz. Kazakhstan, Tajikistan, Turkmenistan, Kyrgyz Republic, Uzbekistan), Pakistan and Afghanistan, and delineates strategy and recommendations to enhance commercial relations with these countries.

Reflecting, among others, investment-led growth in Kazakhstan, strong increase in industrial output and agricultural production in Tajikistan, and increased mining output in Kyrgyz Republic, the countries in Central Asia have witnessed robust economic activity and growth in recent years. GDP growth has also been strong in Afghanistan and Pakistan, underpinned by rescheduling of external debt and modernisation of the textile sector in Pakistan, and strong growth in agriculture, construction and services in Afghanistan.

India's trade with the CARs have witnessed sharp rise in recent years. India's exports to CARs have risen three-fold from US$ 46.4 million in 1997-98 to US$ 147.3 million during 2003-04, while imports from the CARs have also increased from US$ 38.8 million to US$ 50.9 million during the same period. In the case of trade with Afghanistan, India's exports to the country have risen seven-fold over the last seven years, from US$ 21.3 million in 1997-98 to US$ 145.4 million in 2003-04, while imports from Afghanistan have also risen sharply from US$ 10.7 million in 1997-98 to US$ 40.6 million in 2003-04. India's trade with Pakistan has also increased in recent years, with exports having risen two-fold from US$ 143.3 million in 1997-98 to US$ 287.3 million in 2003-04. As regards imports from Pakistan, they amounted to US$ 57.9 million in 2003-04, up from US$ 44.5 million in 1997-98.

Based on India's export capabilities and demand existing in the respective countries, potential export items to the CARs would include machinery (including harvesting, textile weaving, knitting, construction machinery, food processing, telecommunication, data processing equipments and parts); transport equipment (tractors, motor cars, goods transport vehicles, parts and accessories of motor vehicles, passenger and public transport vehicles); chemical and related products; iron and steel products; ores and minerals; petroleum products; food products; cotton yarn and fabrics; pharmaceuticals.

In Pakistan, commodities having export potential for India include chemicals and related products (paints and varnishes, medicaments, antibiotics); iron and steel products; machinery and transport equipment; food products petroleum products; car, bus and other pneumatic tyres; paper and paperboards; cotton yarn, synthetic filament yarn, textiles and garments; plastic articles. As regards Afghanistan, potential items of exports would include machinery and equipment and parts (electrical and non-electrical); transport equipment; iron and steel products; dairy produce; tea; sugar and sugar confectionery; cereal preparations; yarn and fabrics; garments; pharmaceutical products.

Based on the opportunities existing for investment, the study has also highlighted the potential sectors for investment in the CAR region, Afghanistan and Pakistan.

Strategy and recommendations to enhance two-way transfer of trade and investment between India and countries in the Central Asian region would encompass: wider dissemination of information about the opportunities and potential existing in fostering commercial relations; close linkages with Investment Promotion Agencies in the region; entrepreneurship development and capability creation in the Central Asian region by sharing experience and expertise; technology transfer and development wherein Indian companies could endeavour to emerge as key knowledge and technology partners as also suppliers of machinery and equipment; cooperation in IT sector wherein Indian IT firms could explore the opportunities in the Central Asian region, and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education; cooperation in the banking and financial sector - opening branches or representative offices in the region, and developing correspondent relations with select banks in the region; speedy creation of Transport Corridor between Indian and the Central Asian Region to facilitate bilateral trade with countries in the region; participation in Multilateral Funded Projects with increased participation by Indian project and services exporters in such projects, as also efforts to participate in provision of technical assistance in terms of project preparation and advisory services in such funded projects.

Success Story – Strides Arcolab Limited

Strides Arcolab Limited (SAL), Bangalore, established in 1990 by first generation entrepreneurs, is one of the leading exporters of pharmaceutical formulations. SAL's core business areas include manufacture and distribution of generic pharmaceuticals in various dosage forms, OTC vitamins and dietary supplements (nutraceuticals), and contract research and manufacturing. Commencing its activities in 1990 by contract manufacturing pharmaceutical formulations for the African markets, the company has over the years, developed/acquired capabilities to produce a wide variety of formulations viz., tablets, hard gelatin capsules, liquid injectibles, dry powder injectibles and is amongst the world's top five manufacturers of soft gel capsules. SAL is accredited with ISO 9001 certification and its manufacturing facilities are spread across US, Brazil, Mexico and India. SAL's formulations facilities are accredited with WHO certification for GMP and the company is an approved vendor to the World Bank and a host of other multilateral aid agencies including UNICEF, WHO, Asian Development Bank, African Development Bank and the Red Cross. SAL started its nutraceuticals business as part of its strategy to move up the value chain and tap the growing nutritional supplements market worldwide. SAL's soft gelatin facility located at Bangalore is approved by TGA, Australia and MCC, South Africa.

SAL is a professionally managed company and the Company's Board comprises seven members including four independent non-executive directors. The Board is headed by Mr. Arun Kumar, Chairman and Managing Director, who is the founder and Promoter Director. The company has grown organically as well as through mergers and acquisitions, and has formed alliances in the form of manufacturing/marketing subsidiaries/ joint ventures in US, Europe, Middle East and Latin America. The company's 11 manufacturing plants spread across the globe facilitates partnering with global organisations ranging from UNICEF and WHO-Global Drug Facility to European and American pharmaceutical multinationals and also private labelers and distribution chains. SAL is a recognised export house with a market reach of over 50 countries with more than 500 products registrations. SAL recorded net sales of Rs. 305 crore and net profit of Rs. 32 crore during 15 months ended December 2004. Sales of formulations, which are finished products ready for consumption, constituted 90% of the company's total sales. Exports during the period amounted to Rs. 267 crore constituting 88% of SAL's net sales. The consolidated sales of SAL and its group companies amounted to US$ 140 million in 2005, a CAGR of 35%. Strategically, SAL has re-oriented its positioning to capture a greater share of the regulated markets. The company's strategy in the regulated markets is based on 'leadership through partnering', which allows them to partner with the pharma majors in the regulated markets. SAL has recently launched STAR, Strides Technology and Research, housing 160 qualified R&D personnel engaged in development, regulatory, analytical and research and having facilities to perform pilot batches and stability analysis for the new products.

Exim Bank's association with SAL started in 1999-2000 for part financing SAL's overseas investment in US. Over the years, Exim Bank has played a pivotal role in the growth of the company. Though devaluation of currency of a Latin American country where SAL has a big presence, played spoil sport with SAL's financials particularly in 2002-03, Exim Bank continued its support to the company. Exim Bank extended additional finance to the company at competitive rates enabling the company to reduce its interest cost thereby improving profitability and international competitiveness during this period. Exim Bank's non-typical assistance includes enabling SAL's overseas subsidiaries raise working capital locally on the strenghts of Standby Letters of Credit provided by Exim Bank from India.

In its pursuit to become a competing major player in the global pharmaceutical industry, SAL reached a strategic alliance with the Hyderabad-based Matrix Laboratories (another client of Exim Bank), to form a merged entity namely Matrix Strides Limited, to synergise each other's strengths. Matrix is a leading Active Pharmaceutical Ingredients (API) manufacturer, while SAL is a leading manufacturer of finished dosage. Together, the merged entity is present across the entire value chain and has become India's seventh largest drug manufacturer by value.

Exim Bank's Cooperation Pacts

Exim Bank has fostered a network of alliances and institutional linkages with multilateral agencies, export credit agencies, banks and financial institutions, trade promotion bodies, and investment promotion boards to help create an enabling environment for supporting trade and investment. Beginning March 2005, Exim Bank has entered into the following Memoranda of Cooperation.

Memoranda of Understanding with Multilateral Agencies

A Memoranda of Understanding (MOU) was signed between Exim Bank and International Trade Centre (ITC), Geneva to promote export operations of Small and Medium Enterprises (SMEs). ITC is the technical cooperation agency of the UNCTAD and the World Trade Organisation (WTO) for operational, enterprise-oriented aspects of trade development. Exim Bank and ITC would work jointly in developing an innovative Enterprise Management Development Services (EMDS) programme for supporting SMEs in their globalisation efforts.

Under the EMDS, Exim Bank and ITC would jointly implement a financial model to appraise the loan proposals of SMEs differently. The model aims to decrease processing costs of financial institutions, reduce risks and transform uncertainties into calculated risks. Exim Bank, in association with ITC, would provide training and counseling to SMEs in areas such as strategy design, planning, production, marketing and management, either directly or with the support of other institutions, in order to help SMEs realise their potential. On the basis of Indian experience, ITC, in association with the Bank, will replicate the model in other developing countries.

As part of the cooperation arrangement with ITC, an official from Exim Bank has been placed as 'expert-in-residence', with ITC's headquarters in Geneva to acquire special marketing skills to assist SMEs.

An MOU was signed among Exim Bank of India and African Export-Import Bank, Andean Development Corporation and Export-Import Bank of Malaysia, under the aegis of United Nations Conference on Trade and Development (UNCTAD), for creation of a Global Network of Exim Banks and Development Finance Institutions (GNEXID). UNCTAD has been set up with the objective of integrating the developing countries into the world economy.

During the UNCTAD XI Summit, held at Brazil, it was resolved that GNEXID would be set up in the interest of enhancing global trade and South-South Trade in particular. The inputs of Exim Bank were sought by UNCTAD with particular reference to Exim Bank's experience in conceiving and nurturing the Forum of Asian Export Credit Agencies, which has been in operation since 1996. The objectives of the network are to enhance cooperation and common understanding of the various issues related to trade financing, facilitate the flow of information, share country and regional experiences and best practices in trade finance and guarantees, assist members in accessing technical assistance through research work on policy issues and common problems and help members to benefit from capacity-building and training services through sponsored events and other activities.

Memoranda of Cooperation with Trade and Investment Agencies

A Memorandum of Cooperation (MOC) was signed between Exim Bank of India and the National Bank for Foreign Economic Activity of Uzbekistan (NBFEAU). NBFEAU is the international agency of the Uzbekistan banking system. Its primary objective is to service foreign trade operations, to increase the export potential of the republic, and attract foreign investments. The MOC will facilitate the regular exchange of information on trade, business and investment opportunities between firms in India and Uzbekistan.

Exim Bank of India signed an MOC with the Serbian Investment and Export Promotion Agency (SIEPA), Serbia. SIEPA is primarily engaged in facilitating the inflow of foreign direct investments and promotion of exports from Serbia. SIEPA provides foreign investors with the research and resources to make informed decisions and helps link importers with the right producers.

An MOC was signed by Exim Bank of India with The Caribbean Association of Industry and Commerce (CAIC). CAIC is committed to facilitating the development, growth and competitive positioning of Caribbean businesses in the changing world economy by providing products and services that are of value to its members and representing their interests in regional and international fora.

Memoranda of Cooperation with NGOs

The objective of Exim Bank of India, besides facilitating India's international trade, is to create export capabilities and international competitiveness with particular focus on SMEs. Keeping this objective in mind, Exim Bank has signed an MOC with Development of Humane Action (DHAN) Foundation. The DHAN Foundation, a Madurai-based professional development organisation, works for poverty reduction through building institutions for development, innovations and improving the livelihoods of poor communities. The MOC would facilitate promotion of DHAN Foundation's products and help identify suitable buyers / partners for facilitating export business.

Performance Highlights of Exim Bank: 2004-05

Financial Performance

- Profit After Tax amounted to Rs. 258 crore as compared to Rs. 229 crore during the previous year, registering a growth of 13 %.
- Rs. 65.44 crore was paid to the Central Government as dividend, as compared to Rs. 47 crore in 2003-04.
- Capital adequacy (Capital to Risk Assets Ratio) stood at 21.58 %.

Business Performance

- During the year, 570 export contracts worth Rs. 7945 crore covering 64 countries were secured by 198 Indian exporters with Exim Bank's support.
- Loan sanctions aggregated Rs. 15853 crore, an increase of 71% from the previous year.
- Disbursements aggregated Rs. 11435 crore, an increase of 64% from the previous year.
- Loan Assets increased by 24% moving upwards to Rs.13410 crore as on March 31, 2005.
- Total Assets of the Bank exceeded Rs. 18000 crore.
- Net NPAs/Net Loan Assets stood at 0.85% showing improvement from 1.26% in the previous year.
- During the year, Bank extended 16 lines of credit (LOCs) amounting to US$ 423 million. As on March 31, 2005, the Bank has 44 LOCs with credit commitments aggregating US$ 953 mn available for utilisation, covering 68 countries in Asia, Africa, CIS and Latin America.
- Bank sanctioned and issued guarantees aggregating Rs. 1589 crore and Rs. 1660 crore respectively.
- Net profit per employee for the year 2004-05 was Rs. 1.34 crore.

Resources / Treasury:

- The Bank's debt instruments continued to enjoy the highest rating from CRISIL and ICRA viz. "AAA" and "LAAA" for bonds, and "P1+" and "A1+" for short term instruments.
- Bank has in place ratings from International Credit Rating Agencies, Moodys (Baa3), Fitch (BB+) and S&P (BB+), on par with sovereign rating. The Bank raised US$ 250 million by way of debut Eurodollar bond issue.

New Initiatives

- ♦ *Financing of Services Sector*

  The Bank extended loans to three companies in the entertainment industry. All the three Hindi films financed by the Bank, which were released during the year, proved to be box office hits, both in India and abroad.
- ♦ *Small and Medium Enterprises Group*

  With its emphasis on Small and Medium Enterprise (SME) exporters, the Bank has taken the initiative to set up an SME Group to address this sector in a focussed manner. During the year, Bank sanctioned credit facilities amounting to Rs. 133.50 crore to export oriented SMEs under the new initiative.
- ♦ *Overseas Investment Finance Programme*

  Overseas investments financed by Exim Bank during the year include acquisitions of a stainless steel plant in Indonesia; a BPO services company in the USA; a pharmaceuticals company in Denmark; an engineering company manufacturing transformers, headquartered in Belgium; an auto ancillaries unit in the USA, with both loan and equity support; finance for setting up a consumer durables dealer network in the UK as also for joint ventures in the pharmaceuticals sector in Brazil, USA and Mexico.
- ♦ *Agri Business Group*

  Bank's support to the agri sector included term finance for the food processing, floriculture, fruits and vegetables and contract farming sectors, as also pre-shipment/ post-shipment credit to finance export of agro-based products.
- ♦ *Investment in Development Bank of Zambia and West African Development Bank (BOAD)*

  Exim Bank has taken up equity in Development Bank of Zambia, and West African Development Bank (BOAD), headquartered in Togo in West Africa.
- ♦ *Publication on Food Processing Technologies*

  During the year, Bank brought out a publication titled 'Market Maker: Technology aided Business Solutions' containing project profiles in the food processing sector based on CFTRI technologies.

ADFIAP Award for Trade Development

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Development Award recognises and honours ADFIAP member institutions, which have implemented or enhanced outstanding and innovative development projects during the year.

The Bank has been conferred with the 2005 'Trade Development Award', in recognition of the Bank's Export Marketing Services programme, that proactively creates the enabling environment for Indian firms to explore newer geographies leveraging upon the Bank's extensive institutional and trade linkages. The Bank had been conferred with this award in the years 2002 and 2004 also.

Planning and Research

Research publications brought out during the year have focused on export potential of select sectors such as biotechnology, plantation, textiles, ceramic industry, as also India's trade and investment potential with ASEAN countries, Southern African Customs Union (SACU) countries, Central Asian Republics (CARs), Afghanistan and Pakistan. Bank also brought out a book titled "Business with Latin America" during the year.

ASEAN Countries: A Study of India's Trade and Investment Potential

Exim Bank's latest Occasional Paper titled "*ASEAN Countries: A Study of India's Trade and Investment Potential*" indicates high potential for enhancing India trade and investment relations with ASEAN member countries, and outlines strategies and recommendations for enhancing bilateral and commercial relations with the ASEAN region.

The ASEAN countries have witnessed a rebound in economic growth and activity, since the sharp downturn in the aftermath of the Asian crisis of 1997. Further, after a sharp downturn following the Asian crisis, ASEAN exports have witnessed a rebound in recent years, increasing from US$ 418.2 billion in 2002 to US$ 472.7 billion in 2003, and further to US$ 536.1 billion in 2004. Imports also increased from US$ 379.8 billion in 2003 to US$ 471.7 billion in 2004.

During the period 1997-98 to 2003-04, India's trade turnover (i.e. exports plus imports) with the ASEAN countries have risen two-fold from US$ 6.1 billion to as much as US$ 13.2 billion, due to a rise in both exports to and imports from these countries. India's total exports to ASEAN countries increased from US$ 2.5 billion in 1997-98 to US$ 5.8 billion in 2003-04. India's imports from ASEAN have also risen from US$ 3.6 billion to US$ 7.4 billion during the same period.

Based on India's export capabilities and demand existing in the respective countries, potential export items to the ASEAN region would include: machinery and transport equipment; chemicals and related products; food products; iron and steel; tobacco; alumina; textiles and yarn; fuels and lubricants; pearls, precious and semi-precious stones; clothing; paper and paper products; agricultural and processed foods; drugs and pharmaceuticals; auto components; construction materials; articles of leather, travel goods.

As regards investment in the ASEAN region, based on opportunities existing in the region, potential areas would include: exploration and production of oil; purchase of crude oil, gas and LNG; establishing and upgrading refineries, upgrading of gas stations; information technology; consultancy services; fisheries and ocean development; pharmaceuticals; steel wires and rods; paper grade pulp; tourism; healthcare; biotechnology; petrochemicals; precision industrial machinery and support industries; electronics and electrical industries; machinery and fabricated metal products industries; agriculture and food processing.

Strategies and recommendations to enhance bilateral relations with the ASEAN region would include, among others: taking advantage of the *geographical proximity* and the presence of a large population of Indian origin in the ASEAN region; *increased regional cooperation* to foster infrastructure development; enhancing India-ASEAN relationship towards an *Asian Economic Community* encompassing ASEAN, China, Japan, Korea and India; *wider dissemination of information* through an interactive portal and training programmes; e*ntrepreneurship development* wherein India could contribute significantly to entrepreneurship development and capacity creation in the ASEAN region; c*lose linkages with investment promotion agencies in the ASEAN region* and encouragement of partnerships with local entrepreneurs and local investment agencies; *increased presence of Indian banks and industry* to help mobilise India-based business in that region; *cooperation in entertainment and tourism sector* wherein ASEAN and India could consider joint production of films and television programmes; *cooperation in energy and IT sector* such as in oil and gas exploration and in downstream processing activities, and development of software programmes in the local languages of the ASEAN countries, and setting up a *Regional Export Credit Agency for Asia*.

Regional Integration in Asia - Case for Regional Export Credit Agency

While many countries in the Asian region have set up Export Credit Agencies (ECAs) to promote and facilitate each country's exports, ECAs in the developing world including the Asian region are unable to match credit packages offered by their counterparts in the developed countries. Further, many countries in the Asian region are relatively less developed and require substantial investment for industrial infrastructure, which could partly come from relatively better developed economies in the region by way of export credits to finance import of individual projects by the weaker economies. Most ECAs would not support export transactions to these countries, as their economic parameters may not be commercially acceptable, with the result that these economies would fall deeper into economic inactivity and low growth.

In light of these, a regional multilateral agency could, while facilitating regional trade and integration, provide credit enhancement to the relatively weaker economies thereby fostering economic growth in such economies. Towards this end, a *Regional Export Credit Agency for Asia (RECAA)* could facilitate regional economic integration through increased intra-regional trade in Asia. The objective of such a regional ECA would be to improve access to trade finance for Asian economies, through credit enhancement and risk mitigation measures and thereby, contribute to enhance intra-regional and extra-regional trade and investment.

Exim Bank's LOC To Mauritius

Export-Import Bank of India (Exim Bank) has extended a Line of Credit (LOC) of US$ 10 million to Government of Mauritius, for financing construction of Baie du Tombeau Sewerage Project in Mauritius. An Agreement to this effect was signed in Port Louis in March 2005, by Mr. R. M. V. Raman, Executive Director, on behalf of Exim Bank and by Mr. A. K. Guptar, Financial Secretary, Ministry of Finance and Economic Development, Government of Mauritius, in the presence of the Prime Ministers of the two countries.

India's exports to Mauritius amounted to US$ 203.25 million during the year 2003-2004, as compared to previous year's exports of US$ 164.79 million. India's imports from Mauritius amounted to US$ 7.56 million in the year 2003-04. India's trade surplus with Mauritius was US$ 195.69 million in 2003-04, showing an increase of 31.7% over the previous year. The LOC now extended by Exim Bank is expected to give further boost to India's exports to Mauritius and successful completion of the project can have considerable demonstration effect in the region, about India's strengths and expertise.

Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters. Exim Bank has in place 44 LOCs, covering 68 countries, with credit commitments amounting to US$ 953 million, for promoting India's exports to countries in Africa, Asia, Latin America and Europe.

For further information on all LOCs, please contact

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Seminar on 'Export Potential of Agri-products and Handicrafts'

Exim Bank organised a seminar on 'Export Potential of Agri-products and Handicrafts' at Sivagangai, a backward district in Tamilnadu in June 2005. The principal objective of the seminar was to create awareness about the opportunities for rural based products such as agriculture products and handicrafts, amongst the farmers and rural craftsmen.

The seminar was inaugurated by Shri Anandrao Vishnu Patil, IAS, District Collector, Sivagangai. In his address, Shri Patil mentioned that although Sivagangai is considered as backward district in terms of industrialisation, the region has adequate potential to grow agriculture products. Shri Patil added that the ground water sources to support the agriculture activities are relatively better in this district. In addition, the handicrafts made by the craftsmen of Chettinad would fetch greater demand in overseas markets. Shri Patil suggested organising such informative seminars to disseminate information related to markets and export opportunities for agriculture products and handicrafts produced in this district.

Shri T. C. Venkat Subramanian, Chairman and Managing Director, Export-Import Bank of India was the chief guest at the seminar. In his address, Shri Venkat Subramanian highlighted the changing environment in the global markets offering opportunities and challenges for developing countries like India. The effect of globalisation would bring vigorous competition, even in domestic market, Shri Venkat Subramanian said. Citing the example of availability of apples from Australia and USA in the domestic market, Shri Venkat Subramanian said that withstanding the competition would only be through adhering to international quality and offering the products at competitive price.

Shri Venkat Subramanian identified rural products like handmade paper, handicrafts, and gift articles made of dry flowers as potential items for exports from India. Besides, agro products like fresh fruits and vegetables (especially passion fruit, seabuckthorn fruit), organic agriculture products, medicinal plants, and plant based products (like ayurvedic medicines, cosmetics, bio-fuel, ethanol, industrial lubricants prepared from Jojoba plant) are also potential export items. In addition, rural India could also tap export opportunities in the services sector, through agri / eco tourism.

Shri Venkat Subramanian, in his address, emphasised the need for intelligent marketing of Indian handicrafts to the overseas business travellers to India. It was suggested that select Indian handicraft items, along with a brief write-up about the speciality of the product could be kept in the rooms of reputed hotels where the foreign guests stay, to facilitate purchase of such products by overseas visitors. Such strategies are successfully adopted in some Latin American and African countries.

Shri M. Kumara Raja, Secretary, Coir Board, in his address highlighted the utility of coir in manufacture of various products and related export opportunities. Shrimathi Visalakshi Ramaswamy, Chairperson, M.Rm.Rm. Cultural Foundation highlighted various activities undertaken by the organisation to nurture the handicrafts sector in the Chettinad region. Other speakers in the seminar included Shri Ganesh Khanna, Planning Officer, Tamilnadu Women Development Project, Shri M. P. Vasimalai, Executive Director, Dhan Foundation and Shri Kannappan, Assistant General Manager, NABARD.

EXIMIUS CENTRE COLUMN

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

- A Seminar on '*Investment Destination Australia*' was organised in Mumbai in April 2005, in association with Invest Australia, the Australian Government's inward investment agency. The inaugural address was delivered by Mr. Tony Burchill, Trade Commissioner, High Commission for Australia. The seminar was also addressed by Mr. Stephen Scott, General Manager, Axiss Australia and Mr. Jarrod Mander, Investment Manager (India), Invest Australia.
- A Seminar on '*Investment Opportunities in Hong Kong*' was organised at the Eximius Centre, Bangalore in April 2005, in association with Investment Promotion Agency of Hong Kong (Invest HK). The seminar was addressed by Mr. Mike Rowse, Director General, Invest HK.
- A seminar on '*India-CIS Partnership*' was held in April 2005 in Mumbai, focussing on bilateral trade and investment opportunities in this region. The Bank's study titled "Central Asian Republics, Afghanistan and Pakistan: A Study of India's Trade and Investment Potential" was released at the hands of H.E. Mr. Vyacheslav Ivanovich Trubnikov, Ambassador of the Russian Federation to India. A bilingual magazine titled "India-CIS Business" was also launched during this occasion.
- A Workshop on '*Managing Exports, Imports, Customs, And Foreign Exchange Under Globalisation and WTO Regime*' was organised in April 2005 in Bangalore.
- A Workshop on '*International Negotiations and Contracting*' was organised by Exim Bank in association with CBI (Centre for Promotion of Imports from Developing Countries), the Netherlands, during May 2005 in Hyderabad, Mumbai and New Delhi.
- A seminar on '*Development of Domestic Consulting Services*' was organised jointly by Consultancy Development Centre, Asian Development Bank and Exim Bank during May 2005 in Hyderabad and Chennai.
- A seminar on '*Total Packaging of Food, Personal Care, Pharmaceuticals and Nutraceutical Products*' was organised at the Learning Centre, Ahmedabad. The seminar was addressed by Dr. H B N Murthy, a packaging consultant, and representatives from other Indian companies.

Other programmes on the anvil include:

- '*Quality Standards for Export of Food Products*' with Central Food Technological Research Institute (CFTRI), to be held in Coimbatore in July 2005.
- Workshop on '*Marketing of Handicrafts, Gifts and Furniture to Europe*' with CBI, The Netherlands, to be held in Jaipur, New Delhi and Shillong in July 2005.
- '*A Practical Guide to Tapping International Financial Markets*' with KPMG, Bangalore in July 2005.
- '*Cutting Costs and Gaining Global Markets through Supply Chain Standards*' with EAN India, to be held in Bangalore in July 2005.
- Workshop on '*Risk Management in Foreign Currency Transactions*' with Indian Institute of Management, Bangalore (IIMB), to be held in Bangalore in August 2005.

The Centre welcomes suggestions in its future agenda.

For details on future programmes contact:
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BOOK REVIEW

Global Agricultural Trade and Developing Countries
World Bank, 2005

The World Bank publication, 'Global Agricultural Trade and Developing Countries' explores the outstanding issues in global agricultural trade policy and evolving world agricultural production and trade patterns. This book brings together background issues and inferences to guide researchers and policy makers in their global negotiations and domestic policies in agriculture.

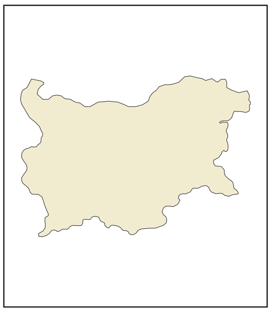
The first part of the book provides answers to the broad questions raised by researchers and policy makers regarding agricultural trade regimes and trade performance. While prior research has been conducted in this area, the analysis done here relies on new information. The book examines changes in agricultural trade flows, state of agricultural protection, trade preferences, impact of decoupling measures, impact of food product and safety standards on agro-food exports, and welfare gains from global agricultural reform.

The second part of the book covers detailed studies of commodities that are of economic importance to many developing countries, and that are significant for exports. The nine commodities selected are sugar, dairy, rice, wheat, groundnuts, fruits and vegetables, cotton, seafood and coffee. The book establishes that most of these products have highly distorted policy regimes in industrial and some developing countries. The commodity studies analyse the current trade regimes in key producing countries (including India and China) and their export markets, document the magnitude of distortions in these markets, and assess the distributional impacts (across countries and across groups of consumers, taxpayers, and producers within countries) of trade and domestic policy reforms in developing and industrial countries.

Review by: Ms. Deepa Aranha
Manager, Research & Planning Group

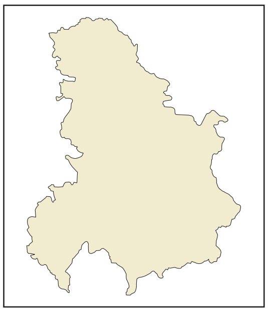
Bulgaria

Gaining from a 23% growth in manufactured output and together with a 32% increase in exports, Bulgaria registered an improved estimated growth rate of 5.5% in 2004. GDP per capita stood at US$ 3117. Following an over 6% inflation in September 2004, prices have eased and are expected to stabilise in the range of 3-4% in 2005. Bank credit growth continues to remain strong in an environment of low interest rates. Exports are expected to remain strong and projected to touch US$ 12.1 billion in 2005 from an estimated US$ 9.9 billion in 2004. Imports, driven by textiles, machinery and equipment and chemicals are projected to go up to US$ 16.1 billion in 2005 from an estimated US$ 13.2 billion in 2004. FDI inflows have remained strong in recent times and foreign exchange reserves have also risen by around 40% in 2004. Bulgaria is expected to join the European Union in January 2007.



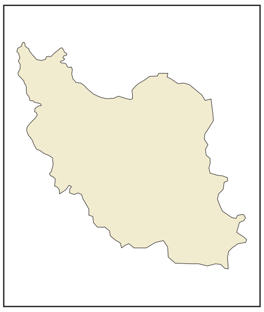
Serbia & Montenegro

Serbia & Montenegro, having a population of 10.5 million and a per capita income of US$ 2152, is estimated to have grown at 6.8% in 2004, from 2.5% in 2003. Industry, agriculture as well as services, particularly retail sales and telecom sector, boosted economic growth. The services-dominated economy has been successful in bringing down retail price inflation to 9.5% in 2004. Foreign trade amounts to 70% of GDP, primarily because of high dependence on manufactured import items. In 2004, imports and exports amounted to an estimated US$ 11.6 million and US$ 4.0 billion respectively. With the entry of foreign banks, commercial bank lending is on a rise, brightening the prospects of higher investments. Significant privatisation efforts are also being undertaken. However, the sluggish growth prospects of the EU is expected to constrain economic growth at around 5% in 2005.



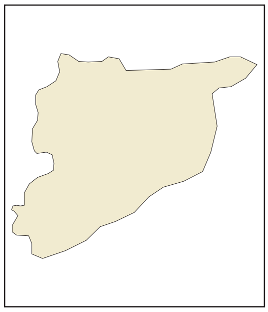
Iran

Iran is one of high growth performers in the Middle East region. In 2004, it is estimated to have grown by 6.6%. Oil accounts for 10% of Iran's GDP and two-thirds of its exports. Though oil production and construction activities slowed down in 2004, manufacturing and mining sectors grew at over 10% to give a boost to economic growth. Growth was also fuelled by an expanding credit to the private sector by the commercial banks. Iran's exchange rate has depreciated with respect to the US dollar since the single rate was introduced in 2002. This has influenced Iran's non-oil export competitiveness. Exports, which went up sharply from US$ 33.8 billion in 2003 to US$ 45.2 billion in 2004, is expected to further rise to US$ 46.6 billion in 2005. Imports are estimated at US$ 35.6 billion in 2005. Reserves have grown strongly in recent times and account for almost 11 months of import cover.



Syria

Continuing from the modest growth rate of 2.6% in 2003, the Syrian Arab Republic recorded an estimated 2.2% growth in 2004. Syria is considerably dependent on oil. However, the positive impact of high international prices has been diluted to an extent by declining output levels. Nevertheless, the government envisages greater international participation in oil exploration, production and distribution. Russian companies are already involved in a number of projects. However, the US imposed sanctions on Syria since May 2004 would influence its economic growth prospects. Domestic demand is expected to grow by 3% in 2005-06 due to higher capital spending. Exports are projected to contract to US$ 5.9 billion in 2005 from US$ 6.4 billion in 2004. Imports are expected to marginally increase to US$ 5.2 billion in 2005. Germany, Italy, France and China are the major sources of Syrian imports.



Sudan

Sudan is considerably dependent on agriculture and crude oil. Benefiting from the high global fuel prices, Sudan registered an estimated growth rate of 6.4% in 2004 and is expected to grow by 8.2% in 2005. Oil accounts for 80% of Sudan's exports, which stood at US$ 4 billion in 2004 and is projected to go up to US$ 5.8 billion in 2005. India's ONGC has invested close to US$ 2 billion in Sudan and has emerged as a major competitor for Chinese petroleum companies doing business in Sudan. The United Nations recently announced an aid programme worth US$ 1.5 billion for Sudan, which includes a planned expenditure of US$ 720 million as food aid. Reflecting a weakening dollar, Sudan's currency, Dinar, appreciated marginally in 2004 and is expected to further strengthen to around SD 253: US$ 1 in 2005.

Select Currencies

Australian Dollar

The Australian Dollar (AUD) has been floating independently against the US$ since December 1993. Since commodities account for a large proportion of Australia's exports, there is a close link between commodity prices and the Australian Dollar. When the world price of commodities rises, the Australian dollar tends to appreciate and vice versa. As a result, the Australian dollar is sometimes described as a "commodity currency". The Australian dollar hit a seven-year peak of US$ 0.8005 in February 2004 on account of the strong commodity prices and since then has been trading in US$ 0.68 to US$ 0.8 range. Of late, the US$ has been strengthening against other currencies due to the narrowing interest rate differential as the Fed had been persisting with a measured pace of tightening. However the AUD has proved resilient to the US$ strength due to the 225 basis points interest rate premium it enjoys over the US$, lower than expected trade deficit and an upward swing in commodity prices. Australian central bank's cash rate of 5.5% remains second highest among industrialised nations behind New Zealand whereas it is 3.25% in the United States and 2.0 percent in the euro zone. As of June 30, 2005, AUD was quoted at 0.7643 against the US$. The Reserve Bank of Australia (RBA) raised the interest rates by 25 basis points in March 2005 to 5.5%, citing inflation risks from high wage demands in a tight labor market and by capacity constraints after 14 years of continuous economic growth. Australian dollar is expected to continue its appreciating trend against all major cross currencies as it continues to benefit from rate premium over other developed countries and spike in commodity prices, notably base metals to which the AUD is most closely correlated.

Sri Lankan Rupee

The Sri Lankan Rupee (SLR) is being managed under floating rate regime where the exchange rate is determined by the demand for and supply of foreign currencies in the foreign exchange market, while the Central Bank intervenes mainly to smoothen out the excess liquidity. The SLR has appreciated about 5% so far in 2005, recovering most of the 7.8% fall in 2004 as the Tsunami aid inflows increased and boosted the local currency. The SLR had touched a record low of 105.52 per dollar on December 17, 2004 as a result of costly oil imports and worries over stalled peace talks between government and separatist rebels. The SLR started appreciating as the US$ 7 billion global aid pledged for tsunami started coming in and touched 97.85 against the US$ on January 10, 2005. Sri Lanka was also given a three month moratorium by the Paris Club of 19 sovereign creditors on repayment of interest and principal while the International Monetary Fund gave more time to repay the US$ 113.5 million falling due in 2005. However, the SLR's appreciation has hit export competitiveness and the Central Bank has been intervening in the market regularly to stabilise the SLR. The Sri Lankan Central Bank had raised the repo rate to 7.75% and reverse repo rate to 9.25% in May 2005 to control the impact on the economy of the influx of aid dollars and high global oil prices. Sri Lanka's inflation rose to 12.4% in May 2005, its highest level since May 2002. The increase in rates is expected to keep inflation down. Of late, however, the SLR has started depreciating and has closed at 100.10 against the US$ on June 29, 2005 due to political uncertainty. Dealers expect the SLR to depreciate to about 106 per dollar by year-end as imports pick up again.

Brazilian Real

The Brazilian Real (BRL), floating independently against the US$ since January 18, 1999, is viewed as one of the strongest currencies in emerging Latin American markets. After witnessing an average depreciation of 34% p.a. during eight years up to October 2002, the BRL has been steadily appreciating against the US$, touching a 3-year high of 2.354/US$ on June 30, 2005. This appreciation can be attributed to Brazil's high overnight interest rates, currently at 19.75% following nine consecutive Central Bank hikes. Brazil also has a comfortable trade surplus of close to US$ 12.9 billion and a current account surplus of US$ 12.7 billion so far in 2005. Analysts observe that countries with large trade surpluses and high yields are attractive to investors. For this reason, capital inflows to Brazil were heavy through April and May in spite of the high risk associated with the region. Brazil also faces concerns over BRL strength with the potential for intervention on sustained appreciation. It is also expected that there will be a sharp correction in emerging markets in general and the BRL in particular if there is strong increase in risk aversion. The BRL will be more vulnerable once domestic interest rates appear to have peaked. Overall, the forecast for the BRL is optimistic, as substantial BRL losses look unlikely.

Annual Supplement 2005 to the Foreign Trade Policy 2004-09

The Annual Supplement to the Foreign Trade Policy 2004-09, announced in April 2005, incorporates additional policy initiatives and simplify procedures, with a view to facilitating and enhancing India's international trade. The highlights of the Annual Supplement to the Foreign Trade Policy 2004-09, are as under:

Setting up of Inter State Trade Council

Coherence and consistency among trade and other economic policies of both the Union and the State Governments is important for maximising the contribution of such policies to development. It is proposed to engage the State Governments in providing an enabling environment for boosting international trade, by setting up an Inter State Trade Council.

Removal of Export Cess

The cess levied under the different Commodity Board Acts is a tax on exports, and it is therefore proposed to abolish cess on export of all agricultural and plantation commodities.

Export Promotion Capital Goods Scheme

Agriculture Sector - For providing a thrust to this sector, concessional duty imports made by agro units under the EPCG Scheme shall be allowed to fulfill the export obligation over a longer period of time with a reduced export obligation (i.e. 6 times the duty saved over a 12 year period instead of the normal window of 8 times the duty saved in 8 years).

SSI Sector - To promote capacity expansion and quality upgradation in the SSI sector, import of capital goods at 5% customs duty shall now be allowed subject to a fulfillment of an export obligation equivalent to 6 times the duty saved on capital goods imported under the EPCG Scheme over a period of 8 years.

Fast Track Companies - With a view to accelerating exports under the Scheme and to incentivise fast track companies, firms making 75% or more of the exports under the EPCG Scheme (including average level of exports) in half or less than half the original export obligation period, shall be freed from the balance export obligation.

Service Exports

To enable service providers to upgrade the infrastructure in their associate companies, the goods imported under the 'Served from India' Scheme shall be transferable within the Group companies and managed hotels subject to Actual User condition. Hotels and restaurants, will henceforth only need to submit a declaration (that the duty benefits shall be passed on to the consumer) and no CA certificate will be required to be submitted.

Agri Exports

Benefits under 'Vishesh Krishi Upaj Yojana' shall also be extended to exports of poultry and dairy products in addition to export of flowers, fruits, vegetables, minor forest produce and their value added products.

Procedural Simplification & Reduction of Transaction Costs

The DGFT has devised a single common application form called 'Aayaat Niryaat' Form. This 50 page set of forms, as against the 120 page set currently in existence, provides availability of information on DGFT related documentation at a single place and has a web interface for on-line filing by the exporter and retrieval of documents by the licensing authorities.

EDI Initiatives

DGFT shall strive to move towards an automated electronic environment for filing, retrieval and authentication of documents based on agreed protocols and message exchange with other community trade partners including Customs and Banks. A time frame of six months for complete EDI linkage between Customs and DGFT has been specified.

Trade Facilitation

DGCI&S trade data shall be made available with minimum time lag in a query based structured format on commercial criteria. To promote export of 'Minor Forest Produce' products, Shellac Export Promotion Council has been designated as a nodal EPC for minor forest produce.

Other Measures

Handloom – Government has decided to develop a trademark for Handloom on lines similar to 'Woolmark' and 'Silkmark', to enable handloom products to develop a niche market with a distinct identity.

Tea - In order to maintain quality and retain the brand equity of Indian teas, the Government has issued a new Tea (Distribution and Export) Control Order, 2005 which prescribes strict norms for tea. All teas, whether imported or exported, would be required to conform to the specifications cited in the new Order.

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

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