

# EXIMIUS:

# EXPORT ADVANTAGE



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EXPORT-IMPORT BANK OF INDIA  
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## In this issue

- **Business Opportunities** 4
- **Success Story: Dishman Pharmaceuticals & Chemicals Ltd.** 8
- **India's Organic Food Exports : Problems & Prospects** 9
- **Sharp Focus : Business Practices of Successful Indian Exporters** 16

## The ESCAP Region: An Overview

The Economic and Social Commission for Asia and the Pacific (ESCAP) comprises 52 member states and 9 associate members. At the time of its foundation, ESCAP, or the Economic Commission for Asia and the Far East (ECAFE) as it was known until 1974, was not predominantly an organization of Asian developing countries. Of the ten founders, six could be considered developed (Australia, France, the Netherlands, the United Kingdom of Great Britain and Northern Ireland, the Union of Soviet Socialist Republics and the United States of America) and only four were developing (China, India, the Philippines and Thailand). ESCAP was established with a view to bring the region's poor into the economic main-

stream, enabling members to achieve a better standard of life. Its activities now are increasingly focussing on spreading the growth momentum from its more dynamic member countries to the rest of the region.

The performance of the developing member countries in the year 2000 was quite encouraging, with GDP growth of the region estimated at around 7% in 2000. The economies in transition almost doubled their growth rate in 2000 (when compared to 1999), while within South-East Asia, Malaysia and Singapore grew at a rapid pace. Even on the export front, the achievement was commendable, with several economies in the ESCAP region registering export growth of over 20% in the year 2000. As regards the least developed countries in Asia, most of them performed marginally better in 2000. The pattern of growth within the ESCAP region displays some striking differences (Table).

### Developing Economies of the ESCAP Region

#### Asian Least Developed Countries

Most of the Asian least developed countries either maintained their recent growth performance or performed marginally better in 2000. In Bangladesh, GDP grew by 6% in 2000, as compared to 5.2% during the previous year. Inflation, too, dropped sharply, from nearly 9% in 1999 to less than 4% in 2000. Bhutan also experienced similar trends. Its GDP expanded by 6% in 2000, while the consumer price index was moderate at 4.5%. Strong growth in garment production, tourism, non-forestry agriculture and

construction pushed up the GDP in Cambodia by 5% in 1999 and further to 5.5% in 2000. Consumer prices also remained stable, with inflation falling from 4% in 1999 to 3% in 2000. Similarly, GDP in Maldives and Nepal continued to expand (although the rate of expansion in the former declined marginally from 8.5% in 1999 to 7.6% in 2000). This was concomitant with stable consumer prices across all these economies. But this was not the case with Lao People's Democratic Republic (PDR) and Myanmar. While GDP growth fell to 5.7% in Lao PDR, it shrank to 4.7% in Myanmar in 2000.

Macroeconomic forecast for the next two years are mixed. The slowdown in the global economy, especially that of USA, will have a negative impact on both economic growth and export performance. Nevertheless, the extent of the impact will only be marginal considering the fact that these economies are less dependent on the US economy.

#### South and South-West Asia

The year 2000, by and large, was a good year for the South and South-West Asian economies, with GDP growth rates ranging from 4.5% to 6%. This was concomitant with stable consumer prices, the hike in oil prices notwithstanding. The expansion in output was driven by a variety of factors, such as strong recovery in agricultural production and rejuvenated export activities. Pakistan's GDP growth of 5.6% in 2000 was the highest since 1997, while the GDP growth of Sri Lanka jumped to 6% in the same year, compared to a little over 4% in the previous year. Turkey recovered remark-



ably well, to register a 6% growth in 2000, after a decline of over 5% in 1999. Iran also exhibited dynamism, with its GDP growing by over 4% in 2000. Other countries in the sub-region also showed improved performance largely as a consequence of higher agricultural growth. The current account deficit in the sub-region also remained under control because of buoyant export performance in most of the countries.

The medium-term outlook for South and South-West Asia remains quite encouraging. With a relatively lower dependence on the US, the impact of the slowdown in the global economy would be less prominent than elsewhere in Asia. Inflation is projected to be modest, while exports would, more or less, remain dynamic.

#### **South-East Asia**

Although GDP growth in this sub-region improved from 3.4% in 1999 to 5.9% in 2000, there were signs of slowdown, especially in the second half of 2000. The sub-region, however, got a thrust with robust external demand for its products pushing up the GDP in 2000. This was further reinforced by a strong domestic demand.

GDP growth in Singapore and Malaysia shot up to 9.9% and 8.2% respectively. Assisted by a rise in oil prices, the pace of recovery in Indonesia also picked up significantly in 2000. GDP growth was relatively modest in the Philippines and Thailand, at 3.9% and 4.3% respectively, essentially on account of rising energy prices. Economic performance in Vietnam was also robust, with GDP growing at 6.8% in 2000, compared to 4.8% in 1999. Another positive feature of this sub-region was the significant decline in inflation, despite rising oil prices and large fiscal deficits in several countries. Indonesia registered the most notable decline in inflation. The rate of increase in consumer prices was less than 4% for 2000, compared to 20.5% in the previous year. In addition, surplus on the external current accounts was maintained in all the countries of South East Asia, though they narrowed down considerably due to

recovery in imports.

#### **East and North-East Asia**

GDP growth in China accelerated to 8% in 2000 from 7.3% in 1999 largely because of increased industrial growth and domestic investment. After two years of continuous deflation, consumer price index rose marginally by 0.4% in 2000. Another bright feature was the strong export growth of nearly 28 percent in 2000, aided by a strong recovery of the countries affected by the Asian financial crises. However, reflecting a slower global economy, export growth is forecast to decline to about 10-15 percent in the next two years. Furthermore, with its expected entry into WTO and the resulting liberalisation in trade policies, imports will continue to grow faster than exports in the next few years. Consequently, the current account surplus will gradually decline.

Hong Kong and Taiwan also exhibited robust performances with their GDP growing by 10.5% and 6.4% respectively in 2000. Meanwhile, there were signs of a slight slowdown in the Republic of Korea with its GDP growth slowing down to 8.8% in 2000, from almost 11% in 1999.

#### **North and Central Asia**

Most economies of this sub-region – with the exception of Mongolia – are now recovering from the economic downturn that they experienced in the last decade. The improvement in the Russian economy and the rise in international energy prices have helped generate strong aggregate GDP growth of almost 8% in 2000. More importantly, this improved growth performance has been achieved along with overall macroeconomic stability. The export earnings of the sub-region increased from virtually zero to about 25% in 2000, largely because of high international oil and gas prices and greater access to pipelines and other supply outlets. Nonetheless, the aggregate level of inflation in these countries remained high at around 15% in 2000.

Russia registered one of the best economic performances of the last thirty

years in 2000. While GDP growth rose to more than 8%, inflation continued to decline sharply. On the external side, the current account surplus was much larger than expected, mainly because of the sharp increase in oil prices and the devaluation of the Rouble in 1998. There was also a significant degree of geographical diversification as exports to countries outside CIS also soared.

Economic growth for the sub-region is expected to remain positive, though lower than in 2000 as oil prices are expected to soften. Consumer prices are also expected to remain stable, although the agricultural performance would remain weak due to adverse weather forecasts for the next two years.

#### **Pacific Island Economies**

GDP growth in this sub-region contracted sharply in the year 2000. The political crises and civil unrest in Fiji and Solomon Islands contributed to a substantial contraction in their total output. In most cases, the growth rate recorded was lower than in 1999. In fact, the aggregate real GDP of this sub-region declined by more than 3% in 2000 compared to a 3.9% growth in the previous year. Inflation in the sub-region was generally on the decline, largely due to a fall in demand. On the external front, the balance of payments position deteriorated in most of these economies mainly due to higher oil price in 2000.

With a gradual return towards normalcy in the Fiji and Solomon Islands, and the reforms underway in Papua New Guinea, the medium term prospects are positive for the Pacific region. Inflation is expected to fall in response to rebounding currencies and lower oil prices. However, outlook on the external front would continue to be fragile.

#### **Developed Economies of the ESCAP Region**

##### **Australia, New Zealand and Japan**

The pattern of economic growth registered in the three developed countries was quite dissimilar. While Australian economy continued to expand at an

## Selected Economies of the ESCAP Region : Real GDP & Consumer prices

(Percentage)

|   | Real GDP Growth   |                         |                   | Inflation<br>(Average Consumer Price Index) |                         |                   |
|---|-------------------|-------------------------|-------------------|---|-------------------------|-------------------|
|   | 1999              | 2000                    | 2001 <sup>c</sup> | 1999  | 2000                    | 2001 <sup>c</sup> |
| <b>Developing economies of the ESCAP region</b> | <b>6.1</b>        | <b>7.1<sup>b</sup></b>  | <b>6.0</b>        | <b>2.8</b>                                  | <b>2.7<sup>b</sup></b>  | <b>3.7</b>        |
| <b>South and South-West Asia</b>                | <b>5.2</b>        | <b>5.6<sup>b</sup></b>  | <b>6.2</b>        | <b>7.6</b>                                  | <b>8.6<sup>b</sup></b>  | <b>7.2</b>        |
| Bangladesh                                      | 5.2               | 6.0 <sup>b</sup>        | 5.9               | 8.9   | 3.8                     | 10.0              |
| Iran (Islamic Republic of)                      | 2.5               | 5.0 <sup>b</sup>        | 4.0               | 20.1  | 14.5 <sup>b</sup>       | 15.1              |
| Nepal   | 4.0               | 6.4                     | 5.8               | 8.1   | 1.5                     | —                 |
| Pakistan  | 2.7               | 5.6                     | 3.6               | 4.1   | 4.4                     | 8.0               |
| Sri Lanka                                       | 4.3               | 6.0 <sup>b</sup>        | 4.5               | 4.7   | 6.2 <sup>b</sup>        | 11.0              |
| <b>South-East Asia</b>                          | <b>3.4</b>        | <b>5.9<sup>b</sup></b>  | <b>5.2</b>        | <b>7.3</b>                                  | <b>2.5<sup>b</sup></b>  | <b>4.2</b>        |
| Indonesia                                       | 0.3               | 4.8                     | 2.5               | 20.5  | 3.7                     | 9.7               |
| Malaysia  | 5.4               | 8.2                     | 7.0               | 2.8   | 1.8                     | 2.9               |
| Myanmar   | 10.9 <sup>b</sup> | 4.7 <sup>b</sup>        | 5.1               | 18.4  | 1.3 <sup>b</sup>        | 13.0              |
| Philippines                                     | 3.3               | 3.9                     | 2.2               | 6.7   | 4.3                     | 6.2               |
| Singapore                                       | 5.9               | 9.9 <sup>b</sup>        | 4.5               | 0.0   | 1.3 <sup>b</sup>        | 1.2               |
| Thailand  | 4.2               | 4.3                     | 3.0               | 0.2   | 1.6                     | 2.3               |
| Vietnam   | 4.8               | 6.8 <sup>b</sup>        | 6.0               | 4.1   | -1.6                    | 0.1               |
| <b>East and North-East Asia</b>                 | <b>7.6</b>        | <b>8.2<sup>b</sup></b>  | <b>6.4</b>        | <b>0.6</b>                                  | <b>0.9<sup>b</sup></b>  | <b>2.4</b>        |
| China   | 7.3               | 8.0                     | 7.2               | -1.3  | 0.4                     | 1.2               |
| Hong Kong, China                                | 3.0               | 10.5                    | 2.4               | -4.0  | -3.8                    | 0.1               |
| Republic of Korea                               | 10.9              | 8.8                     | 3.7               | 0.8   | 2.3                     | 3.6               |
| Taiwan Province of China                        | 5.4               | 6.0                     | 3.4               | 0.2   | 1.3                     | 1.3               |
| <b>North and Central Asian Republics</b>        | <b>4.7</b>        | <b>7.8<sup>b</sup></b>  | <b>3.3</b>        | <b>20.2</b>                                 | <b>15.2<sup>b</sup></b> | <b>10.6</b>       |
| Azerbaijan                                      | 7.4               | 11.1                    | 8.1               | -8.6  | 1.8                     | 1.7               |
| Kazakhstan                                      | 2.7               | 9.5                     | 6.5               | 8.4   | 13.4                    | 7.9               |
| Kyrgyz Republic                                 | 3.6               | 5.0                     | 4.0               | 35.9  | 18.7                    | 11.0              |
| Russia  | 5.4               | 8.3                     | 3.3               | 85.8  | 20.8                    | 22.0              |
| Tajikistan                                      | 3.7               | 8.3                     | 4.5               | 27.5  | 32.9                    | 42.0              |
| Turkmenistan                                    | 16                | 17.6                    | 16.0              | 24.1  | 7.0                     | 11.0              |
| Uzbekistan                                      | 4.1               | 4.0 <sup>b</sup>        | 1.0               | 29.0  | 24.9                    | 28.0              |
| <b>Pacific island economies</b>                 | <b>3.9</b>        | <b>-3.1<sup>b</sup></b> | <b>2.5</b>        | <b>9.7</b>                                  | <b>7.8<sup>b</sup></b>  | <b>3.5</b>        |
| <b>Developed economies of the ESCAP region</b>  | <b>0.5</b>        | <b>1.8<sup>b</sup></b>  | <b>2.1</b>        | <b>-0.2</b>                                 | <b>-0.2<sup>b</sup></b> | <b>0.2</b>        |
| Australia                                       | 4.7               | 3.8 <sup>b</sup>        | 2.3               | 1.5   | 4.5                     | 3.9               |
| Japan   | 0.8               | 1.7                     | 0.0               | -0.3  | -0.6                    | -0.6              |
| New Zealand                                     | 3.5               | 3.1                     | 2.6               | 1.1   | 2.7                     | 2.8               |

Source: Economic and Social Survey of Asia and the Pacific, 2001, ESCAP; Asian Development Outlook 2001, ADB; EIU Country Forecast and Country Profiles <sup>b</sup> Estimates <sup>c</sup> Forecast

impressive rate of 3.8 % in 2000, the Japanese economy was still trying to get out of the doldrums, registering a GDP growth of 1.7%. Meanwhile, New Zealand continued with its healthy growth of around 3.1% in 2000. The impressive performance of Australia and New Zealand was concurrent with very low inflation rates. Even in Japan, inflation remained low or negative. On the external front also, Australia performed appreciably, improving its current account deficit to less than 5% of GDP in 2000. Riding on a strong demand for exports, Japan, incidentally, was able to expand its current account surplus slightly from 2.5% of GDP in 1999 to 2.7% of GDP in 2000.

### Near-term Prospects and Outlook For the ESCAP Region

Notwithstanding the various positive features in the economic performance of the region in 2000, near-term prospects are mixed. The slowdown in the US economy, which is the single largest export destination for several economies of the ESCAP region, has started to show its impact. The slowdown has swiftly infected the emerging market economies of the region, softening export growth, depressing equity prices, and aggravating the underlying structural imbalances left from the financial crisis of 1997. The situation in Japan has compounded the problem. The prominence of electronics in production and exports has made the

region, particularly South-East Asia, susceptible to the global downturn in information technology investment.

Against this background, the projection is a moderate deceleration in the rate of GDP growth in the developing economies of the ESCAP region by around 1 percentage point in 2001, compared to 2000. Two sub-regions, South-East Asia, and East and North-East Asia, are likely to account for much of the slowdown. On the other hand, the developed economies of the region - South and South-West Asia and the Pacific island economies - are likely to maintain, or increase slightly, their growth rates in 2001.

# PROJECT OPPORTUNITIES

## Business Opportunities Update: Upcoming Projects

| Country/<br>Executing Agency  | Project/<br>Brief Scope   | Loan from Funding<br>Agency  |
|---|---|--|
| <b>Azerbaijan/</b><br>Ministry of Finance and<br>Azerbaijan National<br>Bank Project<br>Management Unit Baku<br>- 370070, 32 R.<br>Behbudov Street,<br>Azerbaijan<br>Tel: 994 12 973 970<br>Fax: 994 12 973 970<br>Email:<br>Tahirov.rustam@nba.az<br>Contact Person: Rustam<br>Tahirov | <b>Financial Sector Technical<br/>                     Assistance Project/</b><br>The project aims to provide<br>technical assistance to support<br>implementation of financial<br>sector development strategy.<br>This technical assistance will<br>focus on: (i) bank restructuring<br>and divestiture; and<br>(ii) enhancement of banking<br>infrastructure and banking<br>supervision.  | US\$ 5.4 mn<br>World Bank  |
| <b>Bhutan/</b><br>National Technical<br>Training Authority,<br>Thimpu, Bhutan<br>Tel. No. : 975-2-324844<br>Fax.No. : 975-2-324846<br>Email:<br>nnta@druknet.net.bt<br>Contact Person :<br>Mr. Tshering Tobgay,<br>Director   | <b>Basic Skills Development<br/>                     Project/</b><br>The proposed Project will:<br>(i) reform the current technical<br>education and vocational<br>training (YVET) system; (ii)<br>strengthen Government's<br>capacity for policy making,<br>planning, management and<br>monitoring of skills training;<br>and (iii) promote more<br>equitable access to skills<br>training, particularly for<br>people living in remote areas. | US\$ 7 mn<br>Asian Development<br>Bank                                 |
| <b>Zimbabwe/</b><br>Posts and<br>Telecommunications<br>Corporation of<br>Zimbabwe (PTC),<br>P.O. Box. 8061, Harare,<br>Zimbabwe<br>Telex 4821 ZW<br>Tel: 72-88-11<br>Fax: 73-19-89  | <b>Telecommunications III<br/>                     Project/</b><br>The objective of the project is<br>upgradation, rehabilitation<br>and expansion of Trunk<br>Transmission Network for<br>Plumtree Mutare and Victoria<br>Falls – Kariba Trunk Transmis-<br>sion Lines.  | US\$ 22 mn<br>African Development<br>Bank                              |
| <b>Croatia/</b><br>1000 Zagreb, Ulica<br>Grada Vukovara 37,<br>Croatia<br>Tel: +385 1 63 22 142<br>Fax: + 385 1 63 22 277<br>Email:<br>zeljko.koscak@hep.hr   | <b>The Electricity Network<br/>                     Reconstruction Project II/</b><br>The objective of the project is<br>to reconstruct a power subst-<br>ation in eastern Slovenia, and<br>to invest in the transmission<br>network.   | US\$ 10.2 mn<br>European Bank for<br>Reconstruction and<br>Development |

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. Karishma Borgohain/ Mr. Rajesh Sharma on Tel: 2185272 Extn: 2305/2304.



| Country/<br>Executing Agency  | Project/<br>Brief Scope  | Loan from<br>Funding Agency            |
|---|--|--|
| <b>Morocco/</b><br>Office National de l'Eau Potable (ONEP),<br>6 bis, Rue Patrice Lumumba,<br>BP Rabat Chellah,<br>Rabat, Morocco<br>Tel: (212) 7 73 12 43<br>Fax: (212) 7 73 13 55       | <b>Drinking Water Supply and Sanitation Project/</b><br>The project comprises the following components:<br>(i) Bouznika sanitation;<br>(ii) water supply to Tiznit and Sidi Ifni; (iii) upgrading water supply to Tan Tan and El Ouatia; and (iv) technical assistance for the implementation of the project and geotechnical and equipment testing. | US\$ 25 mn<br>African Development Bank |
| <b>Philippines/</b><br>Department of Energy,<br>PNOC Complex Merritt Road, Fort Bonifacio Makati City<br>Tel. No. : 818 86 14<br>Fax. No. : 817 86 03<br>Contact : Mr. Reuben E.T. Quejas | <b>Rural Electrification Institutional Strengthening Project/</b><br>The Technical Assistance (TA) aims to develop and strengthen the institutional capability of the energy sector for planning and implementing the Government's rural electrification program.  | US\$ 30.3 mn<br>Asian Development Bank |
| <b>Venezuela/</b><br>Ministry of Health and Social Development<br>Del Parque<br>Campo Alegre<br>Caracas, 1060<br>Tel: (58-2) 267-9945<br>Fax: (58-2) 267-9829                             | <b>Caracas Metropolitan Health Services Project/</b><br>The project aims to expand the access to, and improve the quality and efficiency of medical services for 2.4 million vulnerable persons living in select municipalities and parishes of the Metropolitan District of Caracas (MDC), and improve the management of the health care system.    | US\$ 4.5 mn<br>World Bank              |
| <b>Zambia</b><br>Zambia Privatisation Agency,<br>Nasser Road,<br>P.O. Box 30819, Lusaka, Zambia<br>Tel: 260-1-22-3859<br>Fax: 260-1-225270<br>Contact Person: S.A. Cruickshank            | <b>Railways Restructuring Project/</b><br>The Project will enable substantial restructuring of Zambia Railways. The components include:<br>1) railway concessioning,<br>(ii) staff retrenchment; and<br>(iii) asset rehabilitation, through the financing of locomotives and equipment, strengthening of tracks, and procurement of wagon wheels.    | US\$ 27 mn<br>World Bank               |

## CONTRACT AWARDS

Select contracts secured by Indian Companies during the quarter:

Global Procurement Consultants Limited, Mumbai Contract for providing consultancy services for Technical and Financial Audit for Water Supply Project in **Nigeria**, supported by **African Development Bank**.

Intercontinental Consultants & Technocrats Private Limited, New Delhi Contract for providing consultancy services for Rural Road Development (Part I) Project secured in **Philippines**, funded by **Asian Development Bank**.

IRCON International Limited, New Delhi Turnkey contract for installation of 33/11 KV substation under Greater Dhaka Project in **Bangladesh**, funded by **Asian Development Bank**.

Kalpataru Power Transmission Limited, Gandhinagar Turnkey contract under 380KV Single Circuit Transmission Lines Project secured in **Turkey**, funded by **World Bank**.



## Exim Bank Lines of Credit

### The Concept

**L**ine of Credit (LOC) is one of the financing mechanisms through which Exim Bank extends finance to support export of goods and services from India. Exim Bank extends Lines of Credit (LOCs) to overseas governments, to agencies nominated by them, or to overseas financial institutions, including regional development banks and commercial banks. Exim Bank has been using the LOC mechanism for promoting Indian exports to new markets in developing countries, which need deferred credit for buying Indian goods. This facility offers two immediate benefits: one, it enables importers in these countries to import a variety of goods and services, including capital/engineering goods, industrial manufactures and related services from India on deferred payment terms; secondly, as a result of Exim Bank intermediation, Indian exporters realise full payment on shipment of goods without being exposed to credit risk, either on the buyer or on the country of the buyer. An LOC is therefore, an effective trade promotional measure ideally suited for Small and Medium Enterprises (SMEs) seeking to enter export markets.

### How an LOC works

Firstly, the process starts with the overseas buyer obtaining allocation under the credit line from the Borrower/Government/Institution. The Indian exporter enters into a contract with the buyer for the items covered under the Line of Credit. The overseas buyer submits the contract to the Borrower/Government/Institution for approval. The Borrower/Government/Institution, in turn, forwards copies of the contract to Exim Bank for approval.

Exim Bank advises approval of the contract to the Borrower/Government/Institution, with a copy to the Indian exporter. The overseas buyer, on advice from the Borrower/Government/Institution, establishes a letter of credit (L/C). A single L/C is opened, covering the full eligible value of the contract. The L/C is advised through a bank (designated by Exim Bank) in India. The L/C contains a reimbursement clause, stating that the eligible value (usually 90% of the contract value) will be reimbursed by Exim Bank to the negotiating bank in India.

### Benefits of LOCs

- Can serve as a market entry mechanism for Indian exports.
- Exporters receive cash payment for exports under LOC.
- The liability to repay the credit to Exim Bank rests on the overseas borrower, and not on the Indian exporters.
- Enable developing countries to import capital/engineering goods from India on deferred payment basis.
- A Single LOC can support numerous small export transactions.

Next, the Indian exporter ships the goods covered under the contract, and presents documents for negotiation to the designated bank. The bank forwards the negotiated documents to the buyer, and a set of non-negotiable documents to Exim Bank. On receipt of a clean, non-negotiable set of the shipment (and related) documents from the negotiating bank, Exim Bank reimburses the eligible amount to the negotiating bank for onward

### Exim Bank's Operative Lines of Credit

| Sl. No. | Borrower   | Amount Available for utilisation (As on 1.09.2001) | Terminal Dates for utilisation |              |
|---------|--|--|--------------------------------|--------------|
|         |  |  | Opening of L/C                 | Disbursement |
| 1.      | East African Development Bank (covering Kenya, Tanzania and Uganda)  | US\$ 5 mn.   | # 3-10-2001                    | 3-04-2002    |
| 2.      | Offshore Development Company (Pty.), Namibia   | Rs. 17.6 crs.                                      | 24-10-2001                     | 24-04-2002   |
| 3.      | Banque Internationale de Tunisie, Tunisia  | US\$ 5 mn.   | 28-02-2002                     | 30-08-2002   |
| 4.      | Korea Development Bank, South Korea  | US\$ 20 mn.  | Open ended                     | Open ended   |
| 5.      | Exim Bank of Thailand  | US\$ 10 mn.  | 30-05-2002                     | 30-11-2002   |
| 6.      | Corporacion Andina De Fomento (Andean Development Corporation) (Covering Bolivia, Colombia, Ecuador, Peru and Venezuela) | US\$ 10 mn   | 26-08- 2002                    | 26-02-2003   |
| 7.      | Banco Industrial de Venezuela, C.A. (BIV), Venezuela   | US\$ 10 mn.  | *12 months                     | *18 months   |

# to be extended further.  
\* Credit Agreement was signed on July 19, 2001, at Caracas during "India Tech- 2001." LOC is expected to become operational shortly.

payment to the exporter. Exim Bank debits the Borrower/Government/Institution's account, and arranges to collect interest and principal receivable on due dates, as per the terms of the agreement. Generally, a minimum of 10% of the contract value has to be paid by the overseas buyer to the Indian exporter as advance payment or down payment. Exim Bank reimburses 90% of the value of goods and services under the export contract.

Though the items eligible for finance under the Lines of Credit are essentially capital/ engineering goods and consumer durables (as per the Lists 'A' and 'B' of RBI's Memorandum PEM), other items can also be included, subject to RBI's specific approval.

### Operative Lines of Credit

Exim Bank has so far extended 55 Lines of Credit amounting to Rs. 261.66 crore and US\$ 297.23 mn in 53 countries across Asia, Africa and Latin America. Currently, Exim Bank has seven Lines of Credit in operation (refer Table). Of these, three are in Africa, covering five countries viz. Kenya, Namibia, Uganda, Tunisia and Tanzania, two are in Asia (one each to Thailand and South Korea); and two in Latin America, covering Bolivia, Colombia, Ecuador, Peru and Venezuela. Besides these operating LOCs, Exim Bank plans to expand its list in the near future, to cover more countries (refer Table).

### Some of the LOCs in the Pipeline

| Country                    | Line of Credit (in US\$) |
|----------------------------|--------------------------|
| Brazil                     | 10 mn                    |
| Columbia                   | 10 mn                    |
| Hungary                    | 10 mn                    |
| Iran                       | 20 mn                    |
| Mexico                     | 10 mn                    |
| Romania                    | 10 mn                    |
| Russia                     | 20 mn                    |
| Dominican Republic         | 10 mn                    |
| Central American Countries | 10 mn                    |
| <b>Total</b>               | <b>110 mn</b>            |

## Potential to Increase Trade Between Oceania and India: Exim Bank Study

Exim Bank's recent Occasional Paper on "Australia and New Zealand: A Study of India's Trade and Investment Potential" highlights the tremendous potential for increasing trade with Australia and New Zealand.

In recent years, in both Australia and New Zealand, there has been a shift in trade focus, from the western developed economies to the developing economies in the Asia-Pacific region. Thus, the trade relationship of Australia and New Zealand with countries like China, South Korea, Taiwan, Singapore, Indonesia, Malaysia and Vietnam has been improving. India, however, has not been able to make much of an inroad into the Oceania market. There is substantial potential for increasing India's exports of certain products like readymade garments, textile yarn and articles, leather and leather products. At the same time, efforts could be directed towards sourcing increasing amounts of items such as metalliferous ores and metal scrap, gold and silver, professional and scientific instruments and newsprint from these countries.

In the Information Technology (IT) sector, a synergetic approach could be adopted to leverage the complementary strengths and capabilities to fully tap the vast potential that exists. Potential areas for co-operation include digital content development, e-governance, and on-line post-production work for the film industry.

Australia has been one of the key investors in India. During 1992-99, the cumulative FDI approved from Australia amounted to about Rs. 6,500 crore (3.1% of total approved FDI during the period). Potential areas for promoting FDI from Australia would include engineering consultancy services, mineral exploration and coal mining, insurance and financial services.

## India Should Diversify its Machine Tool Export Basket: Exim Bank Study

Exim Bank's forthcoming Occasional Paper on "Machine Tools: A Sector Study" identifies Computer Numerical Control (CNC) machine tools as the high-growth area for the Indian machine tool industry in the near future. CNC machine tools contribute 48%, by value, of all machine tools produced at present. General Purpose Machines (GPMs) are fast losing markets due to lack of competitiveness. The Study finds that global machine tool production, consumption and trade has been declining since 1990, resulting in large scale restructuring of the global machine tool industry, with closures, mergers, acquisitions and downsizings. Asia is expected to be the new consumption leader in future.

The conventional export product basket of India (centre lathes, automats, milling machines, electro discharge machines, and grinding machines) does not have high demand in the global market. Thus, in line with the import profiles of major global importers and India's competency, focus should be on CNC machine tools, plastic processing machines, presses and metal forming equipment, sawing machines, EDMs, cut-off machines, cutting tools and accessories.

A strategy to boost exports would encompass proactive marketing efforts, increased participation in international trade fairs, investment in export market development and increased efforts to improve brand equity of machine tools. In competing countries such as China, Taiwan and South Korea, direct governmental assistance is extended to their machine tool industry. Indian policy makers should also recognise the importance of this sector and reduce customs duties on inputs, introduce an all-India VAT regime, and provide investment promoting tax incentives.

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## Success Story: Dishman Pharmaceuticals & Chemicals Ltd.

**D**ishman Pharmaceuticals & Chemicals Limited (Dishman), based in Ahmedabad, is a Contract Manufacturing Organization (CMO) focussing on three distinct business segments viz., Contract Manufacturing and Research, Active Pharmaceutical Ingredients (APIs)/ Intermediates, and Quaternary Compounds (Quats). It is a closely held, deemed public limited company engaged in manufacture of Phase Transfer Catalysts (PTCs), Quats, Bulk Drugs and Fine Chemicals.

Incorporated in 1983, Dishman started off as a predominantly research-oriented company. Gradually, however, Dishman directed its efforts towards production of a range of PTCs and Quats. In 1989, Dishman commenced commercial production at Naroda, Gujarat. It executed its first export order in 1991, following which exports of the Company continued to rise from Rs. 0.80 mn in 1991 to Rs. 445.5 mn in 2001. Over the years, Dishman has become a global market leader and has come to be known as the 'Quats Company' in European markets. Dishman is an ISO 9002 accredited company, and is a Government recognised Export House. Dishman's production facilities include two manufacturing units located at Naroda and Bavla in Gujarat, and two wholly owned subsidiaries in USA and Europe.

Dishman is managed by a team of technocrats and professionals possessing wide experience in the industry.

India is increasingly being seen in the global pharmaceutical market as an attractive base for sourcing APIs and Intermediates. Dishman, quick to recognise this emerging opportunity in the international market, evolved its strategy around this trend.

In the outsourcing business, a company's technology toolbox is the key differentiating factor. When Dishman commenced manufacture of PTCs using Quat technology, it was then an upcoming product. The existing competitors at the time were using other substitutes to meet industry needs. Besides, the company also faced the problem of establishing its credentials as an Indian supplier. Dishman then devised a multi-pronged strategy, which included development of its research expertise in Quat technology so as to reduce the end user cost to one third. The strategy proved so successful that its competitors abandoned production and commenced sourcing their requirements from Dishman. At present, Dishman is the world's leading producer of Quaternary compounds, having grown from 10 MTPA to 1200 MTPA during the last decade. It is negotiating with leading international pharma companies for contract manufacturing various molecules, which might be used by them as raw material/intermediate.

Dishman today offers the entire spectrum of contract manufacturing and related research services. It has built dedicated Current Good Manufacturing Practices (CGMP) manufacturing facilities conforming to US FDA standards. Dishman's vision is to become the CMO of choice for its customers. It hopes to attain this status by adding value to its clientele, and by providing innovative and cost effective solutions across the value chain in the manufacturing process. Certain key strengths developed by Dishman for attaining these objectives include: proven research & technological capabilities, excellent relationships with

clients, cost effective production, and production facilities that conform to international approval norms.

In fact, Dishman has already made major inroads in the contract manufacturing business, having built up an impressive client list that includes Solvay, Sanofi, Janssen and Astra-zeneca. Dishman's contract with Solvay Pharmaceuticals, member of US\$ 8 billion Solvay Group, envisages supply of Eprosartan (API patented in 1997) and its Starting Materials (SMs) for a duration of 8 years, fetching it business worth US\$ 15-20 mn. per annum.

Exim Bank has been assisting the company with timely financial support since 1997. In February 1997, Exim Bank extended a term loan for the company's expansion project, for setting up manufacturing facilities for quaternary compounds, bulk drugs and fine chemicals at Bavla, Gujarat. Subsequently, during 2000, Exim Bank sanctioned term loans under various schemes, for financing the purchase of production equipment, and also for part-financing the creation of a dedicated facility for contract manufacturing of Eprosartan, a hypertensive bulk drug, on a long term basis for Solvay Pharmaceuticals, Netherlands. Exim Bank is the principal lender to the company financing its various export related activities.

Dishman has quite a few firsts to its credit so far as the pharma industry is concerned. Its contract with Solvay, where a long-term contract manufacturing agreement was entered into in the first stage of a newly patented product, was the first of its kind in the history of the Indian pharmaceutical sector. Also, Solvay agreeing to purchase all its requirements of SM from Dishman is a major deviation from the international policy of keeping a minimum of two suppliers. Both these features attest to the kind of confidence that Dishman has been able to command with international clients. Dishman's story demonstrates how an Indian company can successfully serve as a competitive sourcing base for products meeting stringent international standards.

## India's Organic Food Exports : Problems & Prospects

Organic farming is a holistic production management system that avoids the use of certain chemical inputs (fertilisers, pesticides) and emphasizes the development and maintenance of soil fertility to enhance and sustain yields.

In conventional agriculture, biological systems are to a larger extent replaced by technical systems. For instance, the diversified rotation of crops, with its biological significance, is often displaced by monocultural practices giving rise to the need to use pesticides and artificial fertilisers. In organic farming, however, the aim is to support and strengthen biological processes without recourse to technical remedies such as synthetic fertilisers, pesticides and the genetic modification of organisms. Therefore, the approach to the weeds, pests and diseases is primarily preventive. Further, by laying more stress on sustainable agriculture, the concept of organic farming also addresses the economic and social aspects of agricultural production, both local as

well as global. Foods, beverages, and other consumer products produced using organic farming methods could be categorised as organic products.

### World Organic Food Markets

The worldwide markets for organic foods are expanding, with the three major markets – Europe, United States and Japan recording annual growth rates of 15% to 30% for the past five years. According to International Trade Centre (ITC) projections, the organic market size in 2010 would be around US\$ 46 billion in the European Union, US\$ 45 billion in the United States and US\$ 11 billion in Japan. While there is interest in organic foods among higher income, better-educated population segments in almost every country, it is basically the consumers in the United States, Europe, and Japan who drive the worldwide demand expansion.

The major organic products sold in global markets include dried fruits and nuts, processed fruits and vegetables, cocoa, spices, herbs, oil crops and derived products, sweeteners, dried leguminous plants, meat, dairy products, alcoholic beverages, processed food and fruit preparations. Non-food items include cotton, cut flowers and pot plants.

### The European Market

The current value of the European organic market is estimated at US\$ 5.3 billion. Four countries (Germany, Italy, France and the United Kingdom) account for 63% of its total retail value. Cereals and baked goods, fresh produce, especially vegetables, and milk and dairy products hold the largest organic market shares by product category in Europe.

Countries that have a significant presence in the food processing industry, such as Germany, Italy, Sweden, and France, face greater demand for organic ingredients. European Union regulations require that 70% to 95% of a certified organic processed item be composed of organic ingredients. For many countries, this will mean greater reliance on imports to meet demand. This presents a good opportu-

nity for developing countries, especially for those which can supply tropical produce, and off-season produce. Particularly, spices and herbs, nuts, dried and powdered fruits, sugar, cocoa, and sauces are growth categories. India, which has a growing season round the year, therefore, enjoys a good comparative advantage.

### The Japanese Market

Unlike Europe, Japan is a less mature market, where consumer awareness of organics is lower than in Europe, and where national standards are yet to be fully implemented. The current value of the Japanese organic market is estimated

### Some Key Characteristics of Organic Farming

- Use of organic materials to maintain organic matter and nutrients in the soil
- Nitrogen-fixing plants
- Pest-resistant plant varieties
- Soil management techniques such as mulching
- Use of fallow periods
- Various cropping systems such as inter-cropping /agro-forestry
- Due consideration given to animal welfare
- Use of manual, mechanical and thermic weeding.

at US\$ 3 billion (1% retail share). About 60% of the Japanese organic market is fresh produce, and 40% is processed foods. Japanese organic consumers buy mostly frozen vegetables, dried fruits, vegetable juice, soybeans, and fresh produce. In these product categories, Japan currently imports 10% of its organic market value.

### Organic Market in the United States

The current value of the U.S organic market is estimated at US\$ 6.6 billion, (1 % retail share), making it the world's single largest market for organic products.



Fresh produce, packaged grocery items (like cereals, sauces) and bulk/ packaged items (pasta, grains, beans) were among the top categories in natural product stores. As per the projections of the Organic Trade Association, the annual growth till 2002 will be highest for grain snacks and candy (60%), cereals (54%), dairy (44%), and frozen foods (40%).

## Certification & Standards

### Organic Certification

The certification of organic production methods is an increasingly important aspect of the international trade in organic products.

#### Certification is based on:

- **Registration:** The operator, i.e. the farmer/ processor/ trader and a certification body sign a contract, following which the certification body registers the operator. Farmers are required to provide basic information on the farm, such as size of fields, crops, and crop rotation, while processors and packers must submit information on recipes, capacities, range of products, operations.
- **Inspection:** Inspection may be carried by an inspection body on behalf of the certification body, or by the certification body itself. On-site checks are carried out by inspectors who follow a verification programme. At the level of farms or operators, inspections cover fields and facilities, production practices, inputs and materials used, and records. The findings are presented in a report and submitted for evaluation by a certification committee.
- **Certification:** The certification body confirms that the operation is in conformity with the standards. The operator will be licensed to use the certification or mark of certification on its products.

The inspection of a certification programme covers agricultural production, pre-processing, trade, labelling, and certificates. The key elements of inspec-

tion are verification and evaluation.

Certification is not a one-time procedure: it is carried out on the basis of ongoing monitoring and inspection. Certification agencies located in India include ENCON (collaboration with Soil Association, UK), based in Aurangabad, and IMO Control (a Swiss subsidiary) at Bangalore.

### Organic Standards

The Codex Alimentarius Commission (CODEX) of the FAO/WHO and The International Federation of Organic Agriculture Movements (IFOAM) have played a significant role in developing standards for organic production and trade.

IFOAM was established in 1972 as an umbrella organisation for national organic agriculture associations. Its members also include certification bodies, traders and processors. IFOAM has established international Basic Standards of Organic Agriculture and Food Processing, which provide a framework for various certification programmes. The IFOAM has consultative status with the European Union and the Codex Alimentarius Commission, and a formal liaison status with FAO.

## Organic Farming in India

Unless India makes a rapid shift towards organic farming, the cost in terms of environmental degradation and health costs arising from chemical agriculture could rise sharply. Organic farming is, therefore, a welcome alternative from three angles: for the small farmer – for whom it is less financially draining; for the environment – which is now subject to a more eco-sensitive mode of farming, that would help improve soil fertility; and for the government, which, by encouraging organic farming, and thereby reducing the reliance on fertilisers, can gradually trim its subsidy bill and thus achieve cost-savings.

India produces a wide variety of organic products, which include fresh and dried fruits (pineapple, bananas, pears), processed fruit (mango concentrate),

vegetables, nuts, oil crops, grain, coffee, tea, sugarcane, herbs and spices. Export opportunities for India exist both in niche markets, where organic product labeling is required for product certification and differentiation, and also in mainstream markets, where self-certification under particular corporate brands is gaining influence with consumers. Therefore, the challenge facing India is to mainstream production and trading opportunities to ensure that a greater number of producers can take advantage of such markets.

The organic agricultural movement in India is spearheaded by the members and associates of IFOAM, India. These include a spectrum of NGOs, farmers' organisations, promotional bodies, corporate units and institutions. For instance, the Institute for Integrated Rural Development (IIRD), Aurangabad, has been promoting organic agriculture in Maharashtra through awareness programmes, training of farmers, and community action programmes. It has also set up a school for organic agriculture, which is the first of its kind in India. The Society for Organic Agriculture (SOA), Secunderabad, is involved in developing marketing strategies for organic products. The Bombay Burma Trading Corporation Ltd. (BBTC) is one of the first corporates to demonstrate the feasibility of organic agriculture by producing and marketing organic tea. Leading Indian exporters of organic products include Godfrey Philips India, and Amboothia Tea Group, among others.

Alongside the efforts of NGOs and private bodies, the government is also evolving programmes to encourage organic agriculture.

### Factors Determining Conversion to Organic Farming

- **Availability of Information:** Organic farming is an information-intensive system that requires more management inputs than conventional production, apart from a large amount of up-to-date, site-relevant information. Also, domestic producers need to have

access to information regarding overseas organic markets, consumer preferences and certification requirements if they are to produce for developed markets.

- *Land tenure* is critical to the adoption of organic agriculture. It is highly unlikely that tenant farmers would invest the necessary labour, and sustain the difficult conversion period, without some guarantee of access to the land in later years, when the benefits of organic production emerge.
- *Bio-fertilisers /bio-pesticides:*
  - These have not become very popular in India for two reasons. The first is the lack of marketing and distribution network. The retailers are currently not interested in selling bio-inputs because their demand is low, supply is erratic, and farmers are ignorant about bio-inputs. Secondly, chemical fertilisers are more aggressively marketed, and offer higher margins for retailers. However, with firms, such as Terra Farma in Bangalore, and Organic Pesticides in Belgaum beginning to produce organic pesticides, the scenario is likely to improve.
  - Organic fertilisers are slow to release the nutrients in comparison with the chemical fertilisers. Hence, many farmers are reluctant to switch to them.
  - The cost of organically allowable inputs – like gypsum or lime – is another serious constraint to organic production, while weed management is a major barrier in making the transition from conventional to organic production.
  - Organic manure is difficult to mass produce and transport – as it is bulky and often have live organisms in them.
- *Certification-related issues:*
  - *Costs:* Farmers and agribusinesses seeking to sell their products in

developed countries must usually hire an organic certification agency for annual inspection. The cost for this service can be expensive. Therefore, the development of local/regional certification capacity in different export sectors is critical. Though certain international certifying

agencies do operate in India, the government still needs to negotiate reciprocity agreements with the U.S. and the EU, allowing products certified locally to be exported to these markets.

- *Transition period:* During the shift

## A Case Study of Conversion to Organic Farming : Organic Darjeeling Tea

An UNCTAD study on organic Darjeeling Tea reveals some interesting findings.

There are 87 tea gardens in Darjeeling. Most of them are 100% export-oriented. Only twenty of these have converted to organic tea production. Of these twenty, the ten that are able to make profits have direct export contracts with buyers, and export mainly to Germany, Japan and USA. The profitable enterprises have been investing a substantial portion of their profits in marketing tea in their main markets for over ten years.

All twenty gardens reported a decrease in yield of about 20% from the pre-conversion yields. In fact, only some of them have reached the pre-conversion yields, and most were still experiencing declining yields. The length of time taken to recover original yield was dependent on the condition of the garden before conversion. If the bushes are old and the soil degraded, it takes much longer to restore the pre-conversion yield levels. Variable costs vary according to the condition of the garden. In converting to organic farming, labour inputs increase by about 30% per year. Other costs such as manure, organic pesticides and bio-fertilisers depend on the extent to which integrated farming can be practiced. If there is sufficient livestock in the garden, and thus adequate supplies of manure are available, then there may be an actual decline in variable costs. For example, for bio-pesticides, the tea

gardens planted citronella plants in between the tea bushes, as they act as insect repellants. In most cases, weedicides were replaced by manual weeding. Also, apart from declining yields for about 7-10 years, variable costs increased by about 50%. Absence of R&D in organic agriculture to increase yields was keenly felt..

In order to truly benefit from organic farming of tea, it became necessary to diversify into other products such as herb tea, eco-tourism, green tea, and other products. Only then do integrated management gardens become profitable. In most cases, organic cultivation also meant reducing the acreage under tea in order to promote naturally grown herbicides. Most organic growers agreed that before converting, a lead time of two years is required, and that the period of conversion should preferably be stretched to three years. This time should be utilised to a) plant grasses and other bio-pest repellants around the garden; b) ensure availability of the necessary manure by maintaining adequate livestock; c) plant sufficient number of herbs along with tea to ensure adequate mulching, and fertilise the soil.

A major concern expressed by non-organic tea growers in converting to organic was lack of information about markets, and market premium. One possible way to address this problem would be to put the buyers directly in contact with the growers, so that they could satisfy themselves about the veracity of organic tea cultivation.



from conventional to organic agriculture, there is a transition period, usually of about three years, when crops raised without chemical inputs cannot be labelled “certified organic,” (under procedures that require “purging of chemical residues”). The products, thus, would not be eligible for the potentially higher prices commanded by certified products, thus rendering production during this period economically unviable.

- **Market Infrastructure:** Apart from production-related issues, organic agriculture relies on distribution channels (storage, transport) that are also consistent with organic channels.
- **Farm productivity:** Typically, farmers experience some loss in yields after discarding synthetic inputs and converting their operations to organic production. Till the time full biological activity (e.g. growth in beneficial insect populations, nitrogen fixation from legumes) is restored, pest suppression and fertility problems are common. Sometimes it may take years to restore the ecosystem to the point where organic production is possible. In these cases, other sustainable approaches that allow judicious use of synthetic chemicals may be more suitable start-up options. One strategy involves converting farms to organic production ‘in instalments’ so that the entire operation is not put at risk.

### Prospects for the Future

Organic cultivation and agri-business in India is expected to receive a major boost following a series of initiatives taken by the government.

A regulatory framework has now been put in place to ensure proper certification and export promotion. During 2000, the National Programme for Organic Production (NPOP) was released. In May this year, the National Accreditation Programme was notified by the Ministry of Commerce & Industry.

NPOP covers the national standards based on the guidelines of IFOAM, the European Union standards, and CODEX standards. Agricultural and Processed Food Products Export Development Authority (APEDA), Tea Board, Coffee Board and Spices Board have been designated as the accreditation agencies.

To regulate the export of organic products, the Director General of Foreign Trade has issued a notification which will take effect from October 1, 2001. APEDA has set up four model farms (for aromatic rice, sugarcane, passion fruit and pineapple), and all the four have got organic certification. In order to create awareness about organic products and business opportunities associated with them, State governments have been activated to set up model organic farms, and educate farmers and non-government organisations (NGOs) about the economic benefits of the new thrust.

Given the traditional practices followed by small farmers, Indian agri-products are known to be more organic than in most developed countries. However, growers here have not been able to take advantage of it as a marketing proposition because of the rigours of certification. Now, with the NPOP in place, the process is expected to become simpler. However, there is a need for standardisation of inspection and certification costs at levels affordable for small farmers. Also, testing facilities for inputs such as seeds, fertilisers, water and soil have to be popularised and processing facilities have to be established in remote areas of cultivation. Maintenance of farm records is essential. Farmers have to be educated not only about the product, but also about the market and its vicissitudes.

India’s organic exports can take off provided the industry, the government and the NGOs come together to work with the farmers, and support them during the difficult transition from conventional to a more sustainable and eco-friendly variety of agriculture.

## Exim Bank Study highlights Trade and Investment Potential with Bangladesh

Tracing Bangladesh’s economic performance over the last decade, Exim Bank’s Occasional Paper “*The People’s Republic of Bangladesh: A Study of India’s Trade and Investment Potential*” evaluates the trade and investment potential between India and Bangladesh. The study identifies sectors and products, and makes strategic recommendations for enhancing the volume of bilateral trade and investment.

Sectors with good trade potential are capital goods, iron and steel, software, cotton yarn, and gems and jewellery. Similarly, exporters from Bangladesh can target Indian markets with their high quality ceramic ware, melamine ware, and traditional products like raw jute, hilsa fish and jamdani sarees.

As regards investment, the major sectors attracting FDI were oil, gas and power, followed by chemical industries, and cotton and textile industries. For India, some of the potential investment sectors are textiles, leather goods, engineering, chemicals and petrochemicals, cement, and steel. Indian companies should explore the investment route for increasing trade and investment opportunities by setting up joint ventures or wholly owned subsidiaries in Bangladesh. The study delineates certain steps that could help enhance the level of trade and investment between India and Bangladesh. Planned development of both physical and non-physical infrastructure, as well as development of the industry, particularly the information technology sector, in Bangladesh are a few of them. Organising technology fairs could also help in popularising Indian technology in Bangladesh.

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## EXIMIUS CENTRE COLUMN

In the last quarter the Centre organised the following programmes

As part of its efforts to enhance the capabilities of the industrial and exporting community in India, Exim Bank, in association with Flanders Foreign Investment Office (FFIO), conducted a seminar on *Flanders – Belgium: A Gateway for Doing Business with Europe*, at Chennai and Mumbai. The principal objective of this seminar was to educate the participants on the advantages of doing business with Belgium, and how it serve as a gateway for penetrating other markets in Europe. Mr. Ben De Smit, Director, Investment Promotion for Asia-Pacific Region, Flanders Foreign Investment office, Singapore; Mr. Jayant Nadiger, Trade Commissioner for Flanders in Bangalore and Mr. S. Jagadeesh, Dun & Bradstreet Information India (Pvt.) Ltd, Chennai, addressed the seminar.

The second programme was a workshop on *Foreign Currency Risk Management for Corporate and Bank Treasuries*, held at Bangalore. The workshop aimed to educate the participants on the various risks involved in foreign currency transactions/operations, and the methodology of hedging to avert such risks. The workshop also covered accounting and taxation principles of international activities.

Over the years, Exim Bank has sought to develop a network of alliances and institutional relationships to help create an enabling environment for international trade and investment. One such arrangement is the close working relationship that Exim Bank has with Centre for Promotion of Imports from Developing Countries (CBI), which has enabled the Bank to present platforms for CBI to share its expertise with Indian companies. The latest collaborative effort was a series of workshops on *Marketing Strategies for Indian*

*Engineering Companies Targeting European Markets*, organised at Mumbai, Pune, New Delhi and Kolkata. The objective of the workshops was to provide a step by step guidance to Indian exporters on the marketing strategies to be adopted for Europe, with special reference to the engineering industry. The workshop covered aspects like Export Audit, Industry Segmentation, Trade Channels, License Manufacturing, Sub-Contracting, Non-Tariff Barriers, Market Entry Strategy, Product Development, Cost Price Calculations, Pricing and Trade Margin Information, Effective Selling Methods etc.

The final programme for the quarter was a seminar on *Business Opportunities in Botswana*, organised on the occasion of the visit of a high level delegation led by Chairman, Botswana Industrial and Export Development Authority (BEDIA), at Bangalore. The seminar was aimed at educating the participants on the advantages of doing business with Botswana, and how it could generate more business prospects with other South African markets. The speakers at the seminar included Mr. Kisto Mokila, Vice Chairman, Mr. Chand Bhadain, CEO and Dr. J.S. Juneja, BEDIA Representative in India.

The Calendar of programmes for the next quarter include: (i) Seminar on *Doing Business with Russia*; (ii) Seminar on *Business Opportunities in Latin American Countries*; (iii) Seminar on *Doing Business with ASEAN countries*; (iv) Workshop on *Packaging and Preservation of Food Products*; and (v) Workshop on *Legal Aspects in Overseas Investment*.

For details on future programmes at Eximius Centre, contact: Ms.R. Roopa in Bangalore on Tel: (080)5589106, Fax: 5550893 E-mail: [eximius@giabg01.vsnl.net.in](mailto:eximius@giabg01.vsnl.net.in)

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## BOOK REVIEW

***Elephants Can't Dance***  
by S. L. Rao  
*Global Business Press, 2001*

In *Elephants Can't Dance*, a collection of articles that have appeared in various newspapers and journals, S. L. Rao takes a look at the different managerial problems plaguing India's economic development in the post-reform period, and offers suggestions for making the Indian economy globally competitive.

The author argues that even though the economy has undergone substantial reforms and loosening of control, much more needs to be done if India is to reap the benefits of a liberalised world economy. He makes a strong case for reducing government control over public enterprises, for privatisation, and most importantly, for a change in the mindset of public servants who, though operating in the reform-era, are yet to grow out of the licence-permit-raj mindset.

The articles touch upon: public policy issues; management strategy issues in the bureaucracy, in family-owned businesses and in the corporate world; analysis of management challenges in some select industries such as trucking and healthcare, among others; the challenges of marketing in India's rapidly changing consumer markets; competition policy/ethics; governance, both corporate and regulatory; management education; and managing in the New Economy.

The book's rather intriguing title, *Elephants Can't Dance* is a wry allusion to the oft-articulated fear about how the entry of huge foreign multinationals with 'deep pockets' (the elephants) might result in the comparatively much smaller Indian companies getting trampled under their feet.

An engaging read, this book offers different perspectives on the pressing management issues in different areas of economic activity in post-reform India.



# COUNTRY SCAN



**Dominican Republic**

## Dominican Republic

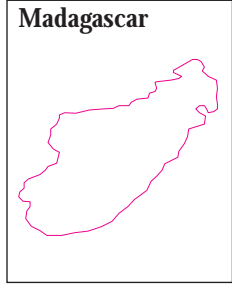
The government of the Dominican Republic, led by Hipólito Mejía of the Partido Revolucionario Dominicano (PRD) which

took office in August 2000, faces the task of maintaining macroeconomic stability through fiscal reform, and satisfying the demands of the people for higher public spending on social programs. The government has introduced a number of measures designed to strengthen the public finances. The replacement of the fuel differential with a sales tax will reduce distortions and prevent the misuse of the differential for political purposes. From 2001, the fixed fuel tax is expected to raise Ps 7 bn (US\$ 398 mn) per year, sufficient to service the external public debt. The recent tax package should also boost revenue, although the economic slowdown could cause fiscal income to fall below expectations. The Dominican Republic has experienced a softening of demand in the US, its main export market, in the first half of 2001. But demand is expected to pick up again in the second half of the year. The real GDP growth is estimated to be 4.8% in 2001, reflecting a significant slowdown from a growth of 7.8% in 2000. In February, the government launched its much-anticipated anti-poverty programme, known as the *Paquetazo Social*. This programme's principal objective was the distribution of US\$ 17 per month in direct payments to the 300,000 poorest families. Dominican Republic's free trade with Central America has moved a step further, when in mid-March the Senate approved a free trade agreement with Central America.

## Madagascar

Tight monetary policy, a vigorous revenue collection drive, accelerated privatization, and efforts to boost agricultural productivity will all play a central role in the government's

economic agenda. The government is going to tackle poverty with substantial new funding, including US\$ 103 mn through the IMF's Poverty Reduction and Growth Facility (PRGF) and a World Bank credit of US\$ 110 mn. Real GDP growth is estimated to be 3-4% in 2001, because of the continued weak performance of the agricultural sector. Thus, the government's main priority will be to improve the productivity of the agricultural sector. The government is expected to tighten fiscal policy, focus on bringing down domestic debt, and reduce the fiscal deficit from an expected 4% of GDP in 2001 (up from 1.6% of GDP in 2000). With the success of its Export Processing Zone (EPZ) companies, particularly in textiles, Madagascar has shown that it can be a competitive business location, especially for labor-intensive activities. Prospects for foreign investment and for more geographically widespread business growth will depend on upgradation of the country's infrastructure, and improvement of utility services.



**Madagascar**

## Kazakhstan

After registering a real GDP growth of 9.6% in 2000, the government has forecast a lower growth rate of 6-7% in 2001. The year-on-year rate of consumer price inflation slowed significantly in 2000 to around 10%, and has been fluctuating around that level since then. Kazakhstan will keep to its policy of a tightening fiscal stance, and is likely to meet all the fiscal targets (agreed to with the IMF) in the coming years with the help of the high oil revenue and rapid economic growth. The boom in oil prices has led the government to revise upwards

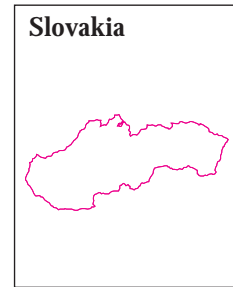


**Kazakhstan**

its general budget targets for both revenue and expenditure, leading to a minor revision of the deficit target for 2001, from 2.2% of GDP to 2.1% of GDP. High real GDP growth, growing confidence in the economy, the local currency and local banks, as well as healthier corporate balance sheets, have caused considerable growth in money supply. Kazakhstan continues to run substantial trade surplus, and credit rating agencies have started to upgrade Kazakhstan's ratings. In spite of all these, structural reforms has been lagging behind macroeconomic reform, which is evident from the high levels of inter-enterprise and wage arrears.

## Slovakia

Despite tensions within the diverse ruling coalition, analysts expect the government to remain in power until the parliamentary election in September 2002. Real GDP growth is forecast to accelerate to 2.7% and 3.6% in 2001 and 2002 respectively, from 2.2% in 2000.



**Slovakia**

Domestic demand is expected to take over from the external sector as the driver of growth, as the government restarts infrastructure investment

projects. Annual average inflation is forecast to subside gradually to 7.5% in 2001 and 6.7% in 2002. The merchandise trade deficit has deteriorated significantly in early 2001 due to an upturn in domestic demand, and the phasing out of the import surcharge in consumer and capital imports. Slovakia's fiscal position remains tenuous, with both the IMF and the European Commission expressing concern that the slow pace of consolidation may jeopardize macroeconomic stabilization. High unemployment has hit the revenue collection, and the resultant depressed budget, in turn, has exacerbated the growing deficits in the main social welfare funds.

## Select Currencies

serves as an instrument variable whereas it is the REER, which is targeted.

A rise in index represents an appreciation of the currency of a particular country relative to currencies of the trading partners, while a fall in index represents depreciation of the currency of a particular country relative to currencies of the trading partners.

For example, the index of REER based on 5-country trade based weights and price differentials for Indian Rupee (INR) published by Reserve Bank of India as on August 10, 2001 stood at 101.61 (provisional) as against base 1993-94 (Apr-March) = 100. This indicates that INR is overvalued by 1.61%.

The NEER and REER are artificial indices constructed with reference to a base year. Since the base year may be changed from time to time, comparisons may not indicate the absolute level of competitiveness.

### VENEZUELA

The currency of Venezuela is Bolivar (VEB). Venezuela had adopted multiple exchange rate system before 1984, which was replaced by a system of unified managed float in 1994. A system of exchange control at a fixed rate of 170 VEB per US\$ was introduced from July 1994. Subsequently, in July 1996, a crawling peg exchange rate system was adopted by Banco Central de Venezuela, the central bank of Venezuela at US\$1 = VEB 470, with a band of 7.5%. Under this arrangement, the value of the currency is maintained within margins of fluctuation of  $\pm 7.5\%$  around this peg. This was adopted in order to keep the real value of Bolivar constant against the US dollar, by moving the exchange rate in line with the inflation differentials between Venezuela and USA. The VEB has been appreciating in real terms every year since 1996. As a result, the central bank in January 2001 reset the central parity of the band system to US\$ 1 = VEB 700. In 1989, Macroeconomic Stabilization Program was introduced by the government to correct current

economic imbalances in the Venezuelan economy. Privatization, called for by the necessity to develop and modernize the country's industries, is now a part of the State's economic and political policy. Since the process began in 1989, privatization has been considered to be a successful alternative in dealing with the operational and financial deterioration of many state-owned companies that provide goods and services. However, the inflation is high at around 17%. Therefore, there is a risk of a sharp correction of VEB against US\$ in the near future. As on September 28, 2001 the Bolivar stood at 1 US\$ = 742 VEB.

### HUNGARY

The currency of Hungary is the Hungarian Forint (HUF) which is freely convertible. Post World War-II Hungary adopted a "planned foreign exchange management," ushering an era of strict controls and restrictions. From October 1991, a verified exchange rate pegged to a composite of currencies was introduced. The National Bank of Hungary, the central bank of the country, used to set the peg based on Government's perception of the relative health of the country's terms of trade and stock of reserves. However, the government and the central bank decided in early June 2001 to lift most of the forex restrictions, thereby making the HUF fully convertible - both on current and capital account. The fluctuation zone in which the HUF was allowed to move freely was widened in May 2001 to 15% on either side, on the assumption that the expected revaluation of the HUF will only work to the benefit of the country's economic growth, and will control the current soaring inflation. The analysts now expect the annual average exchange rate to appreciate by 2.8% by the end of 2001 and by 5.4% in 2002, which can be detrimental to the exporters. Hungary's main problem as of today is inflation (10.80%), which remains stubbornly high. Also, the real GDP growth is expected to stagnate at around 4.4%. As on September 28, 2001 the exchange rate of HUF was 1 US\$ = HUF 281.26.

### 'NEER' AND 'REER'

The Nominal Effective Exchange Rate (NEER) is defined as the relative price of domestic currency in terms of foreign currency. NEER, also known as 'Trade-weighted currency index' describes changes in the average value of a currency with reference to a given base period and a group of selected countries. NEER is calculated as a weighted geometric average of the bilateral exchange rates against the currencies of selected countries.

The Real Effective Exchange Rate (REER), on the other hand, is usually defined as the nominal exchange rate adjusted by domestic currency prices (or costs) relative to foreign currency prices (or costs). Thus, real exchange rate = (nominal exchange rate) x (relative local-currency prices). Also, REER index is expressed as a nominal effective exchange rate index adjusted for relative movements in national price, or cost indicators of the home country and selected countries.

NEER and REER are essentially drawn from the purchasing power parity doctrine, where internal cost conditions determine the value of a currency vis-a-vis other currencies, and nominal movements in local currency are effected to achieve/maintain external competitiveness. As such, the NEER

## Business Practices of Successful Indian Exporters

Exim Bank's latest publication titled *Business Practices of Successful Indian Exporters* highlights the fact that while a favourable trading environment may condition a firm's entry into the export trade, long-term success, to a large extent, is determined by the efforts of the individual firms. This is evident from the fact that even within sectors which have a high share of the export basket, not all firms are successful exporters. This study, therefore, attempts to trace out the generic success factors/ business practices that characterise successful exporters across export sectors.

The book focusses on six sectors: three traditional sectors (apparel, spices and marine products) and three non-traditional sectors (pharmaceuticals, agro-chemicals and auto-components). The selection of these sectors is not only on the basis of their greater share in overall Indian exports, but also takes into account India's relative success in overall world exports in these sectors.

The analysis carried out is based on a combination of three approaches - industry overview, primary field survey, and data collation and analysis. A total of 138 contacts were made across 21

locations throughout the country to ensure adequate coverage and response. Detailed information from exporting firms and in-depth interviews were carried out among these firms to gain an understanding of the success factors, and successful business practices followed by the leading exporting firms in select sectors.

Besides identifying the business practices of successful exporters in each sector, the study attempts a cluster analysis, which involves clubbing firms with similar business practices into one cluster, and isolating the characteristics and imperatives for such clusters in each sector. The set of business practices thus obtained was then compared across the

### Book Released By Union Commerce Secretary

Exim Bank's publication "Business Practices of Successful Indian Exporters" was released by the Commerce Secretary, Shri Prabir Sengupta, at a function jointly organised by Exim Bank and the Federation of Indian Export Organisations (FIEO), in New Delhi on September 14, 2001. Commending Exim Bank on the timeliness of the publication, the Commerce Secretary reiterated the need to focus on R & D efforts, and move up the value chain in order to enhance the technology component of overall exports. Commenting on the importance which the book has accorded to entrepreneurship, Mr. N. Samdria, past president of FIEO and Mr Ranjit Lal, Director General, FIEO, stressed the need for entrepreneurs to "think out of the box" in order to emerge successful in a globalised trading environment. Mr. T.C. Venkat Subramanian, Managing Director, Exim Bank, in his opening statement, pointed out that the publication is part of Exim Bank's endeavour to enhance the global competitiveness of Indian exporters, particularly SME sector.

six sectors, to yield a set of common or 'generic' success factors that would apply across sectors. The study, thereafter, highlights the need for transfer of these business practices between firms, and identifies potential avenues for intervention by policy makers and other agencies, for facilitating such a transfer.

The study has identified 12 'generic' success factors / business practices which appear common (though in varying in criticality and emphasis) amongst successful exporters, both in traditional and non-traditional industries. These are: global market intelligence, strong global networking, direct relationship with buyers, clear product-market strategy for exports, strong R & D skills, access to technology, competitive raw material sourcing skills, world class manufacturing and quality standards, timely execution of orders, moving up the global value chain, clear export thrust and entrepreneurial zeal.

The Study firmly establishes that the days when firms could turn to the government for support, subsidy or protection for their business are well and truly gone. They need to evolve their own strategies and responses to meet the challenges of a dynamic business environment not only in India but also globally. Export success, hence, hinges more on firm dynamics than on government policies and regulations.

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

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

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