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Cementing Intra-BRICS Trade

Introduction

BRICS is an acronym for the group of five leading emerging economies, namely, Brazil, Russia, India, China and South Africa. Initially called BRIC, without South Africa, this term was coined by Goldman Sachs in 2001, by Jim O'Neill in a paper titled 'Building Better Global Economic BRICs'. This paper concluded that over 10 years the weight of the BRICs and especially China in world GDP will grow. In 2003, the Goldman Sachs report, "Dreaming with BRICs: The Path to 2050," stated that by 2050 these economies together would be larger in US Dollar terms than the G-6, consisting of the United States, Germany, Japan, the United Kingdom, France and Italy. South Africa was added to the list on April 13, 2011 creating "BRICS" (Brazil, Russia, India, China and South Africa).

Intra-BRICS Trade

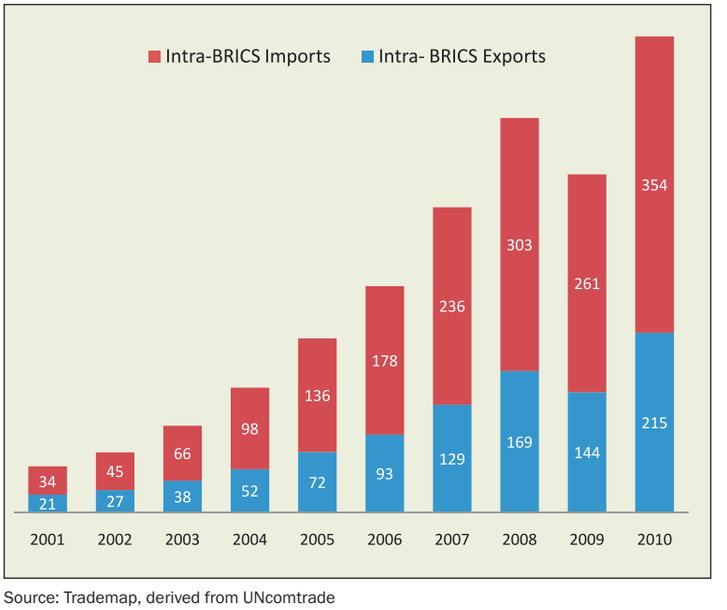
In the recent years, BRICS economies have gained increasing importance as one of the key drivers of the global economy. Intra-BRICS trade has increased over ten-fold, from US$ 55 billion in 2001 to US$ 569 billion in 2010, having an annual average growth rate of 31 percent (**Chart**). Rapid economic expansion, and increasing importance of South-South trade underpinned this robust trend in intra-BRICS trade.

The share of intra-BRICS trade to their global trade has also seen an increase. Intra-BRICS exports accounted for 8.6 percent of BRICS global exports in 2010, as compared to 4.3 percent in 2001. While intra-BRICS imports accounted for 15.9 percent of the global imports in 2010, as compared to 8.1 percent in 2001.

Intra-BRICS exports in 2010 mainly comprised ores, slag and ash accounting for 12.7 percent of the total intra-BRICS exports, followed by machinery and equipments (11.3 percent of the total intra-BRICS exports), electrical and electronic equipments (10.9 percent), mineral fuels oils and their distillation products (10.7 percent) and organic chemicals (3.9 percent). China has been the largest supplier for intra-BRICS exports, followed by Brazil, Russia, India and South Africa.

In 2010, intra-BRICS imports mainly comprised electrical and electronic equipments, accounting

Chart : Intra - BRICS Trade (US$ billion)



Source: Trademap, derived from UNcomtrade

for 26.9 percent of their overall intra-imports, followed by machinery and equipments (13.2 percent of the total intra-BRICS imports), ores, slag and ash (11.0 percent), mineral fuels, oils and distillation products (7.2 percent), and optical, photo, technical, and medical apparatus (3.8 percent). Among the BRICS countries, China is the largest importer, followed by Russia, India, Brazil and South Africa.

Trade Complementarity

Brazil's export to the other BRICS members in 2010 mainly included ores, slag and ash, oilseeds, mineral fuels, oils and their products, sugars and its confectionary, and meat and edible meat offal. While Brazil's imports included electrical and electronic equipments, machinery and equipments, mineral fuel, oils and their products, iron and steel, and organic chemicals.

In 2010, China's exports to the other members primarily comprised electrical and electronic equipments, machinery and equipments, organic chemicals, iron and steel, and optical, photo, technical, and medical apparatus. Imports mainly comprised electronic equipments, ores, slag and ash, machinery and equipments, mineral fuel, oil and its products, optical, photo, technical, and medical apparatus, and oil seeds.

India's exports to BRICS in 2010 primarily included ores, slag and ash, copper and its articles, mineral fuels, oils and its products, cotton, and ships, boats and other floating structures. While imports included electrical and electronic equipments, machinery and equipments, pearls and precious stones, organic chemicals, and mineral fuels, oils and its products.

Major exports of Russia to BRICS in 2010 included mineral fuels, oils and its products, fertilisers, wood and its articles, machinery and equipments, and ores, slag and ash; while major imports were machinery and equipments, electrical and electronic equipments, footwear and gaiters, meat and edible meat offal, and articles of apparel.

In 2010, South Africa's exports to BRICS mainly included ores, slag and ash, mineral fuels, oils and its products, iron and steel, pearls and precious stones, and machinery and equipments. South Africa's imports from BRICS mainly comprised electrical and electronic equipments, machinery and equipments, mineral fuels, oils and its products, vehicles other than railway or tramway, and footwear and gaiters.

Thus, trade reciprocity among the BRICS members is seen in their composition of trade. Brazil and Russia are among the world's largest exporters of natural resources, while most of their imports include manufactured and processed goods. India and China, on the other hand, are among the major exporters of manufactured and processed goods, and major importers

Table : Trade Intensity Index among BRICS

Table A

Brazil

	1995	2000	2005	2010
China	0.8	0.5	0.9	1.5
India	0.8	0.8	1.1	1.1
Russia	0.8	0.8	1.2	0.8
South Africa	-	1.0	1.4	1.0

Table B

China

	1995	2000	2005	2010
Brazil	0.8	0.7	1.1	1.7
India	0.7	0.9	1.2	1.1
Russia	1.6	1.6	1.3	1.0
South Africa	-	1.0	1.0	1.4

Table C

India

	1995	2000	2005	2010
Brazil	0.5	0.5	0.9	1.0
China	0.6	0.6	1.0	1.0
Russia	2.3	1.5	0.7	0.4
South Africa	-	3.8	3.3	3.5

Table D

Russia

	1995	2000	2005	2010
Brazil	0.4	0.5	1.0	0.8
China	1.2	1.2	0.9	1.0
India	2.0	1.7	0.8	0.7
South Africa	-	0.2	0.1	0.2

Table E

South Africa

	1995	2000	2005	2010
Brazil	-	1.0	1.7	1.0
China	-	0.6	0.9	1.4
India	-	1.5	2.0	3.3
Russia	-	0.2	0.1	0.2

Methodology: Trade Intensity Index (Iij) between country i and country j is given as
Iij = (Tij/ Tiw) / (Tjw/Tw)
where Tij(w) – trade (imports + exports) between country i, j or world; Tw – total world trade
- Not available
Source: Direction of Trade Statistics, IMF; Exim Bank Research

of natural resources. South Africa, apart from being a major trading partner for India, China and Brazil, serves as an important link for India-Brazil trade. Thus, growing synergies among the BRICS economies is mutually beneficial to the members.

Trade intensity analysis of BRICS

Individual country-wise intra-BRICS trade analysis is done through the trade intensity index (TII). Trade Intensity, defined by Brown (1949) and Kojima (1962), describes the bilateral trade between two countries in relation to the total value of world trade and its share in it. This index indicates whether or not BRICS members export more to themselves (intra-BRICS) than the world does on an average. The TII values lie between 0 to infinity. When there is no bilateral trade, TII takes the value 0; when TII is 1, it indicates there trade between members has no geographic bias; if $0 < TII < 1$, then trade between partners is less intensive; and if $1 < TII$, then trade between partners is more intensive.

TII among BRICS members is calculated in **Table**. Some of the key findings of the resultant TII are given below:

- TII for BRICS members depict rising trend during 1995 to 2010, showing rising Intra-BRICS trade intensity, with few variations for individual members.
- **Table A** shows Brazil's trade intensity with the rest of BRICS members. During the period, Brazil's trade intensity showed a healthy rise with China and India, while maintaining a steady trend with Russia and South Africa. In 2010, the share of China in Brazil's total trade (TII – 1.5) was about 50 percent higher than the share of China in world trade.
- **Table B** shows China's trade intensity with the rest of BRICS members. China's trade is more intensive with all the BRICS members except Russia in 2010. Its TII is the highest with Brazil, i.e. Brazil's share in China's total trade to Brazil is 67 percent higher than the share of Brazil in world trade.
- **Table C** shows India's trade intensity with the rest of BRICS members. India's trade with China and Brazil has no geographical bias, since TII has taken value 1. The overall TII between BRICS members has been gradually increasing. India's trade intensity with Russia has been declining over the years.
- **Table D** shows Russia's trade intensity with the rest of BRICS members. There is variable intensity in the Russia's trade to the rest of the BRICS members.
- **Table E** shows South Africa's trade intensity with the rest of BRICS members. South Africa has the highest trade intensity with India.

BRICS Summit

The first BRIC summit took place in Yekaterinburg, Russia on June 16, 2009. The Heads of State and Heads of Government of the four countries participated in the Summit, which discussed issues such as the global financial crisis, global development, and further strengthening of BRIC as a group. The 2010 BRIC Summit held in Brasilia, Brazil on April 16, 2010, was its second summit. This summit focused on various issues such as global development, furtherance of the BRIC as an international body, the global economic situation at that time, reform of financial institutions, the financial G20, and cooperation and issues related to global governance. The third BRICS Summit took place in Sanya, China, on 14 April 2011, under the theme "Broad Vision, Shared Prosperity". This was the first time where South Africa, the fifth member of BRICS (formerly known as BRIC), participated in the summit. The summit discussed on international situation; financial, development, climate and security issues; and outlined future cooperation. India will host the fourth BRICS summit in March 2012.

Business Opportunities (as on December 2011)

Country/Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Ministry of Lands and Natural Resources Project Coordinating Unit Room G 4, P. O. Box M212 Accra, Ghana **Contact:** Mr. Ibrahim Baryeh Tel.: 00233-302-672336 Fax.: 00233-303-666801	**Second Land Administration Project** The development objective of the Second Land Administration Project for Ghana is to consolidate and strengthen land administration and management systems for efficient and transparent land service delivery. The component of project requires procurement of transport vehicles.	**World Bank** US$ 55 mn
Electrification and Projects Directorate Filipe Samuel Magaia Av. 368 P.O.Box 2532, Maputo Mozambique **Contact:** Mr. Marcelino Alberto Tel: +258 21353600 Fax: +258 21322074 E-mail: cfabiao@edm.co.mz	**Regional Transmission Development Project** The project will include the following components under goods, works and consulting services: • Construction of a single circuit 400kV HVAC, ±500kV bi-polar HVDC, 400 kV HVAC substations, tranmission line; • Consulting services for the Design, Procurement and Supervision of the Construction works.	**World Bank** US$ 300 mn
National Power Company "Ukrenergo" 25, Kominternu Street 01032 City of Kiev, Ukraine **Contact:** Mr. Victor Lysykh Head-Investment and Credit Policy Tel: (+38-44) 238-3493 Fax: (+38-44) 238-3981 E-mail: office@nec.energy.gov.ua	**South Ukraine Transmission Project** The project consist of design, supply, construction and commissioning of one 750 kV overhead transmission line, one 750/330 kV substation and diversion of two 330 kV overhead transmission lines.	**European Bank for Reconstruction and Development** € 175 mn
Termoelektrarna Sostanj DOO Obrezna 170a, 2000 Maribor Slovenia **Contact:** Mr. Danica Stegnjaic Facsimile number: +386 (0)2 300 59 91 Phone: +386 (0)2 300 59 92 e-mail:Tendering-TES-B6@hse-invest.si	**Sostanj Thermal Power Plant Project** The project consists of design, manufacture, supply, installation and commissioning of plant and equipment of the Coal Transport System for the new 600 MW Unit 6 at Thermal Power Plant Sostanj and training of Employer's staff.	**European Bank for Reconstruction and Development** € 21 mn
EPC Project Management Unit John Williams Building, 2nd Floor Tamaligi, Apia Samoa **Contact:** Mr. T.T.L. Tuimalealiifano Project Manager Tel. No.:+68565-407 Fax No.:+68565-439 E-mail: leiat@epc.ws	**Power Sector Expansion Project** The Project will improve the capacity of the power sector to meet growing electricity demand and improve quality, reliability, and cost-effectiveness of power supply by improving the financial performance of EPC; supporting EPC's investment plan to meet growing demand; improving the operational efficiency of EPC, and establishing effective regulation of the power sector.	**Asian Development Bank** US$ 26.61 mn

Country/Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Electricite du Cambodge 2nd floor, EDC Head Office St. 19 Watt Phnom, 12200 Phnom Penh Cambodia **Contact:** H.E. Keo Rottanak Tel: (+855-23) 724-771 Fax: (+855-23) 426-018 E-mail: sodavath@edc.com.kh	**Second Power Transmission and Distribution Project** The work includes construction and completion of the design, supply, erection, testing and commissioning of 115/22 kV Sihanoukville Substation and 115kV Bays Expansion at 230/22kV Stung Hav Substation.	**Asian Development Bank** US$ 20 mn
National Electricity Company of Burkina (SONABEL) 55, Avenue de la Nation, No. 324 Ouagadougou, Burkina Faso **Contact:** Secretariat (Legal Department) Tel: (+226) 50 30 61 00 Fax: (226) 50 March 31 40 E-mail: courrier@sonabel.bf	**Electrical and Infrastructure for Rural Electrification** The project includes supply, installation and extension of lines MV / LV and construction of transformer stations MV / LV and electrification of various towns.	**African Development Bank:** US$ 40 mn
Zanzibar Water Authority Malawi Road, Opposite Msikiti Mabluu, P.O. Box 460, Zanzibar Tanzania **Contact:** Sectretary (ZAWA Tender Board) Tel: +255 777 967180 Fax: +255 24 223 1151	**Zanzibar Water Supply and Sanitation Project** The works includes among others, construction new production boreholes, observations boreholes, supply and installation of pumps and associated electrical facilities, and laying of transmission pipelines and distribution networks of approximately fifty one kilometers.	**African Development Bank:** US$ 40 mn

Contract Awards (select contracts secured by Indian companies/consultants)

Rani Infrastructure Development Ltd., Secunderabad	Contract for rehabilitation of road from Mankulam to Vellenkulam for Sri Lanka's conflict affected region Emergency Project, funded by the **Asian Development Bank**.
PEC Ltd., New Delhi	Contract for supply of conductors, cables, stay wire, binding wire and other electrical equipments for Kenya's Electricity Expansion Project, funded by the **World Bank.**
Kalpataru Power Transmission Ltd., Mumbai	Supply and Installation of 33 KV Lines and associated low voltage networks in Kenya's selected priority rural electrification project, funded by the **World Bank**.
Consulting Engineering Services (India) Ltd., New Delhi	Consulting services for updating previous study and preparation of feasibility study and preparation of designs for two spate diversion schemes in Wadi Khawrah, Shabwa Governorate of Yemen's Water Sector Support Project, funded by the **World Bank**.
Angelique International Ltd., New Delhi	Contract for supply, installation and commissioning of a 5MV thermal power plant at Bujumbura, for Burundi's Emergency Energy Project, funded by the **World Bank**.
Macleods Pharmaceuticals Ltd., Mumbai	Contract for supply of first line pharmaceuticals (Rifampicina 150mg, Isoniacida 75mg and Pirazinamida 400mg) for the treatment of Tuberculosis, for Argentina's Essential Functions Projects and Public Health Programmes, funded by the **World Bank**.
Tan Prints India Pvt. Ltd., Jhajjar, and Lovely Offset Printers Pvt. Ltd., Sivakasi	Contract for reprinting of textbooks and teacher's guide for Gambia's Third Education Project, funded by the **World Bank.**

Investments in African Region

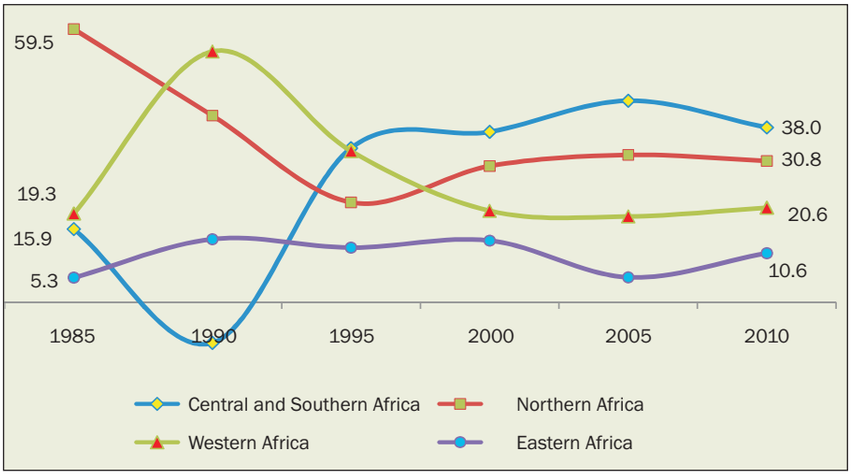
Foreign Direct Investment (FDI) inflows to Africa have increased sharply in the past decade with improved investor's perceptions of Africa and positive outlook on region's growth potential. According to a World Bank report, Africa offers one of the highest investment returns in the world.

Total FDI inflows to Africa witnessed a continuous, rise from US$ 2.4 billion in 1985, peaked to US$ 73.4 billion in 2008. This trend decelerated in 2009 with the financial meltdown, when FDI inflows to Africa was reduced to US$ 60.2 billion and further decreased by 8.5 percent to US$ 55 billion in 2010. The share of Africa in total global FDI inflows was 4.4 percent in 2010, down from 5.1 percent in 2009. Similarly, share of Africa in total FDI inflows to developing economies also came down to 9.6 percent in 2010, compared to 11.8 percent in 2009.

There has been significant variations in the sub-regional-wise inflows to Africa in 2010. Among the four African sub-regions, only Eastern Africa witnessed a rise in FDI inflows. Central and Southern Africa together accounted for the maximum share in FDI inflows to the region (**Chart**). The share of Central and Southern Africa in FDI inflows to Africa has increased more than two-fold from 15.9 percent in 1985 to 38 percent in 2010. Algeria, Egypt, Nigeria, Libya, Congo DR, Congo Republic and Ghana received the maximum FDI, together accounting for 62.8 percent of total inflows to Africa. Whereas, Algeria, Egypt and Nigeria witnessed decline in their inflows, the other four economies recorded a sharp increase. The start of major oil production in Ghana has attracted large number of investors to the country.

Primary sector including coal, oil and gas accounted for 43 percent of total inflows to the region, followed by manufacturing sector (29 percent of total inflows) and services sector (28 percent). Oil industry received the maximum FDI in the primary sector, metal industry received almost half of the inflows to manufacturing sector, and communications and real estate dominated inflows to services sector.

Chart: Africa – Sub-region-wise share of FDI Inflows 1985-2010



Source: UNCTAD, World Investment Reports

Indian Investments in Africa

According to the data released by Reserve Bank of India and the Ministry of Finance, Government of India, approved cumulative Indian investments in joint ventures and wholly owned subsidiaries in Africa during April 1996 to November 2011 amounted to US$ 30.8 billion, accounting for 19.5 percent of India's global overseas investments (US$ 157.7 billion). Mauritius is largest destinations in Africa for Indian investments with total investments of US$ 27.4 billion during April 1996 to November 2011, followed by Sudan, Egypt, South Africa, Libya, Liberia and Kenya.

Indian investments in Africa witnessed a more than five-fold increase in 2010 compared to the previous year. The reason behind this sharp rise was the acquisition of the telecom operations of Zain telecom in 15 African countries by the Indian mobile operator Bharati Airtel for US$ 10.7 billion. Other major Indian investors in Africa in 2010-11 include 3I InfoTech Holding Pvt. Ltd., Aamby Valley Ltd., Essar Services, Appolo Tyres, Asian Hotel, Bilcare, D B Hospitality Ltd., Dhunseri Petrochem & Tea Ltd., Geodesic Ltd., GMR, Godrej, ONGC Videsh Ltd., Reliance Industries, RHC Holding Private Ltd., Shree Renuka Sugars Ltd., Shrenuj & Co. Ltd., etc. Indian investments in Africa are in diverse segments of industries including oil, telecom, financial services, hospitality, etc.

Exim Bank's Lines of Credit

Exim Bank of India (Exim Bank) has placed special emphasis on extension of Lines of Credit (LOCs) as an effective market entry mechanism with particular focus on small and medium enterprises. Exim Bank extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India, on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. Exim Bank also extends LOCs at the behest of Government of India. Under the Lines of Credit extended at the behest of Government of India, Exim Bank reimburses 100 percent of contract value to the Indian exporters, upfront upon the shipment of goods, and at least 75 percent of goods and services of total contract value should be sourced from India. Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters.

Exim Bank has now in place 149 Lines of Credit, covering over 74 countries in Africa, Asia, Latin America and Caribbean Europe, Oceania and the CIS, with credit commitments of over US$ 7.49 billion, available for financing exports from India. These LOCs have catalysed export of various projects in diverse sectors such as agriculture, transportation, communication, manufacturing, energy generation and transmission, rural electrification. Increasingly, further LOCs are being extended for financing Indian project exports, which create, in the recipient countries, a greater visibility for Indian expertise and project execution capabilities, with downstream linkages. Established primarily to enhance Indian exports to developing countries, Lines of Credit, today, have become an effective tool for market penetration and a stepping stone to unchartered territory of Africa and Latin American countries.

Exim Bank, at the behest and with the support of Government of India, extended five LOCs as given below during the quarter October-December 2011:

- An LOC of US$ 250 million to the Government of Nepal, for financing infrastructure projects such as highways, airports, bridges, irrigation, roads, railways and hydropower projects in Nepal. Exim Bank earlier extended an LOC of US$ 100 million to Nepal, for financing road projects, rural electrification projects, power transmission projects and hydro power projects in Nepal.

- An LOC of US$ 15 million extended to the Republic of Togo, for financing a rural electrification in Togo.

- An LOC of US$ 20 million to Nigerian Export-Import Bank [Neximbank], for financing export of goods and services from India to Nigeria.

- An LOC of US$ 70 million extended to the Republic of Congo, for financing a rural electrification project in the Republic of Congo.

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The Quarter That Was

India-South Africa to cooperate in MSME sector

In a bilateral meeting between Shri Jyotiradiya M Scindia, Minister of State Commerce and Industry, Government of India and Ms. Elizabeth Thabethe, Deputy Minister for Trade & Industry, Government of South Africa, the two countries agreed to strengthen bilateral cooperation in the MSME sector.

With respect to the handloom / handicrafts sector, India offered to cooperate with respect to the structural issues and the dovetailing of IT into the handicrafts / handloom sector, exchange of vocational training, IT skills, etc. The 'cluster model' adopted in many sectors in India has been largely appreciated during the meet.

The two countries need to focus on specific sectors like auto engineering, pharmaceuticals, IT, diamond and mining sectors in order to further enhance the growth in the bilateral trade and investment

Japan-India bilateral relations

Japan, with its increasing interest in India's infrastructure projects has emerged as one of the largest sources of FDI inflow. With investment of around US$ 9 billion expected in the Delhi-Mumbai Industrial Corridor, the trend is expected to continue. Japan is among the top investors in India. India and Japan have recently signed a comprehensive agreement for economic cooperation to enhance trade. Japan has already committed more than 132.6 billion Yen in ODAs (roughly ₹ 8950 crore) to India during FY12. These loans are intended for infrastructural development, including: setting up thermal power stations, increased use of renewable energy. Greater economic cooperation is expected in: currency swaps and nuclear power.

Steel consumption to reach 122 mt by 2015: ASSOCHAM

According to ASSOCHAM, the steel consumption in India is likely to reach around 122 million tonnes (mt) by 2015 from the current annual base of about 70 mt.

Rising demand from sectors like agriculture, consumer durables, capital goods, oil and gas, and water is the key growth driver behind this upward spiraling demand of steel. This will require a vision encompassing availability of key raw material, infrastructure, research, development, rehabilitation and human resource development, he added.

Given the growth prospects it is envisaged that the domestic steel companies must target countries like Australia and Mozambique to make up for the low reserves of coking coal. Considering that India is self-reliant in iron ore production, the steel companies must intensify efforts to develop technologies to make use of iron ore fines and thermal coal for steel production. Since profitability of steel industry is based on price of coking coal in the international market, efforts should be made to intensify use of technologies that can utilise high ash coke and iron ore fines available locally.

There is a huge potential for consumption of steel in the rural sector. Besides, demand for steel in traditional sectors and high-tech engineering industries like construction, fertilisers, petrochemicals and power generation is likely to swell further. Demand for cold rolled grain oriented (CRGO) and cold rolled non oriented (CRNO) steel are also expected to rise on the back of large scale capacity expansion in power sector and associated infrastructures.

M&A Deals of Indian firms dip to US$ 34.4 billion in 2011: E&Y

Hit by a raft of adverse global and domestic factors, the value of merger and acquisition deals involving Indian companies slumped over 40 percent to US$ 34.4 billion last year. India's M&A deal value reached US$ 34.4 billion, which is a significant decline from US$ 60.7 billion in 2010. In terms of deal count, 2011 recorded a total of only 806 deals, as compared to 1,135 deals in 2010. Cross-border deals accounted for over 85 percent of the total value of M&A transactions in 2011. There were 385 cross-border deals during the year, which were worth about US$ 29.4 billion. The average deal size for 2011 plunged to US$ 104.6 million from US$ 121.1 million in 2010. Oil and gas (18 deals with an aggregate disclosed value of US$ 9.2 billion) and metals and mining (46 deals with a value of US$ 2.7 billion) together accounted for 34.6 percent of the aggregate deal value witnessed in 2011.

Meanwhile, there were just seven 'billion dollar' deals in 2011, compared to 12 such transactions in 2010. Global consultancy firm Ernst & Young (E&Y) said uncertainty over the Eurozone debt crisis and sluggish American growth, coupled with domestic factors such as rising interest rates and moderate growth in the economy, affected the Indian M&A scenario.

Zuari venture buys stake in Peru mine

Zuari Industries, a fertiliser manufacturing company of the K K Birla Group, and its joint venture partner Mitsubishi Corporation has acquired 30 percent stake in Fosfatos del Pacifico SA, Peru (Fospac) for US$ 46.12 million (about ₹ 230 crore). The newly-formed Singapore-based joint venture company, MCA Phosphates Pte, in which Zuari own 30 percent stake, will execute the deal.

Fospac is executing a project in Peru that has an estimated mineralised material of about 540 tonnes of phosphate rock with an average P2O content of 18.5 percent before beneficiation. The project is expected to have an initial production capacity of 2.5 million tonnes. Mitsubishi Corporation has signed an off-take agreement with Fospac for entire production of rock phosphate. Zuari has back-to-back off-take agreement with Mistubishi Corporation for 50 percent of the Fospac production per annum phosphate rock.

Aditya Birla Group to invest US$ 500 million in VSF plant in Turkey

The Aditya Birla group intends to invest US$ 500 million over the next five years to set up a viscose staple fibre plant in Turkey. The Aditya Birla Group has over 21 percent market share in the global VSF space.

The 180 kilo tonnes per annum (ktpa) VSF plant, which will come up in Turkey's

Adana Organised Industrial Zone, will also have a captive power facility , a chemical plant and a sulphuric acid unit. The new plant in Turkey is expected to be operational by 2015. This initiative is in line with the group's strategy of ramping up its VSF manufacturing capacity to 1.1 million tonnes from 750 ktpa over the next three years.

The group zeroed in on Turkey as it is expected to become the second-largest consumer of VSF over the next five years from being the fourth-largest currently. While the plant will cater primarily to the domestic market, around 20 percent of the produce will be exported to countries in the European Union and other neighbouring countries. The plant, which will come up in two phases, is expected to provide employment to 500 Turkish nationals.

Volvo to make India global hub of its Asia range

India is set to emerge as the global development and manufacturing hub for Swedish bus maker Volvo Bus Corporation's Asia range over the next four years. The company, which has production facilities in 20 countries, has global manufacturing bases in Poland, Mexico and China. While the facility in Poland supplies premium buses to Europe, the centres in Mexico and China roll out premium products for countries in the Americas and South-East Asia respectively.

India will be the fourth global hub for Volvo. The Asia range of buses will be designed, developed, manufactured and exported exclusively from India to the rest of the world. The Indian unit expects at least 40-50 percent of overall sales to come in from the Asia product range over the next two years.

With a planned investment of at least ₹ 400 crore, India would emerge as the second-largest market globally over the next four years. It would be the manufacturing hub for selected models and have a research and product team focused on developing specific products for Asian markets, which would then find their way to the rest of the world.

The company, looking to sell 25,000-30,000 units worldwide by 2015, expects nearly half the volumes to come from the emerging markets of India and China. The Indian unit is projected to increase sales five-fold to 5,000 units per annum to become the second-largest market for Volvo Buses worldwide over four years. India is now the sixth-largest market for the company, behind China, South America and Europe.

Revenues for the India subsidiary, too, are expected to shoot up to US$ 1 billion from the present US$ 200 million. As much as 25 percent of overall volumes would be registered as exports from India to countries in Asia-Pacific, West Asia and South America.

India, Nepal sign revised double taxation avoidance pact

India and Nepal today inked a revised double taxation avoidance agreement (DTAA) that would, among other things, facilitate sharing of banking information between two countries for better tax administration purposes.

The revised DTAA will provide tax stability to the residents of India and Nepal and facilitate mutual economic cooperation as well as stimulate the flow of investment, technology and services between the two countries. In the revised DTAA, the threshold withholding tax rates on dividends, interest etc. are rationalised to reflect the present day situation and developments in the area of international taxation. It also provides that the information received can be shared with other law enforcement agencies with the consent of the information supplying country.

CERC sets up fund to promote renewable energy projects

The Central Electricity Regulatory Commission (CERC) has set up a renewable energy fund (REF) to promote projects in India. This fund is aimed at compensating states if they fail to meet the target given under their schedule of renewable energy (RE) projects. All RE projects are required to provide a schedule of generation to CERC from 2012.

REF would bear charges imposed on states hosting RE projects that fail to comply with their supply commitments. At present, only wind energy projects without sale arrangements with states are required to give declarations forecasting their generation to state load despatch centres. CERC allows 30 percent deviation in the supply commitments, beyond which penalties are levied or incentives offered. The Electricity Act, 2003, and the National Action Plan on Climate Change (NAPCC) provide a roadmap for increasing the share of RE in total generation capacity. Under this plan, every state has to purchase five percent of total power requirement from renewable resources like wind, solar or water.

The power purchase obligation is fulfilled by trading of RE receipts, which is a tradable receipt representing a value of one megawatt hour (MwH) of power injected into the grid through renewable resources. From 532 RE certificates issued in March, total issuances till date have gone up to 352,0260. Under the proposed fund, deviation beyond 30 percent is proposed to be shared among all state distribution companies in a ratio of their peak demand met in the previous month. The states, in turn, would be compensated for these charges out of the renewable regulatory fund. Explaining this, an official said if a state proposed to provide 50 Mw of RE power but could supply only 40 Mw, then the state in which the project is located have to draw 10 Mw power from central pool and supply. This is termed as unscheduled interchange and is charged at a higher rate. This extra cost will be borne by all state distribution companies, which would be compensated by REF.

In case there is short supply, it has to make good the shortfall by drawing power from the central pool. Since the state is naturally endowed with such a resource, it is unfair to expect that it compensates for individual projects' shortfall. Therefore, such a compensation plan is worked out to promote power projects in states, where there is natural endowment of resources.

National Manufacturing Policy : Envisaging Growth

The National Manufacturing Policy is expected to be the policy that will help to bolster the manufacturing sector. The main objectives are: a) Increasing the sectoral share of manufacturing in GDP to at least 25 percent by 2022; b) increasing the rate of job creation so as to create 100 million additional jobs by 2022; and c) enhancing global competitiveness, domestic value addition, technological depth and environmental sustainability of growth.

The following broad interventions in the areas of industrial infrastructure development are planned with the objective of achieving the above-mentioned goals:-

- Foreign investments and technologies will be welcomed while leveraging the country's expanding market for manufactured goods; this is to induce the building of more manufacturing capabilities and technologies within the country;
- Competitiveness of enterprises in the country will be the guiding principle in the design and implementation of policies and programmes;
- Compliance burden on industry arising out of procedural and regulatory formalities will be reduced through rationalisation of business regulations;
- Innovation will be encouraged for augmenting productivity, quality, and growth of enterprises; and
- Effective consultative mechanism with all stake holders will be instituted to ensure mid-course corrections.

Industrial verticals that are poised to receive special attention are the capital goods sector; the SMEs, which contributes almost 45 percent of India's manufacturing output and 40 percent of exports; Public Sector Enterprises involved in defence and energy; and sectors engaged in the employment intensive industries like textiles and garments, leather and footwear, gems and jewellery, and food processing industries. Thrust is also envisaged to be given to industries where India enjoys competitive advantage (pharmaceuticals, automobiles, etc), apart from industries with strategic significance like aerospace, shipping, IT hardware and electronics, telecommunications equipment, defence equipment, and solar energy. Specific policy instruments have been conceptualised to achieve these objectives:

- Simple & expeditious exit mechanism for closure of sick units while protecting labour interests;
- Financial & institutional mechanisms for technology development, including green technologies;
- Industrial training and skill upgradation measures;
- Incentives for SMEs;
- Special Focus Sectors;
- Manufacturing sector engaged in infrastructure to provide for reducing the infrastructure deficit;
- Clustering and aggregation : National Investment and Manufacturing Zones (NIMZs).

The NIMZ has been a key initiative to boost industrial infrastructure development through the creation of large integrated industrial townships with state-of-the-art infrastructure; land use on the basis of zoning; clean and energy efficient technologies; necessary social and institutional infrastructure in order to provide a productive environment to persons transitioning from the primary to the secondary and tertiary sectors. The land for these zones will preferably be waste infertile land not suitable for cultivation; not in the vicinity of any ecologically fragile area and with reasonable access to basic resources. These zones will have at least 5,000 hectares each. Units in these zones will enjoy single-window clearance, a liberal exit policy, incentives including exemptions from capital gains tax, and incentives for green manufacturing and technology acquisitions.

It is also envisaged to introduce procedural simplifications and rationalisation so that the regulatory burden on industry is reduced; however compliance to labour and environmental laws will not be compromised. It would also look into rationalising the plethora of rules and regulations by reducing the compliance burden on manufacturing units, particularly in NIMZs. The interventions proposed are generally sector neutral, location neutral and technology neutral, except the attempt to incentivise green technology for sustainable development.

The contribution of the manufacturing sector at just over 16 percent of India's GDP is much below its potential and a cause of concern especially in the context of other Asian countries in similar stages of development. This also has its socio-economic manifestations and prevents India from fully leveraging the opportunities of globalisation. With over 60 percent of its population in the working age group, and over 220 million people estimated to join the work force in the next decade, the manufacturing sector will have to create gainful employment for at least half this number. The NMP therefore plans to provide an enabling environment for tapping the potential of the private sector and the entrepreneurial skills of the younger population.

Electronics Industry : India - China Comparative Analysis

Electronics Industry is one of the largest industries in China, and is growing at an average 20 percent per annum. China is one of the largest producers of consumer electronic goods such as TVs, recorders, video players, handsets, etc., and holds a leading edge in semiconductor and computer hardware industry. Growing indigenous demand and a large number of overseas manufacturers aiming for economising costs have boosted the electronics industry in China.

In comparison to China, Indian electronics industry through relatively small, one of the fast-growing sectors. The start of Indian electronics industry could be traced to the sixties, when the Government took the initiatives of manufacturing space and defence electronic products, followed by developments in consumer electronics, mainly the manufacturing of transistor radios, black and white TVs, calculators and other audio products; computers and telecom products. Indian electronics hardware production increased from ₹ 50,500 crore in 2004-05 to ₹ 121,760 crore in 2010-11, with a cumulative annual growth rate of 17.3 percent. Consumer electronics took the largest share (27.4 percent) in India's electronics production in the year 2010-11, followed by communication and broadcast equipment, (26.7 percent), industrial electronics (14.9 percent), computers (12.3 percent), components (12.3 percent) and strategic electronics (6.3 percent).

During 2010, China was the largest exporter of EDP equipment, and office equipment and telecommunications, with a share of 38 percent and 31 percent, respectively in the total world exports. However, India held very low shares (less than 1 percent) in most of the categories of electronic exports in the world (**Table**).

Table: Exports of Select Electronic Items from China and India (US$ billion)

Items	2009	2010	% Change	% share in world exports 2009	% share in world exports 2010
China					
Total office and telecom equipment	346.5	449.4	29.7	26.2	28.0
EDP equipment and office equipment	157.3	206.0	30.9	34.1	37.9
Telecommunications equipment	148.8	180.4	21.3	29.5	31.1
Integrated circuits and electronic components	40.3	63.0	56.1	11.4	13.1
India					
Total office and telecom equipment	3.9	3.7	-4.4	0.3	0.4
EDP equipment and office equipment	0.6	0.6	6.9	0.1	0.1
Telecommunications equipment	2.7	2.4	-9.7	0.5	0.4
Integrated circuits and electronic components	0.6	0.7	7.8	0.2	0.1

Source: International Trade Statistics 2011

Overall, trade between India and China has been growing since the last decade. The growth in imports has been more than that of exports from India. Among the top items exported by India to China, electronics goods held a share of 1.4 percent and stood at the 11th position; whereas in terms of imports, electronic goods were the largest imported item by India from China, with a share of 23 percent in the total imports from China. Computer and related equipment was the largest imported item by India from China, while electronic components has been the largest export item by India to China, within the electronic sector. In absolute terms, India exported electronic goods valued US$ 0.27 billion to China, and imported electronic goods valued US$ 9.38 billion from China in the year 2010-11. The trade deficit of India in electronic goods with China was US$ 9.11 billion during this year, which is 44 percent of overall trade deficit of India with China in the same year.

Against this background, it is suggested that India-China should enhance trade and investment relations, by balancing trade either directly, or through investments from China to India, or through exports to third countries by India with the help of China's investments into India. In this way, it would help India in reducing its trade deficit in the electronics sector.

Indian Agriculture : Current Imperatives

India has made impressive strides on the agricultural front during the past three decades. Growth in agricultural output has been strong and, importantly, crop production has been able to broadly keep pace with the demands from a growing population. Notwithstanding these achievements, ensuring food security continues to be a major challenge for the nation.

India is the third-largest foodgrains producers in the world next to China and USA. India's arable area is 53 percent of the total land area, in comparison to USA's 18 percent and China's 12 percent. However, India's overall production has been relatively low, and crop-yields remain low by international standards.

Foodgrains production has been an area of concern for India for long. India was dependent on foodgrain imports for almost two decades after independence. The development of high-yielding variety (HYV) of seeds and the subsequent use of the fertiliser-pesticides-irrigation package and education of farmers during Green Revolution in 1960s led to quantum jumps in the productivity of the Indian foodgrain sector. Consequently, productivity of foodgrains grew at an average rate of 4.4 percent during 1980s to 1990s, from 2.6 percent during 1970s to 1980s, which however, slowed down to 1.6 percent during 1990-2010 (**Table**). This is often attributed to structural weaknesses of the agriculture sector.

The key inputs to supplement crop production and productivity are seeds, fertiliser, pest management, credit and irrigation. Input management plays a vital role for crop production and productivity.

Low average per hectare use of fertiliser and large imbalance in fertiliser application has been raising considerable concerns over soil fertility, productivity and efficiency of fertiliser use in the country. Seed Replacement Rate (SRR) has also been low. Total farm power in India remains very low at 1.5 kW/Ha, compared to Japan (14 kW/Ha), South Korea (7 kW/Ha), China 6.8 kW/Ha and (6 kW/Ha). According to the World Bank, agriculture R&D as a percentage of GDP is as low as 0.3 percent in India.

The problems of waterlogging and soil salinity has been developing in many irrigation project areas due to over-irrigation & deep percolation, and seepage losses in the absence of a suitable drainage system. The problem is likely to aggravate further if proper soil management practices, including provision for suitable drainage system are not undertaken.

In recent years, Indian agriculture has been experiencing diminishing returns to input-use and a significant proportion of gross cropped area has been facing stagnation or negative growth in Total Factor Productivity (TFP). This issue of sustainability can only be addressed by shifting the production function by improving the technology index. This can be done by appropriate technology interventions, judicious use of natural resources and harnessing biodiversity. Technological innovations must be combined with institutional innovations to ensure that input and output markets, financial services, and farmer organisations are in place for broad-based productivity growth. Also extension services need to be strengthened by scaling-up investment levels and improving the quality of extension.

An increase in agricultural investments, especially in research and development, is urgently needed to stimulate growth in Total Factor Productivity (TFP) in India. The districts/sub-regions/regions where TFP stagnation or decline has taken place must get priority in agricultural research and development.

Since agriculture is the major water-consuming sector in India, agricultural demand management in water-scarce and water stressed regions would be central to reduce the aggregate demand for water, to match the available future supplies, and to counter any negative impact on crop production and yield levels. Thus, adopting appropriate technology would be key to optimising water use and attaining optimal yield.

Table: Growth Rate of Yields and Production of Foodgrains in India

Periods	Yield Growth		
	Rice	Wheat	Total Foodgrains
1970-1980	2.9	3.1	2.6
1980-1990	4.9	4.5	4.4
1990-2010	1.3	1.6	1.6
Periods	**Production Growth**		
	Rice	**Wheat**	**Total Foodgrains**
1970-1980	3.8	6.1	3.1
1980-1990	6.1	5.4	4.8
1990-2010	0.9	2.6	1.6

Source: Data-Ministry of Agriculture, India; Exim Bank Research

Literature Review : World Development Report 2012

The World Bank's annual publication World Development Report with specific focus on 'Gender Equality and Development' finds that women's lives around the world have significantly improved, but certain gaps remain in many areas. This is the first time the World Bank has themed its annual flagship publication to the topic on gender equality. The report analysed conceptual framework to examine gender progress to date, and then recommend policy actions.

The report begins with reviewing areas of progress in gender equality, followed by an examination of the issue areas, geographical spaces, and social groups where inequalities remain stubbornly in place. On the employment front, the report reflects continued segregation of labour markets which contributes to gender gaps in earnings, as well as the persistent allocation of unpaid domestic and care work to women and girls.

During the past decades, women's and girls' education and health levels have improved greatly. Women have made unprecedented gains in rights, education, health, and access to jobs and livelihoods. More countries than ever guarantee equal rights in property, marriage, and other domains. Two-thirds of all countries have now reached gender parity in primary education, while in over one-third, girls significantly outnumber boys in secondary education. More young women than men attend universities in 60 countries. Women are using their education to participate more in the labour force, as they now make up for 40 percent of the global labour force and 43 percent of farmers.

But in many parts of the world, women continue to lack voice in the household and the ability to participate in decisions that impact them, their families, and their societies, and their economic opportunities remain very constrained. Primary and secondary school enrollments for girls remain much lower than for boys in many Sub-Saharan African countries and some parts of South Asia, as well as among disadvantaged populations. Women are more likely than men to work as unpaid family labourers or in the informal sector, to farm smaller plots and grow less profitable crops, operate in smaller firms and less profitable sectors, and generally earn less. Gender equality is a longer-term driver of competitiveness and equity that is even more important in an era of increasingly globalised economies.

The report highlights the role of the World Bank Group, which promotes gender equality in developing countries through lending and grants, and knowledge and analysis. As per the World Bank statistics, during 2006-2010, more than US$ 65 billion in the form of lending and grants were allocated to gender-informed operations in education, health, access to land, financial and agricultural services, jobs, and infrastructure.

The report identifies four major areas where gender gaps are most significant, and where direct policy efforts are required since higher incomes alone will do little to reduce existing inequalities, these are:

1. Addressing human capital issues (e.g. excess deaths of girls and women, gender gaps in education;
2. Closing earning and productivity gaps between men and women;
3. Giving women greater voice within households and societies; and
4. Limiting the perpetuation of gender inequality between generations.

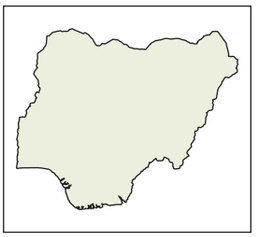
Specifically, the report recommends strong and sustained domestic public policies in developing countries that focus on the root causes of gender gaps i.e. the constraints, such as weak service delivery institutions in the case of maternal mortality. While domestic policy action is crucial, the international community can play a role in complementing these efforts in each of these four priority areas and, more generally, in supporting evidence-based public action through better data, impact evaluation, and learning.

The report, however, puts stock in globalisation, including trade openness and the spread of less expensive information and communication technology, to reduce gender disparities by connecting women to markets and opportunities, and by reshaping attitudes. It also calls for changes in policies to provide women with more access to education, health care (particularly maternal health), property rights, and political quotas.

The World Bank's framing of gender equality not only as a development objective in its own right, but also as smart economics, is an important message for many countries that lag the most on gender equality.

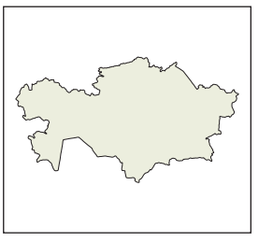
Country Scan

Nigeria



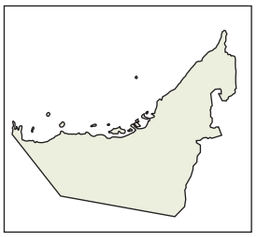
Nigeria, one of the biggest oil producers in Africa, has recently unveiled a massive US$ 130 billion investment plan for sustainable growth and development in the Nigeria's oil and gas sector over the next five years. This is expected to boost oil and gas sector, which witnessed a sharp decline in its FDI inflows in 2010. The Nigerian Finance Minister envisages spending around US$ 67 billion on infrastructure development projects over the next four years to achieve higher economic growth. The 2012 budget has enunciated various policies like focus on agriculture with interest subsidies, zero duty on agricultural equipment, etc. to sustain sound micro-economic growth that will translate to achieving socio-economic transformation.

Kazakhstan



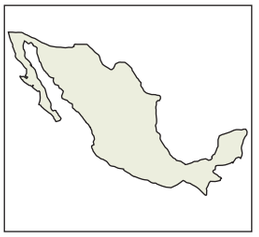
Kazakhstan is abode to 15 percent of world's known uranium reserves, producing 33 percent of global uranium production. In 2009, it became the world's leading producer of uranium. Kazakhstan has recently decided to limit the production of uranium, which could affect the price of much valued fuel in the global market. On November 18, 2011, a treaty was signed in Moscow between Russia, Belarus and Kazakhstan on the creation of the Eurasian Economic Commission (EEC), which would have innumerable benefits for the member countries. In his recent visit to Russia, the Indian Prime Minister has discussed about a possible future deal with a three-nation custom union that also involves Russia, Belarus and Kazakhstan.

UAE



UAE is among the fastest-growing economies in the world. Oil and gas is considered as the most important sector in the economic development of the country. According to the Arab World Competitiveness Report 2011-12, UAE was ranked 3rd in the Arab world, and the 27th in the Global Competitiveness Index. The 2011-13 strategy of the UAE government laid the foundations for the work of federal agencies to develop various strategic and operational plans to strengthen country's position globally. UAE cabinet has approved a draft companies law which allows foreign companies setting up in specialised economic zones or making major investments in strategic sectors such as tourism and manufacturing to obtain full equity ownership.

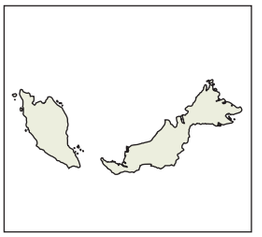
Mexico



Mexican economy expanded above expectations in the third quarter, supported by strong domestic demand and a big increase in agricultural production. With the help of North American Free Trade Agreement (NAFTA) and a string of bilateral deals, the country's total trade accounts for more than the combined trade of Argentina and Brazil. In December 2011, Mexico took over the leadership of the Group of Twenty (G-20) industrial and emerging market countries and will be assuming a major role in forming the policy agenda for the G-20, placing the country in spotlight. The Mexican economy is closely linked to the US economic growth, and the economic events in the US in recent years have resulted in volatile movements in country's currency, Peso.

Malaysia

Malaysia's economy grew 5.8 percent in the third quarter of 2011 which is its fastest intra- year growth, on account of strong demand fuelled by robust domestic spending. Domestic demand of the country is being strengthened through the government's various policy initiatives, such as the 10th Malaysia Plan, the Economic Transformation Programme (ETP) and the Agro-Food Policy. A new 10-year Financial Master Plan (2012-2022) was launched in December 2011 by Bank Negara Malaysia, the central bank, which charts the future direction of the financial system over the next ten years. Malaysia is on the path of a planned economic progression to become a developed nation by 2020. To support this end, the country has recently liberalised its foreign exchange administration rules aimed at further enhancing business efficiency and competitiveness of the economy.



Chinese Yuan

Through most of its history, the value of the Chinese Yuan (CNY) was pegged to the U.S. dollar. As China pursued its gradual transition from central planning to a free market economy, and increased its participation in foreign trade, the CNY was devalued to increase the competitiveness of Chinese industry.

China revalued its currency by 2.1 percent on July 21, 2005 to 8.11 per US dollar, changing from a fixed rate regime to a floating rate regime. Under this regime, the People's Bank of China, the Central Bank, allows the Yuan to rise and fall each day by 0.3 percent (further widened to 0.5 percent in May 2007) from the Central Bank's middle rate reset each day based on previous day's close.

China is expected to add more stimulus as a shrinking trade surplus shows Europe's debt crisis hitting exports. Overseas shipments rose 13.8 percent in November 2011 from last year, the weakest growth since 2009. The excess of exports over imports fell by 35 percent. The decline in the surplus and signs that capital has started to flow out of the country, may prompt the government to keep cutting banks' reserve requirements to sustain growth.

The CNY has been on a gradual appreciation path since the de-peg in June 2010. The market expects CNY to appreciate further in 2012 after the Central Bank set the strongest reference rate in a month and signaled the currency will be allowed to trade more freely. China is expected to maintain flexibility based on the country's situation while pushing forward with interest rate and exchange rate reforms. The Chinese Central Bank has raised its daily fixing by 0.09 percent to 6.3334 per dollar, the highest level since November 09, 2011. CNY was quoted at 6.3089 on December 31, 2011.

South Korean Won

The South Korean Won (KRW) was floated in December 1997 after the South Asian Financial crisis. The exchange rate is market determined and any intervention by the central bank is to moderate wild fluctuations, keeping an eye on the Won's competitiveness.

Korea's economy hit a soft patch in 2011, after strong growth in 2010, as domestic demand weakened and exports moderated. Exports, consumption and the FX rate are key to the 2012 economic outlook. Korea's exports are supported by a competitive manufacturing sector, labour productivity growth and a flexible exchange rate regime. While exports to developed economies is expected to slow, Korea's diversified export base and the structural strength of China and ASEAN will continue to underpin export growth. A strong labour market and easing headline inflation will boost consumption.

KRW maintains its status as a 'high-risk beta' currency despite the authorities' attempts to foster FX stability. The broader risk aversion dynamic may likely drive USD-KRW above the 2011 highs. However, as the outlook for the global economy gradually improves, broader constructive themes should propel a powerful rebound in KRW. Korea posts consistent current account surpluses and may likely attract sustained net foreign inflows into local asset markets as the growth outlook improves. KRW was quoted at 1162.70 on December 31, 2011.

Turkish Lira

The Turkish Lira (TRY) is the currency of Turkey and the de facto independent state of the Turkish Republic of Northern Cyprus. The old Lira was in circulation till December 31, 2004. The new Lira was introduced on 1 January, 2005, replacing the previous Lira at a rate of 1 new Lira = 1,000,000 old Lira.

The Turkish Central Bank (CBRT) in its meeting on December 15, 2011, cut its policy rate, the one-week repo rate, to an all-time low of 5.75 percent while also raising its overnight borrowing rate to 5 percent from 1.5 percent. The Bank kept its overnight lending rate at 9 percent.

The Turkish lira weakened some 2 percent, bond yields fell and stocks dropped 3 percent in surprise at the central bank's move to cut its policy rate to stimulate an already fast-growing economy. The lira weakened to 1.7385 against the dollar from 1.6950 before the Central Bank move, bringing its losses to around 12.6 percent since the start of 2011.

The lira has been under increasing pressure in recent weeks, hit by a widening current account deficit and doubts about the Central Bank's stance on interest rates that analysts fear is too dovish and has rendered the economy vulnerable to external shocks. The Central Bank also said it will start foreign exchange selling auctions, monitoring global risk appetite closely to determine the markets' needs. This indicates that the Central Bank is not uncomfortable with the current lira level. However during periods when risk aversion increases due to European and global concerns, the lira and equities could be more vulnerable. TRY was quoted at 1.8740 on December 31, 2011.

Eurozone Crisis: Spillovers on India's Trade

The sovereign debt problems which surfaced with the Greek crisis in late 2009 became more deep-rooted since June 2011 with fresh concerns being raised about the sustainability of public finances in Portugal, Ireland, Spain and Italy. While high public debt continues to rattle peripheral economies, Italy and Spain are in focus with the European Central Bank stepping in to support Government bond issuance. At the same time, stock markets in the Eurozone and banks in countries like France and Italy are being battered by investors. Business and consumer confidence indices have retreated sharply and downside risks are on an increase.

Table: India's Trade Statistics

	Exports (US$ mn)	Imports (US$ mn)	Trade Balance (US$ mn)	Exports (% change)	Imports (% change)
Apr-11	22,065.1	34,847.7	-12,782.7	25.1	10.2
May-11	25,823.6	45,079.3	-19,256.0	55.0	51.5
Jun-11	24,970.6	38,918.3	-13,947.6	25.9	35.8
Jul-11	26,659.3	40,900.7	-14,241.3	65.6	37.8
Aug-11	24,841.6	39,387.2	-14,545.5	47.4	45.3
Sep-11	23,588.8	34,960.9	-11,372.1	29.6	18.4
Oct-11	19,869.9	39,513.7	-19,643.7	10.8	21.7
Nov-11	22,321.6	35,922.4	-13,600.7	3.9	24.5

Source: Ministry of Commerce and Industry, GOI

Recent developments in the European countries have created uncertainties in the global financial markets and could impact India's short-term growth prospects. With the Eurozone being a major market for India's exports, continued crisis in the Zone could adversely impact India's exports. This can be seen from the fact that the Eurozone accounted for 18.7 percent of India's global exports in 2010-11. At the same time for commodities such as machinery and equipments, articles of apparel and clothing, iron and steel, organic chemicals, footwear, etc., whose major markets are countries in the Eurozone, could witness the contraction in exports, if demand in the Eurozone countries remain depressed. After a 65.6 percent rise in July 2011, export growth has been slipping, and it recorded a growth of 47.4 percent in August, 29.6 percent in September, 10.8 percent in October and 3.9 percent in November (**Table**).

The crisis is affecting the labour intensive exports in India like handicrafts, apparels, carpets and leather. The Eurozone is the biggest market for Indian leather goods with 65 percent contribution to annual exports. Demand for finished leather goods and products have been waning in the region. Besides, the region accounting for 33 percent of total carpet exports of India has also shown a slid. The region contributes to 46 percent of total apparel export revenues of India and a little over 20 percent in handicrafts. According to the Export Promotion Council for Handicrafts, winter orders from the region have gone down by 10-15 percent this year vis-a-vis last year. In addition, the electronics goods sector has shown a deceleration of 18 percent in the last two months.

India's agri-exports are likely to come under pressure. Wheat exports have shown signs of uncompetitiveness. India's export of key farm items like sugar, cotton and wheat might get affected as the global commodity prices could fall due to deepening of the debt crisis. Export of fish as well as oilmeals (animal feed) could also be hit due to an expected fall in global rates. Other export products likely to be affected could be in the spaces of engineering, yarn, chemicals, oil seeds and electrical goods. India, the world's largest cotton yarn supplier, typically exports 20 percent to 25 percent of its domestic production annually. Global cotton yarn demand started falling since April, in sync with a general decline in commodity prices.

Note: Indian Rupees are referred in crores and lakhs:

1 crore : 10 millions
1 lakh : 100 thousands

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Addis Ababa : 00 251 116-630079, Dakar : 00 22133 8232849, Dubai : 00 791 4-3637462, Johannesburg : 00 2711 2365103, London : 00 44 02-73538830, Singapore : 00 65 65326464, Washington D.C. : 00 1 202-2233238.