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Indian ODI : Leaving Global Footprints

With the emergence of transnational corporations (TNCs) from developing countries, the idea of globalisation has assumed a new dimension. The rising quantum of outward direct investment (ODI) from the developing countries has redefined the concept of competitiveness. In recent years, an important indicator of the internationalisation of developing countries, besides higher exports, has been the rising trend in overseas investments by these countries. ODIs are poised to play an important role in enhancing the global competitiveness of firms from developing countries by providing access to strategic assets, technology, skills, natural resources and markets, and increasing resources.

It may be noted that outward investment offers an additional avenue for developing countries to link up to global markets and production systems. Investment scenario across the globe has been witnessing a sea change when compared to a decade back. The emergence of TNCs from developing and transition economies also imparts greater momentum to South-South cooperation.

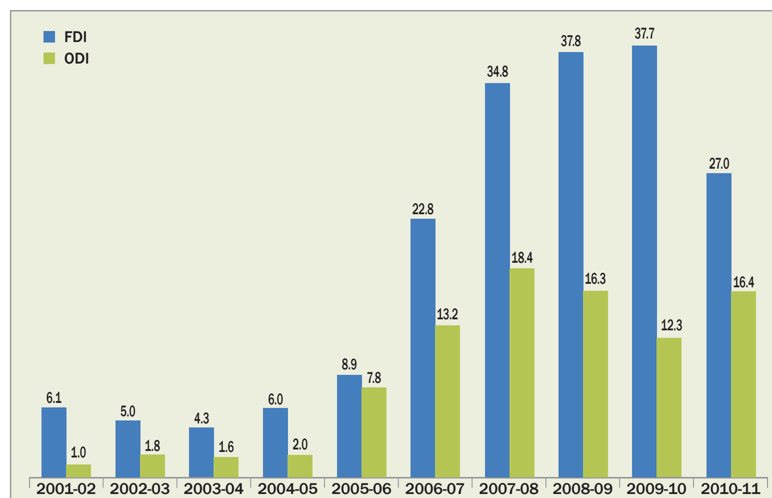
India's ODI in the Global Context

The surge in India's ODI attests to the expanding base of domestic firms. They are now able to compete globally, reflecting on the increasing quality and cost competitiveness to sustain long-term domestic and international growth. Focus on core competencies, increased R&D efforts, and enhanced technological know-how have underlined this development. At the same time, access to markets, natural resources, distribution networks, foreign technologies and strategic assets like brand names have motivated Indian companies to increasingly look outward in their endeavours to internationalise their operations. Further, the shift in the pattern of financing overseas investment, from equity outflows from the host country towards re-invested earnings, is an indicator of the increasing confidence of Indian firms in internationalisation.

Analysis of ODI trends over the last two decades reveals significant jump in India's ODI in the last six years. The ODI from India was quite meagre during the period 1995 to 1999. After an increasing from US$ 119 million in 1995 to US$ 240 million in 1996, it declined in 1998 to US$ 47 million. In 1999, it increased slightly to touch US$ 80 million.

India's ODI touch US$ 1 billion in 2001-02, which increased over seven-fold to US$ 7.8 billion in 2005-06. In fact, there has been a significant change in the intensity of ODI since the middle of the last decade. ODI from India increased to US$ 13.2 billion in 2006-07 further – an increase of close to 70 percent vis-à-vis that of 2005-06 (**Chart 1**). ODI figures reached a high in 2007-08 before coming down as a result of the global financial crisis. It may

Chart 1: India's Inward and Outward Direct Investments – 2001-11 (US$ bn)



Source: Data derived from RBI, EXIM Bank Analysis

however be noted that even during the crisis period India's ODI has been placed at US$ 12.3 billion, thereby showing India's growing appetite to have a global footprint.

In fact the year 2010-11 witnessed an upsurge in ODI with figures touching US$ 16.4 billion, while FDI exhibited a decline. It may be noted here that, the 2010-11 was a period when the global economy was recuperating from the crisis, and Indian firms were prepared to take the opportunity even in adverse conditions to go overseas, while FDI showed a decline. This further endorses India's increasing zeal to invest abroad.

On further analysis, it is found that India's share in ODI from the developing countries has been witnessing an upward movement – from a meagre 1 percent during the period before 2001 to around 6.5 percent in recent years. The period 2001-2011 can be referred to as the advent of Indian companies in the developed countries and the expansion of Indian investment abroad. Thus, the scrutiny of such trends highlights the process of the emergence of Indian companies as global players.

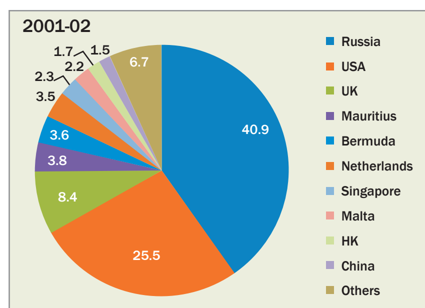
Trends in Overseas Direct Investments from India

India's ODI: Changing Direction

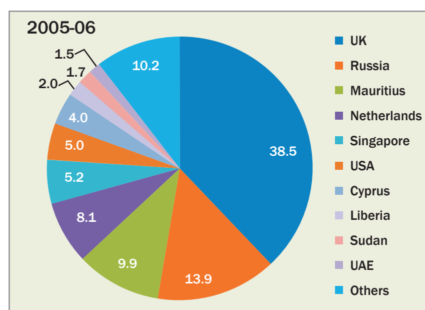
Direction of India's ODI has seen a tectonic shift during the last 10 year period. Russia, which was India's favourite ODI destination in 2001-02 with a share of close to 41 percent, waned to the second position in 2005-06 with a share that was less than one-third of what it was five years back. While India's ODI in 2001-02 were largely into countries which are generally considered as tax havens, during 2005-06 India's major investment destination also included the resource rich countries like Sudan. However, by 2010-11 a significant amount of ODI were found to be moving towards countries providing tax benefits like Mauritius, Cyprus and British Virgin Islands.

Chart 2 :
Changing Direction of India's Overseas Direct Investments - Destinations

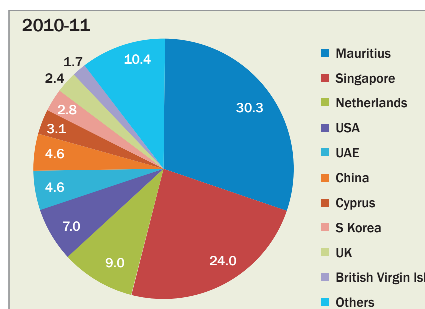
(a)



(b)



(c)



Source: Data derived from RBI, Exim Bank Analysis

During 2001-02, Russia, constituting 40.9 percent share, was the major ODI destination for India with a chunk of them going into the manufacturing sector (US$ 408.3 million), primarily into manufacture of refined petroleum products (US$ 408.2 million) (**Chart 2** (a)). Followed by USA with a ODI share of 25.5 percent, and received a sizeable amount from the financial, insurance, real estate and business services sector (US$ 210 million), specifically into data processing, software development and computer consultancy services (US$ 184.2 million). Mauritius, with a 3.8 percent share received investments from India into manufacturing (manufacture of iron and steel in primary/semi-finished forms and manufacture of semi-finished products of plastics) and the agriculture, hunting and forestry services (growing of cereal crops - high yielding or improved varieties).

By 2005-06, India's investment into UK increased by close to five-times since 2001-02 (**Chart 2** (b)). A significant value of US$ 2.8 billion was invested into manufacturing of machinery and equipment used by construction and mining industries, apart from a relatively smaller investment which went into data processing, software development and computer consultancy services (US$ 19.9 million). New entrants were Sudan and Liberia – with investments to the tune of US$ 131.1 million made into the Sudanese manufacturing units of refined petroleum products, while in Liberia, investments were in ship and boat building. Cyprus, on the other hand received a considerable amount of India's ODI in 2005-06 into wholesale trade of tea, coffee, cocoa, tobacco products and beverages other than intoxicants segment worth US$ 169 million.

Unlike in 2001-02 and 2005-06, a considerable amount of India's total ODI in 2010-11 took place in the Asian region, with over 62 percent of ODIs in the region. Mauritius with an overall share of 30.3 percent, was the largest, followed by Singapore (24 percent), China (4.6 percent), and South Korea (3.1 percent) (**Chart 2** (c)). This showed shift in India's investment pattern towards its regional counterparts apart from those in the developed countries. In 2010-11, Mauritius received the maximum investments in the financial, insurance, real estate and business services, followed by manufacturing (US$ 1.5 billion) and wholesale, retail trade, restaurants and hotels

(US$ 899.2 million). Singapore, which was the second-highest recipient of ODI from India, too witnessed investments in the financial, insurance, real estate and business services worth US$ 2.7 billion.

India's ODI: Changing Sectors

Sector-wise ODI from India over the last 10 years (2001-02 to 2010-11) exhibits that most investments were in manufacturing, along with the financial, insurance, real estate & business services sectors. Both these sectors have witnessed a fluctuating share in India's overall ODI. The share of manufacturing was reduced by more than half in 2010-11 vis-à-vis that of 2001-02, giving way to an increase in the share of financial, insurance, real estate and business services as a whole. However, share of wholesale, retail trade, restaurants and hotels in the ODI increased significantly during the 10-year period from 2.3 percent in 2001-02 to over 11 percent in 2010-11.

On further analysis of the sub-activity / sub-sectors it can be seen that there has been a gradual change in the area of investments. Manufacture of refined petroleum products (US$ 408.6 million), followed by data processing, software development and computer consultancy services (US$ 239.6 million), blending of tea (US$ 42.8 million), and manufacture of pharmaceuticals and allied products (US$ 34.8 million) were the industries where India invested the most in overseas during the early part of the decade – 2001-02. By middle of the last decade (2005-06), the top four overseas invested sub-sectors remained almost the same, except for the new entrant, manufacture of machinery and equipment used by construction and mining industries, while occupying the top position, was replaced by blending of tea. However, of late the scenario has changed. As in 2010-11 of the top four overseas invested sub sectors, three were related to the services - hotels, rooming houses, camps and other lodging places (US$ 1.1 billion); data processing, software development and computer consultancy services (US$ 715.1 million); and other business services not elsewhere classified (US$ 4.1 billion). The only other sector not belonging to services which received ODI during the same period was manufacture of pharmaceuticals and allied products (US$ 642.7 million).

ODI industry-wise during the period 2001-11 also provides interesting insights (**Table**). The top 10 industries by annual average growth rate (AAGR), in which India has exhibited an increasing propensity to invest abroad, have a cumulative share of 97 percent in the overall ODI during the period 2001-11. Industries like manufacture of machinery and equipment n.e.c., communication, and manufacture of basic metals with over a billion dollar of ODI also figures in this list.

Table : Top 10 Industries by Share

	Value (US$ bn)				Share (%)	
Industry	**2001-02**	**2005-06**	**2010-11**	**2001-11 (total)**	**2010-11**	**2001-11 (average)**
Financial, insurance, real estate and business services	324.3	930.7	6426.7	33668.8	39.2	37.0
Manufacture of chemicals and chemical products	13.3	340.1	1075.1	3178.1	6.6	3.5
Restaurants & hotels	5.3	4.6	1010.5	1348.8	6.2	1.5
Manufacture of pharmaceuticals, medicinal chemical and botanical products	35.7	910.2	901.9	4423.1	5.5	4.9
Mining & extraction	2.1	40.1	865.1	2018.2	5.3	2.2
Wholesale trade & retail trade	18.0	379.2	802.1	4887.5	4.9	5.4
Community, social and personal services	22.4	123.1	697.1	1835.0	4.2	2.0
Manufacture of food products	45.0	86.3	648.0	1291.9	4.0	1.4
Communication	0.4	186.2	600.4	2735.5	3.7	3.0
Repair and installation of machinery and equipment	-	0.1	466.2	490.5	2.8	0.5
Total of the 10 industries	**466.5**	**3000.6**	**13493.1**	**55877.4**	**82.4**	**61.4**
GRAND TOTAL	**999.3**	**7834.6**	**16402.7**	**90955.6**	**100.0**	**100.0**

Source: Data derived from RBI, Exim Bank Analysis

Sum Up

Driving forces such as investment opportunities triggered by cheap asset prices and industry restructuring, large amounts of resources available in a number of emerging countries, quick expansion of new activities such as new energies and environment-related industries and a resilient trend in the internationalisation of companies is expected to trigger a new pick-up in investment flows both inward and outward.

Indian ODI growth is expected to continue. It is now well established that there has been a perceptible broadening of sectoral and regional distribution of Indian overseas investment. India could continue to invest in developed-country based companies, particularly now that they are more affordable due to the global crisis. In addition, Indian firms are seeking more strategic investments in emerging markets, particularly in Africa.

Business Opportunities (as on March 2012)

Country/Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Ministry of Information and Communications Project Management Unit So 3 Lo 1A, Trung Yen 1 Trung Hoa, Cau Giay District, Hanoi, Vietnam **Contact:** Pham Quang Tu Project Deputy Director Tel: (+84-4) 35377740 Fax: (+84-4) 35377742 E-mail: pqtu@mic.gov.vn	**Information And Communication Technology Development Project** The objectives of the project are to : • to accelerate the use of information and communication technology and support institutional development; and • foster private sector development, by facilitating increased adoption of information and communication technology by SMEs.	**World Bank** US$ 88 mn
Talimarjan TPP Project Management Unit Istiklol Street 6, Room 408 SJSC "Uzbekenergo" Director of PMU Mr. I. Basidov Tashkent - 100 000 Uzbekistan **Contact:** Tel: (+998) 712 233 349 8 (+ 998) 712 233 08 19 E-mail: grptalimarjan@mail.ru	**Talimarjan Transmission Project** The project includes procurement of following technological and low voltage equipments: • auxiliary cabinets, shields and automation lighting, auxiliary transformers 6 \ 04 kV, low voltage equipment; and • technological equipment for: the pumping station and camera shutters, heating ventilation and air conditioning, casting, electrodes.	**World Bank** US$ 203.04 mn
S.C. Hidroelectrica S.A. Bucharest, 3 Constantin Nacu Street Sector 2, 020995 Romania **Contact:** Mr. Aurel Cocioran Project Director Tel:(+40-21)303-2541 Mobile:(+40-729)700-170 Fax:(+40-21)303-2573 E-mail: aurel.cocioran@hidroelectrica.ro	**Stejaru HPP Rehabilitation Project** The objective of the project is the rehabilitation and modernisation of Stejaru hydro power plant through the following procedures: • Replace of the electromechanical equipment for the six units; • Rehabilitate or replace the hydro-mechanical equipment and penstocks; • Upgrade the electrical equipment, instrumentation and control system of the power plant; • Rehabilitate the 110 kV and 220 kV substations; • Consultancy services.	**European Bank for Reconstruction and Development** € 110 mn
Department for works execution on civil and hydro engineering structures 6 Nikole Pasica Square 11000 Belgrade Republic of Serbia **Contact:** Mr. Dragan Ivanovic Assistant Director Tel: (+381) 11 321 6036 Fax: (+381) 11 321 6374 E-mail: divanovic@beograd.gov.rs	**Belgrade Public Transport and Traffic Infrastructure** The project will require procurement of the following: • Tram network extension over Sava Bridge and along new approach roads; • Automated traffic management on Sava crossing corridor; • Tram Track Maintenance Equipment; • Reconstruction of Slavija Square and pedestrian subway; and • Road improvements – Boulevard Oslobodjenja and Autokomanda junction.	**European Bank for Reconstruction and Development** € 110 mn
The Department of Energy (DOE) Basement, Main Building Energy Center, Merritt Road, Fort Bonifacio Taguig City 1632 Philippines **Contact:** Ms. Lydia L. Medino Tel: (+632) 479-2900 local 289 or 253	**Philippine Energy Efficiency Project (PEEP)** It includes supply, delivery, installation, testing, and commissioning of set of lighting fixtures complete with lamps, electronic ballasts and luminaires and other lighting accessories.	**Asian Development Bank** US$ 25 mn

Country/Executing Agency	Project/ Brief Scope	Loan from Funding Agency
CNCCC International Tendering Co. Ltd. F17, Building B, Kaiheng Center, No.2 Chaoyangmennei Avenue Dongcheng District Beijing City 100010, P.R.China **Contact:** Tel.: (+86-10) 8452 7981 Fax: (+86-10) 8452 5973	**Hebei Energy Efficiency Improvement And Emission Reduction Project** The project will require procurement of the following goods: • CDQ boiler - 2 • Silencer for boiler and Pipe Silencer – 2 sets; • Forced circulating pump for boiler – 4 sets; • Safety valve for superheater and steam drum – 4 sets; • Water spray type desuperheater – 2 sets; • Electric main steam cut-off valve – 2 sets; • Electromagnetic vibration feeder (including control cabinet) – 2 sets; and • Circulating fan (including fan, electric motor, inlet electric damper, temperature and vibration monitoring element for bearing of fan) – 2 sets.	**Asian Development Bank** US$ 100 mn
Roads Authority Functional Building, 1st Floor Room Number 21, P/Bag B 346 Paul Kagame Road Lilongwe, Malawi **Contact:** Fax: (+265) 017307 E-mail: ra@ra.org.mw	**Multinational Nacala Road Corridor Phase 1** It requires construction and completion of approximately 13 km class 1 double surface dressing road, 1 No concrete bridge, 4 No box culverts and drainage structures.	**African Development Bank** US$ 45 mn
East Delta Electricity Production Company – EDEPC ShebeenEl Kom Street, AraishiaMisr, Ismailia Egypt **Contact:** Head of Procurement Sector Tel: (+20-64) 337-1906 Fax: (+20-64) 337-6285 E-mail: procurementsector_EDEPC@hotmail.com	**Suez Thermal Power Plant** The scope of work includes designing, fabricating, furnishing, shop testing, delivery, training and onsite technical supervision during installation, commissioning, start-up, and field testing for the pumps and drives for Suez Thermal Power Plant.	**African Development Bank** US$ 550 mn

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

K.S.E. Electrical Pvt. Ltd., Kolkata	Contract for procurement of overhead line accessories and top hardware for Ethiopia's Accelerated Electricity Access (Rural) Expansion, funded by the **World Bank.**
Angelique International Ltd., New Delhi	Contract for supply, construction, test and completion of the rehabilitation and expansion of the medium and low voltage electrical distribution system in the three cities of Angola, 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.**
M.G. World Wide Pvt. Ltd., New Delhi	Contract for purchase of laboratory furniture for Ethiopia's Creation of Sustainable Tsetse project, funded by the **African Development Bank Group.**
Designer Rocks Pvt. Ltd., Hyderabad	Contract for purchase of laboratory equipments for Ethiopia's Creation of Sustainable Tsetse project, funded by the **African Development Bank Group.**
Pratibha Industries, Mumbai and Jain Irrigation Systems Ltd., Jalgaon	Construction, rehabilitation, replacement, expansion & optimisation of transmission and distribution water supply networks, including dams for Bangladesh's Dhaka Water Supply Sector Development Program, funded by the **Asian Development Bank.**

6 SADC: Fortifying India-Africa Relations

Southern African Development Community (SADC) is a regional grouping in Africa comprising of 15 members: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Countries such as South Africa, Mauritius, Tanzania, Mozambique and Zambia, among others, are not only important trading partners for India, but also major destinations for India's overseas investments in the African region.

India-SADC Trade Relations

India's total trade with the SADC region has risen more than eight-fold from US$ 2.4 billion to US$ 20.4 billion during the decade 2001-02 to 2010-11, with India's exports to the region amounting to US$ 8.4 billion, and India's imports from the region aggregating to US$ 12 billion in 2010-11. The importance of the SADC region can be gauged from the fact that the region accounted for 40 percent of India's total exports to Africa during 2010-11, up from 27.5 percent recorded in 2001-02. India's total imports from SADC region, accounted for 37 percent of India's total imports from Africa during 2010-11. On account of increased imports from the region, India's trade balance, which recorded a surplus of US$ 959 million in 2006-07 turned into a deficit of around US$ 2 billion in 2008-09 and further to US$ 5.8 billion in 2009-10. However, with a sharper pickup in exports in 2010-11 vis-à-vis imports, trade deficit narrowed down to US$ 3.6 billion in 2010-11.

Petroleum products are the leading items in India's export basket to SADC members, accounting for 36.3 percent of India's total exports to SADC in 2010-11. The other major export items during the same year were transport equipment (22.8 percent), pharmaceuticals (8.6 percent), machinery and instruments (4.6 percent), and electronic goods (2.6 percent). South Africa is India's leading export market among the SADC members, accounting for half of India's total exports to SADC in 2010-11. The other major export markets during the same year were Tanzania (18 percent), Mauritius (10 percent), Angola (8 percent), and Mozambique (7 percent).

As far as imports are concerned, crude petroleum was India's largest import item from SADC, accounting for 40.4 percent of India's total imports from SADC in 2010-11. The other major import items during the same year were gold (30.2 percent), coal, coke & briquettes (10.1 percent), metaliferrous ores and metal scrap (5.2 percent), and inorganic chemicals (2 percent). South Africa is again the largest supplier to India among the SADC members, accounting for 54 percent of India's total imports from the region in 2010-11. Angola (accounting for 40 percent), and Tanzania (2 percent) are the other important import sources from the SADC region in the same year.

India-SADC Investment Relations

SADC has remained an important investment partner for India over the past many years, with Indian investments mostly in services and manufacturing sectors, and also in natural resources, including oil sector.

The cumulative Indian investments in SADC during the period April 1996 to February 2012 amounted to US$ 29.3 billion, accounting for 18.1 percent of India's global overseas investments during the period. SADC's share in India's direct investment abroad has increased from 9.1 percent in 2002-03 to 30 percent in 2010-11. This quantum jump in investment figures in 2010-11 can be mainly attributed to US$ 6.8 billion investment in Mauritius by Reliance Industries in manufacturing sector (oil and gas exploration) and also acquisition of the telecom operations of Zain telecom in 15 African countries including few SADC countries by the Indian mobile operator Bharati Airtel for US$ 10.7 billion.

Among the SADC countries, Mauritius has been the major destination, with total investments amounting to US$ 29 billion during April 1996 to February 2012, accounting for a significant 99 percent of total investments from India in the SADC region. Other important destinations of India's investments in SADC during the same period include South Africa, Tanzania, Botswana and Mozambique.

In 2010-11, SADC's manufacturing sector (incl. extractive industries) is the major recipient of India's outward investment, accounting for 62 percent of India's total outward investment to SADC. Other major sectors include financial, insurance, real estate and business services (17.3 percent of total FDI outflows), wholesale, retail trade, restaurants and hotels (13.4 percent), agriculture, hunting, forestry and fish (3.8 percent), and transport, storage and communication services (1.4 percent).

India's overall FDI inflow from SADC economies other than Mauritius has been low. As far as cumulative inflow of into India is concerned, FDI inflows during April 2000 to December 2011 amounted to US$ 62.6 billion. The largest investment flowed in from Mauritius to the tune of US$ 62.5 billion, accounting for almost the entire investment flow into India from the SADC region and 39.5 percent of total FDI to India. The other sources of investment flow from SADC into India were South Africa, Seychelles, Tanzania, DR Congo and Zambia.

Exim Bank's Lines of Credit

Export-import 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 LOCs extended at the behest of Government of India, Exim Bank reimburses 100 percent of the contract value to 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 157 LOCs, covering 74 countries in Africa, Asia, Latin America, Europe and the CIS, with credit commitments of US$ 8.16 billion, available for financing exports from India. These LOCs have catalysed export of various projects in diverse sectors including agriculture, transportation, communication, manufacturing, energy generation and transmission, rural electrification. Increasingly, LOCs are being extended for financing Indian project exports, which create, in the recipient countries, a greater visibility for Indian expertise and project execution expertise and project execution capabilities, with downstream linkages. LOCs, 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, has extended five LOCs as given below during the quarter January-March 2012:

- An LOC of US$ 40.32 million to the Government of Chad, for financing four projects viz. (i) Compost Production Unit; (ii) Rural Electrification Project (solar energy); (iii) Production Unit for Live Stock Feed; and (iv) Extension of Spinning Mill (addition of weaving and processing capacities) in Chad. The earlier LOC of US$ 50 million has been extended to setting up of cotton yarn plant, steel billet plant and rolling mill, plant for assembly of agricultural equipment and bicycle plant in Chad.
- An LOC of US$ 382.37 million to the Government of Sri Lanka, for financing (i) Track-laying on the Pallai-Kankesanthurai Railway Line (US$ 149.34 million), (ii) setting up of signaling and telecommunications systems for the Northern railway line (US$ 86.52 million), and (iii) any other contracts that may be mutually approved by the Governments of India and Sri Lanka (US$ 146.51 million). Exim Bank had earlier extended four LOCs cumulatively valued at US$ 683.8 million to the Government of Sri Lanka.
- Two LOCs of US$ 20 million and US$ 39.69 million to the Government of Central African Republic, for development of mining project and for two Hydro-electric Projects in Central African Republic, respectively. Exim Bank had earlier extended an LOC to the Government of Central African Republic of value US$ 29.5 million for setting up of a modern dry process cement plant and for supply of 100 buses for internal transport in Central African Republic.
- An LOC of US$ 20 million extended to the Government of Mongolia, financing India-Mongolia Joint Information Technology Education & Outsourcing Center [IMJIT] Project in the Mongolia.
- An LOC of US$ 50 million to the Government of Zambia, for financing pre-fabricated health posts in Zambia. Exim Bank had earlier extended two LOCs to Zambia. The first LOC of US$ 10 million, which was utilised for import of buses, trucks and vocational tool kits from India. The second LOC of US$ 50 million was dedicated for part-financing 120 MW Itezhi-Tezhi Hydro Power Project in Zambia.

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The Quarter That Was

12th Plan to see ₹ 1 lakh-cr rise in private investment

In what could mean a big investment opportunity for the construction industry in the years to come, the Road Transport Ministry plans to more than double private participation in highway construction during the Twelfth Five Year Plan starting April 2012.

The overall investment in the sector will also double to ₹ 323,000 crore, but the share of private sector is expected to increase by 10 percentage points.

The working group for the Twelfth Plan has recommended the Government to increase private investment in the road sector to ₹ 166,738 crore from ₹ 62,630 crore in the Eleventh Five Year Plan.

This projected increase in private investment will raise the share of private-sector contribution in the highway sector to 51 percent from the present 41 percent. The expenditure in road sector in the Twelfth Plan will double from ₹ 152,201 crore to ₹ 323,000 crore.

Recently, the National Highways Authority of India has seen increased interest for road projects, and has been able to award 21 out of 33 projects on a premium. The premium income from these 21 projects would range between ₹ 2,500 crore and ₹ 3,000 crore per year — and will increase by 5 percent every year till the concession period ends.

India has a highway length of 71,772 kms. Of the total length, 24 percent is of 4-lane and above standard, 52 percent is of 2-lane standard, and 24 percent length of single and intermediate standard. The Government has also proposed an increase in the existing highway network of 71,772 kms to about 85,000 kms in the Twelfth Plan period.

India's foreign trade

India's exports during February 2012 were valued at US$ 24.6 billion, which was 4.3 percent than the level of US$ 23.6 billion during February, 2011. Cumulative value of exports for the period April-February 2011-12 was US$ 267.4 billion as against US$ 220.2 billion registering a growth of 21.4 percent over the same period last year.

India's imports during February, 2012 were valued at US$ 39.8 billion representing a growth of 20.7 percent over the level of imports valued at US$ 33 billion in February, 2011. Cumulative value of imports for the period April-February 2011-12 was US$ 434.2 billion as against US$ 335.5 billion registering a growth of 29.4 percent over the same period last year.

India's economic growth to remain robust: UN Report

India's economic growth is expected to remain robust in 2012 and 2013, despite likely headwind of double-dip recessions in Europe and the US, according to a United Nations' Annual Economic Report - World Economic Situation and Prospects 2012. The Indian economy is expected to grow by between 7.7 percent and 7.9 percent in 2012, according to the report.

Export of marine products has indicated positive growth

Export of marine products during April - December, 2011 of the current fiscal has indicated a positive growth in terms of both quantity and value. The exports registered a growth of 1.5 percent in quantity, 21.7 percent in rupee value and 18.7 percent in US Dollar realisation compared to the same period last year.

India clears Urea Investment Policy

Indian Government of India has cleared a new investment policy for the urea sector. The new urea investment policy is aimed at building capacities. At present, the country produces 22 million tonnes (MT) urea and imports 7 MT. As per the policy, incentives would be provided for setting up of greenfield and brownfield facilities.

NIIT to set up educational kiosks in Bhutan

IT training and education company NIIT has launched a new initiative called 'Playground Kiosks' in Bhutan. NIIT will be associated in driving the IT literacy programme.

Government investing US$ 20 bn in creating Information Highways

The Government of India has proposed to invest US$ 20 billion in projects related to creating information highway. This includes US$ 3 billion for setting up the Knowledge Network and another US$ 6 billion for the National Optic Fibre Cable Network.

Jindal Steel to spend US$ 300 mn to develop new, existing mines in Africa

Jindal Steel and Power, India's biggest producer of the alloy by market value, plans to spend US$ 300 million in developing new and existing mines in Africa. The move is part of the company's strategy to source coal assets abroad to meet raw material demand of its steel and power plants at home. Jindal Africa, the company's African subsidiary, would invest US$ 250 million in developing a coalmine in Mozambique's coal-rich Moatize region. The remaining funds would be used to expand the capacity of its mine in Piet Retief in South Africa's Mpumalanga province.

Jindal Africa has so far acquired 30 prospecting licenses for coal, manganese, iron ore and diamonds in Tanzania, Zambia, Madagascar, Mozambique and South Africa. The group is also constructing rail and port infrastructure in Mozambique and has agreed to build a 2,600 MW thermal power plant in the country.

RBI raises FCCB limit to US$ 750 mn

The Reserve Bank of India (RBI) has raised the foreign currency convertible bond (FCCB) limit for up to US$ 750 million or equivalent per financial year for permissible end-uses for eligible borrowers. This is expected to give respite to possible pressures arising from redemption of foreign currency convertible bonds. Similarly, corporates in specified service sectors such as hotel, hospital and software can raise FCCBs up to US$ 200 million or equivalent for permissible end-uses during a financial year subject to the condition that the borrowing is not used for acquisition of land.

Consequent to the enhancement in the limits under the automatic route, the RBI clarified that the ECB/FCCB availed for the purpose of refinancing the existing outstanding FCCB will be reckoned as part of the limit of US$ 750 million.

The RBI, in its notification, said that consequent to the enhancement in ECB limits, the revised average maturity guidelines under the automatic route would be: ECB up to US$ 20 million or equivalent in a financial year with minimum average maturity of three years; and ECB above US$ 20 million and up to US$ 750 million or equivalent in a financial year with minimum average maturity of 5 years.

ADB sets its Annual Investment Plan for India at US$ 2 bn till 2014

Asian Development Bank (ADB) plans to investment about US$ 2 billion every year in India's infrastructure space between 2012 and 2014. ADB has kept its annual infrastructure financing for India unchanged as its faces fund constraints. ADB had invested about US$ 2.0 billion each in 2010 and 2011. According to the Twelfth Five Year Plan, the country needs about US$ 1 trillion investment.

Chile seeks partnership in renewable energy, lithium

Chile wants India to partner with it in the development of renewable energy industry on its soil. Chile welcomed India to set up power plants that will generate energy from renewable sources. With Chile having a 4,000-km-long coastline that afforded possibilities of developing tidal energy, and being a volcanic country, geo-thermal energy is also possible.

India for fast-tracking transport corridor to boost trade with Azerbaijan

India envisages to fast-track the setting up of an International North-South Transport Corridor (INSTC) to improve connectivity with Azerbaijan. The transport corridor will also help save time and transportation costs [The INSTC member countries include India, Iran, Russia, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Ukraine, Belarus, Oman, Syria and Bulgaria (observer)].

Meanwhile, India also expressed keenness to participate in the exploration and development of oil and gas fields in Azerbaijan. India also sought to use the Baku–Tbilisi–Ceyhan (BTC) pipeline for evacuation of oil to meet India’s energy security needs.

During a bilateral meeting, IT, food processing and pharmaceuticals were the sectors identified with the maximum potential for trade and investment with Azerbaijan.

There is also an effort for an early finalisation of a Bilateral Investment Promotion and Protection Agreement and a Double Taxation Avoidance Agreement between the two countries to encourage investment flows and elevate investor’s confidence.

10 Low Cost Indian Pharmaceuticals on a Global Sprawl

The pharmaceutical industry in India has come a long way since the time of independence when the industry was dominated by MNCs. Over the years, under a favourable policy regime, the industry has grown phenomenally and has established itself as a major supplier of not only generics but also new formulations. The industry, in addition to meeting the domestic demand, is emerging as a major player in the global market.

The Indian pharmaceutical industry has grown from a mere US$ 0.3 billion turnover in 1980 to about US$ 21.7 billion in 2009-10. The country now ranks third in terms of volume of production (10 percent of global share) and fourteenth-largest by value (1.5 percent of global share). One of the reasons for the lower rank in terms of value, and higher rank in terms of volume is the low cost of drugs manufactured in India; the price differential is estimated to be ranging from 5 percent to 50 percent lower as compared to developed countries. The industry has attained self-reliance in the production of formulations, and produces almost 70 percent of bulk drug requirements of the country. India is also one of the major producers of generic pharmaceutical products in the world.

Exports

Indian pharmaceutical companies have not been affected much by the global slowdown, largely because of cost advantages in production, and due to many of them holding long-term contracts as preferred suppliers. Export of pharmaceutical products (ITC HS Code 30) increased by 1.8 percent to US$ 5.2 billion in 2009-10, witnessed a complete turnaround in 2010-11 growing by a healthy 26 percent to US$ 6.5 billion. During the period April-June 2011-12, exports of pharmaceutical products stood at US $ 1.8 million growing by 22 percent over the corresponding period of the previous year.

The major export destinations for India's pharmaceutical products were USA with a share of 27.1 percent in India's total pharmaceutical exports to world, followed by Russia (7.9 percent), UK (4.3 percent), South Africa (4.2 percent) and Nigeria (3 percent). As can be seen from **Table**, USA and Russia have retained their positions as major destinations for Indian pharmaceuticals since 2004-05. However, during 2010-11, several African countries, such as South Africa, Nigeria, Kenya and Ghana, have emerged as major markets for Indian pharmaceutical products, replacing Ireland, Brazil and Vietnam.

Table : India's Major Export Destinations and Import Sources for Pharmaceutical Products (HS Code 30)

2004-05			2010-11		
Importers	**US$ million**	**% Share**	**Importers**	**US$ million**	**% Share**
World	**2060.83**	**100.0**	**World**	**6536.08**	**100.0**
USA	321.43	15.6	USA	1768.67	27.1
Russia	163.56	7.9	Russia	403.71	6.2
Nigeria	97.21	4.7	UK	278.33	4.3
UK	94.08	4.6	South Africa	273.51	4.2
Ukraine	70.77	3.4	Nigeria	198.02	3.0
Ireland	57.13	2.8	Kenya	168.15	2.6
Sri Lanka	54.38	2.6	Germany	153.37	2.3
Brazil	45.81	2.2	Netherlands	135.34	2.1
Vietnam	44.83	2.2	Ghana	122.73	1.9
Germany	43.06	2.1	Ukraine	118.65	1.8

Source: DGCIS

Outlook

On October 1, 2011, Anti-Counterfeiting Trade Agreement (ACTA) - a multilateral treaty - has been signed by eleven countries (Australia, Canada, Japan, Morocco, New Zealand, Singapore, South Korea, USA, EU, Mexico and Switzerland), for the purpose of establishing international standards for intellectual property rights enforcement. The Agreement aims to establish an international legal framework for targeting counterfeit goods, generic medicines and copyright infringement, and would create a new governing body outside the existing regulatory framework, such as WTO, WIPO, or UN.

On back of a high middle-class population base, improvements in medical infrastructure and the establishment of intellectual property rights, the Indian pharma industry is estimated to grow manifolds. With the focus of companies shifting to smaller deals catering to niche segments and markets, partnerships seems to be the new norm in the pharmaceutical sector. The strategic execution of maximising on the available resources, both human and financial, will be the way forward for clinical and contract research building capabilities through strategic partnerships.

Furthermore, a 'Pharma Vision 2020' has been prepared by the Department of Pharmaceuticals, for making India one of the leading destinations for end-to-end discovery and innovation of pharmaceutical products.

Growing Global Share of Indian Textile Industry

The textile industry has an overwhelming influence in the economic development of India and is the second-largest employer after agriculture. The industry plays a vital role in the Indian economy, contributing about 14 percent of industrial production, 4 percent of national GDP, 9 percent to the country's export earnings, and provides direct employment to over 35 million people.

One of the key advantages of the Indian textile industry is abundant availability of raw material. Cotton is one of the major raw materials for the Indian textile industry. India is the second - largest producer of cotton in the world accounting for 20 percent (5.5 million tonnes) of global production (over 25 million tonnes). In the global silk production, India is a distant second - largest producer with a share of around 15 percent. India ranks sixth amongst clean wool producer countries and ninth amongst greasy wool producers in the world, and is also the largest producer and consumer of raw jute in the world.

India held a share of 5.1 percent in world textile exports and 3.2 percent share in world clothing exports, during 2010 (**Table**). During 2010-11, textiles and clothing exports (including carpets) from India amounted to US$ 22.3 billion, witnessing a growth of around 16.5 percent, over the previous year. Exports of readymade garments and manmade textiles witnessed a growth of 3.8 percent and 16.8 percent, respectively. Cotton yarn and fabrics witnessed an impressive growth in exports of 48.6 percent over the previous year. During April-December 2011, export of textiles and clothing (including carpets) from India amounted to US$ 20.6 billion, showing an impressive growth of 23 percent over the corresponding period of the previous year, with the sector contributing 9 percent to India's total exports during the same period.

As regards major destinations of India's exports, USA is the largest market for both textiles and clothing. Other major export markets for textiles include Bangladesh, UAE, and Turkey; and for clothing, other major markets are UK, Germany, UAE, France, and Spain.

₹ 500 crore pilot schemes have also been announced for promotion and application of Geo-textiles in the North Eastern Region of the country.

While the short term outlook for the textile and clothing sector may pose a few challenges, in the long-term, with adequate policy stimulation, the sector is expected to bounce back strongly from the sluggishness it has been witnessing, primarily due to slowdown in demand in the two largest export markets for India, viz., the USA and the EU. The policy support to infuse modernisation/new technology, and to diversify India's export markets would help support the industry and take it to a higher growth trajectory. Indian exporters are also focusing on domestic market in addition to new and discerning export markets such as UAE, Saudi Arabia, South Africa, Australia, Mexico and Turkey. The large textile manufacturing base, availability of raw materials and labour, vast domestic market, and supportive Government policies, would strengthen the competitive position of Indian textile and clothing industry.

Table: India's Share in World Exports of Textiles and Clothing (US$ bn)

Year	Export of textiles (US$ bn)	% share in world exports	Export of clothing (US$ bn)	% share in world exports
2000	5.1	3.4	5.2	2.8
2001	5.9	3.8	6.1	3.1
2002	5.4	3.7	5.5	2.8
2003	6.5	3.8	6.5	2.9
2004	6.9	4.0	6.6	2.8
2005	7.9	3.9	8.3	3.0
2006	9.3	4.3	10.2	3.3
2007	9.5	4.0	9.7	2.8
2008	10.3	4.1	10.9	3.0
2009	9.0	4.3	11.5	3.6
2010	12.9	5.1	11.3	3.2

Source: DGCIS

Outlook

The Union Budget 2012-13 has imposed mandatory excise duty of 12.0 percent on branded garments and textile-made ups. This would exert further pressure on the margins of readymade garments and made-ups; the manufacturers are already struggling with an unprecedented rise in input costs. In order to support large number of employees involved in the handloom industry, Union Budget 2012-13 announced a financial package of ₹ 3,884 crore for waiver of loans of handloom weavers and their cooperative societies. Apart from this,

India - SAARC : Cementing Ties with Neighbours

In December 1985, the charter formally establishing the South Asian Association for Regional Cooperation (SAARC) was adopted by eight countries namely, Sri Lanka, Bhutan, India, Maldives, Nepal, Pakistan, Bangladesh and Afghanistan. The stated areas of cooperation among member nations include agriculture and rural, biotechnology, culture, energy, environment, economy and trade, finance, funding mechanism, human resource development, poverty alleviation, people to people contact, security aspects, social development, science and technology, communications, and tourism.

India's Trade and Investment Relations with SAARC

India's total exports to SAARC grew at a CAGR of 18.7 percent, from US$ 6.5 billion in 2006-07 to US$ 12.9 billion in 2010-11. During the same period, India's imports from SAARC grew at a CAGR of 1.2 percent from US$ 1.5 billion in 2006-07 to US$ 2.2 billion in 2010-11 **(Chart)**. Commodities primarily exported to SAARC include pharmaceuticals, readymade garments, machinery and equipments, primary and semi-finished iron and steel, and transport equipments. On the other hand, India's import basket from SAARC primarily consists of spices, fruits and nuts, raw jute, natural rubber, paper board and manufactures, and organic chemicals. In 2010-11, Sri Lanka was India's largest export market in the SAARC region (1.6 percent of India's total exports), followed by Bangladesh (1.4 percent). While India's main import sources from the SAARC region in 2010-11 were Sri Lanka, Nepal and Bangladesh (each accounting for 0.1 percent of India's total imports).

In 2010-11, India's trade with SAARC accounted for 2.4 percent of its total trade. During the same year, Sri Lanka was India's largest trading partner in SAARC with a share of 0.7 percent of India's total trade, followed by Bangladesh (0.6 percent).

The approved Indian investments in Joint Ventures (JVs) and Wholly Owned Subsidiaries (WOSs) have been increasing in SAARC countries. The total approvals of FDI in JVs and WOSs in SAARC countries during April 1996 to December 2011 amounted to US$ 5.1 billion. Sri Lanka is the major destination of Indian investments in the region, followed by Nepal and Bangladesh.

Chart : India's Trade with SAARC (US$ bn)

Source: MOCI, GOI

In the recent years, the region has been attracting increased foreign investments in the manufacturing sector. Within the manufacturing sector, electrical equipments, chemicals and pharmaceuticals, and engineering goods attract the bulk of investments. Services sector is another area having potential and receiving large direct investments.

Exim Bank in SAARC Region

Export Import Bank of India (Exim India) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment in the SAARC region. To facilitate Indian presence in the region, Exim India has supported a number of JVs by Indian companies including textiles, pharmaceuticals, steel, and glass sectors in Sri Lanka; electrical sector in Bangladesh; engineering goods and textile sectors in Nepal.

Exim India, at the behest of Government of India, has extended Lines Of Credit (LOCs) cumulatively worth US$ 2.6 billion to four members of the SAARC region, mainly covering areas of construction, road projects, power transmission projects, rural electrification projects, hydro power projects, railway projects, and irrigation projects.

Further, Exim India has linkages with the following institutions in SAARC countries: Afghanistan Investment Support Agency (AISA), Industrial Promotion and Development Co. of Bangladesh, Board of Investment in Sri Lanka, Hatton Bank Ltd. and SME Bank of Sri Lanka.

Export-Import Bank of India hosts Asian Exim Banks Forum

Export-Import Bank of India organised the 19th training programme of Asian Exim Banks Forum in Kerala, India, during February 9-10, 2012. The training programme on Overseas Investment Finance (OIF) had participants from Asian Development Bank and eleven export credit agencies of different countries, namely, Export Finance & Insurance Corporation - Australia, National Bank of Cambodia, Export-Import Bank of China, Export-Import Bank of India, Indonesia Eximbank, Japan Bank for International Cooperation, Export-Import Bank of Korea, Export-Import Bank of Malaysia, Philippine Export-Import Credit Agency, Export-Import Bank of Thailand, and Vietnam Development Bank.

In his inaugural address, Mr. Prabhakar Dalal, Executive Director, Exim India observed that, OIF has gained immense importance in recent years as the world has become more and more integrated. In recent years, an important indicator of the internationalisation of developing countries, besides higher exports, has been the rising trend in overseas investments by these countries.

Mr. Dalal further stated that Exim India has been involved in supporting Indian direct investment overseas since its inception and its role has been unique in this regard, given its mandate. In fact, the Bank had laid the foundation of its innovative financial program - OIF - during its formative years itself. Over the years, the program has evolved into a critical instrument for creation of trade through overseas investments with the underlying objective being to assist Indian firms to organize production optimally to serve regional or global markets.

The programme was structured to provide insights about overseas investment to the participants and had speakers from Japan Bank for International Cooperation, the Export-Import Bank of China, Export-Import Bank of Korea and Exim India.

In 1996, Exim India took the initiative of forming the Asian Exim Banks Forum. Members of the Forum include Export Credit Agencies from India, Australia, China, Japan, Korea, Malaysia, Thailand (all founding members), Indonesia, Philippines, Cambodia and lately, Vietnam which joined the Forum last year.

While export credit agencies are generally considered as competitors, since they support their respective national exports, the objective of the Forum is to collaborate while competing. The Asian Exim Banks Forum seeks to enhance economic cooperation and forge stronger linkages among its member institutions, thereby fostering a long-term relationship within the Asian Exim Banks' community.

Eximius Centre Activities
Exim Bank, Bangalore

Upcoming Programmes include:

1. Design Sensitisation workshop for Bidri artisans at Bidar (April 16-17, 2012) in association with National Institute of Design (NID)
2. Workshop on market analysis and standards in Bangalore (garment textiles) and Kochi (spices) on May 8 and May 10, respectively in association with ITC.

BOOK REVIEW

"Trade Finance During The Great Trade Collapse" by World Bank

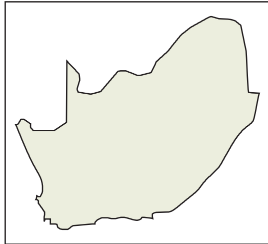
The global financial crisis, which has resulted in slowdown in economic growth, has also impaired the access to trade finance. Trade finance is an essential part for helping developing countries as it provides fluidity to the movement of goods and services worldwide.

The World Bank's publication 'Trade Finance during the Great Trade Collapse' aims to answer various questions with respect to the availability and cost of trade finance as constraints during the crisis; the underpinnings and limits of national and international public interventions in support of trade finance markets; the effectiveness public and private sector mechanisms; and the extent to which the new banking regulations under Basel II and Basel III exacerbated the trade finance shortfall during the crisis and in the post-crisis environment, respectively.

The publication highlights that SMEs have been more affected than large firms because of a weaker capital base and bargaining power in relation to global buyers and banks. Also, SMEs have been more subject to increases in the cost of trade finance instruments, with banks being more risk averse and preferring to work with large multinational firms.

The publication identifies that the international community responded swiftly to the trade finance crisis. The G-20 orchestrated quick and collective actions from governments and the international financial community, which led to a set of cofinancing arrangements among various institutions.

South Africa



South Africa plays a strategic role in Africa, with the ability to act as an interlocutor between Africa and the international community. South Africa's inclusion into the BRIC group in April 2011 is expected to further enhance the role of this country. The South African government is striving to enhance economic growth that will lead to creation of sustainable jobs, advance the fight against poverty, and accelerate economic transformation. In 2011, the Government of South Africa announced an investment worth R 802 billion on infrastructure development over the next three years as part of a government drive to ease bottlenecks and reduce costs in electricity and logistics, increase private sector investment, and improve access to export markets. In March 2012, Port of Ngqura in Port Elizabeth was officially launched, which is a major milestone in South Africa's infrastructure development efforts.

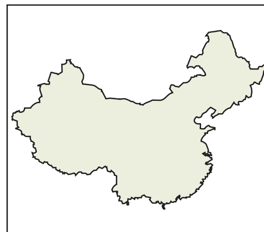
Russia

Russia recently released 'Russia Strategy 2020', a plan for Russia's economic development for the next decade. Russia, the last member of G-20 and BRICS to join WTO, has been accepted as a member of WTO on December 16, 2011. The removal of tariff barriers as part of its joining WTO is expected to stimulate greater and more diversified trade between Russia and the rest of the world. Further, an FTA was signed in October 2011 by eight CIS countries, including Russia, which is expected to result in a smoother integration of trade within the CIS. Russian government is making a lot of necessary efforts to strengthen the financial system of the country. For financing its budget deficit, Russia issued US$ 7 billion Eurobonds in March 2012, the biggest hard currency denominated issue from an emerging market country since 2000, and thereby reached its international borrowing target for 2012.

Brazil

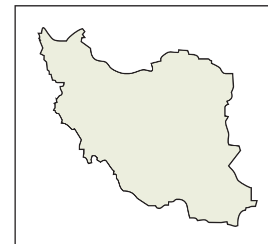
Brazil, the largest economy in South America, is estimated to be the sixth-largest economy in the world, growing at 2.7 percent in 2011. It is also expected to be the fifth-largest economy in the world in 2015 overtaking France. Brazil enjoyed a good economic boom in the recent years because of high food and oil prices, which has led to rapid growth in the country. With substantial oil and gas reserve discoveries on Brazil's coast in recent years, the country is now the world's ninth-largest oil producer. The oil discoveries coupled with the reduction of tax on financial transactions (IOF) levied on foreign investments in shares and private securities from 2 to 0 percent in 2011 is expected to attract large number of foreign investors to the country.

China



China, expanded by 9.2 percent in 2011, registering one of the highest growth rates among global countries. The government of China recently announced a new, lower annual GDP growth target of 7.5 percent for 2012, with the aim of seeking more balanced growth in the long term, decreasing the economy's reliance on investment and exports, while increasing the share of consumption. According to Jim O'Neill, Chairman, Goldman Sachs Asset Management, who coined the term BRICS, China would be surpassing USA as the world's largest economy by 2027. China and Japan, two of the biggest Asian economies, have agreed to promote direct trading of the yen and yuan without using dollars and would encourage the development of a market for companies involved in the exchanges in order to cut costs for companies.

Iran



The Government of Iran has named the new Iranian year as the "Year of National Production, Supporting Iranian Labour and Capital", by underlining the importance of policies for boosting the country's economic progress. The tightening sanctions from the US, UK, EU and Canada has put a negative dent on country's economy. Iran, being an energy driven economy, experienced a contraction in country's real GDP growth in 2011 due to cuts in oil production and lower export of crude oil. The growing global support for the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline as an alternative to Pakistan-Iran pipeline is also expected to put pressures on Iranian economy. Crude oil supply disruptions from Iran is expected to push global crude prices by up to 30.0 percent, which will affect the main oil importing countries like India.

US Dollar

The United States Dollar (US$) is the official currency of United States of America. It is also widely used as a reserve currency outside USA.

The Fed's latest effort to lower interest rates in addition to the relative calm in global markets has buoyed investor confidence but conditions do not point to a major acceleration in growth. Financial conditions remain vulnerable and some key sectors like housing are lagging the upturn.

The US Dollar has broadly weakened in the recent months. Economic data around the industrialised world coming in better than expected and generalised monetary policy easing by major Central Banks have all helped global investor sentiment and therefore hurt the US Dollar.

In the long term, US Dollar performance is expected to be affected by both mainstream and tail risks. Amongst the former, the latest tranche of the Greek bailout would likely not be the last needed. On-going uncertainty around the stability of European Monetary Union is expected to persist. As for tail risks, the market worries about: (i) US economic weakness in 2013 if fiscal policy agreement is not reached after Presidential elections; (ii) China's credit, money and real estate boom bust; and (iii) geopolitics in Iran and other Middle East countries. As on March 26, 2012 US Dollar was quoted at EUR 1 = US$ 1.3255, GBP 1 = US$ 1.5860 and US$ 1 = JPY 82.68.

Euro

The Euro (EUR) is managed and administered by the European Central Bank (ECB). ECB policymakers in their meeting in Frankfurt on March 8, 2012 left the benchmark rate at a record low of 1 percent as inflation reappears on its radar screen, complicating efforts to bolster economic growth. ECB will lift its 2012 inflation forecast above the 2 percent price-stability threshold, limiting its ability to cut rates further even as it lowers the outlook for growth, economists said.

Having flooded the banking sector with more than EUR 1 trillion (US$ 1.3 trillion) to avert a credit crunch, the ECB is now confronting with an oil-price spike that's propping up inflation at a time when at least six of the 17 euro nations are in recession. Greece also successfully completed the biggest sovereign debt restructuring in history (on March 9, 2012) by agreeing private creditors, which should reduce its burden by about EUR 100 billion.

EUR/US$ continues to be torn between lower risk in EMU asset markets (as shown in reductions in the basis for US Dollar funding, lower risk reversal skew, tighter bond yield spreads/ lower CDS and better financial equity prices) vs the continued downward pressure on front end rates in EMU resulting from the ECB's more dovish stance and related narrower rate differentials. There is no doubt that over the turn of the year, narrower rate differentials drove EUR lower despite earlier signs risk was improving for EMU asset markets.

The rebound in EUR was helped by perceived Fed's dovishness at the Federal Open Market Committee (FOMC) meeting in January 2012, stabilising the oversold single currency as rate differentials moved higher for a while. The market thinks this EUR/US$ rally could extend a little further in the context of higher risk appetite, generalised US Dollar weakness and assuming no disappointments near term over the Greek second bail out discussions and other related periphery risks. As on March 26, 2012 Euro was quoted at EUR 1 = US$ 1.3255.

Indian Rupee

Officially, the Indian Rupee (INR) has a market determined exchange rate. However, the Reserve Bank of India (RBI) trades actively in the US$/INR currency market to impact effective exchange rates.

The RBI left the repo and reverse repo rates unchanged at 8.50 percent and 7.50 percent, respectively, at its monetary policy meeting on March 15, 2012. It also left the cash reserve ratio (CRR) at 4.75 percent, after having reduced it a week before.

Trends in the currency are likely to remain volatile through 2012 and depend on both domestic and global factors. While the unit could have an appreciation bias if India attracts dollar inflows to meet its external financing requirements (current account deficit + short-term debt), a risk-off environment or oil trending higher could result in rupee weakness.

The scale of the rally in INR seems out of sync with twin deficits on the current and fiscal accounts, with the latter still deepening, and soft domestic data. Indian Industrial Production, for instance, fell sharply in both Q2 and Q3; although production increased by 0.5 percent overall after a volatile Q4, this is unlikely to mark the start of a more sustained rally. Until monetary easing begins in earnest, high nominal interest rates of 8.5 percent and rising real rates (as inflation falls) are expected to continue to hamper real activity. The market expects INR oscillating around 50 for the coming twelve months. As on March 26, 2012 INR was quoted at US$ 1 = INR 51.25.

India Hosts Fourth BRICS Summit

BRICS is a unique grouping with shared opportunities and common challenges. Instituted during the first meeting of the Foreign Ministers of Brazil, Russia, India and China in New York on the sidelines of the United Nations General Assembly in September 2006, in a short span of time, the Grouping has come a long way and has evolved a number of mechanisms for consultation and cooperation in a number of sectors. South Africa joined the grouping at the third Summit in Sanya, China in April 2011.

The Fourth BRICS Summit was hosted in New Delhi on March 29, 2012 under the overarching theme of "BRICS Partnership for Global Stability, Security and Prosperity." The Summit was attended by the leaders of the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa, with an aim to further strengthening multilateral partnership for common development and cooperation.

The Summit highlighted the need to restore market confidence and get global growth back on track. While the BRICS nations recovered relatively quickly from the global crisis, growth prospects worldwide have again got dampened by market instability especially in the euro zone. The build-up of sovereign debt and concerns over medium to long-term fiscal adjustment in advanced countries are believed to create an uncertain environment for global growth. The BRICS nations also opined that it is critical for advanced economies to adopt responsible macroeconomic and financial policies, avoid creating excessive global liquidity and undertake structural reforms to lift growth that create jobs.

The BRICS nations also considered the possibility of setting up a new Development Bank for mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development.

The Delhi Declaration, capturing the essence of discussion during the Summit besides putting forth common position of BRICS countries on various economic and political issues of global and regional importance was issued at the end of the Summit. The Declaration included Delhi Action Plan which highlights the activities to be undertaken under India's chairmanship of BRICS to further cooperation. The declaration also identified new areas of cooperation which include (i) multilateral energy cooperation within BRICS framework, (ii) a general academic evaluation and future long-term strategy for BRICS, (iii) BRICS Youth Policy Dialogue, and (iv) cooperation in population related issues. The Leaders, during the course of the Summit, also released "The BRICS Report" focusing on synergies and complementarities between the BRICS economies and highlighting their role as growth drivers of the world economy.

Annual Meeting and Financial Forum under the BRICS Interbank Cooperation Mechanism

Earlier during the year 2011-12, Exim Bank entered into a framework agreement on Financial Cooperation under the BRICS Interbank Cooperation Mechanism. Exim Bank is the nominated member development bank, representing India under the BRICS Interbank Cooperation Mechanism. Other nominated member development banks from BRICS nations are: Banco Nacional de Desenvolvimento Economico e Social - BNDES, Brazil; State Corporation Bank for Development and Foreign Economic Affairs - Vnesheconombank, Russia; China Development Bank Corporation, and Development Bank of Southern Africa.

Coinciding with the BRICS Summit 2012 held at New Delhi, Exim Bank of India hosted the Annual Meeting and Financial Forum under the BRICS Interbank Cooperation Mechanism. Exim Bank signed two multilateral financial cooperation agreements viz., 'Master Agreement on Extending Credit Facility in Local Currency' and 'BRICS Multilateral Letter of Credit Confirmation Facility Agreement', with Chairmen/Presidents of other member development banks of BRICS countries, in the presence of Heads of States/Governments of the BRICS countries on March 29, 2012. The Master Agreement on Extending Credit Facility in Local Currency is intended to reduce the demand for fully convertible currencies for transactions among BRICS nations. The Multilateral Letter of Credit Confirmation Facility Agreement envisages confirmation of the L/Cs, upon receipt of a request from the Exporter or the Exporter's Bank or the Indemnifying Party or the Importer's Bank. The objective behind these arrangements is to help reduce the trade transaction costs, besides promoting intra-BRICS trade.

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 authencity or accuracy of such items.

Note: Indian Rupees are referred in crore and lakh:

1 crore : 10 million
1 lakh : 100 thousand

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