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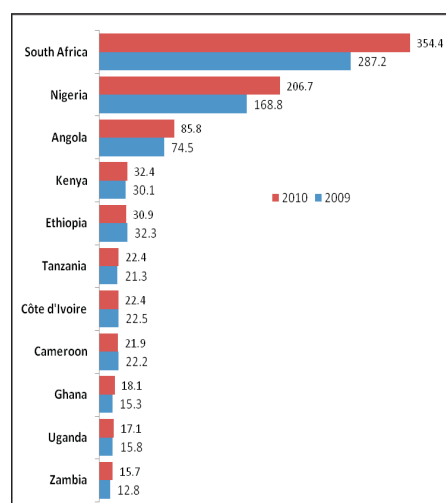
A Quarterly Publication

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continued structural progress in many countries, resulting from strong commitment of many African governments to prudent fiscal, monetary and exchange rate policies. In fact, major economies in the region are poised to witness improvements in the size of their economies in the current year (Chart 1).

Chart 1: GDP of Major Sub-Saharan African Countries (US\$ billion)



Source: World Economic Outlook (WEO), International Monetary Fund (IMF), October 2010.

MACROECONOMIC SCENARIO

As sub-Saharan Africa rebounds from the slowdown in 2009, strong macroeconomic fundamentals in most of the region helped the region to reap benefits from the global recovery. The region witnessed a brief slowdown of gross domestic product (GDP) at 2.6% in 2009, which was partly limited by rapid implementation of countercyclical policies, with nearly two-thirds of those sub-Saharan Africa countries that experienced a slowdown in 2009 increasing government spending to buttress economic activity. Real

GDP growth in the region is expected to accelerate to 5% in 2010, supported by both recovery in exports and commodity prices, and robust domestic demand in a number of economies (Table 1). Per capita GDP of most of the economies in the region are also expected to show improvements in the current year (Chart 2). Further, FDI and remittances inflows were less affected by the global downturn than had been anticipated earlier, and are expected to have positive contribution to the overall growth and development of the region.

Table 1: Real GDP Growth of Select African Countries (% change)

Country	2008	2009	2010
Sub-Saharan Africa	5.5	2.6	5.0
South Africa	3.7	-1.8	3.0
Nigeria	6.0	7.0	7.4
Angola	13.3	0.7	5.9
Kenya	1.3	2.4	4.1
Ethiopia	11.2	9.9	8.0
Tanzania	7.4	6.0	6.5
Côte d'Ivoire	2.3	3.8	3.0
Ghana	7.2	4.1	5.0
Cameroon	2.9	2.0	2.6
Uganda	8.7	7.2	5.8
Zambia	5.7	6.3	6.6
Equatorial Guinea	10.7	5.3	0.9
DR Congo	6.2	2.8	5.4
Republic of Congo	5.6	7.5	10.6
Gabon	2.7	-1.4	4.5
Senegal	3.2	2.2	4.0
Botswana	3.1	-3.7	8.4
Namibia	4.3	-0.8	4.4
Mozambique	6.7	6.3	6.5
Mauritius	5.0	2.5	3.6
Mali	5.0	4.4	5.1
Burkina Faso	5.2	3.2	4.4
Madagascar	7.1	-3.7	-2.0
Chad	-0.4	-1.6	4.3
Benin	5.0	2.5	2.8

Source: WEO, IMF, October 2010.

Recent Economic Developments in the African Region

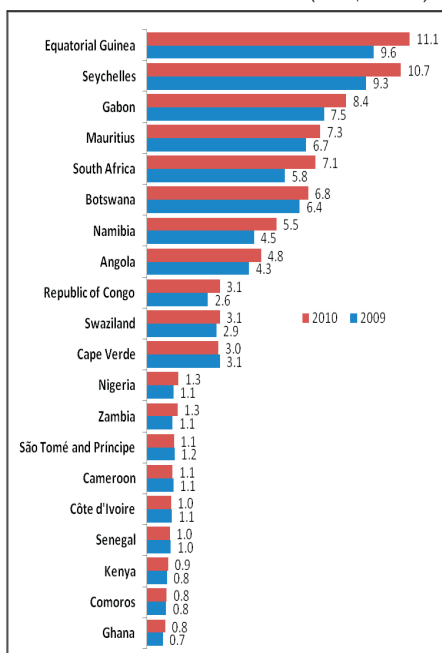
INTRODUCTION

In recent years, underpinned by sustained demand for gas and oil, as also for other products of the extractive industries, such as minerals and metals, the African region has witnessed sustained rise in economic activity. This has benefited a number of resource-rich countries in the region providing a boost to their economic activity and growth. Considerable progress has been achieved through improved macro-economic management and



Growth in Africa's oil-exporting economies like Nigeria, Angola, Equatorial Guinea, Gabon and Chad, are being supported by global recovery and pickup in demand, along with strengthening of oil prices. The region's largest oil exporter, Nigeria continued to pose strong growth in the non-oil sector as well as in oil production. Accordingly, Nigeria's output growth is expected to accelerate from 7% in 2009 to 7.4% in both 2010 and 2011. Growth in Angola, the region's second-largest oil exporter, is also expected to recover in 2010, as against a decline in oil exports in 2009. Angola's growth is projected to increase from less than a percentage in 2009 to about 6% in 2010.

Chart 2: GDP Per Capita Income of Select African Countries (US\$ '000)



Source: WEO, IMF, October 2010.

Some of the sub-Saharan Africa's middle-income economies like South Africa, Botswana and Namibia whose output contracted in 2009 due to their stronger global trade linkages are now on the path to recovery. Benefitting from continued strong demand for commodities from emerging Asia and from a recovery in demand for manufactures from the euro area, the region's largest economy, South Africa, is expected to grow by 3% in 2010

and by 3.5% in 2011, after contracting by almost 2% in 2009.

As regards low income economies of the region, like Kenya, Ethiopia, Tanzania and Cameroon, while relatively low degree of exposure of the region to international trade and financial flows shielded them from the worst of the global downturn, acceleration of growth this year is expected to be modest compared to other parts of the region mainly because these economies are expected to be driven as much by domestic factors as by the global recovery. Real GDP growth in these economies is expected to rise from 4.5% in 2009 to 4.9% in 2010, and further to 6% in 2011.

REGIONAL TRADE AGREEMENTS IN AFRICA AND TRENDS IN INTRA-REGIONAL TRADE

Since early 1990s, many countries in Africa have made significant progress in opening up their economies to external competition through trade and exchange rate liberalisation, often in the context of IMF and World Bank supported programmes. At the same time, with creation or expansion of a number of important regional trading arrangements in other parts of the world, there has been a revival of interest among policy makers in Africa in regional integration, resulting in the establishment or renewal of such arrangements in Africa. Currently, Africa is home to some 30 regional trade agreements (RTAs) or trade blocs, many of which are part of deeper regional

integration schemes. While some RTAs have been revived, there has been a renewed push in recent years to broaden and deepen such RTAs. Major trading agreements in Africa include Arab Maghreb Union (UMA); Common Market for Eastern and Southern Africa (COMESA); Southern African Development Community (SADC); Southern African Customs Union (SACU); West African Economic and Monetary Union (UEMOA); Economic Community of West African States (ECOWAS); Economic and Monetary Community of Central Africa (CEMAC); Economic Community of Central African States (ECCAS); East African Community (EAC); the Cross Border Initiative in Eastern and Southern Africa; Economic Community of the Countries of the Great Lakes (CEPGL); Indian Ocean Commission; and Mano River Union (MRU).

These trading arrangements are envisaged to foster trade and investment relations amongst member countries by removal of tariffs and other impediments to intra-regional trade flows. In some cases, the arrangement also aims at fostering common economic and monetary union amongst member states, as also a common currency. The success of these arrangements in fostering intra-regional trade has been diverse. The past five years witnessed steady increased growth in trade within blocs across the region, except for a slight drop in trade among Indian Ocean Commission in 2008 (Table 2).

	Year of creation	1990	2000	2004	2005	2006	2007	2008
SADC	1992	1,720	4,427	6,655	7,799	8,701	11,912	15,468
ECOWAS	1975	1,384	2,715	4,366	5,497	5,956	6,676	8,251
COMESA	1994	830	1,443	2,420	2,962	3,363	4,501	5,296
UEMOA	1994	499	741	1,233	1,390	1,544	1,835	2,096
EAC	1996	132	689	930	1,075	1,062	1,385	1,616
ECCAS	1983	133	181	221	255	313	385	449
CEMAC	1994	114	96	174	201	247	305	355
Indian Ocean Commission	1984	75	106	155	162	182	214	190



B. Merchandise Exports within Blocs (% of total bloc exports)								
	Year of creation	1990	2000	2004	2005	2006	2007	2008
EAC	1996	7.4	22.6	18.9	17.7	15.9	17.5	17.6
SADC	1992	17.9	9.5	9.7	9.3	9.1	10.0	10.1
ECOWAS	1975	9.7	7.6	9.3	9.3	7.9	7.7	7.6
Indian Ocean Commission	1984	4.8	4.4	4.3	4.9	5.0	5.8	5.1
COMESA	1994	3.6	4.6	5.0	4.7	4.0	4.5	4.1
CEMAC	1994	2.0	1.0	1.2	0.9	0.9	1.0	0.8
ECCAS	1983	1.3	1.0	0.8	0.6	0.5	0.6	0.4
UEMOA	1994	11.3	13.1	12.9	13.4	13.1	14.8	14.5

Source: World Development Indicators 2010, World Bank

During the last five years, however, the share of merchandise exports within bloc as compared to total exports, has fallen in all the trade blocs except for SADC, Indian Ocean Commission and UEMOA, indicating the increasing importance of external markets for exports for these region.

INDIA'S TRADE WITH AFRICA

Synergy that exists between India and Africa can be gauged from the recent robust trends in Indo-African trade relations, wherein bilateral trade has risen four-fold in the last six years, from US\$ 7.6 billion in 2004-05 to US\$ 30.9 billion in 2009-10, reflecting significant rise in both exports and imports (Table 3).

India's exports to Africa have risen from

3.0% in 2004-05, reflecting high oil imports. Consequently, due to large imports from the region, India's trade balance with Africa, which stood at a surplus of US\$ 863.8 mn in 2004-05 turned into a deficit of US\$ 3.0 bn in 2006-07, and further widened to US\$ 10.3 billion in 2009-10.

Major Traded Items

Since 2004-05, petroleum products have emerged as the largest items in India's export basket to Africa, with a share of 21.1% of India's total exports to Africa during 2009-10. Other important items of exports to Africa during the same year included pharmaceuticals & fine chemicals (11.1%), machinery & instruments (10.8%), transport equipment (8.3%), manufactures of metals (7.0%) and electronic goods (4.3%).

Table 3: India's Trade with Africa (US\$ billion)						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Exports	4.2	5.4	8.4	11.5	11.4	10.3
Imports	3.4	4.0	11.4	14.9	18.9	20.6
Total Trade	7.6	9.5	19.8	26.5	30.3	30.9
Trade Balance	0.9	1.4	-3.0	-3.4	-7.5	-10.3

Note: Imports data from 2006-07 include oil imports

Source: Directorate General of Commercial Intelligence & Statistics (DGCIIS), Ministry of Commerce and Industry (MOCI).

US\$ 4.2 billion in 2004-05 to US\$ 10.3 billion in 2009-10, with a resultant rise in the share of Africa in India's total exports from 5.0% to 5.8% during the period. Concomitant rise in imports from Africa during the comparable period attest to increased two-way trade relations, wherein India's imports from Africa have risen from US\$ 3.4 billion in 2004-05 to US\$ 20.6 billion in 2009-10, with a resultant 7.2% share in India's total imports, up from

As regards imports, since 2006-07, crude petroleum remained the largest item imported from Africa, and accounted for a significant 63.5% of India's total imports from Africa during 2009-10. Other major imports from Africa include gold (13.1%), coal, coke & briquettes (5.1%), inorganic chemicals (4.7%), metalliferrous ores & metal scrap (3.2%), cashew nuts (3.2%), and crude fertilisers (1.1%).

Opening of Exim Bank's Representative Office at Addis Ababa

Export-Import Bank of India's (Exim Bank's) East Africa Representative Office at Addis Ababa was formally inaugurated on September 21, 2010 by Mr. R. Gopalan, Secretary (Financial Services), Government of India, Ministry of Finance, in the esteemed presence of H. E. Mr. Ahmed Shide, Hon'ble State Minister for Finance and Economic Development, Government of Ethiopia, H. E. Dr. Tekeda Alemu, State Minister for Foreign Affairs, Government of Ethiopia and Mr. Bhagwant Singh Bishnoi, Ambassador of India to Ethiopia at a function which was attended by high-level Government functionaries, diplomats from the East African region, multi-lateral agencies, United Nations organisations, banks, large number of corporates and the Indian diaspora. The office in Addis Ababa would cover the East African Region including countries such as Burundi, Djibouti, Ethiopia, Kenya, Rwanda, Somalia, Sudan, Tanzania and Uganda.

Exim Bank's Chairman and Managing Director, Mr. T.C.A. Ranganathan, in his address, stated that Exim Bank would serve as a reliable source of finance through the Lines of Credit extended at the behest of Government of India, Project Exports, Buyers' Credit/SBLCs, Indian investment abroad, Knowledge Building and consultancy support services for externally oriented companies in the region, supporting them in their efforts to become internationally competitive.

On this occasion, Exim Bank's publication on 'COMESA (Common Market for Eastern and Southern Africa): A Study of India's Trade and Investment Potential' was released at the hands of Mr. R. Gopalan, Secretary, Department of Financial Services, Ministry of Finance, Government of India.

Apart from its Head Office in Mumbai, the Bank has regional offices spread across the major cities of India viz. Ahmedabad, Bangalore, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai, New Delhi and Pune. Exim Bank has a branch in London, while overseas Representative Offices of the Bank are located in Dakar, Dubai, Durban, Singapore, Addis Ababa and Washington DC.

PROJECT OPPORTUNITIES

Business Opportunities Updates : Upcoming Projects

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

Projects funded by these multilateral agencies present attractive business opportunities for consultants, suppliers and contractors. These projects enjoy relatively high priority in the countries where they are taken up for implementation. The procurement guidelines, policies and procedures of the multilateral agencies help ensure equal and fair opportunity for all eligible bidders. Implementation of such projects is monitored by the multilateral agencies.

Interested exporters need to contact the concerned executing agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai, would be glad to be of help. Please contact **Mr. Priyanshu Tiwari** / **Mr. Ashish Kumar** on Tel: 22172319.

Country /Executing Agency	Project/ Brief Scope	Loan from Funding Agency
JSC 'Electric Power Plants' Foreign Affairs and Project Implementation Unit, 326, Jibek Jolu Avenue, Floor 5, Room 525. 720070, Bishkek, Kyrgyz Republic Contact: Tel/Fax: +996-312-670273 E-mail: fapiu@infotel.kg	Energy Emergency Project The objective of the project is to assist the Kyrgyz Government, in accordance with the Government's Energy Emergency Mitigation Action Plan (EEMAP), to increase the volume of energy supply. The project includes supply of power backup and telecommunication services storage batteries (with installation).	World Bank US\$ 4.0 mn
Planning Directorate Conference Room Ministry of Energy and Water Darul-Aman Road, Kabul, Afghanistan Contact: Mr. Geoff Robinson Tel: +93 797055194 E-mail: geoffrey.robinson@smec.com	Power System Development Project, Phase-II The project includes the rehabilitation of Naghlu and Mahipur substations, and the works broadly includes: <ul style="list-style-type: none"> ❑ 110-KV Line Bays; ❑ 110-KV Transformer Bays; ❑ 110-KV Metering Bays; ❑ 110-KV Bus-Coupler Bay; ❑ complete trailer mounted, portable 110kV Line Bay; ❑ 10-KV indoor metalclad switchboard; ❑ set of 12-KV power cables (generators to switchgear and switchgear to unit transformers); ❑ Control and Protection Equipment; ❑ Substation Control and Monitoring System; and ❑ Power Line Carrier equipment. 	World Bank US\$ 60.0 mn
EPCG FU Distribution Ivana Milutinovica 12, 81000 Podgorica, Montenegro Contact: Mr. Sinisa Mandic Tel: +382-67250-522 Fax: +382-20408-411 E-mail: sinisa.mandic@epcg.co.me	EPCG Metering Project The Project has following main components: <ul style="list-style-type: none"> ❑ Supply and installation of smart meters and data concentrators for internal control points in the transformer substations (10KV/0.4 KV) and for residential consumers; ❑ Ancillary equipment, including modems, meter boxes, cabling and other auxiliary equipment necessary for the installation and operation of the meters in substations; and ❑ Software and meter management system. 	European Bank for Reconstruction and Development Euro (€) 35.0 mn
JSC Transtelecom Karasay Batyr Ave., 55, 050000 Almaty, Kazakhstan Contact: Mr. Kassym Essergepov Tel: +7-727296-5050 Fax: +7-727296-4254 E-mail: k.essergepov@transtelecom.kz	Transtelecom Communication Infrastructure Modernization Project The project require the procurement of following goods, works and services: <ul style="list-style-type: none"> ❑ Diesel generators with supplementary equipment and installation works; and ❑ Working stations, servers and printers. 	European Bank for Reconstruction and Development Euro (€) 3.6 mn



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Nepal Electricity Authority Durbar Marg Kathmandu Nepal Contact: Project Manager Tel: +977-1-4153034 Fax: +977-1-4153036 E-mail: mmdd132kv@yahoo.com	Middle Marsyangdi-Dumre-Damauli 132 KV Transmission Line Project (Energy Access And Efficiency Improvement Project) The transmission lines and substations to be constructed and enhanced, distribution networks to be expanded and replaced, and generating stations involving its rehabilitation under this Project are located in the various areas in eastern, central, and western regions of Nepal.	Asian Development Bank US\$ 65.0 mn
Da Afghanistan Breshna Sherkat (DABS) Project Management Office (PMO) Directorate Room No.-6, 2 nd Floor Waselabad, PCU beside of Breshnakot Sub-Station Kabul Afghanistan Contact: Mr. Shekeeb Nessar Director-PMO Tel: +93-700-294722 E-mail: shekeeb.nessar@dabs.af	MFF Energy Sector Development Investment Program The project require the procurement of following goods, works and services: <ul style="list-style-type: none">❑ strengthen the 220 KV / 110 KV ring main around Kabul;❑ Constructing a double circuit 220KV transmission line of approximately 30Kms;❑ Developing distribution network of medium voltage❑ (20KV) lines and low voltage (0.4KV) lines;❑ Providing 100 distribution transformers; and❑ Strengthening DABS's capacity in distribution planning system.	Asian Development Bank US\$ 81.5 mn
Social Investment Fund Off ElWak Stadium Road opposite Mechanisation Department of Agricultural Engineering Directorate PO Box CT3919 Cantonments, Accra, Ghana Contact: Executive Director Tel: +233-302778-921/3 Fax: +233-302778-404	Supply and Installation of Computers and Accessories, and Air Conditioners The project includes the procurement of following goods and works: <ul style="list-style-type: none">❑ Desktop Computers (200 nos.);❑ Uninterrupted Power Supply (UPS) with built in AVR (200 nos.);❑ Installation of LAN at 10 centres;❑ Network laserjet printers (20 nos.);and❑ Split Air conditioners (20 nos.).	African Development Bank US\$ 40.0 mn
Ethiopian Electric Power Corporation (EEPC) Universal Electricity Access Program Dembel City Center 12th Floor, Office No 34 P. O. Box 1233 Addis Ababa, Ethiopia Contact: Ms. Azeb Yosef Tel: +251-11-515 8951 Fax No. +251-11-554 3741 E-mail: ueapadb2@yahoo.com	Rural Electrification II Project The Project has following main components: <ul style="list-style-type: none">❑ Contract MEGI & WS-I, design, manufacture, test and supply of 132 & 66 KV substation equipments; and❑ Contract MEGI-2, design, manufacture, test and supply of 132KV Transmission Lines material.	African Development Bank US\$ 130.0 mn

CONTRACT AWARDS

Select contracts secured by Indian companies/consultants:

Global Procurement Consultants Limited (GPCL), Mumbai Contract awarded by the **World Bank** for the provision of consultancy services for conducting Procurement Post Review (PPR) of World Bank funded projects in India portfolio during FY11 and FY12.

Skipper Electricals India Ltd., Alwar Contract for supply, Installation, testing and commissioning of equipment, expansion and reinforcement of existing substations under Ghana's Energy Development and Access Project, funded by the World Bank.

Auro Avenida Exports Pvt. Ltd., Hyderabad Contract for supply of IT equipments for Sudan's Institutional and Human Development Project, funded by the **World Bank**.

Gammon India Ltd., Mumbai Contract for design, supply, installation, testing and commissioning of 400KV and 220KV transmission lines for Botswana's Morupule B Generation and Transmission Project, funded by the **World Bank**.

Fedders Lloyd Corporation Ltd., New Delhi Contract for supply of transformers for Ghana's Power System Reinforcement Project, funded by the **African Development Bank Group**.

Tagros Chemicals India Ltd., Chennai Contract for supply of agri-chemicals for Ethiopia's Southern Tsetse Eradication Project, funded by the **African Development Bank Group**.

Shiv Dial Sud & Sons, Ambala Contract for supply of laboratory equipments for Malawi's Support to Senior Education Project, funded by the **African Development Bank Group**.

Export Potential of Indian Chemical Industry : Post India-ASEAN Agreement on Trade in Goods

Table 1: India's Chemicals Trade with ASEAN (2009–10)

(US\$ Million)

Items / Category	Exports	Imports	Trade Balance
Inorganic Chemicals	172.07	147.34	24.73
Organic Chemicals	894.03	1323.55	-429.52
Tanning/Dye Extracts	143.34	113.21	30.13
Insecticides/Pesticides	138.90	5.35	133.55
Total	1348.34	1589.45	-241.11

Source: DGCIS

ASEAN – INDIA AGREEMENT ON TRADE IN GOODS

The Governments of India and ASEAN members signed an Agreement on trade in goods under the Framework Agreement on Comprehensive Economic Cooperation, on August 13, 2009. Through this Agreement, both would gradually liberalise their respective applied MFN tariff rates in accordance with the schedule of tariff commitments, as set out in the Agreement. The Agreement came into force on January 1, 2010. The schedules of tariff reduction commitments under this Agreement are given below:

Applied MFN tariff rates for tariff lines placed in normal track will be reduced and subsequently eliminated in accordance with the following schedule:

Normal Track – 1 (NT-1)

- ❖ Jan 1, 2010 to Dec 31, 2013 for Brunei, Indonesia, Malaysia, Singapore, Thailand, and India;
- ❖ Jan 1, 2010 to Dec 31, 2018 for Philippines and India;
- ❖ Jan 1 2010 to Dec 31 2013 for India, and Jan 1, 2010 to Dec 31, 2018 for Cambodia, Laos, Myanmar, and Vietnam;

Normal Track – 2 (NT – 2)

- ❖ Jan 1, 2010 to Dec 31, 2016 for Brunei, Indonesia, Malaysia, Singapore and Thailand, and India;

- ❖ Jan 1, 2010 to Dec 31, 2019 for the Philippines and India;

- ❖ Jan 1, 2010 to Dec 31, 2016 for India, and Jan 1, 2010 to Dec 31, 2021 for Cambodia, Lao, Myanmar and Vietnam;

Sensitive Track (ST)

- ❖ Applied MFN tariff rates above 5% for tariff lines in the Sensitive Track will be reduced to 5%;

Exclusive List (EL)

- ❖ This list does not have scheduled commitments; but the tariff rates will be reviewed on annual basis, with a view to improve market access.

STATUS OF CHEMICAL PRODUCTS IN ASEAN – INDIA AGREEMENT ON TRADE IN GOODS

As regards chemicals products, the ASEAN – India Agreement on Trade in Goods covers 1430 items under 8-digit ITC-HS category for phased elimination of tariff, and 69 items are put under EL, wherein, there are no scheduled commitments (Table 2). It may be mentioned that the peak rate of customs duty on majority of organic and inorganic chemicals covered under this agreement is 7.5%, while some of the tanning and dyeing products, and insecticides currently have an import duty of 10%. Some chemicals like, carbon black, o-xylene, aldrin, chlorofluorobenzene, benzal-chloride, naphthalene, etc maintains a duty at 5%.

ASEAN - India Chemical Trade

In 2009-10, ASEAN's trade with India remained high at US\$43.5 billion and India remained ASEAN's seventh largest trading partner. Further, the two sides have set a target to reach US\$70 billion by 2012. In chemical trade, ASEAN countries accounted for 12.3 % of India's total chemical exports and 11.1% of India's total chemical imports in 2009-10. During the same period, India remained a net importer of organic and inorganic chemicals, and net exporter of tanning/dyeing extracts and insecticides/pesticides, to ASEAN countries. India's export of organic chemicals to ASEAN countries stood at US\$ 894 million during the period 2009-10, with Indonesia being the major export destination (40% share) (Table 1). On the other hand, India's imports of organic chemicals from ASEAN stood at US\$ 1323 million with Singapore alone accounting for two-thirds of India's chemical imports from ASEAN. India's import of tanning and dyeing chemicals was US\$ 113.21 million during 2009–10, with Singapore and Indonesia as major source countries.



Table 2: Number of Chemical Items Agreed for Tariff Reduction under the India–ASEAN Agreement on Trade in Goods (8-digit HS Code)

Items / Category	NT – 1	NT – 2	ST		EL
			Tariff above 5%	Tariff at 5%	
Inorganic Chemicals	315	0	5	4	2
Organic Chemicals	589	14	138	14	48
Tanning & Dye Extracts	312	3	7	0	12
Insecticides /Pesticides	10	1	18	0	7
	1226	18	168	18	69

Source: AIFTA, Exim Bank Research

POTENTIAL FOR INDIA'S EXPORTS OF CHEMICAL PRODUCTS TO ASEAN: POST ASEAN – INDIA AGREEMENT ON TRADE IN GOODS

India's exports of chemical products to the ASEAN region currently are modest. However, there are select chemical products that have immense potential to

be exported to the ASEAN nations, especially after the promulgation of ASEAN – India Agreement on Trade in Goods, as the import tariffs in these markets are to be reduced as per scheduled commitments, making India's chemical exports more price competitive than other countries currently serving the ASEAN region.

Table 3: Prospective Chemical Product Market in ASEAN Region¹

HS Code	Product Name	Tariff Commitments under Category	Key Export Markets for India
290243	P-xylene	NT - 1	Indonesia, Thailand
283620	Disodium carbonate	NT - 1	Indonesia, Thailand
320417	Synthetic organic pigments & preparations	NT - 1	Indonesia, Thailand
281820	Aluminium oxide	NT - 1	Indonesia, Thailand
290124	Buta-1, 3-diene and isoprene	NT - 1	Malaysia, Indonesia
320416	Reactive dyes and preparations based thereon	NT - 1	Singapore, Thailand
320411	Disperse dyes and preparations based thereon	NT - 1	Indonesia, Singapore
294110	Penicillin's and their derivatives, in bulk; salts thereof	NT - 1	Thailand, Indonesia
293399	Heterocyclic comp nitrogen hetero-atom only	NT - 1	Singapore, Thailand
281830	Aluminium hydroxide	NT - 1	Indonesia, Thailand
320419	Synthetic organic colouring matter	NT - 1	Singapore, Indonesia
290611	Menthol	NT - 1	Singapore, Thailand

Source: UN Comtrade (2008), AIFTA, Exim Bank Research

The above products (Table 3) show tremendous export potential from India to ASEAN, post- ASEAN – India Agreement on Trade in Goods. These products are not only being increasingly imported by the ASEAN countries from World (CAGR of 15% during 2004-2008) but at the same time India's exports of these products to the World are also increasing at a faster rate (CAGR of 24% during 2004-08). However,

there are select items that come under the Exclusion Lists (EL) which shall be subject to an annual tariff review with a view to improving market access.

¹ For arriving at a group of chemical products with export potential from India to ASEAN, the methodology undertakes certain benchmarks viz-a-viz, Export value of India's chemical products above US\$ 10 million for the FY 2008 are considered; and Import value of ASEAN's chemical products above US\$ 100 million for FY 2008 are considered.

INFERENCE

ASEAN countries accounted for around 7% of India's total chemical exports, and around 9% of India's total chemical imports. India is a net importer of organic and inorganic chemicals, and net exporter of tanning and dyeing extracts, and insecticides and pesticides, to ASEAN countries. India's export of organic chemicals to ASEAN countries stood at around US\$ 894.0 million during 2009-10, with Indonesia and Malaysia together accounting for around 57% of India's exports to the ASEAN region. India's export share of the identified potential products to ASEAN has increased at a CAGR of over 17% during the analysed period 2004-08. India therefore has a much greater opportunity to cater to the import demand for such chemical products in the ASEAN region. To the extent that India is able to capitalise on these product specific opportunities, the impact of the Agreement would be positive for the Indian chemical industry.

In the organic chemicals segment, India's imports were around US\$ 1323.6 million, with Singapore alone accounting for 51% of India's chemical imports from ASEAN during 2009-10. India's import of tanning and dyeing chemicals stood at US\$ 113.2 million during the same period, with Indonesia, Singapore and Thailand as major source countries. India has sourced negligible volume of insecticides and pesticides from ASEAN countries. It may be surmised that the lowering of customs duty will benefit India as many essential intermediate chemicals could be sourced at low cost from ASEAN countries. However, as the central excise duty for most of the chemical products are kept at 16%, the cost competitiveness of indigenous firms in these sectors may be affected. In this context, it may also be noted that the Agreement also provides for bilateral safeguard mechanisms to address sudden surge in imports after the Agreement comes into force. In such an eventuality, if the provisions of the Agreement hurt the domestic industry, safeguard measures including imposition of safeguard duties can be put in place for a period up to 4 years.

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. Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters.

Exim Bank has now in place 128 Lines of Credit, covering over 71 countries in Africa, Asia, Latin America, Europe, Oceania and the CIS, with credit commitments of over US\$ 5.59 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, Lines of Credit 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, has extended the seven LOCs as given below during the quarter July-September 2010:

- An LOC of US\$ 25 mn extended to Government of Mozambique for financing rural electrification projects in the provinces of Cabo Delgado, Manica and Niassa in Mozambique. Located in Southern Africa, Mozambique has already availed five LOCs of US\$ 115 mn for importing equipment relating to electricity, water drilling machinery, agro-inputs and drip irrigation, vegetable oil refining plant & machinery, oil storage tank and for importing rural electrifications and IT projects.
- An LOC of US\$ 42 mn extended to Government of D R Congo for financing execution of Kakobola Hydroelectric Power Project in D R Congo. Exim Bank already has in place two LOCs of value aggregating US\$ 58.50 mn extended to the D R Congo for financing setting up a cement plant, acquisition of buses and procurement of hand pumps and submersible pumps.
- Two LOCs, one of US\$ 30 mn and another of US\$ 15 mn extended to the Government of Angola, for financing setting up of Industrial Park and for financing setting up of Textile Project (Cotton Ginning & Spinning), respectively, in Angola. Angola has already received four LOCs of value aggregating US\$ 68 mn from Exim Bank, which were utilized to finance supply of pumpsets and tractors and to implement project for Railway Rehabilitation.
- An LOC of US\$ 1 billion, the largest ever LOC to any country, was extended to the Government of Bangladesh, for financing goods and services including project exports from India into Bangladesh.
- An LOC of US\$ 72.55 mn extended to the Government of Lao People's Democratic Republic (PDR) for financing (i) 230 kV double circuit transmission line from Nabon to Thabok and substations and (ii) Nam Boun 2 hydropower project (15 MW) in Lao PDR. Exim Bank had earlier extended two LOCs of value aggregating US\$ 50.34 mn to Lao PDR for financing electric transmission line project, hydropower project, rural electrification and development of irrigation schemes in Champassack province in Lao PDR.
- An LOC of US\$ 15 mn extended to the Government of Cambodia for financing completion of Stung Tassal Water Development project in Cambodia. Earlier two LOCs of value aggregating US\$ 50.20 mn to Government of Cambodia were extended for financing Stung Tassal development project, purchase of water pumps and construction of electric transmission line between Kratie and Stung Treng provinces.

Exim Bank has, on its own, extended an LOC of US\$ 25 mn to the Eastern and Southern African Trade and Development Bank (PTA Bank) - a regional development bank for countries in Eastern & Southern Africa- for financing exports from India to the regional member countries of PTA Bank. The total value of ten LOCs extended by Exim Bank to PTA Bank, over the past few years, has amounted to US\$ 105.51 mn. The earlier LOCs have been utilized to finance export of a variety of items like sugar plant, cement plant, tissue paper plant, medical equipment and pharmaceutical products to member countries of PTA Bank.

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Success Story: Princeware International Private Limited

Princeware International Private Limited (PIPL) was first established as a partnership firm under the name of Prince Plastic in 1971 at Mumbai. In November 1992, the firm was registered as a company and named Prince Plastoware India Private Limited. The name of the company has undergone changes over the years and is presently called M/s Princeware International Private Limited, since July 2008.

Mr. Kishore S. Chheda, a first generation entrepreneur, started the business on a small scale providing anti-rust coating on the metal handles of plastic buckets. Today, the company manufactures over 650 types of Plastic Housewares, Microwave Container Sets, Insulated Jugs, Ice Boxes, Chillers, Hot Pots, Planters and Plastic Furniture. PIPL designs its own products and introduces new products on a regular basis.

PIPL is India's premier manufacturer and exporter of plastic houseware, thermoware and furniture. All products of the company are made from 100% virgin plastic, which is 100% food safe and free of health and environment risk.

PIPL is a Mumbai-based company with manufacturing facilities at Daman (Union Territory of Daman & Diu). PIPL manufactures its products under the brand name 'PRINCE'. The 'PRINCE' brand, with its unique logo, enjoys high brand equity and recall globally. It symbolizes a mark of superior quality for the vast majority in India and more than 50 countries around the world. 'PRINCE' is a trademark registered in USA, UK, South Africa and the European Union.

Operations

PIPL manufactures household plastic ware mainly for the retail segment. Institutional buyers in the domestic market include Gujarat Fisheries, Pepsi Foods, Coca Cola, Indian Railway (Eastern Zone), Tide Water Oil Co. Ltd. and organized retail chain stores/malls such as Reliance Retail Ltd., Aditya Birla Retail Ltd./Trinethra Super Retail Ltd., Metro Cash & Carry (I) Pvt Ltd., Spencer Retail Ltd., Pantaloon Retail Ltd. (Big Bazar), etc.

Presently, PIPL exports to over 50 countries around the globe. PIPL has an excellent track record in exports. PIPL exports to South America, USA in the West, to Fiji Islands in the East and some African and Gulf countries. Special and concentrated efforts are now directed to make the company's presence felt in the European countries, Australia and Russia. PIPL's clients in overseas markets include Solvijaya International S.A. (Panama), American Import SRL (Paraguay), IAM & Co (West Indies), VM International (USA), Croftal LLC (Russia), etc. PIPL has also been included in the list of preferred suppliers by world's largest retail chain Wal-Mart.

Awards/Certifications

PIPL has been exporting its products for the last 29 years and has been the recipient of Top Exporter Award in its product category continuously for all the 29 years, awarded by The Plastics Export Promotion Council. It has been enjoying Export House status since 1996. Bank of India, one of PIPL's bankers, has designated it as a Gold Card holder under RBI's Gold Card Scheme for creditworthy exporters with good track record. PIPL has obtained ISO 9001:2008 certification from SGS UK Ltd.

Industry Profile

Plastics Industry in India is expanding rapidly. India's consumption of plastic materials in 2000 was 3.3 MMT, which is likely to touch 12.3 MMT by 2011, making India the 3rd largest consumer of polymers in the world. Total cumulative contribution of Plastic Industry to Indian Economy is expected to be US\$ 44 billion (0.7% of India's GDP). This industry will have US\$ 19 billion investment potential by

2011. In the near future, plastic is expected to replace conventional materials like steel, iron, wood, etc. in household articles, furniture, insulations due to better and attractive colors, light weight, easy maintenance and less requirement of storage space. In short, it can be said that plastic is a good substitute for scarce natural resources. Awareness of branded products in the domestic market is increasing; hence growth of plastic products in domestic market is estimated at 10-12% p.a. With regard to the overseas market, labor cost and other overheads in advanced countries like USA & Europe are very high and as a result, these countries import low cost plastic houseware and furniture from India. PIPL's business is, therefore, expected to continue to grow in future.

Support from Exim Bank

Exim Bank has always been supportive of Indian Industry in their globalization efforts in terms of manufacturing and export of world class products & services. Exim Bank has been associated with PIPL since FY 2006 and has been providing export credit at competitive rates under multiple banking arrangement. Exim Bank has also provided term loans from time to time to fund PIPL's capex requirements for capacity expansion.

With timely assistance provided by Exim Bank by way of term loans and working capital loans, PIPL has been able to grow exponentially in a short span of time, with sales increasing from ₹ 605 mn in FY 2006 to ₹ 1.3 billion in FY 2010. PIPL's export orientation has also increased from about 56% to over 72% during this period.

PIPL has entered into two overseas Joint Ventures (JVs) with Neelkanth Tanzania Ltd, Tanzania in the name of Princeware Africa Limited in Tanzania, and Princeware Africa (Kenya) Limited in Kenya, for manufacture of Plastic Insulated Casserole, Plastic Furniture and other Plastic Household items like Buckets, Drums etc. PIPL has entered into these JVs to tap the huge market potential in the South and East African markets. Exim Bank has provided financial support to PIPL by way of term loan for its equity contribution in these overseas JVs.

Indian IT Industry : Sectoral Performance and Outlook

According to NASSCOM, Indian IT-BPO revenue is estimated to aggregate US \$ 73.1 billion in 2009-10, with the IT software and services industry accounting for US \$ 63.7 billion. Direct employment provided by this sector is expected to reach nearly 2.3 million, an addition of 90,000 employees, while indirect job creation is estimated at 8.2 million. Export revenues are estimated to be US \$ 50.1 billion in 2009-10, growing by 5.4% over the revenue generated in 2008-09, and contributing 69% of the total IT-BPO revenues. Software and services exports (including BPO) are expected to account for over 99% of total exports, employing around 1.8 million employees. The IT Services segment aggregated export revenues of US \$ 27.3 billion, accounting for 55% of total exports. Even though growth in BPO was single digit for the first time, the segment is still the fastest growing segment of the industry and is estimated to reach US \$ 12.4 billion in 2009-10, growing at 6%. Additionally, the engineering design and products development segments that involve IP driven service capabilities command an exports revenue share of 20%, generating total revenues of US \$ 10 billion in 2009-10, growing by 4.2%.

Domestic IT-BPO revenues are expected to grow at almost 8.5% to reach ₹ 1,088 billion in FY2010. Rise of Indian corporations facing competitive market conditions through an increasingly globalised Indian market, increased spend by the government through several e-Governance initiatives, enhanced connectivity and increased levels of IT spending are key factors, which make the domestic market lucrative today.

Table 1 : Key highlights of the IT-BPO Services Industry in 2009-10

Financial year	Exports (US\$ bn)	Domestic (₹ bn)
FY 08-09	47.1	590
FY 09-10	49.7	662
FY 10-11	50.1	1088

Source: NASSCOM

The industry's export vertical market exposure is well diversified across several mature and emerging sectors. Banking, Financial Services and Insurance (BFSI) remained the largest vertical market for Indian IT services exports with a share of 41%, followed by hi-tech/Telecom (20%), manufacturing (17%) and retail (8%).

Outlook

According to NASSCOM, IT services is expected to grow by 2.4% in 2010, and 4.2% in 2011 as companies coming out of recession harness the need for information technology to create competitive advantage. IT is expected to play a role in reducing enterprise costs, not merely with cost cutting but by changing business processes, workforce practices and information use.

Significant opportunities exist in core vertical and geographic segments of BFSI, and the USA and emerging geographies, and vertical markets such as Asia Pacific, retail, healthcare and government respectively. The industry has reinvented itself by increasing its cost efficiencies, utilization rates, diversification into new verticals and markets and new business and pricing models. As per the findings of NASSCOM, the coming years are going to represent a significant shift in terms of business models, service lines, customers and talent structure. It is also expected to acquire domain expertise and near shoring capabilities to further advance India's value proposition as a global outsourcing hub.

A recent development that may impact the IT industry is the new US law, which calls for visa fees for skilled workers to increase by about US\$ 2000, which may impact the IT sector's operations. Revenue generated through this hike in fees will be used to boost security along the US border with Mexico. This law may have implications to India's information technology sector, It may be mentioned that Indian IT firms send software professionals and other experts to work temporarily in the United States to cater to the customers, the option

of which might increase the cost of operations of Indian IT firms and reduce their competitive position. According to NASSCOM the hike is expected to cost the Indian IT sector around US\$ 200 million - US\$ 250 million a year, and also opined that it violates WTO conventions.

Another challenge that may have implications to Indian IT sector is the Eurozone crisis. Eurozone nations like Greece, Spain and Portugal are facing financial crisis because of heavy borrowings by their governments, leading to erosion in investor confidence across the world. There has been widespread belief that the European crisis could affect other parts of the world, especially those countries which have high deficits, mainly on account of international borrowings. According to NASSCOM estimates, USA with a share of 60% and UK (19%) remained the largest IT-BPO export markets for India, followed by Continental Europe with 13%. The industry footprint is steadily expanding to other geographies as well, with the exports to Continental Europe in particular growing at a CAGR of more than 51% during FY 2004-2008. So the recent Eurozone crisis, along with the new government in UK deciding to start reviewing all international projects again, might affect the IT industry in the short run as the projects may get delayed due to such a review. The long run perspective, however, remains better as of now, assuming that the Eurozone crisis might not percolate to other regions.

Apart from this, the appreciation of Indian ₹ vs. Euro may also have implications on Indian IT sector. Companies who have long-term commitments through contracts running many years and finalized in Euro denominations, might lose their margins, and companies with short term contracts might affect their future prospects, as the depreciation of Euro might make the service by Indian IT firms more expensive. Indian ₹ appreciated by 17% against the Euro as on 31 August 2010 over the corresponding period in the previous year.

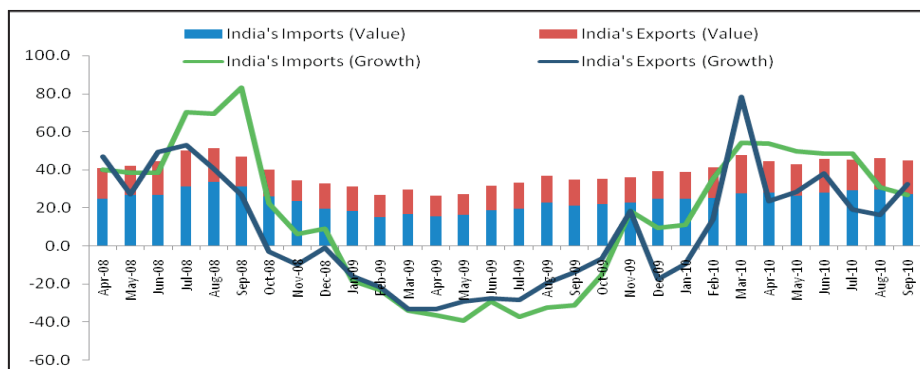
India's Recent Trade Performance

Trade Performance

India's merchandise exports reached a level US\$ 103.64 billion during the period April-September 2010 registering a growth of 28% over the previous year. Cumulative value of exports for the period FY 2010 stood at US\$ 176.5 billion as against US\$ 185.2 billion registering a negative growth of 4.7%. Imports, however, have maintained its tempo registering a growth of 23.2% to reach a level of US\$ 166.48 billion during April-September 2010. Cumulative value of imports for the period FY 2010 was US\$ 278.6 billion as against US \$ 303.6 billion registering a negative growth of 8.2%. The trade deficit for April-September 2010 was estimated at US\$ 62.8 billion which was higher than the deficit of US\$ 47.1 billion during April-September 2009. The trade deficit for FY 2010 was estimated at US\$ 102.1 billion which was lower than the deficit of US\$ 118.4 billion during FY 2009.

With regard to commodity composition of India's main exports in FY 2011 (April-May), most commodities witnessed a positive growth during the period. Among the main export commodities, petroleum products witnessed the largest growth of 85.8%, followed by ores & minerals (58.2%). Growth in other important export items were found in categories like engineering goods (34%) and chemicals & related products (32.3%). Export of project goods witnessed the largest decline in growth of around 74%.

Trends in India's International Merchandise Trade: Value (US\$ bn) and Growth (%)



Source: Ministry of Commerce

Oil imports during FY 2011 (April-September) were valued at US\$ 48.7 billion which was 30% higher than the oil imports of US \$ 37.4 billion in the corresponding period last year. Non-oil imports during FY 2011 (April-September) were valued at US\$ 117.7 billion which was 29.9% higher than the level of such imports valued at US\$ 90.65 billion in FY 2010 (April-September).

Outlook

In the Foreign Trade Policy (FTP) 2009-14, the Government of India has set an annual export target of US\$ 200 billion by March 2011 with an annual growth on 15%. In the remaining three years, India's exports are expected to grow by 25% per annum. By 2014, the target is to double India's exports of goods and services. The long term policy objective for the Government is to double India's share in global trade by 2020.

While India's exports have witnessed a rising trend in recent years, the relatively low share of exports in India's GDP, viz. around 14%, reduces India's vulnerabilities to global uncertainties. For other Asian countries, the share in GDP broadly ranges from around 23% for Indonesia to 76% for Malaysia in 2009.

The current rate of export growth (April – September 2010) can be attributed to the growth of the diversification of export destination due to numerous initiatives taken by the Government under Focus Schemes supplemented by Focus Market Scheme and Market Linked Focus Product Scheme.

India's Foreign Trade Policy 2010-14

The trade policy measures have sought to help the export sector in general, and the employment intensive sectors affected by the world recession in particular. Some of such measures taken to promote India's foreign trade include:

- ❖ Interest subvention of 2% for pre-shipment credit for export sectors namely, Handloom, Handicraft, Carpet and SMEs for all export sectors, have been allowed till 31.3.2011 in the budget 2010-11.
- ❖ Additional benefit of 2% bonus, over and above the existing benefits of 5% / 2% under Focus Product Scheme, allowed for about 135 existing products, which have suffered due to recession in exports.
- ❖ Zero duty EPCG scheme, introduced in August 2009 and valid for only two years upto 31.3.2011, has been extended by one more year till 31.3.2012. In addition, to give a boost to technological up-gradation for additional sectors as well, the benefit of the scheme has been expanded to cover paper & paperboard and articles thereof, ceramic products, refractories, glass & glassware, rubber & articles thereof, plywood and allied products, marine products, sports goods and toys and additional engineering products.
- ❖ Status Holders contribute to a substantial part of India's exports. To support them to upgrade their technology, 1% Status Holder Incentive Scheme (SHIS) has been extended by one more year for 2011-12 exports.
- ❖ The Duty Entitlement Passbook (DEPB) Scheme has been extended till the end of June 2011 in order to impart continuity and stability to the foreign trade regime.

To reduce the transaction cost and time, the scope and domain of EDI (Electronic Data Interchange) is endeavoured to be continuously broadened. To remove redundancy of repeated submissions of RCMC (Registration-cum-Membership Certificate), an 'e-RCMC' initiative has been commenced. Under this, the Export Promotion Councils would upload the RCMC data of their members on DGFT's website only once, thus reducing the procedural burden of repeated submissions and associated cost and time.

Cluster-based Industrialisation in China

Currently, considered as the largest market in the world, China is also being described as the 'factory' of the world, all due to its serving as the world's manufacturing base, which by large is attributed to the emergence and development of cluster-based industrialization in China.

China has a long history of cluster development, e.g., pottery and porcelain production centre in Jingdezhen, and silk-centres in Jiangsu. Nevertheless, some clusters have emerged relatively recently, such as electronic industry in Dongguan, Guangdong; high-tech industrial clusters in Suzhou; and the integrated circuit industry in Shanghai.

In the global perspective, the reasons for the rise of these clusters in China is ascribed mostly to concentrated dispersion caused by offshore outsourcing by industrialized economies, followed by China's participation in the global economy as a business destination.

Industrial clusters in China are mainly concentrated along the coastal region. Among these, the most outstanding are those that are located within the systems of the Pearl River Delta, the Yangtze River Delta, and the Bohai Bay Rim. Chinese clusters are either labour or technology intensive, and can be classified as following:

- Self-augmented clusters - characterized by labour-intensive, low technology content and low threshold of entry, mostly entrepreneurial and family-owned, often with a craft tradition, where skills are passed on to the next generation.
- Export-oriented clusters – mostly

- dominated by foreign direct investments, with formulated preferential policies, such as lower land and labour costs, and tax concessions to attract overseas investors to set up outward-processing factories, with product destined for overseas markets.
- Hi-tech industrial cluster- formed by a group of scientists and scholars from universities and colleges, and located in the surrounding areas of the universities and research institutes, play a crucial role in knowledge generation. e.g., IT clusters in Zhonguancun.
- Resource-driven cluster – relying heavily on the natural resources of the region such as mines, forests, or quarries, overtime specialized around the core product, such as the timber processing cluster in Pizhou in Jiangxu.
- Market-driven clusters – developed under favourable geographical location and convenient transportation network, which eventually became capital intensive with the development of other related and ancillary industries. e.g., wood cluster in Linyi.

Above-defined industrial clusters are somewhat pure categories, and in practice, clusters in China are often combinations of one or more types.

Role of government and business associations in cluster development

Both central government and provincial (local) government in China consider clustering to be part of national or local development strategies, in terms of attracting investments, increasing exports, and creating employment opportunities. Local governments tended to play a significant role in promoting cluster development via diversified cluster policy.

Business associations in the clusters have acted as a bridge between the government and firms, usually by enlarging the influence and enhancing the reputation of the clusters, through communicating the policy to firms in one direction, and in other, transmitted the requirements of firms to government.

Support policies for clusters

- Training of professionals through stages, or through different levels, until differentiated levels of technological qualification and innovative capacity are reached;
- Broad and facilitated availability of equipments for collective use for the

normalization, standardization, certification, product and material quality testing, and other technological services;

- Availability of people qualified to establish technical norms and patterns, procurement of certifications, registration of patents;
- Differentiated cluster credit – guarantees offered through a system of shared guarantees, with the penalty of exclusion from the system of eventual failure; the financing of activities that are abnormal are supported with a differentiated mechanism; local agent/manager of public banks are 'native'.

Finance in cluster-development

Dominated by SME's, finance in the industrial clusters in China has been a subject of research. Firstly, Industrial clusters in China lowered the capital barriers to entry through the division of labour, enabling individuals to choose the appropriate type of specialization according to their capital portfolio, thereby facilitating entry of numerous new businesses at the earliest stage of industrial development. This has also helped lowering transaction costs to a large extent at the later stage of development-oral agreements substituting formal contracts.

Secondly, to ease working capital constraints, besides depending upon informal finance from friends and relatives, the clustered SMEs through trade credits have indirectly gained access to credits as their working capital.

And thirdly, the availability of flexible payment methods mostly by the institutional financiers has helped buffer credit constraints in daily operations.

Socio-economic impacts of industrial clusters

- Fuelling industrial development and enhancing the nation's overall competitiveness;
- Fostering the development of leading centres for specific industries and promoting regional branding;
- Enhancing production efficiency;
- Spurring innovation and growth;
- Facilitating new business formation;
- Creating jobs and providing employment opportunities;
- Promoting industrialization and urbanization; and
- Bringing about higher residential income.



EXIMIUS CENTRE

Eximius Centre Activities:

July - Sept, 2010

In an ongoing endeavour to create an economic hub in India's North eastern region, by exploring the trade and commerce potential with ASEAN neighbours, Bank has organised seminars in association with Federation of Indian Exporters Organization at Agartala (July 15, 2010), Imphal (August 06, 2010) & Itanagar (September 09, 2010) to disseminate information on various initiatives taken by Government of India financial and support institutions to exporters in general, and to those located in North Eastern region in particular. Exim Bank's presentation included the details of various aspects of financing programmes and products.

Exim Bank in collaboration with Indian Electrical & Electronics Manufacturers Association (IEEMA) had organized a seminar on "Focus Africa: Policy Environment, Investment & Business Opportunities Business Opportunities" in Delhi on July 14, 2010. Diplomatic Representatives from Embassies of five African Countries Viz, Ethiopia, Ghana, Kenya, Senegal and Burkina – Faso made presentations on the opportunities and Government policies of their respective countries.

A seminar was held on July 15, 2010 on "Institution Initiatives for supporting Indian Exports" in collaboration with Gurgoan Chamber of Commerce (GCCCI) at Gurgoan and "Export and Import

Conclave" in association Confederation of Indian Industry at Raipur.

Programmes in the pipeline includes "Scope & Opportunities for North-East Region for Exports" at Meghalaya and Mizoram, "Project Exports – Business Opportunities and Challenges" at New Delhi, workshop on Cluster financing at Jajmou, Kanpur, "Round table conference on Investment opportunities in British Midlands" at Hyderabad in association with India Representative Office of UK Trade & Investment.

Other seminars/workshops focusing on Investment agencies / SMEs/ handicrafts / Entrepreneurship Development, Export Awareness programmes, Export procedure and documentation at Nagpur, NOIDA, Visakhapatnam, Indore, Jaipur, Coimbatore Kolkata, Mysore & Bangalore.

For details on future programmes contact:
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BOOK REVIEW

"TWO DRAGON HEADS Contrasting Development Paths for Beijing and Shanghai"

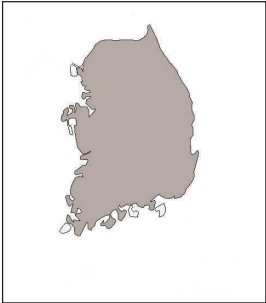
The World Bank's publication 'Two Dragon Heads' explores the contrasting development options available to China's twin capitals, Beijing and Shanghai and proposes strategies for each megacity based on their current and acquired capacities, the experience of other world cities, the emerging demand in the national market, and likely trends in global trade. China's economic fortune in the decades to come will majorly depend upon the performance of these two megacities, along with a handful of other urban regions.

For Beijing, which has a large government sector, a growing information technology sector, and a vast research infrastructure, this book proposes a strategy that focuses on high-tech and creative industries, on supporting business services, and on those activities that constitute the government sector and complement the functioning of government agencies.

For Shanghai, this book proposes a strategy that puts more stress on manufacturing industries, engaged in producing complex capital goods and high-tech components. It also suggests that the urge to rely on business and financial services as the principal drivers of growth of Shanghai should be tempered, without minimizing the contribution that a more developed financial industry in Shanghai could make to the economic performance of the Shanghai urban region and the Yangtze River delta region as a whole.

The book also suggests that both Beijing and Shanghai should encourage the life sciences, new materials and electronics while recognizing that these areas are subject to long gestation lags and might not generate significant profits or employment and, therefore, might contribute modestly to growth in the medium term. A multisectoral strategy is more likely to lead to sustainable growth with equity and to attract a diverse urban population.

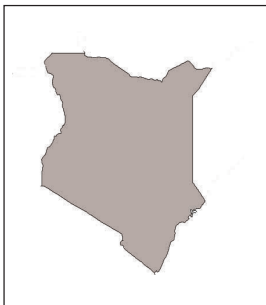
South Korea



Strengthening domestic demand and improved external conditions have underlined Korea growth prospects, with GDP growth expected to

rebound to 6.1% in 2010, after a marginal 0.2% growth in 2009. Recovery in exports is set to strengthen. Two factors account for the resilience of exports in the face of weakness in industrial economies. First, exports have benefited from continued robust appetite for imports from China, while exports to other developing economies have also held up relatively well. Secondly, manufacturing diversification over the past two decades has reduced the dependence on few product groups. The information technology (IT) product group – primarily semiconductors, liquid crystal displays and mobile phones – will continue to play a leading role, underpinned by global demand recovery and competitive advantage in supply capacity and product innovation. Of late, the government is increasingly reaching out to the grassroots economy of working-class people and small and medium-sized enterprises, and “Sangsaeng”, the Korean word for “coexistence” or “co-prosperity” is gaining ground among policy makers and corporate.

Kenya

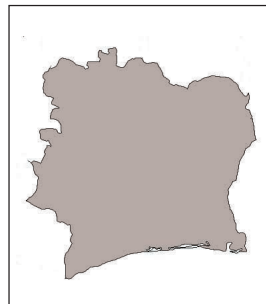


Kenya’s largest infrastructure bond, and the fourth in a series, worth KSH 31.6 billion (US\$ 390 mn) was successfully launched in August, and the

proceeds from the bond issue is envisaged to finance specific infrastructure projects in electricity, water, irrigation and sanitation, and roads. The acquisition of Zain’s African assets in 15 countries including Kenya by Bharti Airtel, India, in June has led to serious price competition in the telecoms sector leading to reduced

tariff rates in the country. The prospects for wind energy has received a major boost in September when the government facilitated financing for the massive Lake Turkana Wind Power (LTWP) project, a private sector initiative supply. Further, Kenya’s first wind plant, a 5 mw facility built by the parastatal generator, KenGen, close to the capital Nairobi, opened in September, and several more are under consideration, including a second, 300 mw facility, close to lake Turkana proposed by a domestic company, Gitson Energy.

Cote d’Ivoire



Cote d’Ivoire’s gold mining sector is set to increase production dramatically over the next five years, with output projected to rise from 7 tonnes in

2010 to at least 20 tonnes by 2010, owing to the start-up of new mines, according to the Director-General of Mines and geology. Principal among these is the Randgold Resources’ Tongon mine in the north of the country, which the company expects to produce 2.3 tonnes of gold in 2010, gradually rising to 8.7 tonnes per year. Australia’s Occidental and Canada’s Etruscan are also currently developing gold projects and expect to start production within three years. The increased interest in gold mining projects reflects the buoyancy of the metal on global markets, with prices set to rise over the coming years as supply struggles to meet rising demand, particularly from China and India. In August, the Singapore based agro-processing company, Olam International, announced plans to build a US\$ 43.5 mn cocoa-processing plant in Abidjan, with the first production expected in 2012 and the operation is expected to produce 48,000 tonnes of cocoa products annually by 2014.

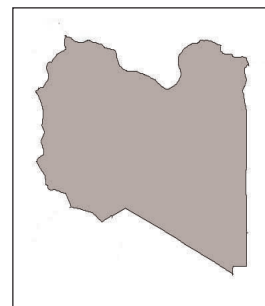
Russia



Russia’s return to growth in 2010, after a sharp contraction in 2009, has been

underpinned by a large stimulus package, an upturn in external demand, and lower interest rates. According to the Federal State Statistics (RosStat), real GDP grew by 5.2% year-on-year in the second quarter on 2010, which is a significant pickup from the 3.1% reported for the first quarter. Growth is expected to average more than 4% per year during 2011-14. The manufacturing sector in particular has exhibited a robust growth in response to increasing domestic demand, with growth in real wages and household incomes having underpinned the recovery in consumer spending. However, several factors could constrain growth in the medium term, including sluggish energy output growth, weak banking sector, and high and growing dependence on natural resource sectors.

Libya



The banking sector, in recent years, has witnessed some privatization with large public stakes in the sector having been sold off, and a new preliminary

banking licence has been issued to UniCredit, an Italian bank. These measures, with technical assistance from international organizations, would help to modernize the sector. Bank lending to the private sector has also increased significantly since 2007 and is set to continue expanding which will help the small private sector to grow. The partial privatization of two telecommunications companies and an iron and steel firm has been proposed. Further, 10 new laws have been introduced to improve business and investment environment, and are awaiting executive regulations. The economy will continue to be dependent on the hydrocarbons sector for future growth which could be constrained by minimal increases in crude oil production. There is potential for the non-oil sector to grow, supported by government infrastructure investment programmes, particularly in the construction, utilities and transport sectors.



Currency Currents

EURO

On January 1, 1999, eleven of the countries in the European Economic and Monetary Union (EMU) decided to give up their own currencies and adopt the euro (EUR) currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. The Vatican City also participated in that changeover. Greece followed suit on January 1, 2001, Slovenia on January 1 2007, Malta and Cyprus on January 1, 2008, and Slovakia on January 1, 2009.

The euro is managed and administered by the European Central Bank (ECB). ECB as the independent central bank determines the monetary policy. The ECB's main task is to maintain the euro's purchasing power and thus price stability in the euro area.

After the introduction of the euro, its exchange rate against other currencies fell heavily, especially against the U.S. dollar. From an introduction at US\$1.18/€, the euro fell to a low of \$0.8252/€ by 26 October 2000. After the appearance of the coins and notes on 1 January 2002 and the replacement of all national currencies, the euro began steadily appreciating, and regained parity with the U.S. dollar, on 15 July 2002. The euro has not fallen below parity with the U.S. dollar since December 2002 but has risen in value.

On 23 May 2003, the euro surpassed its initial (US\$1.18) trading value for the first time. At the end of 2004, it reached US\$1.3668 (€0.7316/US\$) as the U.S. dollar fell against all major currencies. Against the US\$, the euro temporarily weakened in 2005, falling to US\$1.18

(€0.85/US\$) in July 2005. On 15 July 2008, the euro rose to an all-time high of US\$1.5990 (€0.6254/US\$). In a reversal, in August 2008 the euro began to drop against the US\$. In just two weeks the euro fell from its peak to US\$1.48 and by late October it reached a two and a half year low below US\$1.25 before moving back above US\$1.50 by November 2009. In early 2010, concerns over the solvency of Greece caused a drop in the exchange rate against the dollar followed by a bounce to US\$1.33. The EUR was trading at US\$ 1 = 1.3665 EUR as on September 30, 2010.

JAPANESE YEN

The yen is the official national currency of Japan, and is denoted by JPY. It was named the "yen" because of the direct translation to "round object." In April of 1949, the yen was pegged at US\$ 1 = ¥360, where it stayed until 1971. At this time, however, the Bretton Woods system collapsed. This international monetary system, based on stable and adjustable exchange rates, was reluctantly switched to a regime of floating exchange rates and the value of the yen started to float as it still does today.

In Japan, the economic recovery has lost its momentum in recent months. According to the first preliminary estimate by Japan's Cabinet Office, real GDP slowed down sharply from 1.1% quarter on quarter in the first quarter of 2010 to 0.1% in the second quarter. The only positive growth contribution stemmed from net exports, boosting economic activity by 0.3 percentage point. By contrast, inventories weighed on real GDP growth (-0.2 percentage point) and domestic demand was sluggish. Annual CPI inflation excluding food and energy remained unchanged from the previous month at -1.5%. Looking ahead, economic activity is likely to remain subdued in the second half of 2010, primarily owing to waning fiscal stimuli and a moderation of external demand, partly on account of the lagged impact of a stronger yen. At its most recent meeting on 10 August 2010, as in all its monetary policy meetings since December 2008, the Bank of Japan decided to leave its target for the uncollateralized overnight call rate unchanged at 0.1%.

The global financial meltdown since September 2008 has led to a strengthening of the yen against all other major currencies. By September 2010 the yen had broken through the US\$ 1 = 83 yen barrier.

As the credit crunch deepens and global economic activity enters a downturn, investors across the globe are deleveraging and reducing their risk exposure (by opting for the safest liquid assets that they can find) in huge volumes. Vast amounts of loans taken out in Yen over the past few years in order to invest in assets denominated in the currencies of emerging markets are now being liquidated. As a result demand for the Yen is surging. Despite economic recession in Japan, the Yen will continue to benefit from heightened risk aversion and will hold on to most of its recent gains. The JPY was trading at US\$ 1 = 83.28 JPY on September 30, 2010.

GREAT BRITAIN POUND

The United Kingdom entered Europe's Exchange Rate Mechanism (ERM) in October 1990 with the British pound (Sterling) trading in a band of 6% above or below a central rate of 2.90 marks per pound. But UK was forced to come out of ERM in September 1992 after the pound came under pressure from currency speculators. The pound traded at above US\$2 during this period and once Britain was out of ERM, the pound depreciated against the US\$. In 2001, after the Labour party won the general elections, pound touched a 15-year low of 1.3677 to the US\$. After that, the pound has been gradually appreciating against the US\$ and touched a 26-year high of 2.0133 against the US\$ on April 18, 2007.

One of the Bank of England's two core objectives is monetary stability. Monetary stability means stable prices – low inflation – and confidence in the currency. BOE's monetary policy objective is to deliver price stability defined by an inflation target of 2%. The inflation target of 2% is expressed in terms of an annual rate of inflation based on CPI. The UK base rate stands at 1%, a new all-time low.

The outlook for the UK currency is highly volatile. It is expected to weaken further against the dollar in 2009, as UK interest rates head towards zero and as the deteriorating economic outlook drives up the risk premium associated with holding sterling assets. The pound is then forecast to appreciate slightly in 2010, albeit with periods of volatility and on the assumption that global financial stresses gradually begin to ease. The pound was trading at US\$ 1 = 1.5908 GBP on September 30, 2010.

Exim Bank's International Economic Development Research Annual (IEDRA) Award

IEDRA AWARD 2009

The year 2009 represents the 21st year of the Award. Exim Bank IEDRA Award 2009 was announced by Mr. T.C.A. Ranganathan, Chairman and Managing Director, Exim Bank at an Award function held on July 26, 2010 in New Delhi. Dr. Debasish Mondal received the Exim Bank IEDRA Award 2009 for his Doctoral dissertation titled "Innovation, Imitation and North South Trade: Economic Theory and Policy". The Award and a Citation were handed over by the Chief Guest, Dr. Kaushik Basu, Chief Economic Advisor, Government of India, Ministry of Finance. Dr. Basu also released Exim Bank's Occasional Paper titled "Innovation, Imitation and North South Trade: Economic Theory and Policy", which is based on the Award winning thesis. The winner of IEDRA Award 2009 was selected by a very distinguished Jury of eminent academicians, which comprised Dr. Pulin B Nayak, Professor, Delhi School of Economics, Delhi; Dr. D. M. Nachane, former Director, Indira Gandhi Institute of Development Research (IGIDR), Mumbai; and Dr. Pushpa Trivedi, Professor (Economics), Department of Humanities and Social Sciences, IIT Bombay, Mumbai.

Winner and the Winning Thesis

Dr. Mondal was awarded his doctoral degree by the Indian Statistical Institute,

Kolkata in 2009 and at present is working as Post Doctoral Fellow, Department of Economics, National University of Singapore. The dissertation was written under the supervision of Professor Manash Ranjan Gupta.

In his thesis, Dr. Mondal has analysed the effect of stronger IPR protection policy adopted by the developing countries on the long term rate of economic growth, technology transfer and North South distribution of income. The effect of greater economic integration between the North and the South (or, globalisation) on the growth and welfare of nations is also analysed. The analysis, theoretical in nature, is well supported by empirical evidences throughout the study.

In the award winning study, a few theoretical problems related to North South trade and economic growth with special emphasis on policy of strengthening intellectual property rights protection in the South are analysed. The debate between the North and the South about the enforcement of the IPR protection is re-examined within a dynamic general equilibrium framework in which the North invents new products and the South imitates them. The growth and welfare effects of stronger IPR protection policy adopted by the South in an exogenous imitation model and the effectiveness of the same policy using an endogenous imitation model is evaluated in the thesis. The study also relates the issue of stronger IPR protection in the South with multinationalisation (or, foreign direct investment from the North to the South), unemployment of the unskilled workers and domestic wage inequality in the South.

The answer to the debate about whether the South should provide stronger IPR protection or not is conditional. It is seen that, among many, in the case of localised knowledge spillover, the South might lose both in terms of growth and welfare if it fails to enforce stronger IPR protection in its domestic territory. Also, when the knowledge spillover is regional in nature,

globalisation (or, greater integration of trade between the North and the South) might retard the steady state world rate of growth.

The Award

Exim Bank's International Economic Development Research Annual (IEDRA) Award, was instituted in 1989 in commemoration of the Birth Centenary of India's First Prime Minister Pandit Jawaharlal Nehru (1889 – 1989), to promote research in international economics, trade and development and related financing. The Award is given to Indian nationals, from universities and academic institutions in India and abroad, for their Doctoral dissertations in the area of international economics, trade & development and related financing. The Award carries a sum of Indian Rupees Two Hundred and Fifty Thousand and a Citation. Over the years, the Award has been won by scholars, from both Indian and overseas institutions, for their high quality research in diverse areas such as foreign direct investment, exchange rate regimes in less developed countries, external debt of developing countries, international technology transfer, international joint ventures, foreign trade regimes, international trade and productivity growth, intra-industry trade, financial liberalisation and strategic trade policy.

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

Note: Indian Rupees are referred in crores and lakhs:

1 crore : 10 million
1 lakh : 100 thousand

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