

EXIMIUS: EXPORT ADVANTAGE



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Recent Economic Developments in the ASEAN Region

Introduction

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967, in Bangkok with five founding member countries viz. Indonesia, Malaysia, Philippines, Singapore, and Thailand. The other members then joined – Brunei Darussalam on January 7, 1984, Vietnam on July 28, 1995, Lao People's Democratic Republic (Lao PDR) and Myanmar on July 23, 1997, and Cambodia on April 30, 1999, thus making it a ten-member organisation.

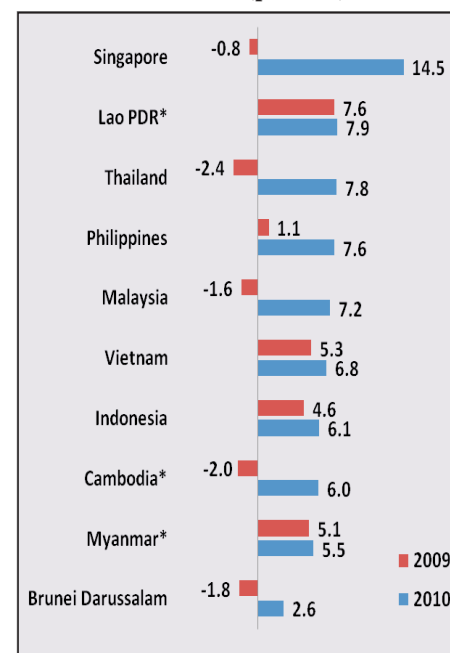
Macroeconomic Scenario

The ASEAN countries witnessed a rebound in the economic activity after the slowdown in 2009 primarily due to the surge in exports and private domestic demand. Among the ASEAN countries, Singapore recovered most rapidly with a growth rate of 14.5 percent in 2010, from the contraction of (-) 0.8 percent in the preceding year. This growth was supported by a surge in electronic and biomedical manufacturing output, tourism, trade related services, finance and a strong external demand. Thailand's robust growth of 7.8 percent in 2010, as compared to the 2.4 percent compression recorded in the preceding year, was mainly due to the revival in its domestic demand. Rebound in international trade and increased Government expenditure in the Philippines led to output levels reaching a 34-year high of 7.6 percent in 2010. Accelerated investments, exports and an increase in private consumption supported economic growth in Indonesia from 4.6 percent in 2009 to 6.1 percent in 2010. The Malaysian economy expanded by 7.2 percent in 2010 on the back of growth in the manufacturing and the services sector. Brunei Darussalam recorded a growth of 2.6 percent in 2010, as compared to (-) 1.8 percent contraction in the preceding year, primarily due to the rise in oil and gas production. Vietnam's economy expanded by 6.8 percent in 2010, supported by the substantial fiscal stimulus spending in 2009. Foreign investment in the hydrocarbons sector and recovery in the agriculture marginally drew up the growth in Myanmar economy to 5.5 percent in 2010 from 5.1 percent recorded in 2009. Lao PDR was the

least affected ASEAN country during the 2009 global downturn and the economy grew by 7.9 percent in 2010. Cambodian economy grew by 6.0 percent in 2010 as compared to the (-) 2.0 percent fall recorded in the preceding year (Chart 1).

In 2010, inflation rates among ASEAN countries have been retained at the single-digit levels. Vietnam and Cambodia were among the countries that experience volatile price changes in the past three years. Average consumer price inflation in most of the ASEAN countries increased year on year, except for Brunei Darussalam and Myanmar where it showed a marginal decline.

Chart 1: Real GDP of ASEAN Countries (percent)



*- Estimates for 2010.

Source: International Monetary Fund (IMF), World Economic Outlook (WEO), September 2011



Most economies in the ASEAN region have retained their current account surplus despite the economic slowdown in 2009. Singapore had the largest current account surplus at US\$ 49.5 billion in 2010, followed by Malaysia (US\$ 27.4 billion) and Thailand (US\$ 14.8 billion). Cambodia, Lao PDR, Myanmar, and Vietnam maintained a trade deficit. Though Vietnam's current account deficit declined to US\$ 3.9 billion in 2010 from US\$ 6.1 billion in 2009, it still maintained the highest deficit among the ASEAN countries, primarily due to its vast trade deficit with China.

International Trade of ASEAN Region

Exports from ASEAN countries recovered with a growth rate of 29.1 percent to US\$ 1.0 trillion in 2010, as compared to the 17.7 percent fall recorded in the preceding year (Table 1). Singapore was the key driver to this growth accounting for 33.6 percent of the total exports of the region in the year, followed by Malaysia Thailand, Indonesia and Vietnam. The major export items included electrical and electronic equipments (23.3 percent of the total exports), mineral fuels, (15.7 percent), and machinery and equipments (13.1 percent). Major markets for ASEAN's exports in 2010 were China with 17.3 percent share of the exports, USA (12.5 percent), and Japan (11.3 percent).

ASEAN's imports increased by 30.5 percent US\$ 957.1 billion in 2010, as compared to the 22.0 percent fall in 2009. Some of the major imports in the year were electrical and electrical equipments (22.2 percent), mineral fuel, oils and their products (18.5 percent), and machinery and equipments (14.0 percent). Singapore was the largest importer in the ASEAN region accounting for 32.5 percent of the total imports, followed by Thailand (19.1 percent), and Malaysia (17.2 percent). ASEAN's major origins of imports are China (17.1 percent of the total imports), Japan (13.9 percent) and Singapore (13.2 percent).

Table 1: International Trade of ASEAN Countries (US\$ billion)

	Imports			Exports		
	2008	2009	2010	2008	2009	2010
Singapore	319.8	245.8	310.9	338.2	269.8	352.0
Thailand	178.6	133.8	182.4	175.9	152.5	195.3
Malaysia	156.2	123.6	164.6	198.8	157.2	198.8
Indonesia	129.2	96.8	135.7	137.0	116.5	157.8
Vietnam	80.7	69.9	83.1	62.7	57.1	71.0
Philippines	60.4	45.9	58.2	49.1	38.4	51.4
Myanmar	6.3	6.4	8.6	6.4	5.9	5.1
Cambodia	4.4	6.4	7.8	4.4	4.8	5.3
Lao PDR	2.5	2.6	3.0	1.4	1.4	1.7
Brunei Darussalam	2.4	2.3	2.9	11.2	7.0	8.5
ASEAN	940.6	733.4	957.1	985.1	810.7	1046.9

Source: International Trade Centre (ITC), Trade Map, derived from UN Comtrade

Intra-ASEAN trade has been on a downward trajectory. Intra-ASEAN exports have marginally declined from 25.2 percent in 2005 to 24.8 percent in 2009. Share of intra-ASEAN imports have also declined a from 25.0 percent in 2005 to 24.7 percent in 2010.

Foreign Direct Investment of ASEAN Countries

Both inward and outward foreign direct investment (FDI) in the ASEAN region has increased markedly in 2010. FDI inflow in the region more-than-doubled at US\$ 79.1 billion in 2010 as compared to US\$ 37.9 billion in the preceding year.

Singapore received the largest share of the region's FDI inflows (48.8 percent of the total inflow), benefiting from the increased investment in Asia in the post-crisis era. This was followed by Indonesia at 16.8 percent of the region's total FDI inflow, Malaysia (11.5 percent), Vietnam (10.3 percent), and Thailand (7.3 percent).

FDI outflows from ASEAN also increased by 24.8 percent to US\$ 42.2 billion in 2010, as compared to US\$ 33.8 billion in 2009. The rise was primarily due to the increased outflow from Singapore and Malaysia, which cumulatively account for 78.3 percent of the total FDI outflows of the region (Table 2).

Table 2: Foreign Direct Investments of ASEAN Countries (US\$ million)

	Inflows			Outflows		
	2008	2009	2010	2008	2009	2010
Singapore	8588	15279	38638	-256	18464	19739
Thailand	8448	4976	5813	4053	4116	5122
Malaysia	7172	1430	9103	14965	7930	13329
Indonesia	9318	4877	13304	5900	2249	2664
Vietnam	9579	7600	8173	300	700	853
Philippines	1544	1963	1713	259	359	487
Myanmar	976	579	756	-	-	-
Cambodia	815	539	783	24	18	17
Lao PDR	228	319	350	75	1	6
Brunei Darussalam	239	370	496	16	9	6
ASEAN	46907	37932	79129	25336	33846	42223

Source: UNCTAD, World Investment Report 2011



India's Trade and Investment Relations with ASEAN

India's total trade with ASEAN peaked to an all-time high of US\$ 57.2 billion in 2010-11, as compared to US\$ 43.9 billion recorded in the preceding year.

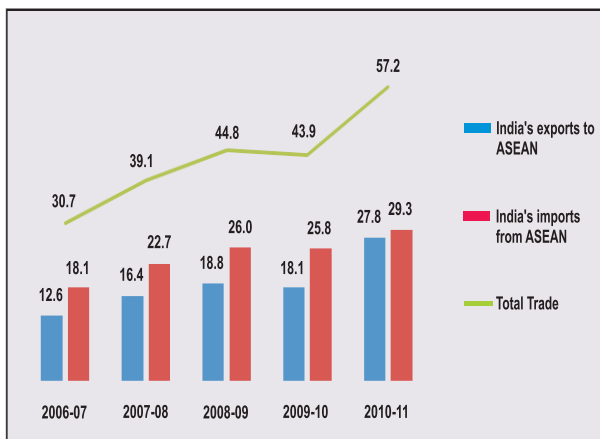
India's exports to the region more-than-doubled over five years to reach a high of 27.8 billion in 2010-11 from US\$ 12.6 billion in 2006-07. Imports, however, grew at a slower pace with from to region a CAGR of 12.8 percent to reach 29.3 billion in 2009-10, from US\$ 18.1 billion in 2006-07.

Some of the principal commodities in India's export basket to ASEAN in 2010-11 include petroleum & crude products, accounting for nearly two-third of the total exports in the year, transport equipment machinery & instruments, non-ferrous metals electrical goods and gems & jewellery.

India's export destinations in the ASEAN region in 2010-11 were mainly Singapore, accounting for 38.1 percent of the total exports to the region, Indonesia (23.1 percent of the total exports), Malaysia (14.3 percent), Thailand (10.1 percent), and Vietnam (9.6 percent).

India's imports from the ASEAN region in 2010-11 mainly included vegetable oils (edible) (15.8 percent of the total imports from the region) and petroleum crude & products (15.0 percent), followed by electronic goods, coal, coke & briquettes and organic chemicals.

Chart 2 : Trends in India's trade with ASEAN (US\$ billion)



Source: DGCIS, MOCI, GOI

Table 3 : Country-wise FDI inflows to India from ASEAN Region (US\$ mn) (April 2000 – July 2011)

India's Total FDI Inflows	144258.0
Inflows from ASEAN	15676.5
Singapore	14674.9
Indonesia	605.4
Malaysia	298.9
Thailand	86.7
Myanmar	9.0
Philippines	1.5
Vietnam	0.1

Source: DIPP, MOCI, GOI

Some of India's major import sources from the ASEAN region in 2010-11 were Indonesia (accounting for 32.3 percent of the total imports from the region), Singapore (22.8 percent), Malaysia (21.4 percent), Thailand (14.2 percent), and Myanmar (3.5 percent) (Chart 2).

FDI in flows from ASEAN region into India during the period April 2000 – July 2011 totalled US\$ 15.7 billion (10.9 percent of India's total FDI inflow) (Table 3). Singapore is the second-largest source for India's global FDI inflows, after Mauritius. ASEAN countries, particularly, Singapore, Malaysia, Thailand and Indonesia, are increasingly investing in India in sectors such as telecommunications, hotel and tourism services, heavy industry, chemicals, fertilizers, textiles, paper and pulp, and food processing.

Indian Investments in the ASEAN region amounted to US\$ 36.4 billion, during April 2002 to July 2011 (Table 4). ASEAN's share in India's total ODI accounted for significant 26.1 percent, during the same period. Singapore was the largest destination accounting for 94.3 percent of region's total. Indian companies are mainly engaged in information technology, healthcare, engineering goods, oil and gas exploration, agro-chemicals, hospitality, equipment manufacturing etc.

Table 4 : Country-wise approved ODI from India to ASEAN Region (US\$ mn) (April 2002 to July 2011)

India's Total ODI	1,39,557
India's ODI in ASEAN	36,374
Singapore	34,286
Indonesia	583
Thailand	620
Malaysia	359
Vietnam	171
Myanmar	119
Philippines	212
Cambodia	15
Lao PDR	10
Brunei Darussalam	-

Source : Reserve Bank of India

Exim India in the ASEAN region

Countries in the ASEAN region constitute a focus region for Export-Import Bank of India (Exim India) strategy is to promote and support two-way trade and investment flows. The Representative Office in Singapore caters to Asian Region, including ASEAN. As on August 15, 2011, 15 LOCs are currently in operation in the the ASEAN region amounting to US\$ 507.5 million. The Bank has been supporting project exports in the region to facilitate and support infrastructure development. As on June 30, 2011, Exim India supported 26 project export contracts in seven countries of the ASEAN region. The Bank has also supported Indian companies in setting up joint ventures in the region in various sectors, which include among others, chemicals and chemical products (Malaysia), IT (Malaysia), petroleum (Singapore), shipping (Singapore), mining (Indonesia), textiles and garments (Indonesia) and spices (Vietnam). Exim India has also undertaken research studies to examine India's trade and investment potential with the countries in the ASEAN region. Exim India is a member of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). It is also a key partner institution in Asian Exim Banks Forum; members comprise Exim Banks from India, Indonesia, Malaysia, Thailand, Philippines, China, Japan, Korea and Australia. It has institutional linkages with ECICS Ltd., Singapore; ITPC, Vietnam; ENDEC, Singapore; Exim Bank of Malaysia; Exim Bank of Thailand, and Exim Bank of Indonesia.

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
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- <ul style="list-style-type: none"> • accelerate the use of information and communication technology and support institutional development in order to increase the efficiency and effectiveness of public administration; • foster private sector development, in particular by facilitating increased adoption of information and communication technology by small and medium enterprises. 	World Bank US\$ 88 mn
Ministry of Energy and Natural Resources (Government of Armenia) Government Building 2 Republic Square Yerevan 0010 Armenia Contact: Project Director Tel: (+374-10) 521964 Fax: (+374-10) 526365 E-mail: minenergy@minenergy.am	National Water Resources Development Project (NWRDP) The objective of this project is to enhance capacity at the national and regional level to address the challenges of water resources management in Mozambique Works contracts comprise: <ul style="list-style-type: none"> • Hydro-mechanical works on Corumana Dam • Civil works (saddle dam, fuse plug/emergency spillway) Goods contracts comprise: <ul style="list-style-type: none"> • Purchase of saloon cars, four-wheel drive double cab pickups, and • Office equipment, furniture office, communication materials. 	World Bank US\$ 700 mn
Communal Company "Kyivdorservice" 56, Povitroflotsky Avenue 03151 Kyiv Ukraine Contact: Mr. Volodymyr Kamskyi Director Tel: (+380-44) 2481296	Kiev City Traffic Management Project The project includes Design, supply, installation and maintenance of traffic management equipment systems, for municipal traffic agency Kyivdorservice, that contribute to the creation of the city's new integrated traffic management system under development.	European Bank for Reconstruction and Development € 20.4 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 modernization of Stejaru hydro power plant and requires the procurement of the goods, works and services to be used to: <ul style="list-style-type: none"> • Replace the electromechanical equipment for its six units (i.e., turbines) • Upgrade the electrical equipment, instrumentation and control system, SCADA of the power plant • Rehabilitate the 110 kV and 220 kV substations • Provide consulting services to support the Project Implementation Unit. 	European Bank for Reconstruction and Development € 110 mn



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Ministry of Information and Communications Department of Civil Aviation Paro International Airport Distt. Paro, Bhutan Contact: Mr. Karma Wangchuk Joint Director Tel:(975)827-1403 Fax:(975)827-1751 E-mail: airport@druknet.bt	Air Transport Connectivity Enhancement Project The project intends to improve capacity and safety of the three strategic airports designated by the Government in Yongphula, Batbalathang and Gelephu. Proposed improvements include reconfiguring airfield layout to improved safety standards, providing basic terminal facilities, and upgrading air traffic communication, navigation aids, and security and weather equipment.	Asian Development Bank US\$ 7 mn
EPC Project Management Unit 2nd Floor, John Williams Building Tamaligi, Apia Samoa Contact: Mr. Tologata Tile Lei'a Tuimalealiifano Project Manager Tel. No.:68565-407 Fax No.:68565-439 E-mail: leiat@epc.ws	Power Sector Expansion Project The project includes supply of Power Line Materials for the 33kV Underground and Overhead Transmission lines from Fiaga power plant to Fuluasou Substation ending at Tanugamanono power plant among other projects.	Asian Development Bank US\$ 30 mn
National Directorate of Public Investment Immeuble Air France, ex Friguia Base, 7th Floor East side BP: 2766 Conakry Republic of Guinea Contact: Coordinator PADIPOC Tel: (224) 6025-1325 Fax: (224) 3047-7204 E-mail: padipocdnip@yahoo.fr	Support To Capacity Building Of Debt Management, Public Investment And Control Bodies (PADIPOC) The project includes design, development and installation of specific software and the following user training: <ul style="list-style-type: none"> ❑ Tracking software evaluation projects for multi the National Directorate of Public Investment; ❑ Control software revenue and expenditure for the General Inspectorate of Finance; ❑ Three archiving software for the National Public Procurement Authority, the National Public Investment and the Ministry of Economic and Financial Control. 	African Development Bank US\$ 4.5 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:

Asbesco (I) Pvt. Ltd., Kolkata Contract for supply of copper cable, miniature circuit breakers, steel tubes for earthing wires and other electrical equipments for Ethiopia's Electricity Access Rural Expansion Project I, funded by the **World Bank**.

M/s Lucky Exports Corp., New Delhi Contract for supply and delivery of science kits to selected secondary school for Uganda's Primary Education and Training Programme, funded by the **World Bank**.

Asiatic Electricals & Switchgears Pvt. Ltd., New Delhi Contracts awarded for supply of MV and LV switchgears to Ethiopia's Energy Access Rural Expansion Project Phase-II, funded by the **World Bank**.

KEC International Ltd., Mumbai Contract for construction of new 132kv Double Circuit Transmission Line from Kilinochchi to Chunnakam for Sri Lanka's Conflict-Affected Region Emergency Project, funded by the **Asian Development Bank**.

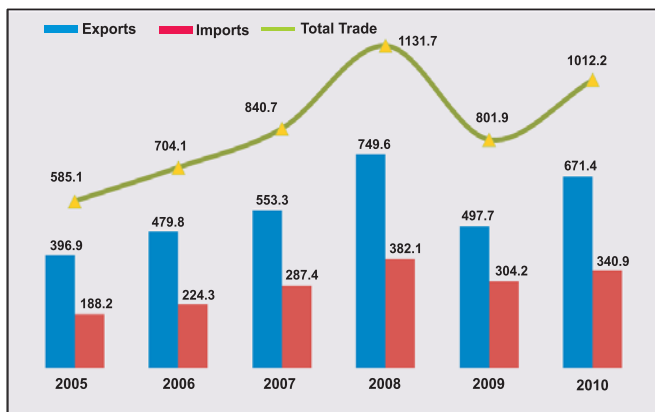
IPE Global Pvt. Ltd., New Delhi Consultancy services on waste management to Nepal's Ministry of Local Deptt., funded by the **Asian Development Bank**.



Gulf Cooperation Council: India's Trade and Investment Potential

Gulf Cooperation Council (GCC) was formed in 1981 with an agreement signed between the six states of Gulf (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) in order to strengthen their economic, social and political ties by harmonising regulations in various fields such as economy, finance, trade, customs and tourism, fostering scientific and technical cooperation, and encouraging cooperation of their private sectors.

Chart 1: International Trade of GCC (US\$ bn)



Source: UNCTAD

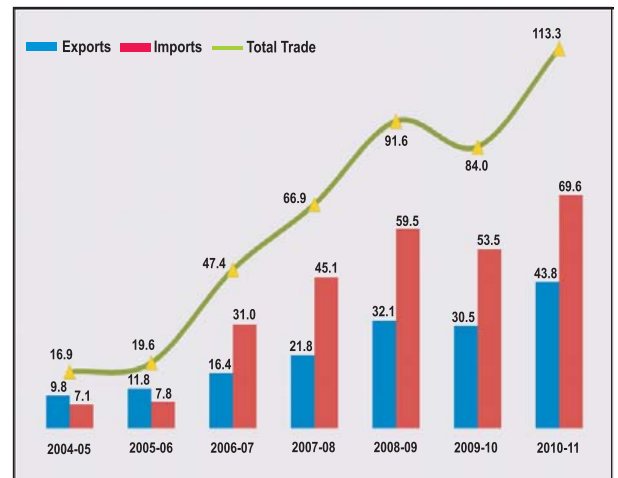
Over the years, GCC as a region has shown strong performance in terms of global trade. Total trade of the region increased at an average rate of 25 percent a year from US\$ 585.1 billion in 2005 to a robust US\$ 1,113.7 billion in 2008, buoyed by high global oil price and an expanded

capacity (Chart 1). However, the financial meltdown of 2008 which took a toll on economic activity resulted in a deceleration of the trade sector globally. This was observed in the case of the GCC region as well, with total trade contracting by 29 percent to US\$ 801.8 billion in 2009. Trade recovered in 2010 to US\$ 1,012.2 billion on the back of rise in oil prices. Among the GCC countries, Saudi Arabia was the largest exporter, accounting for as much as 47 percent of total GCC exports during 2010, followed by UAE, Kuwait, Qatar, Oman and Bahrain. In 2010, Japan was the leading destination for GCC exports, followed by India, China, South Korea and United States. European Union was the chief source of imports for GCC in 2010 followed by China, India and United States.

India's economic ties with GCC nations have strengthened over time. GCC countries are important trading partners for India, and bilateral trade has witnessed impressive growth in recent years. In 2010-11, UAE accounted for 55 percent of the GCC's total trade with India, followed by Saudi Arabia (22.3 percent), Kuwait (10.4 percent), Qatar (6.2 percent), Oman (4.5 percent) and Bahrain (1.3 percent). Indo-GCC bilateral trade increased over six folds in the last five years (Chart 2). The share of GCC in India's total trade inched higher to 18.7 percent in 2010-11, compared to 8.6 percent in 2004-05. At the same time, India's share in GCC's international trade has shown an increase from 3.5 percent in 2005-06 to 11.5 percent in 2010-11. Rise in both exports to and imports from India have underlined the buoyancy in GCC's overall trade with India. The region's exports to India witnessed a robust growth, with more than eightfold increase during the last five years, rising from US\$ 7.8 billion in the year 2005-06 to US\$ 69.6 billion in the year 2010-11. As a result, India's share in the GCC's world exports has increased from 2 percent in 2004-05 to 10 percent in 2009-10. Similarly,

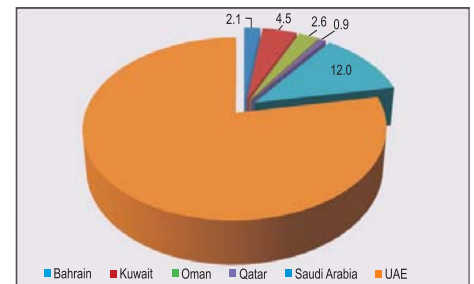
the GCC's imports from India have registered more than a three-fold increase in the last five years. Consequently, India's share in the GCC's world imports has increased from 7 percent in 2005-06 to close to 18 percent in the year 2010-11. In 2009-10, UAE was India's top trading partner with a total trade of US\$ 62.4 billion, ahead of China (Chart 3&4).

Chart 2: India's trade with GCC (US\$ billion)



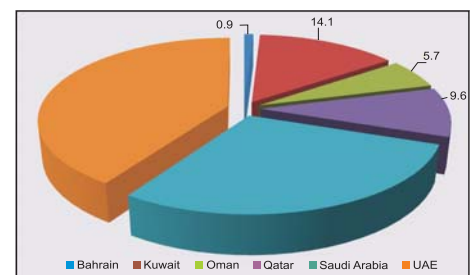
Note: Import data from 2006-07 includes oil imports.
Source: DGCIS, MOCI, GOI

Chart 3: India's Exports to GCC countries, 2010-11 (% share)



Source: DGCIS, MOCI, GOI

Chart 4: India's Imports from GCC countries, 2010-11 (% share)



Source: DGCIS, MOCI, GOI



Trade and Investment Potential

The GCC countries and India have identified various potential sectors like petroleum oil and energy, gas and fertilizers, information technology, higher education, civil aviation and agriculture. Items having export potential from India to GCC countries include food products, pharmaceuticals, machinery and transport equipment, ceramic products, articles of apparel and clothing, cotton and woven fabrics, plastic and rubber products, essential oils, perfumery and cosmetics besides iron and steel articles.

Over the past decade, growth and stability in the Gulf area has already created important expansion opportunities for international companies. Governments across the region are successfully reinvesting oil revenues in high-value projects to diversify their economies, providing scope for companies overseas to invest.

Transportation: the region is heading towards creating a reliable, effective and frequent high speed rail network, connecting GCC countries. The rail sector in the region is growing at a rapid pace. Following the Dubai metro, rail projects in GCC have become a point of focus with multibillion dollar investments made by each gulf state. The key driver of the rail industry is private-public partnership. In addition, in order to meet the pressing regional logistics demands, the next 10-15 years is likely to witness investment in transport projects worth US\$ 170 billion.

Aluminium : investments into the Gulf's aluminium industry is currently estimated at around US\$ 30 billion and could reach as much as US\$ 55 billion by 2020 due to up-coming smelter expansions and new projects. More foreign investors are looking to the Gulf for aluminium business due to its inexpensive gas stocks and strategic geographic location, with Europe already sourcing around 6 percent of its aluminium demand from the region.

Hydrocarbons : The Gulf's petrochemicals industry is anticipated to attract investment of US\$ 50 billion in the next five years as global demand accumulates. According to a recent report by the Gulf Petrochemicals and Chemicals Association (GPCA), the annual petrochemicals production of the six Gulf states is expected to soar around 46 percent to 155 million-tonnes per annum by 2015, up from 105 million at present. Currently GCC nations produce around 16 percent of the world's petrochemicals output, which is expected to rise to 20 percent by 2015. It is expected that by 2015, production of polyethylene, polypropylene, PVC and polystyrene in this region will double to reach more than 23.6 million-tonnes in comparison to last year's figure of 13.5 million-tonnes, a staggering 75 percent increase. The region is starting to look beyond its traditional strengths of low-cost commodity chemicals, such as polyethylene, and turning to more specialised products. The GCC region has a geographical advantage in the global petrochemical business as it sits on the world's largest hydrocarbon resources while it is closer to the major petrochemical consumer base — Asian markets especially China, India and the Far East — that are becoming the largest consumers.

Healthcare and Tourism : It is estimated that total spending on healthcare by GCC will reach approximately US\$ 60 billion in 2025, up from US\$ 12 billion at present. To augment services and raise standards of care, some GCC Governments have encouraged internationally renowned institutions to set up healthcare facilities, as well as private care providers to meet the increased demand. GCC has also emerged as a tourism and aviation hub in recent years, and this sector is likely to expand further over the next decade by targeting different source markets, especially in Asia.

Financial Services : The gulf countries offer scope for expansion of banking network and financial institutions. Wealthy people

in the region, who have earlier relied on offshore banking to manage their assets, are investing more money within the region. In addition, GCC businesses riding the economic wave are demanding a wider range of financial services. These factors have helped to increase banking assets in the region. Significant opportunities for growth include mutual funds, fund administration, project finance, asset management, takaful (insurance) and re-takaful (re-insurance) sectors.

Real Estate : The real estate sector in the GCC region has been the major recipient of foreign investment over the past several years and have played an important role in economic diversification policies. Historically, this line of business has netted high returns for investors and there exists untapped potential in this sector both in the long-term and short-term.

Renewable Energy : In line with the global movement to reduce greenhouse emissions, the region has been seeking alternative "green" sources of power. While much of the focus has been on wind, water, and solar power, another source of energy namely natural gas, a clean efficient cheap energy source with abundant supply in the Gulf with a share of 23 percent of the world's proven gas reserves can be considered. Power plants driven by natural gas cost less than half that of nuclear plants and can be built at a material scale faster than any other power sources. There is a potential for investments in the natural gas industry across the region.

Education : Investment opportunities in the education sector are significant. Areas of focus in the region, with a thrust to include the establishment of international universities, either as standalone institutions or in partnership with existing teaching facilities, vocational training centres and international schools catering to local and expatriate families.



Exim Bank's Lines of Credit

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

Exim Bank has now in place 143 Lines of Credit, covering over 73 countries in Africa, Asia, Latin America, Europe, Oceania and the CIS, with credit commitments of over US\$ 6.89 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 and 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 territories of Africa and Latin America.

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

- An LOC of US\$ 150 million to the **Ecovas Bank for Investment and Development (EBID)**, a regional development bank set up by Economic Community for West African States (ECOWAS). The LOC is for financing exports of various equipment, goods and services from India to 15 member countries of EBID in the Ecovas region, comprised Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. Exim Bank earlier extended two GOI-supported Lines of Credit of US\$ 250 million and US\$ 100 million to EBID, for financing exports of various equipment, goods and services from India to 15 member countries of EBID in West African region.
- An LOC of US\$ 40 million was extended to the **Government of Maldives**, for financing construction of 500 housing units in Maldives.
- An LOC of US\$ 168 million to **D. R. Congo**, for financing Ketende Hydroelectric Project in the D.R. Congo. Exim Bank had earlier extended four LOCs to D.R. Congo. The first LOC of US\$ 33.50 million, which was extended to D.R. Congo has been utilised to finance setting up a cement plant, acquisition of buses and acquisition of equipment for Société

Minière de Bakwanga (MIBA). The second LOC of US\$ 25 million was dedicated for financing of installation of hand pumps and submersible pumps. The third LOC of US\$ 42 million was used for execution of Kakobola Hydroelectric Power Project in D. R. Congo.

- An LOC of US\$ 13 million to the **Government of the Republic of Mozambique** was for financing a Solar Photo Voltaic Module Manufacturing Plant in Mozambique. Exim Bank had earlier extended seven LOCs to Mozambique. The first LOC of US\$ 20 million was extended to Mozambique, which has been utilised to finance export of items like electricity equipment, water drilling machinery equipments, agro-inputs and drip irrigation, vegetable oil refining plant & machinery and oil storage tank. The second LOC of US\$ 20 million was dedicated for financing an electrification project. The third LOC of US\$ 20 million was used for transfer of water drilling technology and associated equipment. The fourth LOC of US\$ 25 million was extended for financing an IT Park project. The fifth LOC of US\$ 30 million is being utilised for financing Rural Electrification Projects in the provinces of Inhambane, Gaza, Zambezia and Nampula. The sixth LOC of US\$ 25 million is being utilised to finance rural electrification projects in the provinces of Cabo Delgado, Manica and Niassa Provinces, in Mozambique. The seventh LOC of US\$ 20 million was extended to the Government of the Republic of Mozambique, for enhancing Productivity of Rice-Wheat-Maize Cultivation in Mozambique

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Indian Pharmaceutical Industry : Sectoral Performance & Outlook

The global pharmaceutical industry is estimated to grow by 5-7 percent in 2011 to reach a market size of US\$ 880 billion, compared to the growth of 4-5 percent achieved in 2010. There is an increasing divergence in the pace of growth of pharmaceutical market size among major markets. The 17 pharma-emerging countries (China, Brazil, Russia, India, Mexico, Turkey, Venezuela, Poland, Argentina, Indonesia, Ukraine, Thailand, South Africa, Egypt, Romania, Pakistan and Vietnam) are estimated to grow at 15-17 percent in 2011, to reach US\$ 170- US\$ 180 billion. Greater Government spending on healthcare and broader public and private healthcare funding are likely to be the key drivers of growth for many of the pharma-emerging markets. China, the world's third-largest pharmaceutical market is estimated to grow by 25-27 percent, and reach a level of over US\$ 50 billion in 2011. The five major European markets (Germany, France, Italy, Spain, and the U.K.) are collectively estimated to grow at a rate of 1-3 percent, while the U.S. is likely to grow at 3-5 percent rate in 2011. Further, according to IMS Health, the size of the global market for pharmaceuticals is expected to grow to US\$ 1.1 trillion in 2014. Pharmerging markets (emerging markets in pharmaceuticals industry) are expected to grow at a 14 - 17 percent pace through 2014, while major developed markets will grow 3 - 6 percent. The U.S. will remain the single largest market, with 3 - 6 percent growth expected annually in the next five years and reaching US\$ 360 - US\$ 390 billion in 2014.

India has emerged as one of leading economies when it comes to opportunities

in the pharmaceutical sector. The size of Indian pharmaceutical market is projected to increase to about US\$ 20 billion by 2015. Currently, the Indian pharmaceutical industry is ranked third in terms of volume and fourteen in terms of value in the global pharmaceutical market. One reason for the lower value share is the lower cost of drugs in India (ranging from 5-50 percent lower) as compared to developed countries. The domestic pharma sector has been expanding and has crossed ₹ 55,454 crores in 2008-09 from ₹ 32,575 crores in 2003-04. The total market size of the Indian pharmaceutical industry stood at ₹ 89,335 crores in 2008-09¹. 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 drugs in the world.

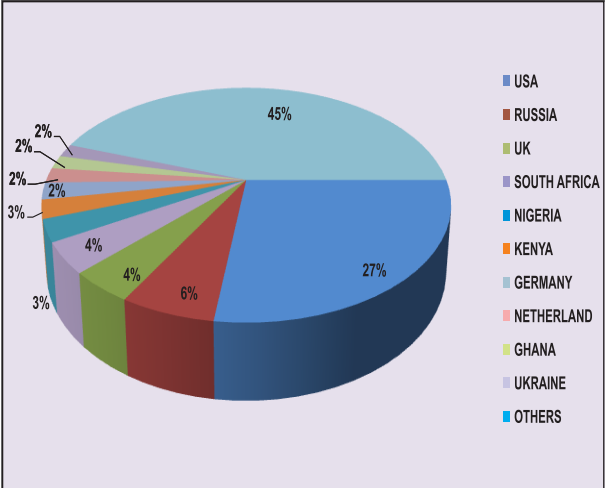
Indian pharmaceutical companies have not been affected much by the global slowdown, largely because of cost advantages in production, and due to their long-term contracts as preferred suppliers. Notwithstanding this, performance on the export front has been rather modest – exports of pharmaceutical products (ITC HS Code 30) increased by a mere 2.9 percent in 2009-10 over the previous year to aggregate US\$ 5.2 billion. However, in 2010-11, exports witnessed a complete turnaround, growing by a healthy 26.1 percent to US\$ 6.5 billion. Imports during this period witnessed a growth of 9.7 percent from US\$ 1.1 billion in 2009-10 to US\$ 1.2 billion in 2010-11.

The major export destinations for India's pharmaceutical products 2010-11 were USA, Russia, UK, South Africa and Nigeria, and the major source of imports were Switzerland, USA, Germany, China and Italy (Chart 1 and 2).

The rising middle and upper

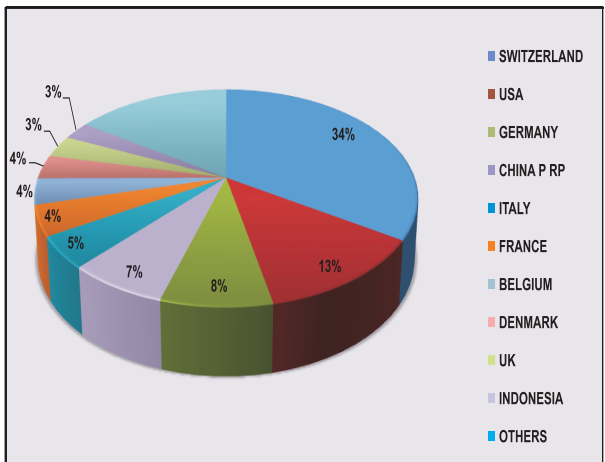
class population, who can afford high-quality healthcare, and the widespread adoption of health insurance products, which will enable a larger proportion of the population to access medical treatments, are expected to drive the Indian pharmaceutical market in the near future. In addition, significant economic growth rates, favourable demographics, and new intellectual property protection laws would provide further impetus to the industry.

Chart 1: India's Major Export Destinations of Pharmaceutical Products* (2010-11)



Note: *Pharmaceutical products (HS code 30)
Source: DGCIS, MOCI, GOI

Chart 2: India's Major Source Countries of Pharmaceutical products* (2010-11)



Note: *Pharmaceutical products (HS code 30)
Source: DGCIS, MOCI, GOI

¹ Annual report 2009-10, Department of pharmaceuticals, Ministry of Chemicals and Fertilisers, Government of India



Indian Gems and Jewellery Industry : Sectoral Performance & Outlook

India has the distinction of being one of the first countries to introduce diamonds to the world. The two major segments of the gems and jewellery business in India are gold and diamond jewellery. With an estimated consumption of 963 tonnes of gold during the year 2010 (including jewellery consumption of 746 tonnes), India is the largest consumer of gold in the world. The estimated consumption of gold in India increased from 180.4 tonnes in the second quarter of 2010 to 248.3 tonnes during the second quarter of 2011, an increase of 38 percent.

The total resources of gold in the country as on April 2005 (As per United Nations Framework Classification (UNFC)) were estimated at 390.3 million tonnes. Out of these, 19.3 million tonnes were under the reserve category, and the balance 371.0 million tonnes were under the resources category. According to United States Geological Survey (USGS) data, diamond production (gem and industrial) in India during 2009 was 52 thousand carats, and has remained more or less stagnant over the years. As per UNFC system, as on April 1, 2005, India had total diamond resources of around 4.5 million carats, of which 1.2 million carats was reserves. Although traditional Indian gemmologists have identified around 84 precious and semi-precious stones, nine stones, namely: Ruby, Emerald, Pearl, Diamond, Red coral, Zircon, Blue sapphire, Yellow sapphire, and Cat's Eye, form the 'Navratnas' or nine gems. As per United Nations Framework Classification (UNFC) system, as on April 1, 2005, India had total resources of 5,271

kilograms of ruby, 450 kilograms of sapphire and 57.6 million carats of garnet.

Export Performance of Indian Gems and Jewellery Industry

There had been a loss of market for gems and jewellery exports due to recession and global economic slowdown. During 2007-08, there was a growth in gems and jewellery exports by 23 percent. Growth trend continued even in 2008-09, however, during the period 2009-10, the overall exports of gems and jewellery grew by 2.1 percent, which was much lower than the growth witnessed earlier. The export market had recovered during 2010-11 and had shown a growth of 26.1 percent over the previous year (Table 1). Major export destinations for India during 2010-11, for its gems and jewellery products include: UAE, Hong Kong, USA, Belgium, Israel and Singapore (Table 2).

also likely to impact the demand pattern of gems and jewellery. Further, the consumer awareness and consciousness, generated through the vigilant measures adopted by various national Governments are expected to drive the demand for branded and hallmarked jewellery. At national level, India has been adopting various strategies to cope with the global trends in gems and jewellery business. World Gold Council and the Indian gems and jewellery industry have jointly introduced international jewellery designing competitions among the Indian artisans to generate awareness about the skills of Indian artisans in the global market, as also to expose Indian artisans to new design developments emerging around the world. There have been initiatives taken by many designing centres to train Indian jewellers in international manufacturing and designing skills. This

Table 1 : Export Performance of Indian Gems and Jewellery Industry

	2006-07	2007-08	2008-09	2009-10	2010-11
Exports (US \$ Million)	15,983.57	19,691.58	28,411.38	29,000.23	36,673.80
Growth Rate (in %)	3.0	23.2	44.3	2.1	26.1

Source: DGCIS, MOCI, GOI

Table 2 : India's Major Export Destinations (2010-11)

Countries	Value (US\$ mn)	% Share
UAE	16,218.39	44.2
Hong Kong	8,715.29	23.8
USA	5,382.22	14.7
Belgium	2,344.22	6.4
Israel	962.93	2.6
Singapore	447.45	1.2
Thailand	414.31	1.1
U K	359.14	1.0
Japan	302.60	0.8
South Korea	121.99	0.3

Source: DGCIS, MOCI, GOI

Outlook

It is expected that the spike in gold and silver prices might change the consumer preferences, as also impact their demand pattern. The growing consumer sophistication, decline in investment-driven (jewellery) demand, and competition from other luxury goods are

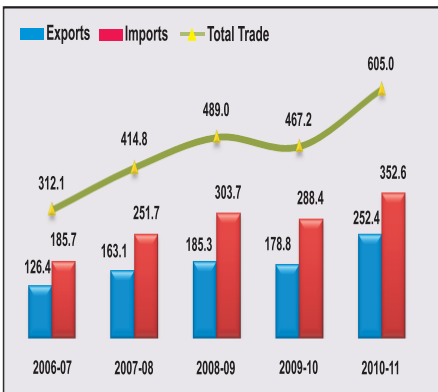
is expected to enhance demand as well as sales for the Indian gems and jewellery industry. Indian gems and jewellery industry is increasingly building its ability to produce full range of sizes and qualities of stones, utilising not only the low-cost and abundant workforce, but also advanced technologies. The industry has been seeking further growth through processing of larger size stones and manufacture of diamond jewellery. Both the Government and the gems and jewellery industry have recognised the use of IT in diamond clusters with the objective of achieving seamless flow of information among the functional areas, right from job contractors to small / mid-sized firms, to large, integrated units. The IT interface would also provide the necessary platform for firms to scale up their operations.



Recent Trends in India's Foreign Trade

Indian foreign trade has picked up its growth momentum in 2010-11, surpassing the pre-crisis peaks, with trade to GDP ratio reaching 35 percent in 2010-11. Overall foreign trade has reached US\$ 605 billion, growing at 29.5 percent compared to US\$ 467.2 billion recorded in the previous year.

Chart 1: India's Foreign Trade – 2006-07 to 2010-11 (US\$ billion)



Source: DGCIS, MOCI, GOI

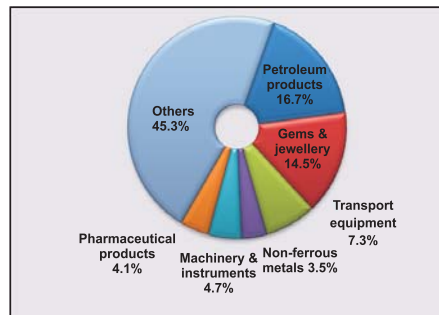
India's export sector has exhibited remarkable resilience and dynamism in recent years. India's merchandise exports recorded a compound annual growth rate (CAGR) of 18.9 percent during the five year period from 2006-07 to 2010-11. According to latest WTO data (2010), India's share in the world merchandise exports increased from 0.9 percent in 2005 to 1.4 percent in 2010. India also improved

its ranking among the leading exporters in world merchandise trade from 30th in 2004 to 20th in 2010.

Reflecting strong macroeconomic indicators, India's merchandise exports reached a level of US\$ 252.4 billion during 2010-11 registering a growth of 41.2 percent, as compared to a negative growth of 3.5 percent during the previous year. This has surpassed initial export target of US\$ 200 billion, with annual growth rate of 15 percent, set by the Government of India for 2010-11.

Almost all the major commodities have registered positive growth rate during 2010-11. Only 10 commodities registered a negative growth rate in 2010-11, including project goods (-37.8 percent), coal (-52.3 percent), iron ore (-23.2 percent), handicrafts (-4.1 percent), silk carpets (-59.2 percent), coir & coir manufactures (-5.6 percent), computer software (-61 percent), fresh fruits and vegetables (6.6 percent), tobacco (-9.0 percent) and cashew (-3.3 percent).

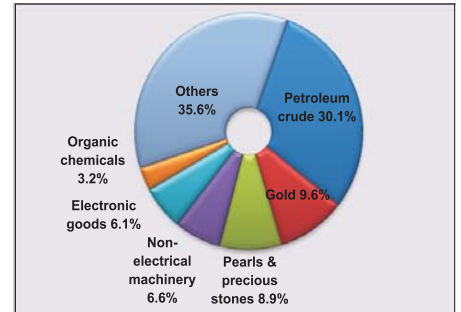
Chart 2: Major Export Commodities 2010-11 (Percent Share)



Source: DGCIS, MOCI, GOI

Imports during 2010-11 were US\$ 352.6 billion as against US\$ 288.4 billion during 2009-10, registering a growth of 22.3 percent. Oil imports were valued at US\$ 106.1 billion which was 21.7 percent higher than US\$ 87.1 billion in 2009-10. Non-oil imports were US\$ 246.5 billion which was 22.5 percent higher than those valued at US\$ 194.6 billion in the previous year.

Chart 3: Major Import Commodities 2010-11 (Percent Share)



Source: DGCIS, MOCI, GOI

During 2010-11, trade deficit declined with the strong growth in exports to US\$ 100.2 billion, from a deficit of US\$ 109.6 billion during 2009-10.

Asia and the ASEAN region accounted for 55.9 per cent of India's total exports in 2010-11, with ASEAN accounting for 11.0 percent. The share of Europe, America and Africa in India's exports stood at 20.2 percent, 15.0 percent and 6.5 percent respectively of which EU countries (27) comprises 18.6 percent. Among Individual countries, United Arab Emirates with 13.6 percent has been the largest export destination of India followed by USA (10.2 percent), China (7.7 percent), Singapore (4.2 percent), Hong Kong (4.1 percent), and Netherlands (3.1 percent).

During the period 2010-11, Asia and ASEAN was the largest import source of India, with a share of 60.4 percent in India's total imports. It was followed by Europe (18.7 percent), America (9.8), Africa (7.6 percent) and CIS (1.6 percent). Individually, China was the largest import source with a share of 11.4 percent of total imports of India, followed by United Arab Emirates (8.0 percent), Switzerland (6.2 percent), Saudi Arabia (5.7 percent), USA (5.3 percent) and Nigeria (3.5 percent).

With the remarkable recovery in India's foreign trade, Government of India aims to double India's merchandise exports to US\$ 500 billion during the three year period of 2011-12 to 2013-14 growing at a CAGR of 26.7 percent per annum, with increased focus on markets in Asia (including ASEAN), Africa and Latin America.



Prof. Yu talks on Rebalancing the Chinese Economy at Exim Bank's Commencement Day Annual Lecture

Exim Bank of India organised its 26th Commencement Day Annual Lecture in Mumbai on July 27, 2011. The lecture was delivered by eminent Chinese academician Professor Yu Yongding, who spoke on the topic "Rebalancing the Chinese Economy". Professor Yu said that after 30 years of breakneck growth, China miraculously overtook Japan to become world's second largest economy in 2010. China has today reached a crucial juncture and without painful structural adjustments, the momentum of its growth could suddenly be lost.

According to Professor Yu, there are at least four problems with the twin (capital and current account) surpluses in the Chinese economy, namely, Dornbusch problem, Williamson problem, Krugman problem and Rogoff problem, respectively. "Late MIT professor Dornbusch pointed out in the 1970s that running current account surplus means exporting capital. China, as one of the poorest countries in terms of per capita GDP, lends money to the richest country in the world — the US for decades — is surely irrational," Prof Yu said.

"Prof. Williamson pointed out that capital inflows should be translated into current account deficit. Running twin surpluses implies that China fails to buy foreign capital goods and technology with borrowed money. Instead, on aggregate terms, it "lends" the money back to the original creditors with much low return," opined Prof Yu.

"Krugman problem refers to the fact that

because of the devaluation of the US dollar in terms of the dollar index, China's foreign exchange reserves are facing serious capital losses," said Prof Yu.

"Finally, according to professor Rogoff, due to the ballooning budget deficit, temptation for the US government to inflate away its debt burden may become irresistible. In 2003, China's foreign exchange reserves totalled just above US\$ 400 billion, now it stands at \$3.2 trillion, an 800 per cent increase. However, from 1929 to 2009, US dollar has devalued by 94 per cent in terms of purchasing power. It will devalue even further in the future. At this moment, a more frightening probability is looming large: US government securities might default! If it happens, China will be devastated," explained Prof Yu.

Prof. Yu said that to run twin surpluses and to further accumulate foreign exchange reserves is not in China's interests. "China has taken actions to correct external imbalances but the progress is painfully slow and the economy is sinking even deeper into the 'dollar trap'.

"The Chinese government has tried to correct imbalances by simulating domestic demand, allowing the Yuan to appreciate gradually, diversifying foreign exchange reserves away from US treasuries, creating sovereign wealth funds, participating in regional financial cooperation, promoting the reform of the international monetary systems and the internationalisation of the Yuan. However, all these efforts, though useful and necessary, have failed to address the direct cause of the rapid increase in foreign exchange reserves. Due to the continuous worsening of US fiscal position, the possibility of an attempt by the US government to inflate away its debt burden, is increasingly likely. If the US government continues to pay principals and interests on its public debt and China continues to pack its savings in the US government securities, the game may continue for a very long time indeed. However, this situation is ultimately unsustainable," Prof. Yu said.

Prof. Yu supports that to stop the accumulation of foreign exchange reserves and thus minimise China's welfare and capital losses, the simplest solution would be for the People's Bank of China to call a halt to intervention. He pointed out that it is time for China to consider allowing the Yuan to float freely, while reserving the right to intervene when it must, and tighten the management of cross-border capital

flows (permissible under last November's G-20 agreements).

"Some in China are still very reluctant to reduce China's current account surplus and allow the RMB to appreciate. One of the reasons for the reluctance is America's China bashing. A cynic might hope that the push for a Chinese exchange-rate change is not a response to misguided political pressures, but is instead a devious attempt to prolong the enormous benefits the US derives at China's expense from the fixed dollar-yuan exchange rate. Or perhaps this is accident, not design. Either way, the administration has come up with a brilliant strategy to keep the good times rolling. Whatever the Americans say or not say, China must speed up its rebalancing so as to guarantee the sustainability of its economic growth," said Prof. Yu.

Guest of Honour Dr. Y.V Reddy's comments

- I agree with Prof. Yu that the imbalances in the global economy as well as the Chinese economy are perverse and at some point of time there will be adjustments. These adjustments will have serious implications for India as well, which presently seems to be a balanced economy. When is that going to happen is something we will have to watch out for.
- Prof. Yu referred to the cost of FDI. In India there is a view that a number of corporates are moving out and investing outside than inside. We don't know whether that is an advantage or disadvantage but we will have to certainly look at it in light of experience.
- Prof. Yu also talked about the dollar trap in China's forex reserves. In India too, we have a dollar trap and I call it the dollar denomination effect. In all our calculations, whether by policy makers or market participants, we use dollar. So our measuring rod to assess our assets and liabilities is the US dollar since this measuring rod is changing it will have implications and we should be conscious of it.
- The most serious threat to the stability of the global economy is the outbreak of a global fiscal crisis rather than current account imbalances.



EXIMIUS CENTRE

Exim Bank, Bangalore

Eximius Centre Activities:
July - September, 2011

Learning Centre, Pune has organised jointly with MITCON a workshop on “Asset based Financing Perspective” with an objective to provide an intensive financial analysis course to bankers.

One day advance level workshop on “Banker’s Due Diligence” was conducted at Learning Centre Pune for bankers on various aspects covering loan documentation.

Addressing various principles and concept of customs and procedure, policies and documentation relating to export and import, two seminars were organised for Indian exporters, at Bangalore and Pune with faculty from ECGC, DGFT and MITCON, Pune.

Bank has given faculty support for the seminar conducted by Government of Manipur on Export awareness programme conducted at Moreh, Manipur. Exim Bank's presentation included the details of various aspects of financing programmes and products.

The programmes in pipeline include, Interpretation of Financial Statements and Working Capital Financing, Credit Monitoring, Project Exports, Country Risk, Overseas Investment Financing, FX Treasury Management for Corporates and Marketing Opportunities and Export Documentations.

For details on future programmes contact:
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BOOK REVIEW

“World Investment Report-2011” by
UNCTAD

UNCTAD’s World Investment Report (WIR) series is an annual publication on global and regional trends in foreign direct investment and related policy developments at the national and international levels. The 2011 edition of the WIR focuses on the strategic use of non-equity modes by transnational corporations (TNC) in their management of global value chains and international operations.

As per the report, developing economies increased further in importance in 2010, both as recipients of FDI and as outward investors. Global foreign direct investment (FDI) inflows rose 5 percent to US\$ 1.2 trillion in 2010 and it forecasts that the recovery of FDI flows will continue in 2011 and will reach a total of some US\$ 1.4 - US\$ 1.6 trillion, thus returning to the pre-crisis average. Thereafter, flows are forecast to rise to US\$ 1.7 trillion in 2012 and US\$ 1.9 trillion in 2013.

In 2010, the rise of emerging economies as new powerhouses of FDI became more apparent as developing countries and transition economies absorbed more than half of global FDI inflows for the first time. They also generated record levels of FDI outflows, much of it directed to other countries in the South.

FDI flows to Africa fell by 9 percent in 2010. At US\$ 55 billion, the share of Africa in total global FDI inflows was 4.4 percent in 2010, down from 5.1 percent in 2009. Inflows to East Asia, South-East Asia and South Asia as a whole rose by 24 percent in 2010, reaching US\$ 300 billion. FDI flows to West Asia in 2010 continued to be affected by the global economic crisis, falling by 12 percent, but they are expected to bottom out in 2011. FDI flows to Latin America and Caribbean (LAC) increased by 13 percent in 2010. The strongest increase was registered in South America, where the growth rate was 56 percent, with Brazil particularly buoyant. In 2010, FDI

inflows in developed countries declined marginally. FDI flows to Europe suffered a sharp fall. Declining FDI flows were also registered in Japan. Inflows to the United States, however, showed a strong turnaround, with an increase of more than 40 percent.

In terms of sectoral patterns, FDI in services continued its downward path in 2010. All the main service industries (business services, finance, utilities, and transport and communications) experienced a fall in FDI flows. FDI flows in the financial industry experienced one of the sharpest declines. The share of manufacturing rose to almost half of all FDI projects. Within manufacturing, however, investments fell in business-cycle-sensitive industries such as metal and electronics. The chemical industry (including pharmaceuticals) remained resilient through the crisis, while industries such as food, beverages and tobacco, textiles and garments, and automobiles, recovered in 2010. FDI in extractive industries, which did not suffer during the crisis, declined in 2010.

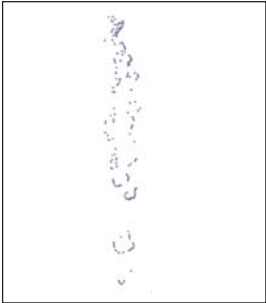
The value of cross-border M&A deals increased by 36 percent in 2010, but was still only around one-third of the previous peak in 2007. The value of cross border M&A into developing economies doubled. China reported 11 percent increase in FDI but India reported 31 percent fall and pushed down to fourteenth place from the eight place in attracting FDI. In 2010, USA, China and Hong Kong are in top three places in attracting global FDI inflows.

In 2010, India gained one place and is in 20th place in global FDI outflows. USA, Germany and France are in top-3 places. The report also highlighted that India issued a new consolidated FDI policy, which facilitates the expansion of established foreign owned enterprises, allows the conversion of non-cash items into equity and permits FDI in certain agricultural activities.



COUNTRY SCAN

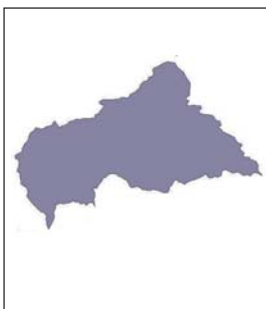
Maldives



Maldives, the lowest country on earth, is a conglomeration of 1,200 islands and atolls, is trying to develop its potential for marine energy

with the ambition of becoming the first carbon-neutral nation by 2020. The Republic is highly ahead of its neighbouring nations in terms of human development, which is evident in its spending of 6.8 percent of its GDP on the health sector and 8.1 percent of its GDP on education. The 17th SAARC summit will be held in Addu Atoll, Maldives during 10-11 November 2011 with the theme "Building Bridges". The Government of India provided various lines of credits to the country to prepare for the SAARC summit. The Maldives government has introduced a new economic reform programme including the General Goods and Services Tax (G-GST) bill, amendments to the Import-Export Act to excise, and reduce import duties and the introduction of direct taxation which could increase the economic growth of the country by solving the challenges of the tourism sector.

Central African Republic

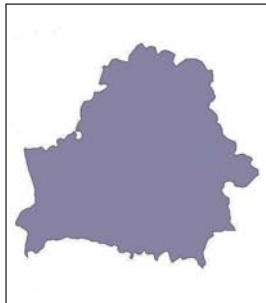


Increased output and prices of the country's main exports of timber and diamonds are expected to support the economic growth.

Production of Gold is also set to rise in 2012, when Aurafrique, a subsidiary of a Canadian mining company Axmin's new gold mine near Bambar in central CAR comes on stream. Improvements to infrastructure especially that of the degraded hydroelectric station at Boali, are underway. A donor roundtable in Brussels in June 2011 resulted in promises of increased aid (a total of US\$ 870 million

for 2011-14) from a number of the agencies present, notably the African Development Bank, which stands to double its financial engagement in the country. In June 2011, the country has presented a new draft poverty reduction strategy paper covering areas such as environmental management, tourism, youth, boosting the private sector and telecommunications strategies.

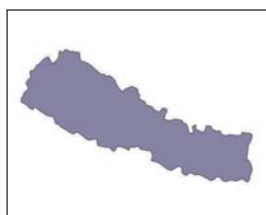
Belarus



According to the IMF, Belarus is experiencing a financial crisis, including high levels of inflation, because of excessive credit growth and wage increases that it could not afford.

The National Bank of the Republic of Belarus (NBRB) has been following a policy of dedollarisation, reducing the use of foreign currency within the country by reaching the single foreign currency rate. Being on the verge of a crisis, Royal Bank of Scotland has ceased cooperation with the country. Belarus devalued the ruble by 36 percent in May in response to a large current account deficit. The president has recently announced a liberalisation of the Belarusian ruble to stave off the looming financial crisis. Also, on August 2, 2011 the Resolution of the Council of Ministers of the Republic of Belarus has established new volume of attracted investments for republican and municipal organisations, legal persons without departmental affiliation, with the intention of attracting foreign direct investment during the year. With the aim of improving the education system of the country, the Government has decided to spend 12 trillion roubles on education.

Nepal



Nepal has undergone a transformation since its decade-long civil war ended in 2006. The Asian

Development Bank (ADB) in its annual Asian Development Outlook report said that real GDP growth in 2010-11 would slow to 3.8 percent, from 4.0 percent in 2009-10, presenting a downbeat assessment of Nepal's economic prospects. This can be attributed partly to the slowdown in the growth in the amount of credit extended by Nepal's commercial banks to the private sector, mainly reflecting the tighter monetary policy pursued by the central bank. The SAARC ministerial meeting on poverty alleviation has been scheduled to be held in Nepal on October 23, 2011.

Indonesia



Indonesia, Southeast Asia's largest economy, was less affected by the economic crisis of 2009 compared to many of its neighbouring economies,

mainly as its exports account for only a relatively small proportion of its GDP. Indonesia registered a growth of 4.5 percent in 2008-2009, which was the third-highest after China and India, while other countries suffering from strong contractions. The economy recovered by 6.1 in 2010 and is further expected to grow by 6.4 percent in 2011. The investment in the country has increased with the Government's recent announcement of tax holidays of 5 to 10 years for investments of at least US\$ 117 million in certain sectors including machinery, oil refinery, and renewable energy. The Indonesian government has recently spent significant capital launching the Indonesian Economic Development Corridors, targeting infrastructure investments worth US\$ 190 billion. India's imports of coal from Indonesia are expected to slow down in the coming years with the new regulation by the Indonesian government on coal pricing. The Government has recently aligned its coal pricing method with global practice, which is bound to make the natural resource dearer by ₹ 1,500 a tonne for Indian power utilities, which would result in higher electricity prices for domestic consumers.



Currency Currents

Malaysian Ringgit (MYR)

The Malaysian ringgit (MYR) is the official currency of Malaysia since 1975. Between 1995 and 1997, the ringgit was trading as a free float currency at around 2.50 per USD, before dipping to under 3.80 per USD by the end of 1997. For the first half of 1998, the currency fluctuated between 3.80 and 4.40 per USD, before Bank Negara Malaysia (BNM, the central bank) pegged the ringgit in September 1998 to maintain at 3.80 per USD value for almost seven years, while remaining floated against other currencies.

The ringgit suffered general depreciation against other currencies between December 2001 and January 2005. On July 21, 2005, BNM announced the end of the peg to the USD and allowed the ringgit to operate in a managed float against several major currencies. Following the end of the currency peg, the ringgit appreciated to 3.16 per USD in April 2008.

As Inflation is expected to remain relatively stable for the rest of the year, the Monetary Policy Committee (MPC) meeting on September 8, 2011, Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent. While cost-push inflation continues to remain, the pace of increase is expected to be more gradual. The upside risks to inflation will also be contingent on whether the strength of domestic demand will be sustained, in the event of further deterioration in the external conditions.

The MPC will continue to assess carefully the evolving developments surrounding

inflation and the economy. The market expects MYR to appreciate against USD on a/c of rising inflationary pressure and rising interest rate scenario in future. The MYR was quoting at 3.1850 per USD on September 30, 2011.

Swiss Franc (CHF)

The Swiss franc, denoted by CHF, is the official currency of Switzerland. The currency is issued by the Central Bank of Switzerland. The Swiss franc is the only remaining currency in Europe that is still named franc.

The Swiss National Bank (SNB) will enforce the minimum exchange rate of CHF 1.20 per euro set on September 6, 2011, with the utmost determination. It is prepared to buy foreign currency in unlimited quantities. It continues to aim for a three-month Libor at zero and will maintain total sight deposits at the SNB at significantly above CHF 200 billion. With these measures, the SNB is taking a stand against the acute threat to the Swiss economy and the risk of deflationary development that spring from massive overvaluation of the Swiss franc. Even at a rate of CHF 1.20, the Swiss franc is still high and should continue to weaken over time.

The growth of the global economy, especially advanced economies, has slowed substantially in the course of the second quarter. In Switzerland, economic activity is suffering from both the strong Swiss franc and the softening in international demand. The SNB expects growth to come to a halt in the second half of the year. For 2011 as a whole, GDP growth can be expected at 1.5–2.0 percent. This is only because of the favourable economic development in the first half of the year.

With the US dollar hitting record low against major currencies of the world, it is expected that Swiss franc will continue to strengthen against the US dollar. The CHF was quoting at 0.9079 per USD on September 30, 2011.

Pound Sterling (GBP)

Sterling is the fourth most traded currency in the foreign exchange market, after the US dollar, the Euro and the Japanese yen. Together with those three currencies, it forms the basket of currencies which calculate the value of

IMF Special Drawing Rights, with an 11.3 percent weighting as of 2011. Sterling is also the third most held reserve currency in global reserves.

After the collapse of the Bretton woods fixed exchange rate regime in 1971, the British pound sterling started as a floating currency at US\$ 2.55 and rose as high as US\$ 2.64 the following year.

The United Kingdom entered Europe's Exchange Rate Mechanism (ERM) in October 1990. But Britain was forced to come out of ERM in September 1992 after the pound sterling came under pressure from currency speculators.

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 percent. The Bank of England's Monetary Policy Committee on September 08, 2011 has voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5 percent. The Committee also voted to maintain the stock of asset purchases financed by the issuance of central bank reserves at £200 billion.

CPI inflation remained well above the 2 percent target in 2010 and output grew sluggishly. In the United Kingdom, the squeeze in households' real incomes is likely to continue to weigh on domestic demand. But expansionary monetary policy, prospective growth in global demand, and the current level of sterling should mean that, after some near-term weakness, GDP growth gradually picks up.

CPI inflation is expected to rise further in 2011, boosted by increases in utility prices and is likely to fall back through 2012 and into 2013. Under the assumptions that Bank Rate moves in line with market interest rates and the stock of purchased assets financed by the issuance of central bank reserves remains at £200 billion.

The UK currency is expected to weaken further against the US dollar in 2011, as UK interest rates head towards zero and as the deteriorating economic outlook drives up the risk premium associated with holding sterling assets.

THE GBP was quoting at 1.5582 per USD on September 30, 2011.

Exim Bank's International Economic Development Research Annual (IEDRA) Award 2010

The year 2010 represents the 22nd year of the Award. Exim Bank IEDRA Award 2010 was announced by Mr. T.C.A. Ranganathan, Chairman and Managing Director, Exim Bank at an Award function held on August 02, 2011 in New Delhi. Dr. Narayan Chandra Pradhan received the Exim Bank IEDRA Award 2010 for his Doctoral dissertation titled "*Openness and Growth of the Indian Economy: An Empirical Analysis*". The Award and the Citation were handed over by the Chief Guest, Dr. Kaushik Basu, Chief Economic Advisor, Government of India, Ministry of Finance, New Delhi. Dr. Basu also released Exim Bank's Occasional Paper titled "*Openness and Growth of the Indian Economy: An Empirical Analysis*", which is based on the Award winning thesis. The winner of IEDRA Award 2010 was selected by a Jury of eminent academicians, which comprised Dr. K L Krishna, Professor Emeritus, Delhi School of Economics, Delhi; Dr. Pulin B Nayak, Professor, Delhi School of Economics, Delhi; and Dr. D. M. Nachane, Professor Emeritus and former Director, Indira Gandhi Institute of Development Research (IGIDR), Mumbai.

Winner and the Winning Thesis

Dr. Pradhan obtained his Doctorate from the Indian Institute of Technology Bombay (IITB), Mumbai, in 2010 and at present is an economist in the Department of Economic & Policy Research, Reserve

Bank of India, Mumbai. The dissertation was written under the supervision of Professor Pushpa Trivedi, Professor, Department of Humanities and Social Sciences, IIT Bombay, Mumbai.

In his thesis, Dr. Pradhan has analysed the nexus between openness and the growth of Indian economy, broadly referring to the increasing integration through trade and financial flows. The analysis is well supported by empirical evidences throughout the study.

In the study, openness through trade channel is considered as one of the traditional mode, while mobility of capital has provided a new dimension that relatively dominates over conventional trade channel.

The study adopts an eclectic approach drawing from the theoretical and empirical literature as well as economic history of multilateral institutions. The study examines whether the trade policy reforms have had any role to play in India's recent economic growth. The assessment of impact of openness is not only confined to international trade, but also to trade in services, labour migration and its financial impacts, as well as impact of capital flows on growth. The study shows that the association between exports and economic growth is often attributed to the positive externalities for the domestic economy arising from participation in world markets like reallocation of existing resources, economies of scale, and various labour specialisation effects.

In the thesis, the short and long run relationship between export growth and economic growth is empirically examined. It also tests the Export-led-Growth hypothesis in the context of Indian economy and also whether growth driven export is valid. The study tests the relationship between exports and economic growth in case of Indian economy and found long-run relationship with short run correction at around 14 percent annually. The study also reveals the existence of a uni-directional causality from export growth to GDP growth implying that the

movements in the exports of goods and services lead that of GDP in case of Indian economy. This indicates that one can use exports to better predict the GDP than simply by the history of GDP.

The Award

Exim Bank's 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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