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EXIM BANK
भारतीय निर्यात-आयात बैंक
EXPORT-IMPORT BANK OF INDIA

EXIMIUS:
EXPORT ADVANTAGE

SEPTEMBER 2012
VOL. XXVI ISSUE III

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A Quarterly Publication by :
EXPORT-IMPORT BANK OF INDIA
www.eximbankindia.in

Slow Global Recovery, Despite Uncertainty

Eurozone crisis and the precarious scenario in the rest of the world have resulted in recovery taking longer than expected to arrive. However, there exists some hope as there are indications of growing resilience on the part of emerging market and developing economies, mainly reflecting stronger policies. As per the International Monetary Fund (IMF)'s World Economic Outlook (WEO), October 2012, the emerging and developing market economies are now more resilient than the previous decade, and their resilience supports an optimistic view that this is not temporary.

Growth in global activity moderated to 3.8 percent in 2011, as compared to 5.1 percent in 2010, primarily due to stress in the Euro area which deteriorated the global financial conditions and has dampened growth prospects across the world (**Table 1**). Growth in advanced economies moderated to 1.6 percent in 2011 as against the 3.0 percent growth in 2010, while that in the emerging and developing economies also eased at 6.2 percent in 2011, as compared to 7.4 percent in the preceding year.

In 2011, global economic prospects continued to be uneven across regions. Growth and recovery in advanced economies was subdued, while that in emerging and developing economies was relatively fast-paced. The financial sectors of most advanced economies are still vulnerable to shocks mainly due to delay of the US economy in the handover from public to private demand, financial turbulence in the Euro area, and major sell-off of risky assets in global markets. Against this financial instability at the backdrop, the global economy confronted a devastating Japan earthquake and tsunami, and unrests in some oil producing countries in the Middle East and North Africa (MENA) region.

The US economy grew by 1.8 percent in 2011, as compared to 2.4 percent in 2010, as household and business confidence in the US economy deteriorated and market volatility increased significantly, with the downgrade in the US sovereign credit rating. The supply disruptions, which arose from the Japanese earthquake and the sharp oil price rise due to the unrest in the MENA region, also had an impact on the US economy.

Growth in Euro area was slow at 1.4 percent in 2011 as compared to 2.0 percent in 2010, mainly due increased public deficits and debt, lower potential output, and mounting market tensions. Economic performance across Euro area in 2011 is widely

Table 1: Growth in World Economic Output (% change)

	2007	2008	2009	2010	2011	2012[f]	2013[f]
World	**5.4**	**2.8**	**-0.6**	**5.1**	**3.8**	**3.3**	**3.6**
Advanced economies	***2.8***	***0.1***	***-3.5***	***3.0***	***1.6***	***1.3***	***1.5***
United States	1.9	-0.3	-3.1	2.4	1.8	2.2	2.1
Euro area	3.0	0.4	-4.4	2.0	1.4	-0.4	0.2
Newly Industrialized Asian Economies	5.9	1.8	-0.7	8.5	4.0	2.1	3.6
Emerging mkt and developing economies	***8.7***	***6.1***	***2.7***	***7.4***	***6.2***	***5.3***	***5.6***
CIS	9.0	5.4	-6.4	4.8	4.9	4.0	4.1
Developing Asia	11.4	7.9	7.0	9.5	7.8	6.7	7.2
ASEAN-5	6.3	4.8	1.7	7.0	4.5	5.4	5.8
LAC	5.8	4.2	-1.5	6.2	4.5	3.2	3.9
MENA	5.7	4.5	2.6	5.0	3.3	5.3	3.6
Sub Saharan Africa	7.1	5.6	2.8	5.3	5.1	5.0	5.7

[f]- forecast
Source: World Economic Outlook, October 2012, IMF

varied, with elevated spreads even in economies which were not affected till the previous year, and differentiating sovereign risks within the area.

In the Newly Industrialised Asian Economies, growth eased at 4.0 percent in 2011, as compared to the robust 8.5 percent in 2010, as activity moderated to close positive output gaps. Output of the region had positive contribution from net exports mainly due to limited appreciation of real effective exchange rates.

Japan's economy contracted by 0.8 percent in 2011, as compared to an expansion of 4.5 percent in the preceding year, owing to the the supply constraints from the earthquake and tsunami in the early part of the year.

Activities in emerging and developing Asian economies are highly dependent on demand from advanced economies. Developing Asia continued to grow most rapidly among the rest of the regions in the world. The real GDP of developing Asia grew at 7.8 percent in 2011, as compared to 9.5 percent in 2010. The slowdown in the US and Euro area dampened the external demand, however domestic demand and the shift to cater emerging markets, supported growth. China and India were the main drivers of this expansion. China's real GDP grew by 9.2 percent in 2011 as compared to 10.4 percent in 2010, the highest growth-level in the region. The moderation in China was due to the policy tightening measures and a smaller contribution from net external demand. Investment growth decelerated with the unwinding of the fiscal stimulus, but continued to be a principal contributor to China's growth. Investment is expected to remain sluggish, mainly reflecting the recent corporate sector governance issues, spillovers of the renewed global uncertainty, and less favorable external financing environment. Real GDP growth in India moderated to 6.8 percent in 2011, as against the robust 10.1 percent growth in 2010. Rising inflation continues to be one of the key challenges to the Indian policy makers.

The Latin American and Caribbean (LAC) region grew by 4.5 percent in 2011, as compared to 6.2 percent in 2010. Expansion was mainly driven by the region's commodity exporters (Argentina, Chile, Paraguay, Peru, and Uruguay), but the slack in growth was mainly due to the easing of domestic demand growth in response to less accommodative macroeconomic policies, and weakening external demand.

Real GDP of the Sub-Saharan region grew by 5.1 percent in 2011, as against the 5.3 percent growth recorded in the preceding year, underpinned by a robust private and public consumption. Though growth in the region was not significantly affected by the global slowdown, the downside risks in the region have increased with greater global integration of the middle-income countries (MICs). Average growth for the low-income countries (LICs) group was at 5.6 percent in 2011, on the back of strong domestic demand and accelerating exports.

Commodity price movements and social unrest hampered growth in the Middle East and North African (MENA) region, with real GDP expanding at 3.3 percent in 2011, as compared to 5 percent recorded in the preceding year. Lower growth mainly reflected subdued growth in oil-importing economies in the region, mainly Egypt, Sudan and Tunisia, outweighing pick up in growth of oil exporting economies in the region.

Growth in Commonwealth of Independent States (CIS) in 2011 was supported by high commodity prices. Real GDP of the region grew by 4.9 percent 2011, as compared to 4.8 percent in 2010, but is expected to decelerate to 4.0 percent in 2012.

Growth in world output is projected to ease further at 3.3 percent in 2012, largely driven by the associated downside risks in Euro area economy, which is expected to hit into a mild recession in the year; before recovering to 3.6 percent in 2013. Economic activity in emerging and developing economies is forecast to grow at a modest pace of 5.3 percent in 2012 and 5.6 percent in 2013, because of the worsening external environment and weakening of internal demand, while that in advanced economies is 1.3 percent in 2012 and 1.5 percent in 2013.

World Trade

According to IMF's WEO, October 2012, global exports of goods amounted to US$ 18.2 trillion in 2011, implying a rise of 19.5 percent over the previous year's total of US$ 15.2 trillion. In volume terms, the growth in global trade of goods in 2011 moderated to 6.3 percent as compared to the growth of 14.1 percent witnessed in 2010. While advanced economies registered a growth of 5.7 percent in volume of export of goods in 2011, emerging and developing economies registered a growth of 6.6 percent (**Table 2**). The world trade prices of non-fuel primary commodities rose by 17.8 percent in US dollar terms in 2011 as against 26.3 percent growth in 2010. Oil prices, which grew by 27.9 percent in 2010, also expanded by 31.6 percent

Table 2: Global Trade Flows in Goods (% change in volume)

	2007	2008	2009	2010	2011	2012[f]	2013[f]
World Trade	**7.2**	**2.5**	**–11.5**	**14.1**	**6.3**	**3.4**	**4.6**
Exports							
Advanced Economies	5.8	1.7	–13.2	14.1	5.7	2.4	3.5
Emerging and Developing Economies	9.0	3.8	–8.0	14.0	6.6	4.0	5.6
Imports							
Advanced Economies	4.9	0.4	–12.9	13.4	4.9	1.7	3.7
Emerging and Developing Economies	14.4	8.1	–9.5	15.6	9.8	7.4	6.9

[f]- forecast
Source: World Economic Outlook, October 2012, IMF

during 2011. World trade price of manufactures increased by 6.5 percent in 2011, as against 2.7 percent growth recorded in 2010.

World export of services amounted to US$ 4.1 trillion in 2011, implying a 10.8 percent rise over that recorded in 2010.

During 2012, world exports of goods are projected to grow by 0.8 percent, taking annual global exports to US$ 18.3 trillion, supported by the positive growth in global commodity prices. Growth in service exports is forecast to further rise marginally to US$ 4.1 trillion in 2012.

Private Capital Flows, Current Account Balances and External Debt of Emerging Economies

The recovery in net private capital inflows to emerging market economies continued through most of 2009 and 2010. However, net private inflow to emerging economies declined to US$ 1,063 billion in 2011, as compared to US$ 1,110 billion in the preceding year.

The Emerging Asia region accounted for 51.7 percent of the net private capital flows to the emerging economies with inflows at US$ 550 billion in 2011, a rise of 2.8 percent over the previous year. Net private capital flows to Latin America also increased to US$ 265.3 billion in 2011, from US$ 275.8 billion in 2010. The share of emerging Europe in net private capital flows to the emerging economies increased from a minuscule 8.8 percent in 2009 to 17.7 percent in 2011, with total inflows at US$ 188.4 billion in 2011. Net private capital flows to Africa and Middle East declined to US$ 58.9 billion in 2011 from US$ 105.6 billion in 2010.

Current account surplus of the emerging economies decreased to US$ 319 billion in 2011, from US$ 356 billion recorded in the previous year. In the emerging Asian region, the aggregate current account surplus plummeted from US$ 343.8 billion in 2010 to US$ 197.1 billion in 2011, mainly reflecting a decline in China's current account surplus and India's large trade deficit.

In the LAC region, current account deficit increased to US$ 52.1 billion in 2011 from the deficit of US$ 44.9 billion in the previous year. In emerging Europe, the current account balance declined from a surplus of US$ 23.6 billion in 2009 to a deficit of US$ 1.9 billion in 2010, and then reduced further to US$ 7.6 billion in 2011. However, in the Africa and Middle East region, current account surplus rose sharply from US$ 66.3 billion in 2010 to US$ 181.9 billion in 2011, on the back of higher oil prices.

External debt of emerging and developing economies, as a proportion of their exports of goods and services, decreased to 72.6 percent in 2011 from 80.6 percent in 2010. The ratio in the case of Central and Eastern Europe decreased to 155.1 percent in 2011 as against 178.8 percent in 2010, and CIS region decreased to 94.6 percent in 2011 from 117.3 percent. The ratio has also decreased for Middle East Region to 52.2 percent in 2011 from 64.1 percent in 2010. The ratio in emerging Asia region increased to 50.2 percent 2011 from 50 percent in 2010. In Sub-Saharan Africa and the Latin America and Caribbean region, the ratio has declined and stood at 59.7 percent and 100.1 percent, respectively, in 2011. Overall, the debt-service payments ratio of the emerging and developing economies dropped to 24.6 percent in 2011 from 25.7 percent in 2010.

In sum, it is true that recovery has suffered a new setback, with increased uncertainty on the global outlook. Those forces mainly drawing back the growth in advanced economies are fiscal consolidation and a still-weak financial system, which in turn is affecting domestic demand in these markets. In the short-term, output is expected to remain sluggish in advanced economies but relatively solid in many emerging market and developing economies. Though emerging market and developing economies are now more resilient, downside risks exist due to the prevailing dependence on demand from advanced economies. Hence, policymakers in the emerging market and developing economies need to be more cautious in order to calibrate the face of external risks.

Business Opportunities (Upcoming Projects as on September 2012)

Country/Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Ho Chi Minh City Power Corporation (EVNHCMC) Green Power Building, 5th Floor - 35 Ton Duc Thang St., District 1, Hochiminh City Vietnam **Contact:** Mr. Pham Quoc Bao Deputy General Director Tel. : +848-22101125 Fax : +848-22201100 E-mail : vinhlq@hcmpc.com.vn	**Distribution Efficiency Project** The project includes procurement of: • Two 110kV – 63MVA auto transformers and accessories; • Transportation the two auto transformers to project site; • Installation the two auto transformers on the platform; • Testing, precomissioning and commissioning the two auto transformers; and • Co-operating with Contractor of package DEP-GV2-G2 and DEP-GV2-G3.	**World Bank** US$ 449 mn
Oromia Water, Mineral and Energy Bureau Africa Avenue, 4th floor, Room Number 410 P.O. Box 8630, Addis Ababa Ethiopia **Contact:** Mr. Adamu Mengesha WaSH Procurement Specialist Tel. : +251-115503568 Fax : +251-11551775 E-mail : washoro@yahoo.com	**Ethiopia Water Supply and Sanitation Project** The project includes supply & installation of electro mechanical equipments, which include borehole electrical and mechanical equipment, centrifugal surface pumps with all its accessories, booster pump station electrical equipment, generator set, balancing reservoir electrical and mechanical equipment, disinfection equipment at balancing reservoir, and tools & spare parts.	**World Bank** US$ 25 mn
'Kaztemirtrans' Joint-Stock Company Astana 10 D.Kunayev str., office "1106" Astana 010000 Republic of Kazakhstan **Contact:** Mr. Kumyspayev Yermek Zhumabekovich Head of Production Supply Administration Tel. : +7172-930-216 E-mail : kumuyspaev_e@kaztt.kz	**Procurement of Freight Wagons** Delivery of four- axle cistern for transportation of petroleum products at station Semipalatinsk and/or Uralsk– 38 units.	**European Bank for Reconstruction and Development** € 50 mn
HSE Invest D.O.O Obrežna 170a, 2000 Maribor Slovenia **Contact:** Ms. Doroteja Kralj Tel. : +386 (0)2 300 59 92 Fax : +386 (0)2 300 59 91 E-mail : tendering-tes-b6@hse-invest.si	**Sostanj Thermal Power Plant Project - Unit 6** Design, manufacture, supply, assembly, testing and commissioning of the equipment for 400 kV GIS Switchyard at Šoštanj Thermal Power Plant and training of Employer's staff.	**European Bank for Reconstruction and Development** € 100 mn
Central Vietnam Power Project Management Board No. 478 – 2/9 Street, Hai Chau District Da Nang City, Vietnam **Contact:** Mr. Nguyen Duc Tuyen Director Tel. : +84-511-2221579 Fax : +84-511-2220367 E-mail : levansy.1969@gmail.com	**Power Transmission Investment Program, Tranche 2** Supply and Delivery of Optical Fibre Ground Wires and Accessories for the 500kV Pleiku – My Phuoc – Cau Bong Transmission Line Project.	**Asian Development Bank** US$ 0.4 mn

Country/Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Uzbek Railways UTY Room 212, 7 Shevchenko St. Tashkent 100060 Uzbekistan **Contact:** Mr. F. S. Djalalov Head of PIU Tel. : +998-71-238 8404 Fax : +998-71-232-1165	**CAREC Corridor 6 (Marakand-Karshi) Railway Electrification Project** Contract for the supply and delivery depot equipment and maintenance machinery in two indivisible lots: • Lot 1 - Depot Equipment, and • Lot 2 - Maintenance Machinery	**Asian Development Bank** US$ 131.5 mn
Ethiopian Electric Power Corporation Universal Electricity Access Program Dembel City Center, 12th Floor Office No. 34, P.O. Box 1233 Addis Ababa Ethiopia **Contact:** Mr. Redae Bahre Tel. : +251 11 515 8951 Fax : +251 11 554 3741 E-mail : ueapadb2@yahoo.com	**Rural Electrification II Project** Supply of substation equipment for Mendi, Gidami and Wukro 132kV substations and Sekota 66kV substations.	**African Development Bank:** US$ 134.3 mn
East Delta Electricity Production Company Shebeen El Kom Street Araishia Misr Ismailia Egypt **Contact:** Head of Procurement Sector Tel. : +20-64-3371906 Fax : +20-64-3376285 Email : procurementsector_EDEPC@hotmail.com	**Suez Thermal Power Plant** The scope of work includes but is not limited to, designing, fabricating, furnishing, delivery to the site, storing, installing, training, testing, startup, commissioning, placing into successful operation and maintaining all equipment and systems, preparing detailed drawings, technical documents and as-built documents for the mechanical equipment/ pipe installation for the Power Plant.	**African Development Bank:** US$ 134.3 mn

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

Sai Consulting Engineers Pvt. Ltd., Ahmedabad	Construction supervision for the upgrading of feeder roads in Angola's Bie Province, under Emergency Multisector Recovery Program – Phase 2 , funded by the **World Bank.**
A2Z Maintenance and Engineering Services Ltd., Gurgaon	Construction work for intensification in the Copperbelt Region (Kabushi, Chipulukusu, New Kawama and Chibolya) under Vietnam's Increased Access to Electricity Project, funded by the **World Bank.**
Technofab Engineering Ltd. and Gammon India Ltd. (JV), New Delhi	Contract for design and construction of a new fuel unloading facility at the free port of Monrovia and decommissioning of the existing jetty for Liberia's Urban and Rural Infrastructure Rehabilitation Project, funded by the **World Bank.**
Skipper Electricals India Ltd., Alwar	Contract for rehabilitation and reinforcement of 33/11kV injection substation and associated downstream HT/LV distribution facilities for Nigeria Electricity and Gas Improvement Project (NEGIP), funded by the **World Bank.**
Chadha Power, New Delhi	Contract for refurbishment of Mantsonyane 2MW mini hydro power station for Lesotho's Electricity Supply Project, funded by the **African Development Bank Group**.
KEC International Ltd., Mumbai	Construction of a 40 km long 132kV Transmission line from Ambalangoda Grid Substation to New Galle Grid Substation for Sri Lanka's Sustainable Power Sector Support Project, funded by the **Asian Development Bank**.
Eastland Switchgears Ltd., Kolkata	Contract for supply of switching equipments for Bhutan's Green Power Development Project, funded by the **Asian Development Bank**.

6 IOR-ARC : An Ocean of Opportunities

The Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) is a 15-year old international organisation, formed in 1997 to promote mutually beneficial cooperation among countries in the Indian ocean region through a consensus-based, evolutionary and non-intrusive approach. At present, IOR-ARC consists of 19 member countries, viz., Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Sri Lanka, Tanzania, Thailand, UAE, and Yemen. It also has five dialogue partners, China, Egypt, France, Japan, and the UK; and two observers, the Indian Ocean Research Group (IORG) and the Indian Ocean Trade Organization (IOTO).

India – IOR-ARC Trade Relations

India's bilateral trade and investment with other IOR-ARC member countries has increased significantly in recent years. India's total trade with the IOR-ARC region has risen more than eight-fold from US$ 19 billion to US$ 156.3 billion during the decade 2001 to 2010, with India's exports to the region amounting to US$ 69 billion, and India's imports from the region aggregating US$ 87.3 billion in 2010. India is the third-largest contributor to intra-IOR-ARC exports, with a 13.4 percent share in intra-exports, and the largest contributor to intra-imports with a 17.8 percent share. India accounted for 15.6 percent of the total intra-IOR-ARC trade in 2010.

UAE is India's leading export destination, accounting for 42.7 percent of India's total exports to IOR-ARC, followed by Singapore, Indonesia, and South Africa. As far as imports are concerned, UAE is again the largest supplier to India among the IOR-ARC members, accounting for 30 percent of India's total imports from the region in 2010, followed by Australia, Iran, and Indonesia.

Major items in India's export basket to IOR-ARC countries in 2010 include mineral fuels, oils, and distillation products (accounting for 24.7 percent of India's total exports to IOR-ARC), pearls, precious stones, metals and coins (22.2 percent), vehicles other than railway and tramway (4.3 percent), ships, boats and other floating structures (4.3 percent), and machinery and instruments (3.4 percent). India's major imports from IOR-ARC countries in 2010 include crude mineral fuels (38.8 percent of India's total imports from IOR-ARC), pearls and precious stones (30.2 percent), animal, vegetable fats and oils (4.9 percent), machinery (3.1 percent), and ores, slag and ash (3 percent).

India – IOR-ARC Investment Relations

Countries in the IOR-ARC region have been significant investment partners for India for over many years, with both inward and outward FDI flows showing remarkable increase in the recent years. As on July 2012, India entered into Bilateral Investment Promotion and Protection Agreements (BIPA) with ten IOR-ARC member countries. India's BIPA with Seychelles in 2010, is yet to come into force. There are also negotiations on BIPA underway with Kenya, South Africa, Tanzania, and UAE. India has also signed a comprehensive Double Taxation Avoidance Agreement (DTAA), with 14 member countries of the region.

The two largest global sources of FDI inflows to India, namely, Mauritius and Singapore, together accounted for 95 percent of inflows from IOR-ARC region. During April 2000 to June 2012, the largest investment was from Mauritius to the tune of US$ 65.6 billion, followed by Singapore with inflows of US$ 17.6 billion. The other main sources of investment flow from IOR-ARC into India were UAE, Indonesia, Australia, Oman, Malaysia, and South Africa.

In the recent years, India's FDI outflow to IOR-ARC has also risen significantly. During April 1996 to March 2012, the cumulative Indian direct investments in IOR-ARC region in joint ventures (JVs) and wholly owned subsidiaries (WOS), in equity, loans and guarantees issued amounted to US$ 82.4 billion, accounting for over 50 percent of India's global overseas investments during the period. In 2011-12, Indian investments in IOR-ARC region dropped by 56.3 percent to US$ 17.7 billion, from US$ 27.7 billion during 2010-11, reflecting a fall in investments into Mauritius.

Mauritius continued to remain India's most favourable investment destination, with investments worth US$ 7.4 billion (41.8 percent of India's total investments to the region) in 2011-12, followed by Singapore with US$ 5.9 billion investment from India, accounting for 33.5 percent of India's total investments to IOR-ARC region.

Indian Ocean Global Forum 2012

The first edition of the Indian Ocean Global Forum 2012 – "Enhancing Partnerships for Trade, Infrastructure and Resource Development" was held on September 25, 2012, in New Delhi, jointly organised by the Commonwealth Business Council, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Ministry of External Affairs, Government of India, and the Confederation of Indian Industry (CII). The Forum was a platform for dialogue between businesses and Governments in the Indian Ocean Region on issues relating to trade and economic policies. It also showcased major investment opportunities in the region, and highlighted key sectoral trends, particularly in relation to energy, mineral and infrastructure sectors. Improving access to finance and the regional financial architecture was also considered. In this Forum, Exim Bank's publication on "Indian Ocean Rim Association for Regional Co-operation (IOR-ARC): A Study of India's Trade and Investment Potential" was released at the hands of Mr. Pierre Laporte, Minister of Finance, Trade and Investment, Seychelles.

Exim Bank's Lines of Credit

Export-Import Bank of India (Exim Bank) has placed special emphasis on extension of Lines of Credit (LOCs) as an effective market entry mechanism with particular focus on small and medium enterprises. Exim Bank extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India, on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. Exim Bank also extends LOCs at the behest of the Government of India. Under the Lines of Credit extended at the behest of the Government, 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 in place 157 Lines of Credit as on September 30, 2012, covering over 74 countries in Africa, Asia, Latin America, Europe, Oceania, and the CIS, with credit commitments of over US$ 8.46 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, LOCs are being extended for financing Indian project exports, which create, in the recipient countries, a greater visibility for Indian expertise and project execution capabilities, with downstream linkages. Established primarily to enhance Indian exports to developing countries LOCs, 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 the following four LOCs during the quarter July – September 2012:

- An LOC of US$ 18.08 million extended to the Government of Chad, for financing pharmaceutical manufacturing plant in Chad. Exim Bank has earlier extended LOCs aggregating US$ 90.32 million to the Government of Chad for financing projects including setting up of cotton yarn plant; steel billet plant and rolling mill; plant for assembly of agricultural equipment, bicycle plant; compost production unit; rural electrification project (solar energy); production unit for live stock feed; and extension of spinning mill (addition of weaving and processing capacities).
- An LOC of US$ 15 million extended to the Government of Benin, for financing tractor assembly plant and farm equipment manufacturing unit in Benin. Exim Bank has earlier extended an LOC of US$ 15 million to the Government of Benin for financing purchase of railway equipment, agricultural equipment, and cyber city.
- An LOC of US$ 42 million extended to the Government of Cameroon for financing Cassava Plantation Project in Cameroon. Exim Bank has earlier extended an LOC of US$ 37.65 million for financing projects covering Maize Farm Plantation and Rice Farm Plantation.
- An LOC of US$ 250 million extended to the Government of Mozambique, for improving the quality of power supply in Mozambique. Exim Bank has earlier extended LOCs aggregating US$ 173 million. The LOCs have financed projects / contracts including export of items like electricity equipment, water drilling machinery equipment, agro-inputs and drip irrigation, vegetable oil refining plant & machinery and oil storage tank, transfer of water drilling technology and associated equipment, enhancing productivity of rice-wheat-maize cultivation in Mozambique, rural electrification projects in seven provinces of Mozambique and a Solar Photo Voltaic Module Manufacturing Plant in Mozambique.

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RBI cuts CRR after quarterly monetary policy review

The Reserve Bank of India (RBI) announced a cut in the cash reserve ratio (CRR) by 25 basis points to 4.5 percent in its policy review meeting on September 17, 2012. However, the other policy rates – repo and reverse repo – were left unchanged. Repo rate is the rate at which banks borrow money from RBI in case they are short of funds, while reverse repo rate is the rate of interest banks get when they park their surplus funds with the central bank. CRR, on the other hand is the liquid cash that banks need to keep with the RBI to meet any emergency cash requirement and the central bank does not pay any interest to banks on this money.

Govt approves FDI in aviation, broadcasting, power exchanges; proposes in multi-brand retail

The Government of India has approved foreign direct investment (FDI) in aviation, broadcasting and power exchanges. The decision means that foreign airlines will now be allowed to invest as much as 49 percent in the Indian carriers. Also, the FDI cap on various streams of broadcast services has been raised to up to 74 percent. The Cabinet Committee of Economic Affairs (CCEA) has also accepted 51 percent FDI in multi-brand retail on September 13, 2012. The government has, however, left the option to invite multi-brand retail on the states. There is an opt-out clause for FDI in multi-brand retail. According to the clause, "Retail sales outlets maybe set up in those states which have agreed or agree in the future to allow FDI in multi-brand retail under this policy. This is an enabling clause. This means that no FDI in retail will be allowed in any state unless the state explicitly agrees to come on board and agree to the policy". In another important decision, the government approved the disinvestment of five Public Sector Units (PSUs), including Oil India (10 percent), Nalco (12.5 percent), and Hindustan Copper (9.6 percent).

Govt cuts withholding tax to make foreign debt attractive

The Indian government cut the tax it levies on the interest paid on foreign loans to 5 percent from 20 percent earlier. The move had been announced in the Budget 2012-13 and was implemented on September 21, 2012. So far, if a company was borrowing overseas at 5 percent, the cost went up to 6 percent due to the 20 percent levy. But with the reduced tax rate, the cost of the same loan would be 5.25 percent, excluding other costs such as those to hedge interest rate and currency risks. "This lower rate of taxation will apply to interest paid to a non-resident by an Indian company for money borrowed in foreign currency from a source outside India, either under a loan agreement or by way of long-term infrastructure bonds", as per the finance ministry said in a statement. As a result, the rate of withholding tax, or the income to withhold or deduct tax from the payment made by a company and transfer the amount to the government, has also been lowered to 5 percent.

RBI extends interest ceiling on export credit to 6 months

The RBI has extended the interest rate ceiling on export credit with overseas banks to six months. "It has been decided that the interest rate ceiling on lines of credit with overseas banks will continue to be six months Libor/Euro Libor/Euribor plus 250 basis points", RBI said in a notification on September 27, 2012. The decision was taken in view of the tight liquidity conditions and widening of credit spreads due to developments in international financial markets. RBI said it was necessary and expedient in the public interest to do so and added the prescription regarding interest rate ceiling on overseas line of credit will continue till further orders. The norms would continue subject to conditions banks will not levy any other charge such as service charge or management charge except for recovery towards out of pocket expenses incurred.

SEBI seeks ASBA facility at all branches of designated banks

Market regulator Securities and Exchange Board of India (SEBI) has asked the banks, authorised to accept Applications Supported by Blocked Amount (ASBA) forms wherein bid amount for public offer shares remain in investors' accounts till allotment, at all their branches by the end of 2012. SEBI introduced ASBA facility in 2008, under which an application for subscribing to an issue involves blocking of application money in the bank account. The facility is provided through Self Certified Syndicate Banks (SCSBs) and any bank desirous of offering ASBA facility need to register with SEBI. However, the facility is not available at all the branches of such banks. In a circular issued today, SEBI said that it has been felt that ASBA facility should be provided at all branches of SCSBs. To achieve this goal, SEBI said that in the first phase each SCSB should designate 50 percent its total branches as 'Designated Branches' for ASBA by October 31, 2012.

Technological interventions needed for increasing crop productivity: Exim Research Study

Despite growth in production in the recent decades, crop yields in India are much lower than global averages due to structural weaknesses in agriculture sector, states a research study by Exim Bank. The research study titled, 'Technological Interventions in Indian Agriculture for Enhancement of Crop Productivity' analyses input use trends in Indian agriculture and the impact on production. The Study reveals that Indian agriculture is heavily dependent on input usage such as energy, water, fertilisers, or pesticides, and therefore, strategies need to be adopted for sustainable management of these resources to counter any negative impact on crop production and yield levels. According to the Study, for such sustainable productivity enhancement, with balanced use of inputs, the policy framework needs to be geared towards providing long-term solutions, stimulating technology and capital investment. As regards, farm mechanisation, though India is one of the largest producers of tractors, their usage in farms are relatively low. In contrast, several research reports have quoted that agriculture in Bangladesh is relatively mechanised, due to relatively high usage of two-wheeler tractors. India, with large number of fragmented holdings, needs to adopt this strategy to improve productivity, besides addressing the challenge of farm labour exodus.

MoU with IL&FS Financial Services Ltd to help companies access CNH bond markets

Exim Bank and IL&FS Financial Services Ltd. (IFIN) have signed a Memorandum of Understanding (MoU) to provide a platform to Indian companies to access the CNH bond markets as well as other international bond markets which are not denominated in US Dollar, Euro and Yen. The MoU sets out the broad guidelines and principles of co-operation between the two institutions on a Bond Guarantee Facility Programme which will provide a credit enhancement facility to Indian bond issuers in international bond markets in internationally accepted currencies other than US Dollar, Euro and Yen. The total commitments to the Bond Guarantee Facility Programme are targeted at US$ 500 million (Total Facility). The quantum of commitment by Exim Bank and other banks would be decided on a case-to-case basis. IFIN and Exim Bank had successfully worked on the first ever corporate bond issue by an Indian company in the overseas Renminbi (CNH) market earlier in April 2012. The bond issue by the Singapore subsidiary of IL&FS Transportation Networks Ltd. (ITNL) was credit-enhanced by an unconditional and irrevocable part-guarantee by Exim Bank; IFIN had acted as the sole financial advisor to the issue. IFIN was instrumental in evolving an investor-friendly structure to safeguard the interests of the issuer, Exim Bank and four other risk-participating Banks.

Capacity Expansion is the key to growth of Chemical Industry: Research Study

In spite of its potential to increase exports as well as reduce imports, the Indian chemical industry seems to be caught in a capacity crunch situation, which is hindering its growth. With the traditional dominance of the industry shifting from the triad nations of North America, Europe and Japan to Asian markets, India is well poised to garner greater share, both in the domestic and international market. The study titled "The Indian Chemical Industry: Exploring Global Demand" was released at an interactive session with participants from the chemical industry held in Mumbai. The Study, which analyses the basic chemical sector, such as organic, inorganic, insecticides, tanning & dyes, estimates the size of the industry at around US$ 60 billion. The analysis reflects that in value terms the Indian chemical industry had a Compounded Annual Growth Rate (CAGR) of 10.4 percent during the 2005-2009 period, which is in line with the growth of the world chemical industry. However, in terms of production volumes, the growth in chemical industry has more or less remained stagnant – registering less than 1 percent CAGR during the period 2005-09. The Study states that the paradox of heightened demand (both in domestic and export markets) while having a stagnant domestic production, calls for capacity expansion which will not only have an import substitution effect, but also help in enhancing India's exports.

Winner of IEDRA Award 2011 announced

Dr. Brijesh Pazhayathodi is the winner of Exim Bank's International Economic Development Research Annual (IEDRA) Award 2011 for his Doctoral dissertation titled "Exports of Services and Offshore Outsourcing: An Empirical Investigation in the Indian Context". The Award consisting of Indian rupees two lakh fifty thousand and a citation were handed over by the Chief Guest, Dr. Kaushik Basu, Chief Economic Advisor, Government of India, Ministry of Finance, New Delhi, who also released Exim Bank's Occasional Paper titled "Exports of Services and Offshore Outsourcing: An Empirical Investigation in the Indian Context", which is based on the Award winning thesis. Exim Bank IEDRA Award, instituted in 1989, is given for Doctoral dissertations in the area of international economics, trade & development and related financing by Indian nationals from Indian or foreign universities. The year 2011 was the twenty-third year of the Award.

10 Indian Electrical Equipment Industry: Promoting Exports

Electrical equipment and machinery is principally used in the power industry (generation, transmission and distribution) as well as in other manufacturing industries, such as automobiles, cement, steel, petrochemicals, and refining. The electrical equipment and machinery sector comprises a range of products, such as transformers, switchgears, motors, generators, and control equipments. There are about 700 manufacturers of electrical machinery in India including heavy electrical power generation equipments like boilers, turbines and generator sets. Nearly 90 percent of them are small & medium manufacturers. Indian electrical equipment industry caters to most of the indigenous demand. In select segments, especially to meet the demand for highly sophisticated equipments, sourcing is done through imports.

The market size and production of electrical equipment during 2010-11 stood at ₹121,418 crore and ₹ 110,000 crore, respectively. During the 12th plan market size is expected to grow at a CAGR of 16.4 percent to reach ₹ 301,662 crores, and production is expected to grow at a CAGR of 15.2 percent to reach ₹ 257,050 crores by 2016-17 (**Table 1**).

Table 2: India's Exports and Imports of Electrical Equipments, 2010-11

Exports	US$ million	% share	Imports	US$ million	% share
World	**1986.1**	**100.00**	**World**	**3258.38**	**100.00**
USA	317.6	16.0	China	929.5	28.5
Nigeria	110.8	5.6	Germany	464.3	14.3
Germany	110.6	5.6	South Korea	281.5	8.6
Netherlands	104.5	5.2	Japan	212.9	6.5
France	96.0	4.8	USA	200.1	6.1
UK	95.3	4.8	France	135.0	4.1
UAE	77.7	3.9	Singapore	129.5	4.0
Singapore	66.2	3.3	Italy	103.0	3.2
China	62.4	3.1	Finland	92.3	2.8
Kenya	54.2	2.7	UK	77.2	2.4

Source : DGCIS, MOCI

India was more of an importer of electrical equipments than an exporter. During 2010-11, India's exports to the world stood at US$ 2 billion whereas imports stood at US$ 3.3 billion. India's major export destinations of electrical equipments were USA (16 percent), Nigeria (6 percent), Germany (6 percent), Netherlands (5 percent) and France (5 percent). India's major source countries were China (29 percent), Germany (14 percent), South Korea (9 percent), Japan (7 percent), and USA (6 percent) (**Table 2**). During April-December 2011-12, export and import of electrical machinery stood at US$ 1.7 billion and US$ 3.1 billion, respectively.

Table 1: Market Size and Production of Electrical Machinery in India (₹ Crore)

	2009-10	2010-11	2011-12*	2012-13*	2013-14*	2014-15*	2015-16*	2016-17*
Market Size	104,185	121,418	140,680	163,479	190,192	221,532	258,350	301,662
Production	93,187	110,000	126,312	145,421	167,521	193,097	222,719	257,050

* - Projected

Source: Report of the Working Group on Capital Goods & Engineering Sector for the 12th Five Year Plan (2012-2017)

At the global level, China was the largest exporter of electrical equipments, holding a share of 16.3 percent of the global exports in 2010, followed by Germany (12 percent), Hong Kong (9 percent), USA (8 percent), Japan (8 percent), and France (4 percent). In the case of importers, China again was the largest importer holding a share of 14 percent of the world imports of electrical equipments, followed by USA (12 percent), Hong Kong (8 percent), Germany (7 percent), Mexico (4 percent), and Japan (3 percent). India ranked 28th as an exporter and 30th as an importer during this period.

In Sum

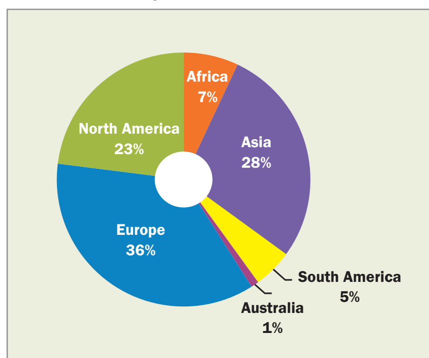
India is heavily dependent on imports of high-end electrical equipments and machinery, from countries like China, Germany, South Korea, USA, and Japan, to meet its domestic demand. Lesser spending on research and development (R&D) by electrical industry has increased India's dependence on import of high-end products, which has been growing over the years. International experiences suggest that the growth in high-end electrical machinery and equipment exports is generally correlated with higher expenditure in R&D. Hence, support may also be provided to firms in these sectors to expand their R&D related activities. Although India's expenditure on R&D surpasses that of other developing countries such as Mexico, Malaysia, and Chile, our country still lags behind South Korea, Russia, China, and Brazil. It may be noted that India has very low R&D intensity (0.5 percent) compared to other countries. This calls for preferential support programmes for the units to stimulate and assist their R&D initiatives.

Electrical equipment and machinery units in India are largely from MSME sector. Thus, hand-holding support for technology upgradation for industrial units may be required. Cluster-based approach may be adopted to extend such hand-holding support through the public-private partnership mechanism. Countries such as China and Japan have developed electrical machinery industry through clustering approach. Japanese clusters in this sector are spread in areas such as Saitama, Tokyo, Kanagawa, Yamanashi, Ibaraki, Gunma, Nagano, Osaka, and Hyogo. In China, Jinshan, Fuzhou, and Lianjiang areas have electrical machinery clusters, especially in the sub-segments of hi-power generator units, switch cabinets, numerical control machine tools, etc. In such clusters, one can find trained people more easily and form inter-relationships between suppliers and vendors that make development of products faster, cheaper and even lead to better innovations. India should also follow such models for the better development of the electrical machinery industry.

With the world's top automobile companies vying to be a part of the India's great growth story, the Indian auto components industry is reaping the consequent benefits of the spiraling demand. In fact, the Indian automobile components industry has emerged as one of the fastest growing manufacturing sectors, and a globally competitive one.

The Indian auto component sector generated a turnover of about US$ 43.5 billion in fiscal year 2011-12, with a CAGR of 13 percent during 2007-12. According to estimates, the industry given the current momentum is expected to grow at a CAGR of 11 percent during 2012-21 to touch US$ 113 billion. The average revenue of the top 10 suppliers too has witnessed a northward movement by more than 2.5 times during 2006-11.

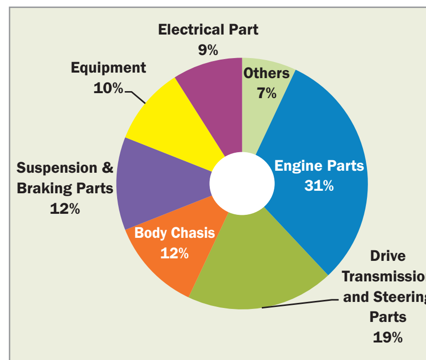
Chart 1: Export Destination of Auto components – FY 2012



Source : Automotive Components Manufactures Associations of India

Exports of the auto component industry had been vibrant with a CAGR of 16 percent during the period 2007-12. According to industry estimates the exports during the period 2012-21 is expected to grow at a CAGR of over 17 percent to touch US$ 29 billion Exports as in 2011-12 stands at US$ 6.8 bn. Major export destination remain Europe (36 percent), North America (23 percent), Asia (28 percent), Africa (7 percent), South America (5 percent), followed by Australia (1 percent) (**Chart 1**). The Original Equipment Manufacture (OEM) market accounts for 80 percent of the exports.

Chart 2: Comprehensive Product Range – FY 2012



Source : Automotive Components Manufactures Associations of India

While exports have been booming, there has been a sharp rise in imports of auto components as well, especially in the last three years. From an import of US$ 6.2 billion in 2007-08, they have gone up to US$ 10.6 billion in 2011-12 and are anticipated to touch US$ 35 billion. This is a healthy trend, indicative of rising domestic demand.

India's component industry today has the capability to manufacture the entire range of auto components, such as engine parts, drive, transmission parts, suspension and braking parts, electrical parts, and body and chassis parts. Engine parts are the largest sub-segment of the industry in terms of exports, with an export share of 31 percent (**Chart 2**).

The India Advantage

- Steered here by India's sophisticated engineering skills, established production lines, a thriving domestic automobile industry and competitive costs, global auto majors are rapidly ramping up the value of components they source from India.
- Supportive government policies, positive business environment, availability of reasonably priced talented workforce and stable outlook for the industry has made India a global hub for the international manufacturers to set up their facilities in the country.
- Though the manufacturing costs in India are 25 - 30 percent lower than its western counterparts, India's competitive advantage comes from its full service supply capability as well, which makes India a favourable destination.
- Besides, the quality consciousness of the industry matches global standards. This is corroborated by the fact that nine Indian companies in the automotive sector have received the coveted Deming Prize, which is the largest number outside Japan. The auto component suppliers are also embracing modern shop floor practices like 5-S, 7-W, Kaizen, Total Quality Management, Total Productivity Management, 6-Sigma and Lean Manufacturing, as they graduate to match with world-class industry. A large number in this industry are also recipients of quality certificates like ISO-9000, TS-16949, QS-9000, ISO-14001 and OHSAS-18001.

The Road Ahead

Indian auto component industry is today at an inflexion point and needs to make a transition to position itself on models of long-term success and to achieve the same increase in R&D expenditure remains important. In order to improve the share of Indian auto components in the global market, Indian companies must leverage mergers and acquisitions to leapfrog competition especially to gain customers and build innovation capabilities, build R&D capabilities and collaborate with OEMs to jointly develop products, and diversify and build capabilities to serve adjacent markets (e.g. defence, construction, farm implements). With a host of automobile companies making a beeline to cater the burgeoning domestic market, the spillovers from the same will benefit the auto component manufacturers domestically as well, while they continue to make a strong presence overseas.

12 Potential for Enhancing India's Exports to Iran

Trade relations between India and Iran have witnessed a significant rise during the last decade, with India's trade (exports plus imports) with Iran rising from US$ 520 million in 2001 to US$ 10.5 billion in 2010 (**Table 1**) . This buoyant trend has been supported by both rise in India's exports to and imports from Iran, with India's imports from Iran showing a much higher CAGR as compared to India's exports to Iran.

Table 1: India's Trade with Iran (US$ mn)

	2001	2005	2010	CAGR (%) 2001-2010
Export	253.3	1073.0	2509.3	29.0
Import	266.9	644.2	7999.9	45.9
Total Trade	520.2	1717.2	10509.2	39.6
Trade Balance	-13.7	428.8	-5490.7	

Source: Trade Map, ITC Geneva

India's trade balance with Iran which showed a surplus of US$ 428.8 million in 2005, moved to a deficit of US$ 4.3 billion in 2006 owing to a sharp increase in oil imports. By 2010, the trade deficit stood at US$ 5.5 billion.

In 2011-12, Iran was India's 19th largest trading partner, with 2 percent share in India's total trade. During the same year, Iran was the 12th largest source of imports for India, with a 2.8 percent share in India's total imports, and the 32nd largest export market, with a share of 0.8 percent in India's total exports.

During 2001-2010, India's exports to Iran increased close to ten-fold from US$ 253.3 million in 2001 to US$ 2.5 billion in 2010, due to rise in export of inorganic chemicals, cereals, iron and steel and articles of iron and steel. India's export basket to Iran is dominated by inorganic chemicals, articles of iron or steel and cereals, cumulatively accounting for 50.6 percent of India's total exports to Iran in 2010.

While India's overall exports to Iran have depicted a robust trend in recent years, an analysis of the share of India's major exports to Iran vis-à-vis Iran's global imports of these items would reveal the tremendous scope to enhance India's exports to Iran. The following observation has been discerned.

In the case of coffee, tea and spices, manmade filaments, articles of iron and steel, cereals, manmade staple fibres and cotton, India is a major source for Iran's imports, accounting for a significant share in Iran's global imports.

However, in the case of other major exports to Iran, the share of India in Iran's basket is low. In particular the share of machinery and instruments, iron and steel, electrical and electronic equipments, plastics and articles the low share of India in Iran's import basket would serve to highlight the tremendous scope to enhance such exports to Iran (**Table 2**).

Table 2: Iran's Major Imports and India's Share, 2010

HS Code		Iran's Imports from World (US$ mn)	Iran's Imports from India (US$ mn)	India's Share in Iran's Imports (%)	India's Global Exports (US$ mn)
Total	**All products**	**54697.2**	**2509.3**	**4.6**	**220408.5**
84	Machinery & instruments	11589.6	140.7	1.2	8149.8
72	Iron and steel	7706.8	192.0	2.5	6996.2
85	Electrical, electronic equipment	3018.5	90.4	3.0	8706.5
87	Vehicles other than railway	2479.6	42.1	1.7	9285.9
10	**Cereals**	**2284.8**	**369.0**	**16.2**	**2923.7**
39	Plastics and articles	2165.0	19.7	0.9	3630.3
73	**Articles of iron or steel**	**1838.2**	**435.8**	**23.7**	**6367.7**
27	Mineral fuels, oils	1472.5	31.7	2.2	37984.1
90	Optical, photo, technical, apparatus	1393.0	10.9	0.8	1440.8
30	Pharmaceutical products	1255.2	54.1	4.3	6096.1
29	**Organic chemicals**	**1146.3**	**90.9**	**7.9**	**8592.7**
40	**Rubber and articles**	**775.8**	**46.4**	**6.0**	**1675.4**
55	**Manmade staple fibres**	**520.1**	**67.1**	**12.9**	**1621.8**

Source: Trade Map, ITC Geneva

With India's trade deficit with Iran witnessing a rising trend in recent years, strategy to enhance trade relations with Iran, and thereby bridge the rising trade gap, would entail identification of potential items of India's exports to Iran. Based on India's global export capability as well as major items in Iran's import basket, potential items of export to Iran would include machinery & instruments (HS-84), iron and steel (HS-72), vehicles other than tramways (HS-87), plastic and articles (HS-39), optical, photo, technical, medical, etc apparatus (HS- 90), pharmaceutical products (HS-30), misc. chemical products (HS-38), aluminum and articles (HS-76), mineral fuels & oils (HS-27), edible fruits (HS-8), sugar and sugar confectionery (HS-17), oil seed (HS-12), residues, wastes of food industry (HS- 23), electrical and electronic equipment (HS-85)

Given India's export capability in these sectors, and the huge demand existing in Iran, potential exist to further enhance India's trade relations with Iran in line with potential sectors which present export opportunities for India.

Export Marketing Services

July-September, 2012

Exim Bank of India, in partnership with Government of Jharkhand and Indian Institute of Packaging (IIP) organised a three day workshop on "Quality Control, Branding and Packaging" from August 1-3, 2012, at Ranchi and Hazaribagh. This workshop focused on enabling artisans and master trainers to understand the importance of packaging, branding and quality control for handicrafts and silk-based readymade garments; which will have a wider appeal in international market. Honorable Chief Minister of Jharkhand, Shri Arjun Munda graced the occasion and inaugurated the workshop.

The faculty support was provided by IIP and experience sharing was provided by industry players from the packaging industry. Approximately 250 artisans and senior officials from Jharcraft participated in the three-day workshop. The workshop involved highlighting the significance of graphics, packaging material and process, value addition, and consumer preferences. Exim Bank, through its Export Marketing Services is assisting Jharcraft to promote its products in international and domestic markets.

The programmes in pipeline include Design Development training workshop for Bidriware products, which is a follow-up workshop for the Bidriware artisans.

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Eximius Centre Activities

July-September, 2012

Eximius Centre, in Association with Federation of Indian Export Organisation (FIEO) had jointly organised a half-day interactive session on "Emerging Global Economic Situation and its Impact on India's Exports " on August 9, 2012. The main objective of the workshop/ interactive session was to educate the Karnataka exporters. There was a brainstorming session on the present global scenario, opportunities for growth in India's exports, and other policy initiatives that are needed for boosting the trade, in the presence of Dr. H A C Prasad, Senior Economic Advisor, Ministry of Finance, Government of India, who was the Chief Guest and also Mr. J. V. Patil, Joint Director General of Foreign Trade.

The programmes in pipeline include

1. "Market Development on Pharma Companies" at Hyderabad & Chennai in association with ITC, Geneva
2. Export Procedure and Documentation Programme, at two centres, to be identified in consultation with Regional Heads in Eastern and Northern region
3. Business Opportunities in Argentina in association with Consulate General of Argentina, Mumbai. Exporters meet to be organised jointly with FIEO, Bangalore
4. Seminar on Special Economic Zones jointly with FIEO, Bangalore

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BOOK REVIEW

Myanmar in Transition Opportunities and Challenges by ADB

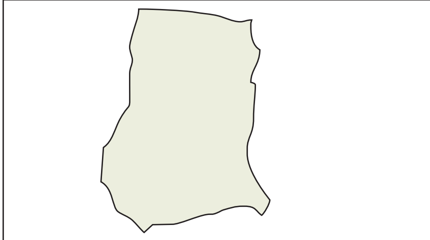
Myanmar's transition comes amid a seismic shift in the global economic landscape. Analysing the opportunities and challenges facing Myanmar after decades of isolation, the report 'Myanmar in Transition: Opportunities and Challenges' is Asian Development Bank's (ADB) first major review of the country since it began political and economic reforms in 2011. The report noted that the country is showing good potential for growth and could become one of the next 'rising stars' in Asia.

As per the report, Myanmar reported impressive GDP growth rates, averaging 10.2 percent during 1992-2010 and 12.2 percent during 2000-2010 and expected to grow further by about 6 percent in 2012 and 6.3 percent in 2013 on the back of commodity exports and a pick-up in foreign investment to become a middle income nation by 2030. Myanmar possesses abundant natural resources and labour force. Its strategic location, closer to China and India and the ASEAN bloc, leaves it perfectly positioned to prosper from Asia's dynamic economic growth.

Myanmar's natural resources are among its most important assets. The country is particularly rich in natural gas, water, forests, and fisheries.

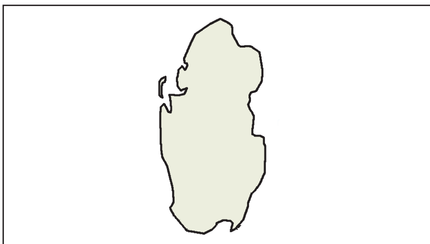
To fully realise Myanmar's potential, the report suggested the country must focus on strengthening connectivity via infrastructure in transport, power and telecommunications services, as well as modernising its financial sector. Its economic base must also broaden beyond agriculture to the manufacturing and service sectors to meet a growing demand for jobs.

Ghana



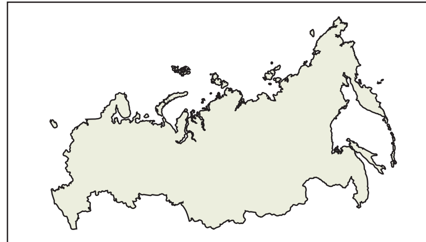
Supported by oil discovery and re-basing of the economy, Ghana moved from a Low-Income Country (LIC) to Lower-Middle- Income Country (LMIC). Ghana's economy grew by 13.6 percent in 2011, the fastest in Sub-Saharan Africa, led by the start of oil production for exports in 2010. The monetisation of Ghana's gas, which is expected to begin in 2013, will further lower the cost of power and improve competitiveness of the economy, supporting country's strong growth outlook. As per World Bank, Ghana needs to spend around US$ 26 billion on infrastructure such as roads and electricity to support this high economic growth. Though the Government of Ghana has committed itself to infrastructural investments in the road and transport, agricultural, energy, oil and gas sectors, among others, there is a need for more investment in the country.

Qatar



According to the World Economic Forum's annual Global Competitiveness Report for 2012-2013, Qatar is the most competitive economy in the Middle East. Qatar has had an impressive economic expansion during the last decade, supported by massive investments in LNG infrastructure and buoyant hydrocarbon prices. The Government of Qatar also recently sold the largest ever Islamic bond, a US$ 4 billion dual tranche (5- and 10-year) sukuk. Qatar's decision to host of FIFA Football World Cup in 2022 is expected to give a big boost to the infrastructural development of the country. The country is planning to develop a local bond market to help fund an amount of US$ 125 billion (Dh 459.12 billion) required for the hosting the World Cup.

Russia



During August 2012, Russia joined World Trade Organisation (WTO) after 18 years of negotiations, which is considered as major step towards country's better global financial and economic integration. With accession into WTO, the country would be lowering its import duties, limit its export duties and grant greater access to foreign companies. The World Bank estimated that WTO membership could increase Russia's GDP by 3.3 percent a year in the next three years. The country is currently in an investment spree in its infrastructure sector as part of its grand plan to invest at least RUB 1 trillion into modernising the country. Russia is the world's largest energy exporter, with hydrocarbons accounting for two-thirds of its exports. The country is planning to its increase oil output from its continental shelf by five-fold and the extraction of natural gas by four-fold, till the end of 2030. As part of its decision to completely shift to an inflation targeting policy by 2014, Russia has recently raised all policy rates by a quarter-point after the country's inflation exceeded its target.

Chile

Chile, an upper middle income economy in Latin America, was the first South American country to join the OECD in May 2010. According to the World Economic Forum's (WEF) Global Competitiveness Report 2012-2013, Chile's economy is the most competitive in South and Central America and 33rd most competitive in the world. According to the Central Bank of the country, Chile is expected to grow by five percent in 2012. Chile, the world's largest copper-producing nation, is targeting to produce around 9 million tonnes of copper per year by 2020. India and Chile would be starting negotiations on an FTA this year, which if agreed, Chile would become the first South American country to have an FTA with India. India has recently included Chile under its Special Focus Market Scheme.

Pakistan

Pakistan recently introduces Special Economic Zones Bill 2012, which would help in reducing the cost of doing business, increase exports, create jobs, and enhance the rate of return to investors. The country has taken a number of steps including various agreements to improve its relation with India in the recent years. The country has also decided to grant the most favoured nation (MFN) status to India by end of 2012. Both the countries have also decided to establish Common Business Council that would work for promotion of trade relations. Also, effective August 1, 2012, the Government of India has allowed a citizen of Pakistan or an entity incorporated in Pakistan to invest in India, under the Government route, in sectors/activities other than defence, space, and atomic energy.

Pound Sterling (GBP)

Pound 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 to calculate the value of IMF Special Drawing Rights (SDR). Sterling had 11.3 percent weighting in the SDR as of 2011. It is also the third most held reserve currency in global reserves.

One of Bank of England's (BOE) two core objectives is monetary stability, defined by an inflation target of 2 percent. The BOE's Monetary Policy Committee (MPC) on September 6, 2012 voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5 percent. The Committee also voted to continue with its programme of asset purchases totalling £375 billion, financed by the issuance of central bank reserves.

The long period of sustained above-target CPI inflation readings is probably ending. Indeed, the market expects that CPI inflation will fall from 2.5 percent y-o-y in August to 1.9 percent y-o-y in September, falling further below the target in Q4-12. Average inflation is expected to be close to the 2 percent target in 2013.

The fiscal deficit is expected to fall to 6-7 percent of GDP in 2012-13, because of the absorption of pension funds of the state-owned postal service. But the underlying deficit is expected to rise slightly due to the ongoing economic weakness, with a likely change in 2013. The MPC is likely to expand Quantitative Easing (QE) markedly further in coming quarters, most likely in November when the current QE programme ends. The market expects GBP to depreciate against USD in the near term. The GBP was trading at GBP 1 = US$ 1.6164 as on September 30, 2012.

Swiss Franc (CHF)

The Swiss Franc is the official currency of Switzerland, is issued by Swiss National Bank (SNB), the central bank of Switzerland.

The SNB recently reaffirmed its determination to continue to resist any appreciation pressure on the CHF and, with inflation negative, has plenty of reason to avoid allowing monetary conditions to tighten. The market expects a long period of ultra-low rates. Growth is likely to remain hampered by weak foreign demand for Swiss goods and services. The recession in the eurozone periphery and meagre growth elsewhere in Europe and in the US, are expected to prevent any rapid recovery in exports, at least until a lasting solution to the eurozone crisis is found.

In 2013, growth is expected to pick up gradually as exports recover and monetary policy remains accommodative. Indeed, the SNB has used unsterilised interventions to defend its 1.20 EUR-CHF floor, creating ample liquidity within Switzerland. The market anticipates that appreciation pressure on the CHF will persist, and that the central bank will defend this floor until at least the end of 2013, to prevent further losses of export competitiveness and combat deflation risks.

Furthermore, the 0 - 0.25 percent target range for 3-month LIBOR to be increased only once the EUR-CHF floor has been lifted. Overall, this should provide a boost to investment. Indeed, since a Federal Council decision in June 2012, the SNB can force banks to build countercyclical capital buffers if needed. This measure is designed to limit credit growth without forcing the SNB to tighten monetary policy and abandon its currency management. The CHF was trading US$ 1= CHF 0.9395 on September 30, 2012.

Malaysian Ringgit (MYR)

The MYR is the official currency of Malaysia since 1975. The Bank Negara Malaysia (BNM, the Central Bank) pegged the Ringgit in September 1998 to maintain at 3.80 per USD value, while remaining floated against other currencies. 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.

The external position of Malaysia remains comfortable, with a current account surplus of around 10 percent of GDP. Being one of the most open countries in Asia, Malaysia is sensitive to swings in external demand. With the expectation of slower growth globally, demand for Malaysia's electronics is expected to be weaker in 2012. On the upside, a rise of oil and gas prices would benefit Malaysia as a net energy exporter. Overall, economic growth is expected to be around 4 percent in 2012, which is somewhat lower than the 4.8 percent posted in 2011.

Given the growth environment, there is little urgency for BNM to cut policy rates. The latest monetary policy statement, released on September 6, 2012, underlined BNM's neutral stance. It acknowledged the uncertain global environment but noted that the current monetary policy stance is accommodative and is supportive of the economy. BNM also extended its inflation outlook into 2013, noting that it expects inflation to remain moderate.

The market has a neutral short-term FX weighting on the MYR and an overweight medium-term weighting. The MYR remains vulnerable to a correction in positioning and to the global industrial production cycle in the short term. The MYR was trading at US$ 1 = MYR 3.0590 on September 30, 2012.

FDI Flows into India: Recent Trends and Sectoral Analysis

Foreign Direct Investment (FDI) as an instrument enhances a country's manufacturing and export competitiveness. It is generally known to be the most stable component of capital flows needed to finance the current account deficit. Moreover, it adds to investible resources, provides access to advanced technologies, assists in gaining production know-how and promotes exports.

Though India's approach towards foreign investment has been relatively conservative to begin with, it progressively started catching up with the more liberalised policy stance of other emerging market economies from the early 1990s onwards, in terms of wider access to different sectors of the economy, ease of starting business, repatriation of dividend and profits, and relaxations regarding norms for owning equity. This progressive liberalisation, coupled with considerable improvement in terms of macroeconomic fundamentals is reflected in the growing size of FDI inflows to the country. FDI inflows, which were less than US$ 10 billion prior to 2005-06, improved thereafter and the country received US$ 35.1 billion in 2011-12 Over the last decade, FDI inflows in India grew at a CAGR of 24.9 percent. According to UNCTAD, in 2011 India emerged as the largest recipient of FDI in South Asia and accounted for more than four-fifth of total FDI inflows in the region. Further, AT Kearney Foreign Direct Investment Confidence Index 2012, has placed India at the second place globally.

Mauritius has been the major investing country in India during April 2000 to June 2011, accounting for close to 38 percent of FDI inflows (**Table 1**). An analysis of the flows from Mauritius shows that many foreign institutional investors route their investments into India through Mauritius, which enjoys a tax haven status to reap the benefits of capital gains as well as dividend taxations. The other major investing countries include USA, Singapore, UK, Japan, Netherlands, Germany, Cyprus, Germany and France.

Over the years, the automatic route has become the most used entry route for FDI investments in India indicating the gradual liberalisation of FDI policy.

Table 1: Top ten investing countries in India during April 2000 to June 2012

Country	in ₹ '000 Cr	US$ bn	% of total FDI inflows
Mauritius	297.2	65.6	37.6
Singapore	79.8	17.6	10.1
UK	76.8	16.3	9.3
Japan	59.8	12.7	7.3
USA	48.7	10.7	6.1
Netherlands	35.2	7.7	4.4
Cyprus	30.8	6.6	3.8
Germany	22.2	4.9	2.8
France	13.7	3.0	1.7
UAE	10.6	2.3	1.3

Source: DIPP, GOI

Over the last decade, services sector attracted the highest investment in India, with a 19.1 percent share, followed by manufacturing (**Table 2**). In the services sector, investors have been interested primarily in financial services. However, the share of services has been falling. Key manufacturing sector and segments such as electricity and power generation have been in the face of renewed investor interest.

Table 2: Top ten sectors for foreign investment in India during April 2000 to June 2012

Sector	₹ '000 Cr	US$ bn	% of total FDI inflows
Services*	151.6	33.4	19.1
Construction Development**	95.6	21.1	12.1
Telecommunications	57.1	12.6	7.2
Computer Software & Hardware	50.6	11.3	6.5
Pharmaceuticals	45.3	9.7	5.5
Chemicals (other than fertilisers)	39.2	8.1	4.7
Power	34.0	7.4	4.3
Automobile Industry	31.9	7.0	4.0
Metallurgical Industry	28.7	6.4	3.7
Petroleum and Natural Gas	23.7	5.1	2.9

* - Financial, banking, insurance, outsourcing, R&D, courier & tech. testing and analysis & others

** - Township, housing, built up infrastructure and construction-development projects

Source: DIPP, GOI

The government plans to increase India's share in global FDI from the existing 2.1 percent in 2011 to 5 percent by 2017 by relaxing FDI norms. The Indian economy continues to be one of the fastest growing economies globally despite the fall in growth rates in the last one year. With strong fundamentals and long-term high growth trajectory, which is further strengthened by factors such as high savings and investments rates, a growing and young labour force, rising adult literacy, rising per capita income, and talented human resources, India is poised well to attract significant foreign investments.

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

Note: Indian Rupees are referred in crore and lakh

1 crore : 10 million

1 lakh : 100 thousand

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