



# INDO-CIS

MAGAZINE FOR THE COMMONWEALTH OF INDEPENDENT STATES

## BUSINESS

April-June 2006 Rs. 100/-

**Perspective:**

**India on the Move**

**Focus:**

**Buoyant Russian Economy**

**Study:**

**Indian Petroleum Industry**

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**Exim Bank Lecture**

### KAZAKHSTAN A CIS Success Story

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## Published by:

**New Media Communication Pvt. Ltd.**  
 in association with  
**Export-Import Bank of India**

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### Printed & Published by

Satya Swaroop and printed at  
 M/s Young Printers, A-2/237,  
 Shah & Nahar Industrial Estate, Lower Parel,  
 Mumbai- 400 013 and published from  
 B -302, Twin Arcade, Military Road,  
 Marol, Andheri (E), Mumbai - 400 059 India

The news items and information published herein have been  
 collected from various sources, which are considered to be reliable.  
 Readers are however requested to verify the facts before making  
 business decisions using the same.



## Dear Reader,

Greetings. For those of us who watched with dismay the disintegration of the Soviet Union in 1991, the economic success of Kazakhstan, one of its republics, comes as a great relief and redeeming feature. Today, Kazakhstan, a constituent of the Commonwealth of Independent States (CIS), which had risen from the ruins of the USSR, is a success story. Endowed with enormous reserves of oil, natural gas and mineral resources, Kazakhstan embraced economic reforms in mid-1990s after overcoming initial hiccups to emerge as a power by itself. Booming oil prices and good grain harvests ensured a nine percent GDP growth in the last five years, which in turn attracted huge amounts of foreign direct investment. The current issue of Indo-CIS Business features Kazakhstan as its cover story. The economy of Russia, the biggest CIS constituent, is also doing well in 2006 with strong domestic demand driving its growth. The flow of foreign direct investment into Russia is further helping modernization of the country's industrial infrastructure. In addition, Russia's surplus oil funds are opening up investment avenues. All these topics form the focus of the current issue. One point that is being stressed time and again at Indo-CIS joint seminars is the need for better B2B (business-to-business) collaboration, especially in tapping the mineral-rich CIS region. Further, there is also the need for frequent buyer-seller interaction between the business communities of India and CIS. We carry two separate reports. We also present a World Bank report that says economic reforms by CIS member countries have helped create more jobs in small and medium enterprises (SMEs). The magazine's Perspective is an in-depth write-up on the Indian economy presented by Exim Bank's Chairman and Managing Director T.C. Venkat Subramanian. The article, India on the Move, gives details of the strides that the country has made in every aspect of industry, trade, commerce and services in the last 15 years and the opportunities it offers to foreign investors. Exim Bank's Commencement Day Annual Lecture, which celebrated its 25<sup>th</sup> anniversary in 2006, has been presenting year after year men of great intellectual caliber to talk about contemporary economic issues, with a particular reference to India. This year, Sir Suma Chakrabarti, Permanent Secretary in the Department for International Development, UK, talks about the role of State in Trade and Development. Exim Bank undertakes analytical studies that provide insight into different industries highlighting the opportunities that exist for their growth. Two such industry studies, one on petroleum products and the other on leather have been carried in the current issue, which also presents the excellent annual progress report of the Exim Bank for the year 2005-06.

Wish you happy reading

**Satya Swaroop**

Managing Editor

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Booming oil prices, good harvest,  
heavy FDI inflow spur growth

## Kazakh economy: A CIS Success Story

By Dev Varam



Kazakhstan, the second largest of the Commonwealth of Independent States (CIS) after Russia, has fully utilized its freedom since the break-up of the former Soviet Union in December 1991, to boost its economy. Bestowed with enormous fossil fuel reserves and plentiful supplies of other minerals and metals, Kazakhstan overcame the initial hiccups to mount far-reaching economic reforms in mid-1990s. The policies have paid rich dividends in the last five years. The GDP growth has been sustained at 9.0 percent, thanks to high oil prices, good agricultural harvests and a steady inflow of direct foreign investment.

Kazakhstan's industrial sector rests on the extraction and processing of oil and natural gas and mineral resources. It also has a large agricultural sector featuring grain and livestock. Besides these, Kazakhstan also has a growing machine-building sector specializing in construction equipment, tractors, agricultural machinery and some defense items.

Initially, the breakup of the USSR led to the collapse in demand for Kazakhstan's traditional heavy industry products, which resulted in a short-term contraction of the economy, with the steepest annual decline occurring in 1994. During the period 1995-97, the pace of the government programme of economic reforms and privatization quickened, resulting in a substantial shifting of assets into the private sector. Kazakhstan enjoyed double-digit growth in 2000-01 and 9.0 percent per year in 2002-05 - thanks largely to its booming energy sector, but also to economic reform, good harvests and

foreign investment.

The opening of the Caspian Consortium pipeline in 2001, from western Kazakhstan's Tengiz oilfield to the Black Sea, substantially raised its export capacity. Kazakhstan also has begun work on an ambitious cooperative construction effort with China to build an oil pipeline that will extend from the country's Caspian coast eastward to the Chinese border.

The country has embarked upon an industrial policy designed to diversify the economy away from over-dependence on the oil sector by developing light industry. The policy aims to reduce the influence of foreign investment and foreign personnel. The government has engaged in several disputes with foreign oil companies over the terms of production agreements; tensions continue. Upward pressure on the local currency continued in 2005 due to massive oil-related foreign-exchange inflows.

## Economy Fact-Sheet

GDP (purchasing power parity): \$133.2 billion (2005 est.); GDP - real growth rate: 9.0 percent (2005 est.); GDP - per capita (PPP): \$8,800 (2005 est.); GDP - composition by sector: agriculture: 7.8 percent, industry: 40.4 percent, services: 51.8 percent (2005 est.). Workforce: 7.85 million (2005 est.); by occupation: agriculture: 20 percent, industry: 30 percent, services: 50 percent (2002 est.). Inflation rate (consumer prices): 7.4 percent (2005 est.) Investment (gross fixed): 22 percent of GDP (2005 est.) Budget: revenues: \$12.19 billion, expenditure: \$12.44 billion; including capital expenditure of \$NA (2005 est.) Agriculture - products: grain (mostly spring wheat), cotton; livestock Industries: oil, coal, iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver, phosphates, sulfur, iron and steel; tractors and other agricultural machinery, electric motors, construction materials Industrial production growth rate: 10.7 percent (2005 est.) Electricity - production: 60.33 billion kWh (2003), Electricity - consumption: 52.55 billion kWh (2003).

Electricity - exports: 6 billion kWh (2003) Oil - production: 1.3 million bbl/day (2005 est.), Oil - consumption: 221,000 bbl/day (2003 est.), Oil - exports: 890,000 bbl/day (2003). Oil - proved reserves: 26 billion bbl (1 January 2004) Natural gas - production: 18.5 billion cu m (2004 est.), Natural gas - consumption: 15.2 billion cu m (2004 est.), Natural gas - exports: 4.1 billion cu m (2004 est.), Natural gas - proved reserves: 3 trillion cu m (1 January 2004) Current account balance: \$3.343 billion (2005 est.), Exports: \$30.09 billion f.o.b. (2005 est.), Exports - commodities: oil and oil products 58 percent, ferrous metals 24 percent, chemicals 5.0 percent, machinery 3.0 percent, grain, wool, meat, coal (2001) Imports: \$17.51 billion f.o.b. (2005 est.), Imports - commodities: machinery and equipment 41 percent, metal products 28 percent, foodstuffs 8.0 percent (2001) Reserves of foreign exchange and gold: \$11.13 billion (2005 est.), Debt - external: \$32.7 billion (2005 est.), Currency (code): tenge (KZT), Exchange rates: tenge per US dollar - 132.88 (2005)

## Medium-Term Economic Outlook Favourable: IMF

An IMF mission visited Kazakhstan from March 30 to April 11, 2006 to hold discussions on the country's microeconomic developments, ongoing reforms and policy changes. According to the mission's report, Kazakhstan continues to record rising living standards and improvements in key social indicators. The key near-term policy challenge is to sustain the strong economic performance amid mounting risks in the banking sector and a marked pickup in inflation in recent months. The report concludes that the medium-term economic outlook is favourable. Following are excerpts of the IMF Mission report.

Economic activity remained very strong in Kazakhstan with 2005 marking the sixth consecutive year of real GDP growth in excess of 9 percent. Key social indicators improved further and unemployment continued to decline. High oil prices and buoyant growth in non-oil revenues permitted a further substantial expansion in budgetary expenditures and, at the same time, a sizable increase in the overall fiscal surplus, much of which was saved in the National Fund of the Republic of Kazakhstan (NFRK) for future generations. Activity is expected to remain buoyant in



2006, although non-oil growth will likely slow from the heady pace of 2005.

### The Key Policy Challenge

The key policy challenge to sustaining strong economic performance relates to mounting risks in the banking sector and the marked pickup in inflation in recent months. Credit

growth has picked up to an annual pace of about 75 percent, financed in part by a surge in banks' external borrowing \$4.5 billion in the fourth quarter of 2005 alone. As a result, banks' vulnerability to a tightening of international financing conditions and a sharp slowdown in credit expansion, which could lead to a fall in the quality of loan portfolios, has increased. In addition, inflation is projected to stay above 8.0 percent in the near-term, including on account of the further large increase in civil service wages planned for 2007 and the ongoing surge in bank lending.

## Tightening of Monetary Policy

A marked tightening of the monetary policy stance is needed to mitigate risks and reduce inflation. While the ongoing remonetization should permit continued growth of the monetary aggregates in excess of nominal GDP growth, the National Bank of Kazakhstan (NBK) will need to move quickly to soak up liquidity to slow the pace of credit expansion and contain inflationary pressures. This can be achieved by increasing the interest rate it pays on bank deposits to at least international levels and by broadening the coverage of reserve requirements to include all liabilities, which should also help slow external borrowing. In addition, consideration should be given to a moderate and temporary increase in reserve requirements to aid in mopping up liquidity. It is expected that banks will pass on the higher policy interest rates and tighter reserve requirements to their customers in the form of higher lending interest rates, which have fallen to very low levels in real terms. That would be a welcome development which would help curb credit demand.

## Exchange Control

At the same time, nominal appreciation of the tenge will help curb inflationary pressure. Indeed, underlying economic fundamentals and the major improvement in Kazakhstan's terms of trade on account of high oil prices suggest that significant real appreciation is inevitable over the longer term. Limiting nominal appreciation of the tenge in these circumstances will lead to higher inflation as the experience over the past year highlights that could be difficult to reverse and ultimately prove more disruptive to the economy.

## Country's Budget & Balance Sheet

Tighter monetary conditions will affect the NBK's balance sheet, which will eventually need to be replenished from the budget. Higher policy interest rates will involve increased interest expenses for the NBK. In addition, exchange rate appreciation will imply sizable revaluation losses arising from the translation of official reserves, which are held in foreign currency, into tenge for accounting purposes. Legislation passed in 2005 that envisages capital replenishment in response to such losses is a welcome step. However, in current circumstances, a capital injection now into the NBK would send a convincing signal to markets that monetary policy can shoulder the burden of combating

inflation squarely and will not be constrained by profit and loss considerations.

## Prudential Regulations

A number of welcome prudential regulations have been adopted over the past year to contain risks associated with banks' loan portfolios, including on related-party lending, real estate exposures, and cross-border loans. In the light of the ongoing rapid escalation of property prices and continued surge in mortgage and construction lending, a further tightening of loan-to-value ratios and the credit scoring system for loan classification may need to be considered, especially if credit growth decelerates more slowly than desired in response to tighter monetary conditions. Moreover, consideration should also be given to tightening prudential regulations on banks' foreign lending and investment activities.

## Containing Liquidity

Further prudential measures to contain external funding are also needed. The surge in external borrowing by banks has clearly increased their vulnerability to a sharp tightening in global financing flows. The mission strongly supports measures under consideration to tighten liquidity requirements for foreign liabilities, a further reduction in net open position limits, and the introduction of limits on short-term external borrowing including longer-term borrowing with an early repayment option related to bank capital. These could be supported by higher reserve requirements on external liabilities than domestic liabilities on a temporary basis. In addition, the mission notes that there are significant discrepancies in the data on banks' external obligations compiled by the NBK and the Financial Supervision Agency (FSA). A high priority should be accorded to resolving these discrepancies in order to assess the true maturity profile of bank debt, and systematic monitoring of the future debt repayment profile should be developed. This will aid in assessing any upcoming lumpiness in debt repayments and the associated rollover risk for the banking system as a whole.

## Regulatory Measures & Vigorous Supervision

The regulatory measures will have to be supported by vigorous supervision to ensure banks' compliance. Increasing the frequency and depth of on-site inspections, especially unscheduled topic-based inspections, and enhancing off-site stress testing and monitoring of banks' liquidity models and maturity gap analysis will be critical components of an intensified supervisory effort. Maintaining the FSA's independence will be critical for its credibility and effectiveness. In addition, an increase in supervisory resources at the FSA, which have not kept pace with the growth of the banking system, will likely be required and salaries will need to be kept at adequate levels to attract and retain staff with the appropriate supervisory skills. In view of the mounting risks, the FSA will need to stand ready to deal with any violations of prudential regulations expeditiously and, should difficulties emerge, to intervene



and resolve the situation before any spillover effects develop.

## Easing of Fiscal Policy

Adequate monetary tightening should facilitate the planned easing of fiscal policy to address social and infrastructure needs and help diversify the economy. With oil revenue projected to rise further and with non-oil revenue expected



to remain buoyant, there is significant room to expand spending and reduce taxes without compromising fiscal sustainability. Under the spending plans currently in place, including the supplementary allocations that are expected to be approved shortly, government expenditure will continue to rise in relation to GDP in 2006 and 2007. This underscores the importance of intensified scrutiny over expenditure efficiency, especially the project approval and ex-post evaluation mechanisms. On the revenue side, the mission cautions against distortive tax incentives for specific sectors and excessive reliance on tax cuts to effect increased tax compliance, including from the shadow economy. Technical assistance from the World Bank in this area which is presently underway should help in the design of an efficient and fair tax system.

## Medium-term Outlook

The medium-term outlook for the Kazakhstan economy remains favorable. However, if the required tightening of the macroeconomic policy stance through monetary policy and exchange rate appreciation is not undertaken in the near-term, higher inflation may become entrenched and vulnerabilities in the banking system will mount further. In such circumstances, there could be significant adverse consequences for growth and competitiveness.

## Investment Climate

Important steps to enhance the investment climate and economic governance have been taken. The mission welcomes the authorities' decision to join the Extractive Industries Transparency Initiative (EITI). Expeditious

publication of audited reports will mark an important gain in transparency. Transparency will also be enhanced by the phased implementation of the new mechanism governing the NFRK in July 2006 and January 2007. The mechanism will clearly identify the scale of oil revenue and its use, and will help in the design and implementation of the medium-term budget strategy. The new mechanism will not automatically instill budget discipline, however, and the authorities' prudent fiscal approach of the past will need to be retained. The mission also welcomes the implementation of the information system for the VAT, which has led to a marked improvement in VAT administration as evidenced by sizable revenue gains.

## Structural Reforms

An acceleration of structural reforms in other areas is needed to sustain the non-oil sector's growth prospects and achieve the authorities' diversification objectives. Significant gains in productivity will be required to offset the impact of the inevitable trend real exchange rate appreciation on the non-oil sector's competitiveness over the medium term. Early WTO accession, customs administration reform (supported by World Bank technical assistance), and further progress in enhancing regional trade will help secure these gains. In addition, reforms to address weaknesses identified in business climate surveys such as telecommunications



infrastructure, excessive inspections and business documentation and licensing requirements, as well as anti-competitive practices will boost growth prospects.

## Appropriate Policy Stance

Better disaggregation of national accounts and balance of payments data into the oil and non-oil sectors will facilitate the assessment of macroeconomic conditions and formulation of the appropriate policy stance. The mission welcomes the authorities' intention to enhance the compilation of the related information and urges expeditious implementation of the recent IMF technical assistance mission's recommendations. Close cooperation between the Ministry of Finance (Customs Control Committee), the NBK, the Agency on Statistics, and the Ministry of Economy and Budget Planning will be needed. ■



**At 10 pct GDP growth rate  
for 5 years in a row...**

**Kazakhstan emerges  
as ideal global  
investment destination**

**T**he 3rd Kazakhstan Investment Summit, held in Almaty on 8-9 June 2006, projected the country, which has the distinction of posting an annual GDP growth of 10 percent for five years in a row, as one of the best investment destinations in the world.

More than 300 delegates attended the Summit, organized by the world-renowned publication, the International Herald Tribune.

On the opening day, Michael Golden, Vice Chairman of "The New York Times" company, publisher of International Herald Tribune said that the main theme of the summit was Kazakhstan's economic development "the development of a country which is characterized by a significant economic growth and large amounts of foreign investment. Companies strive to invest funds in Kazakhstan, the GDP growth of Kazakhstan is enviable to the whole world and the rate of un-employment is falling."

Over the years since its independence, Kazakhstan has attracted about \$50 billion worth of direct investments. Funds from more than 60 countries from across the world are now being invested Kazakhstan's economic development. The US, the Netherlands, Great Britain, Italy and China are the largest investors. Analysts say that an effective state policy has made Kazakhstan attractive.

In his keynote address to the summit, Nursultan Nazarbayev, President of Kazakhstan, said that Kazakhstan paid major attention to the attraction of investments in to the economy.

"All the favourable conditions for development, which are constantly improving, have been created in the republic. According to "Global Insight", the forecasts of political, economic and financial risks in Kazakhstan are

considerably lower than the average showing in all other CIS countries. Kazakhstan has a real working market economy. Over the past five years the annual growth of the economy stood at about 10 percent. Kazakhstan has become most investment-attractive country in the region. According to the calculations of international experts, about 80 percent of foreign investments arriving in Central Asia go to the development of Kazakhstan's economy. The World Bank has included Kazakhstan in the top 20 most investment-attractive countries of the world. Now the country faces some new ambitious tasks. Kazakhstan has all the preconditions to enter the top 50 most competitive countries of the world. Kazakhstan can and must become the centre of attraction of capital and investments, placement of regional enterprises and offices of the biggest world companies, the newest technologies and know-how. We are in the heart of Eurasia, we have a rapidly developing economy, we are building a democratic society this is a recipe for success for any state."

Nursultan Nazarbayev has expressed his hope that the summit will raise the interest of the world community to Kazakhstan.

Gurinder Singh, chief representative of "Reliance" company in Turkey, said that "The successes of Kazakhstan speak for themselves. Over the past years average growth of the economy of Kazakhstan has been increasing by over 10 percent. Not many countries can boast such growth indices."

Today Kazakhstan, both attracts foreign investments and is actively depositing funds in the economy of other countries. Kazakh businessmen are implementing projects in many of the CIS countries. The republic has become the largest investor in Georgia in 2005. ■



## Kazakhstan invited to attend G8 Summit in Russia

**K**azakhstan's President Nursultan Nazarbayev will attend the July summit of the Group of Eight (G8) industrialized nations in St. Petersburg, Russia.

Talking to Kazakh news media recently, President Nazarbayev said: "As the current CIS Chair and as a country with extensive energy resources, Kazakhstan was invited to attend the G8 summit in St. Petersburg."

Kazakhstan assumed the rotating chairmanship of the Commonwealth of Independent States (CIS), a group of former Soviet republics, earlier in May. Kazakhstan has been a leader in economic reforms and resulting growth among the CIS countries, seeing its economy grow by 75 percent during the past seven years and its companies starting to invest heavily across the CIS, focusing on Kyrgyzstan, Georgia and Russia.

Energy security has been the theme during Russia's annual chairmanship of the G8 starting in early 2006. Kazakhstan, with estimated reserves of 100 billion barrels of oil and 200 trillion cubic feet of natural gas and oil exports of one million barrels a day, is increasingly becoming one of the key players in the global energy market now jittery with continuing high oil prices.



Kazakhstan's large uranium reserves, ranked number one among the top three in the world, are also important for a world returning to the idea of expanding peaceful atomic energy production.

Leaders of Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States will gather in St. Petersburg for their annual Summit from July 15 to 17. The President of China has also been invited to attend. ■

## Fund to promote Kazakh film industry

**K**azakhstan will soon create a multimillion-dollar film investment fund aimed at helping the country become a world-class player in the motion picture industry. The fund will be officially presented during the Key Element Film Investment Conference, which takes place on June 27, 2006 in Almaty, Kazakhstan.

Key Element, a California-based company, and the office of the Mayor of Almaty are the organizers of the event.

Over 50 of the wealthiest private and institutional investors, including heads of industrial, financial, oil and media conglomerates will be among the conference's participants. Also attending will be two former Prime Ministers of Kazakhstan, senior government officials, as well as representatives of the country's cultural elite.

The fund will be managed by Key Element Ltd. and will be headquartered in Los Angeles. "At this time we plan to focus on low to mid-budget motion picture projects in various stages of development that combine high artistic value with good commercial potential" -- says Donna Kasseinova, the CEO of Key Element.



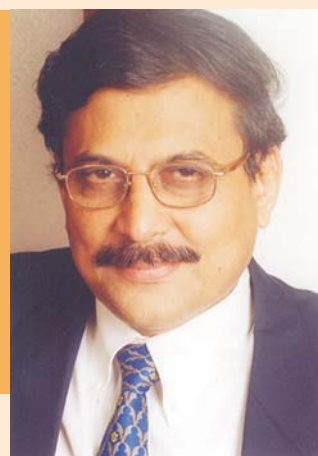
"The creation of the Key Element Fund is a very important step towards implementing our long-term goals, which are developing a vibrant film industry in Kazakhstan and raising Kazakhstan's profile on international arena" -- says Mr. Essetzhan Kosubayev, the head of Key Element Kazakhstan and former Minister of Culture, Information and Sport.

Key Element Ltd., formed in 2003 to assist the Kazakh Government to upgrade the country's film industry, has offices in Los Angeles and in Almaty. ■

An Economic Superpower in the making

## India On The Move In The Fast Lane

By T.C. Venkat Subramanian,  
Chairman & Managing Director, Export-Import Bank of India



Far-reaching economic reforms have helped India to break free from the shackles of socialist past and burst into the fast lane of economic growth. Globalization has further fuelled its pace. Exim Bank Chairman and Managing Director T.C. Venkat Subramanian, has a ringside view of the working of the economic reforms and their catalytic impact on the overall progress of the country. As an institution, Exim Bank's own role has been exemplary in boosting exports, especially in the IT and ITES sector. Venkat Subramanian takes an analytical look at: The Indian Economy in the Current Global Scenario: Potential and Challenges.

### INTRODUCTION

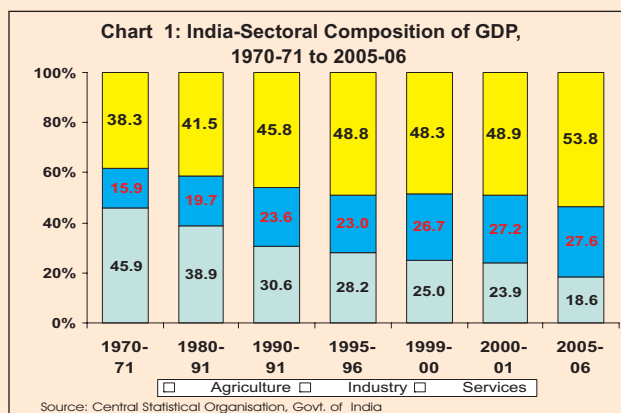
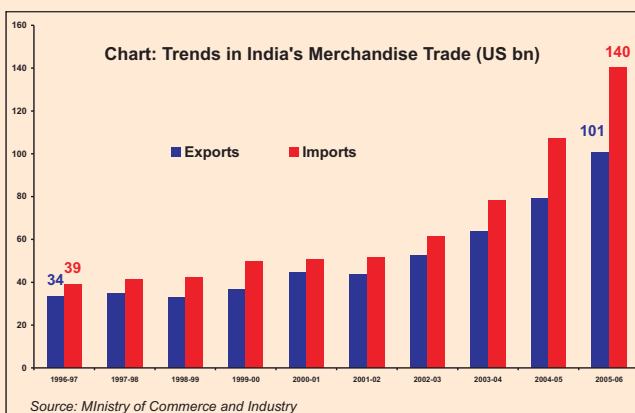
Reflecting strong macroeconomic fundamentals and a policy direction, India today has emerged as a vibrant economy, with growth rate among the highest in the world. The sustained buoyant economic performance, coupled with the enhanced competitiveness, particularly in overseas markets, augurs well for the Indian economy to position itself as a major force in the global scenario. The impressive annual average GDP growth rate of 8.1 percent during the last three years, viz. 2003-04 to 2005-06, has been on account of robust activity in the manufacturing and services sectors, supported by increasing resilience in the agriculture and allied sectors.

On the external front, India's merchandise exports crossed the US\$ 100-billion mark during 2005-06, accompanied by sustained rise in services exports. The increasing globalisation of the Indian economy has been clearly brought out by WTO data wherein India's share in global merchandise trade and service has risen in recent years,

thereby attesting to the increasing external competitiveness of Indian companies. Concomitantly, India is also increasingly emerging as a global investor, with many Indian companies making their presence felt across various regions of the world.

As a result of the buoyancy in India's merchandise trade in recent years, the share of India's foreign trade to GDP, a measure of the openness of the economy, has also witnessed an increase. During the period 1990-91 to 2005-06, the share of exports to GDP has risen from around 5.7 percent to 12.7 percent, and from 7.4 percent to 17.7 percent in the case of imports. Increased activity in domestic manufacturing sector has led to sharp rise in non-oil imports. Despite widening of the trade balance due to strong industrial growth and high global oil prices, however, buoyancy in services exports has limited the impact on the current account balance.

### STRUCTURAL TRANSFORMATION OF THE INDIAN ECONOMY & SERVICES SECTOR



A notable feature of the dynamics of structural transformation of the Indian economy in recent years has been the rising contribution of the services sector (that includes substantial value-added and skill intensive services such as software) to the overall output of the economy. Between 1970-71 and 2005-06, the share of services in GDP increased from 38.3 percent to 53.8 percent (Chart 1). It is important to note that the growth of the services sector has imparted the much needed buoyancy to the overall growth of the Indian economy, particularly during times of adverse agricultural shocks and industrial slowdown.

More importantly, the services sector has emerged as the fastest growing sector in terms of exports, with implications for productivity, employment, trade and fiscal prospects for the economy. This has its reflection in India's services exports, which have risen from US\$ 4.6 bn in 1990 to as much as US\$ 67.6 bn in 2005 (Table 1), with the country emerging as the 10<sup>th</sup> largest services exporter (up from 16<sup>th</sup> position in 2004). In fact, the share of India in global services exports at 2.8 percent in 2005 is much higher as compared to the share in global merchandise exports (0.9 percent). Table 2 presents the trends in share of leading global services exporters during 1990 to 2005.

**Table 1: Leading Exporters in World Trade in Commercial Services (US\$ bn)**

Rank in 2005	Country	1990	2000	2001	2002	2003	2004	2005
1	United States	132.9	277.3	269.1	272.6	282.5	318.3	353.3
2	United Kingdom	53.8	115.0	109.6	123.1	129.5	171.8	183.4
3	Germany	51.5	82.8	86.9	99.6	111.7	133.9	142.9
4	France	66.3	80.3	80.0	85.9	98.0	109.5	113.7
5	Japan	41.4	68.3	63.7	64.9	70.2	94.9	106.6
6	Italy	48.6	56.0	57.1	59.4	72.8	82.0	93.4
7	Spain	27.6	53.2	57.8	62.1	76.4	84.5	91.2
8	China	5.7	30.1	32.9	39.4	44.5	62.1	81.2
9	Netherlands	28.5	48.4	50.1	54.6	64.1	73.0	75.0
10	<b>India</b>	<b>4.6</b>	<b>17.5</b>	<b>20.8</b>	<b>23.3</b>	<b>24.9</b>	<b>39.6</b>	<b>67.6</b>
11	Hong Kong	18.1	38.7	39.4	43.3	43.2	53.6	60.3
12	Ireland	3.3	16.6	23.3	28.1	35.3	46.9	54.7
	<b>Global Exports</b>	<b>819.6</b>	<b>1472.2</b>	<b>1487.2</b>	<b>1561.1</b>	<b>1763.0</b>	<b>2125.0</b>	<b>2415.0</b>

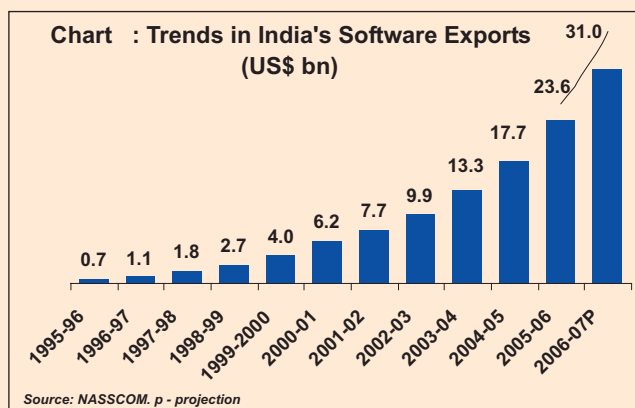
**Table 2: Leading Exporters in World Trade in Commercial Services (% share in global exports)**

Rank in 2005	Country	1990	2000	2001	2002	2003	2004	2005
1	United States	16.22	18.84	18.09	17.46	16.02	14.98	14.63
2	United Kingdom	6.56	7.81	7.37	7.89	7.35	8.08	7.59
3	Germany	6.28	5.62	5.84	6.38	6.34	6.30	5.92
4	France	8.09	5.45	5.38	5.50	5.56	5.15	4.71
5	Japan	5.05	4.64	4.28	4.16	3.98	4.47	4.41
6	Italy	5.93	3.80	3.84	3.81	4.13	3.86	3.87
7	Spain	3.37	3.61	3.89	3.98	4.33	3.98	3.78
8	China	0.70	2.04	2.21	2.52	2.52	2.92	3.36
9	Netherlands	3.48	3.29	3.37	3.50	3.64	3.44	3.11
10	<b>India</b>	<b>0.56</b>	<b>1.19</b>	<b>1.40</b>	<b>1.49</b>	<b>1.41</b>	<b>1.86</b>	<b>2.80</b>
11	Hong Kong	2.21	2.63	2.65	2.77	2.45	2.52	2.50
12	Ireland	0.40	1.13	1.57	1.80	2.00	2.21	2.27
	<b>Global Exports</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: WTO



At the heart of this exceptional growth in services exports lies software exports. The Indian software industry, which has grown at an amazing pace, is a successful player in the international software market and enjoys the benefit of a good reputation, auguring well for future growth. During 2005-06, India's software exports are projected to touch US\$ 31 bn, registering an impressive CAGR of 37.2 percent in the last 10 years. Further, in the services sector, India is at the forefront of the unfolding new area of knowledge economy, with large pool of scientific & creative human resources and R&D facilities.



India has emerged a major computer software provider in the world. India possesses one of the largest pools of scientific and technical manpower in the world which is English speaking, coupled with relatively good quality and low cost of software professionals. Indian software industry is dominated by services, both offshore and onshore.

## POTENTIAL OF THE INDIAN ECONOMY

Recent findings of various reputed international institutions, such as AT Kearney, World Economic Forum, among others, corroborate the potential of India in the emerging global trade and investment configuration. Not only does India figure among key economies, but India's standing among potential and emerging economies has also improved, reflecting the strong economic fundamentals and attractiveness of the economy.

### Potential as an Investment Destination

The Indian economy is now well recognized as an attractive destination for investment and a large and growing market for business, and India's ranking in this regard has also improved in recent years. For instance, India's ranking in AT Kearney's FDI Confidence Index moved up one notch to second position after China in 2005, ahead of US, UK, Poland and Russia, while India is the leading economy as regards AT Kearney's 2006 Global Retail Development Index, ahead of Russia, Vietnam, Ukraine, China and Chile, an indication of the country's large and growing retail market.

The above findings are validated by the recent Global Competitiveness Report 2005-06 of the World Economic Forum, wherein India's Global Competitiveness Index has

risen five notches to 50 in 2005, to stand above Poland, Mauritius, Egypt, Mexico, Brazil and Russia. Underlying this upbeat trend is the Business Competitiveness Index wherein India's ranking at 31 stands much higher than those for Thailand (37), Italy (38), Brazil (49) and China (57).

More recently, IMD World Competitiveness Yearbook 2006 has ranked India at 29 in the World Competitiveness Ranking, representing a significant rise of 10 places from that in 2005. As a result, India's ranking in 2006 is higher not only as compared to other emerging economies such as Czech Republic (31), Thailand (32), Slovak Republic (39), but also higher than major industrialised economies such as Scotland (30), France (35), Spain (36), and Greece (42).

## Emerging Indian Multinationals

The increasing trend in India's overseas investments attest to the increasing capability of Indian companies in venturing overseas. India's approved overseas investments have increased by more than five-fold from US\$ 556.6 mn during 1996-97 to US\$ 2.80 bn during 2004-05. At the same time, actual overseas investments have also risen nearly eight-fold from US\$ 204 mn to US\$ 1.60 bn during the same period.

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

While globalization of the world economy has fostered the outward orientation of Indian companies, significant policy liberalisation and renewed support in recent years have provided the impetus in this direction. Removal of ownership restrictions in overseas ventures, introduction of automatic clearance route wherein the limit of overseas investment has been continuously enhanced, among others, have facilitated the recent surge in Indian overseas investments.

## GLOBALISATION OF THE INDIAN ECONOMY AND EXIM INDIA'S ROLE

Providing a comprehensive range of products and services to Indian companies in their internationalisation efforts has been the primary objective of Export-Import Bank of India (Exim India). The pivotal and catalytic role the Bank plays in facilitating and promoting India's project exports, supporting Indian firms in setting up joint ventures and

wholly owned subsidiaries in overseas markets, providing advisory and support services to outward-oriented Indian firms, among others, constitute the Bank's endeavours in this direction.

Over the past two decades, increasing number of contracts have been secured by Indian companies in West Asia, North Africa, Sub Saharan Africa, South & South East Asia, CIS and Latin America, with the support of Exim India. These projects facilitate and support infrastructure development in host countries, thereby contributing to overall economic development. The range of project exports now being undertaken by Indian project exporters is a reflection of the technological maturity and industrial capabilities in the country. This serves to indicate the growing sophistication of Indian exports providing visibility to the Indian technical expertise and project execution capabilities in overseas markets.

With a view to catalyze globalization of Indian businesses, to enhance credibility and acceptability of Indian ventures overseas, and to facilitate trade-flows between India and host countries, Exim India actively supports Indian companies to set up joint ventures/wholly owned subsidiaries in target market overseas, both in industrialized and emerging economies, in diverse sectors. These overseas ventures facilitate value addition, contributes to capacity building and capability creation in host countries.

### **India's Software Exports and Exim India**

With India having emerged as a major global software provider, and the robust growth in software exports witnessed in recent years, it would be appropriate to highlight the role of Exim India in this regard. Exim India has been associated with the development of the Indian software industry since 1986. The Government of India, in its first ever policy formulation for software exports in December 1986, designated Exim India as the principal agency through which imports of computer hardware and allied services could be financed in foreign currency.

Exim India has in place a financial package for software exporters to comprehensively address their financial requirements, which encompass term loans for capital expenditure, equipment finance to cover the costs of acquisition of advanced computer systems with related software, project finance for the setting up or expansion of software development facilities, and working capital finance to software exporting units. In order to support the industry move up the value chain towards products, Exim India has in place a programme for financing software product development, as also for financing R&D by software exporting companies for a range of activities including setting up of R&D centres, development of new tools and technologies.

Exim India provides financial support to software companies for implementing strategic export marketing plans aimed at developing/ enhancing presence in identified target markets, and also supports software exporters in securing international quality certifications

such as ISO 9000, TickIT, various levels of CMMSEI which would enhance their credibility and dependability in overseas markets. Further, the Bank provides term loans to Indian companies to part finance their equity contribution in ventures overseas. With a view to meeting the growing requirements for trained manpower, the Bank also has in place a lending programme for setting up/expansion of software training institutes by established software exporting companies.

### **Exim India and Grassroot Enterprises**

In line with the roadmap for India's international trade, set in place by the Foreign Trade Policy 2004-2009, which envisages effective contribution of international trade to overall economic development by providing special thrust on employment generation particularly in semi-urban and rural areas. Exim India, as part of its agri business initiative, has been endeavouring to assist exports of products from rural and small and medium enterprises (SMEs). Towards this end, Exim India has partnered with select NGOs in different states, in order to provide an institutional support mechanism for providing international market access to products from rural grassroot enterprises.

### **GLOBALISATION AND CHALLENGES**

Building competitiveness and sustaining it is a high priority both for developed and developing countries. With increasing globalisation, Indian companies will have to continuously adapt themselves to successfully counter increasing competition. Alongwith foreign competition, domestic demand will shift to better quality products, reducing the market share of Indian companies. Given the dynamic changes characterizing key export industries and the rising competition among countries, the need to continuously move up the value chain and improve the attractiveness of locational advantages is a challenging task for policy makers in developing countries.

Many Indian firms already enjoy a preeminent position in several products. These firms have excelled in quality and cost competitiveness to sustain long-term domestic and international growth. Therefore, in order to face increased domestic and global competition, it is imperative for firms to concentrate on core competencies, and gear R&D efforts and technological know-how towards this end.

Meeting challenges on the policy front also assumes importance in a global economy. The effectiveness and efficiency of firms is facilitated by the nature of policy environment under which firms operate, and whether macro-economic policies allow them to achieve the requisite economies of scale and allocative efficiency in production. In an increasingly inter-connected global economy, it is imperative to ensure that macroeconomic policies are geared towards reducing uncertainties and risks. This would require ensuring internal and external stability in the economy through maintaining sustainable policies and putting in place a proper safeguard system against adverse international shocks and limiting exposure to risks. ■

FDI inflow to boost industry modernization

## Strong domestic demand drives Russian economic growth in '06

A strong expansion in internal demand continues to drive economic growth in Russia, although a slowdown in most manufacturing and tradable sectors is becoming increasingly visible, according to a World Bank report. The growth in GDP and industrial production in 2005 stood respectively lower at 6.4 percent and 4.0 percent compared to 7.2 percent and 8.3 percent in the previous year. Preliminary data available for 2006 suggest that the industrial slowdown may be continuing. GDP growth is deriving increasingly from non-tradable sectors, and investment remains concentrated in oil and gas. Recent productivity growth has still been strong in some parts of manufacturing, although this appears in large part due to labour shedding. The continued broadening of Russia's balance of payments strengthens the country's financial position, but also creates new challenges. In addition to record current account surpluses, Russia is beginning to attract substantial capital inflows, including foreign direct investment.

While this should give a needed boost to investment and modernization, additional inflows are also increasing pressure on inflation and the real exchange rate.

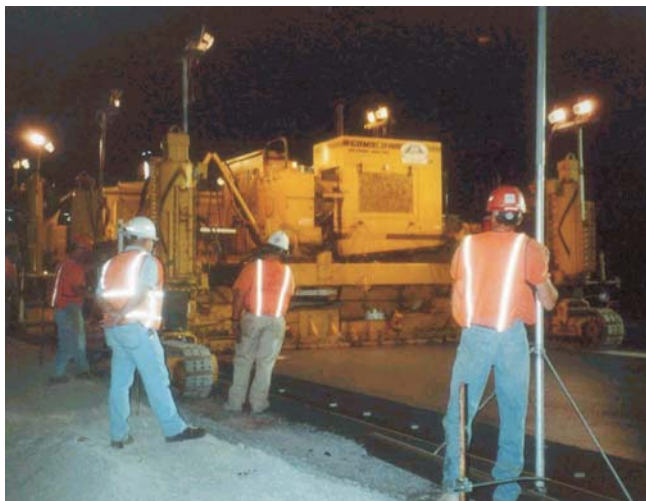
### Four Priority Projects

Russia's Economic policy has become increasingly focused on the implementation of four priority national projects in health, education, housing, and agriculture. The government has an opportunity to combine higher spending in these areas with structural reforms that could ensure sustainable improvements. Higher-than-expected inflation in early 2006 has motivated discussions of a new package of anti-inflationary measures by the government and Central Bank.

### GDP and Industrial Production

Russian GDP growth remained strong in 2005, registering at an estimated 6.4 percent, as opposed to 7.2 percent in 2004. But the structural composition of growth has undergone some significant changes. If the growth in 2003 and the first half of 2004 was led by oil and some other industrial sectors, subsequent growth has shifted to the





production of (largely) non-tradable services and goods for the domestic market. Almost 40 percent of the GDP expansion in 2005 came from trade. Construction also witnessed relatively rapid growth. Industrial growth contracted to 4 percent in 2005, down from 8.3 percent in 2004. The most notable decline in industrial growth came from the mineral resource extraction sector (1.3 percent in 2005 versus 6.8 percent in 2004), but growth in manufacturing also declined from 10.5 percent to 5.7 percent. A further slowdown in industrial growth in early 2006 (2.7 percent for the first two months of the year) has raised some concerns, although at least part of this decline is most likely due to the exceptionally cold winter

Annual data confirm trends in manufacturing that were identified in the previous RER. The vast majority of manufacturing sectors showed marked slowdowns in economic growth in 2005 relative to 2004. This particularly concerns sectors producing tradable goods in competition with foreign producers. Of these sectors, the food industry continues to show resilience, expanding at the same pace as in 2004 (4.4 percent). The consumer electronics industry grew significantly, but almost certainly due to lower import tariffs on parts than final products. The strongest decline was registered in machine-building, where growth slowed from over 20 percent in 2004 to -0.1 percent in 2005.

Capacity constraints have become increasingly important in industry, particularly in resource extraction. Although the oil industry also suffered in 2005 from the disruptive effects of the Yukos affair, most experts expect slow growth from this sector over the medium term due to capacity constraints that can be alleviated only through high fixed investment. The slowdown in manufacturing appears to be related to increasing competitive pressures from the rapid appreciation of the ruble. Russian financial data for enterprises give an indication of possible huge swings in

relative profitability across different sectors of the economy.

According to these data, aggregate growth in (nominal) net profits in manufacturing during 2005 was only slightly higher than inflation (1.6 percent), while profit growth in trade, finance, transportation and communication, construction, and (especially) resource extraction were considerably higher. This can be contrasted to 2004, when growth in profits in manufacturing was estimated at 57.5 percent.

Under these conditions, it would be natural to expect a flow of labor and other resources from manufacturing to other sectors. Data on labor flows suggest exactly this. Labor shedding has been a primary source of productivity growth in much of industry, and has been a key to keeping productivity growth in pace with nominal wage growth in manufacturing. Figures 5 and 6 present nominal growth in output per worker and nominal wages for both 1999-2004 and 2005 (A change in statistical classification requires treating these time periods separately). While fuels and metals have shown particularly high growth in receipts per worker relative to wages due to relative price increases, figures indicate that manufacturing sectors have also roughly succeeded in increasing productivity in step with wages. Even so, there are indications that increases in the costs of other inputs have been even more rapid, implying a deterioration of competitiveness in some sectors

## Investment

Aggregate fixed capital investment continued its strong double digit growth (10.5 percent) in 2005. As is the case with output growth, a very sharp registered decline in fixed capital investment growth in the first two months of 2006 (1.6 percent) should be at least partly related to the very cold winter. 2005 also witnessed a substantial increase in foreign direct investment, which reflects improvements in the business climate and Russia's economic outlook. FDI inflows grew by 39 percent relative to 2004, reaching an estimated USD 13.1 billion. Although Russia has experienced double-digit fixed capital investment growth for the third consecutive year, absolute investment levels remain low in Russia relative to emerging market economies that have sustained growth over a number of years. In 2005, fixed capital investment constituted only an estimated 18 of GDP, whereas countries that have sustained rapid growth usually have associated investment rates of 25 percent or higher. Investment also remains quite concentrated in oil and gas ('transportation' includes pipeline investment). Figures also illustrate most manufacturing sectors of the economy receive rather low shares of investment and FDI. Although manufacturing on



aggregate received a relatively large share of FDI in 2005, this was due entirely to exceptional investment in oil processing associated with the Sibneft deal.

## The Balance of Payments, Capital Flows, and FDI

Despite an acceleration in the dollar value of imports (25 percent in 2005), Russia's balance of payments continues to move from strength to strength. Record foreign inflows from the current account, together with a significant strengthening of the capital account, dominate the Russian macroeconomic picture, fueling domestic demand and exerting ever greater pressure on inflation and the real exchange rate of the ruble.

Russian export growth in quantity terms slowed markedly to 5.6 percent in 2005 (compared to 11.9 percent in 2004). Thus, the record trade and current account surpluses owe almost entirely to price increases on Russian exports, most particularly for oil and gas.

According to preliminary estimates, the current account totaled USD 84.2 billion in 2005, compared to USD 58.6 in 2004. Russia's trade surplus reached USD 118.3 billion in 2005, as compared to USD 85.8 billion in 2004 (Table 7). Total merchandise exports rose to USD 243.6 billion (or by 33 percent compared to 2004), with oil, oil products and gas exports accounting for 61 percent of the total (USD 148.9 billion). Gross foreign reserves continued to set records, reaching USD 182.2 billion at the end of 2005 and increasing further 205.9 billion by the end March 2006. By preliminary data, still higher average oil prices

fueled another record current account surplus in the first quarter of 2006.

The statistical weakening of capital account in 2005 can be attributed to the pre-payment of USD 17 billion in foreign debt and the sale of Sibneft, which led to a classification of approximately USD 10 billion as a foreign outflow (Sibneft was technically held by an offshore company before the sale). If not for these two factors, Russia would have experienced its first capital account surplus of the transition period. According to Central Bank estimates, net private capital flows in 2005 were non-negative, as opposed to an outflow of 8.0 billion in 2004. The biggest reduction in capital outflows was reported in the non-banking sector (from USD 11.5 billion in 2004 to USD 4.9 billion in 2005).

## External Debt

High oil prices and prudent macroeconomic management, on one hand, and relatively low international interest rates, on the other, have had a noticeable impact on the dynamics of Russia's external debt. According to CBR estimates, the stock of Russia's total debt to nonresidents increased from USD 214.5 billion at the end of 2004 to over USD 258.5 billion at the end of 2005. The Russia's debt dynamics in recent years have been driven by two opposing trends: a substantial reduction in sovereign debt, on the one hand, and a rapid increase of debt accumulated in the corporate and private sector on the other. Official Russian debt was reduced from USD 106 billion to 82 billion during 2005. If the government succeeds in its intention of pre-paying another USD 12 billion to the Paris Club, sovereign debt will also decline substantially in 2006. By contrast, the corporate and private sector accumulated an additional USD 67 billion during the year, bringing its stock of debt to an estimated USD 176.2 billion. Most of this increase concerns non-financial enterprises (by USD 50 billion), while banks increased their debt by USD 18 billion.





Due to considerable hikes in the debt levels accumulated by the private sector the overall foreign debt exposure in this sector, measured as a share of debt in GDP, increased from 19 percent at the end of 2004 to 23 percent in 2005.

## Monetary Policy, Inflation and Exchange Rates

In spite of initial expectations that CPI inflation might accelerate towards the end of the year, actual inflation in the fourth quarter amounted to only 2.1 percent, bringing annual inflation to 10.9 percent for the year. The extent of the deceleration is difficult to explain, although two important factors are (informal) controls introduced on gasoline prices and an acceleration in economic growth in the fourth quarter. Core CPI inflation (excluding administrative price increases) fell to 8.3 percent in 2005, as compared to 10.5 percent in 2004. As in 2004, producer prices in 2005 increased faster than CPI inflation, registering at 13.4 percent. The decline in inflation in the fourth quarter of 2005 came, ironically, at a time of record foreign inflows, purchases of foreign reserves by the Central Bank, and quite rapid ruble money supply growth. Consequently, gross reserves of the Central Bank increased by USD 21 billion in the fourth quarter alone. The inflationary pressures from this expansion began to be felt in early 2006, however. For January and February alone, consumer prices increased by an estimated 4.1 percent. As in 2005, part of this acceleration in inflation concerns administrative increases in housing and utilities prices. Nevertheless, core inflation for January and February (2 percent) was measurably higher than in the previous year (1.6 percent).

Concerns over inflation have brought an important change in monetary policy. While the Central Bank defended a relatively stable exchange rate of the ruble versus the dollar during most of 2005, it has allowed for a 3.5 percent nominal appreciation in the first quarter of 2006. While nominal appreciation may hold promise as a means of relieving pressure on inflation, the Russian context is complicated due to the presence of potentially large and unstable capital flows (including internal flows due to the large amount of hard currency held by the population). The degree to which nominal appreciation can bring down inflation rates in the short run is debatable, although the experience in 2006 should help reveal more information to that effect. Concern over higher-than-expected inflation has dominated economic policy discussions in the government in early 2006. The government has been preparing a package on anti-inflationary measures in the context of proposals that include price controls, restricting

wage growth in state-owned companies, restricting borrowing by state-owned companies, and reducing state expenditures. Monopoly pricing has been targeted in some discussions, although there is little economic justification for linking inflation to monopoly power. Practice in other countries confirms that the use of price controls as a means of reducing moderate inflation is a poor policy choice.

Primary among these instruments are levels of government spending (as opposed to accumulation in the Stabilization Fund), exchange rate policy, and other limited means of the Central Bank for regulating liquidity. When a larger internal bond market finally develops, the hand of the Central Bank will be strengthened considerably for the conduct of anti-inflationary monetary policy.

## Fiscal policy and the Federal Budget

According to preliminary estimates the Federal Budget in 2005 was executed with a surplus of 1 617 billion rubles, or 7.5 percent of GDP on a cash basis. This is somewhat higher than the surplus stipulated in the revised Budget Law for 2005 (6.9 percent). Federal budgetary revenues amounted to 5,121 billion rubles, or 23.6 percent of GDP, which exceeded revenues in 2004 by 3.1 percent of GDP. Although the main factor for increased revenues has been higher oil prices, higher taxes on the oil sector have also made an important contribution. By contrast, federal government spending in 2005 remained at 16.2 percent of GDP, practically the same level as in 2004.





The Federal Budget for 2006 was passed into law at the end of December 2005. Planned federal expenditures for 2006 amount to 17.5 percent of GDP, which is 1.3 percent of GDP higher than actual expenditures in 2005 (table 9). The additional money will be spent primarily on government investment and social programs. The additional spending may be associated with some additional inflationary pressures, although the magnitude of the fiscal expansion is still rather limited. Due to a conservative assumption on oil prices (USD 40 dollars a barrel), revenues are officially projected at 20.7 percent of GDP, about 3 percent lower than actual revenues in 2005. If oil prices remain at current levels, however, revenues in 2006 should exceed those in 2005. Surplus revenues that are not immediately transferred to the Stabilization Fund could become a subject of political bargaining during the year, although concerns over inflation have at least temporarily strengthened the hand of fiscal conservatives in the government. The Stabilization Fund has already reached over 1.5 trillion rubles (USD 53 billion) by the end of 2005, and could accumulate to over USD 3 trillion by the end of the year.

## Income, Employment and Poverty



News on the standard of living front in Russia are still encouraging. Average real wages and incomes continued to exhibit strong growth in 2005, registering at 9.7 and 8.8 percent, respectively. Although official data on poverty are not yet available for 2005, it is probable that

growth in Russia remained strongly pro-poor in 2005. The Ministry of the Economy projects that the share of the population below the official poverty line declined from 17.8 percent in 2004 to 15.8 percent in 2005. Given the strong appreciation of the ruble, dollar wages grew much more rapidly than real wages in 2005, and averaged USD 302 a month, a 27.4 percent increase over 2004. Unemployment rates also fell, averaging 7.6 percent in 2005, as compared to 8.6 and 8.2 percent in 2003 and 2004, respectively. Demographic statistics for 2004 indicate that the disturbing rise in mortality rates may have finally bottomed out. Life expectancy finally increased from 64.3 to 65.8 years.

## National Projects

Four priority National Projects in health, education, housing, and agriculture have become a primary focus of economic policy in Russia. These projects directly target the standard of living of the population. Under the plan, 382 billion rubles (14 billion dollars) will be spent from federal and sub-national budgets, while 60 billion rubles (2.2 billion dollars) will be granted in guarantees, according to the breakdown given in Table 10. 76 percent of the associated expenditures will come from the federal budget (290 billion rubles).



The program in health accounts for more than half of national project spending, most of which is devoted to salary increases, the modernization of equipment, and the creation of new health facilities. The majority of spending in the education project is devoted to pay increases, including incentive pay for innovative teachers and outstanding students (grants). Much of the housing project offers assistance to families for purchasing housing, either through redeemable certificates, subsidized mortgages, or guarantees. The agriculture program consists primarily of various subsidies, most particularly subsidized credits. The national projects should have a positive impact on the welfare of the Russian population and the Russian poor, particularly the health project. In addition to the value of the services to the population, many health and education workers are among the lowest paid Russian professionals, and their families are commonly numbered among the Russian poor. At the same time, Russia should not miss the opportunity to combine increased social spending in these areas with much needed structural measures to reform these sectors in order to ensure their higher efficiency and sustainability in years to come.

The government is discussing the launching of some regional pilots to this effect, which would be a very welcome addition to the social agenda. ■

# Surplus oil funds open up investment avenues



Given the limited capacity of the Russian economy to absorb the enormous oil inflows, accumulation in the Stabilization Fund has become a primary instrument for supporting macroeconomic stability. By investing these surplus resources in a managed international portfolio, Russia can make the budget less dependent on oil and expand significantly its opportunities for diversified economic development and social policy, says a note prepared by the World Bank. The note discusses the nature and magnitude of these opportunities. Despite the strong economic growth and other positive trends in recent years, Russia continues to face a challenging development agenda. This includes spatial imbalances, deteriorating infrastructure, still low investment rates, social distress in many regions, a demographic crisis, and problems in supporting the competitiveness of manufacturing industries.

In stark contrast to the 1990s, the Russian government has also been accumulating large surplus revenues and reserves in the context of high oil and gas prices. Much attention has therefore been focused on how Russia might manage or use its growing fiscal reserve to solve its remaining development problems. Numerous proposals suggest one or another fiscal expansion, either through lower tax rates or more substantial programs for state investment. Although Russia has been moving gradually in

these directions, it faces serious constraints in the demands of macroeconomic stabilization, potential budgetary volatility, and weak institutions for supporting efficient state investment. The sterilization of huge foreign inflows through the accumulation of fiscal surpluses in the Stabilization Fund has been critical to maintaining macroeconomic stability and preventing an even more rapid appreciation of the real exchange rate. Weaknesses in financial markets and the banking sector prevent the effective sterilization of inflows of this magnitude through monetary policy. Reducing the tax burden on the non-oil sector would increase even further the high vulnerability of Russia's budgetary position to changes in oil prices. The context of the 1990s favored the development of only short-term budgetary institutions. Only now is Russia beginning to move toward medium-term budgeting, although the creation of effective institutions for longer-term finance of priority investment projects is proving to be a difficult task. High levels of corruption and distorted incentives of officials at all levels of government further complicate this objective. Russia's fiscal reserve is becoming large, and will become much larger still in the event that oil prices remain high. Given the magnitude of the issues at stake for Russia's development, it is important to assess as correctly as possible the opportunity costs of one or another policy decision. This assessment is not easy.

Yet at least one important opportunity cost is not sufficiently accounted for in most Russian debates over the Stabilization Fund, namely the opportunity costs of foregoing national savings in a diversified portfolio of foreign assets.

The presumption is sometimes that either the surplus is spent today, or it is simply removed from the economy, only to reappear in the event that oil prices fall to very low levels. In fact, by foregoing a fiscal expansion at the present time, these surplus funds can still be employed today in a manner that brings Russia a very high return, and has the potential to expand significantly economic security, living standards, and the opportunity set for policy in the medium and longer term. Russia can learn much from the experience of other countries that have managed commodity funds, most particularly Norway. Yet there are even opportunities on financial markets of potential interest to Russia that most of these countries have not yet exploited.

The Stabilization Fund is no longer just insurance for the federal budget against oil price fluctuations. It is becoming an increasingly important part of the wealth of the country. The Fund has accumulated to 1.5 trillion rubles in early 2006, and could mushroom to 3 trillion by the end of the year, depending on oil prices. This is already sufficient to insure the government budget for a number of years into the future in the event that the world price of oil falls to 20 dollars a barrel. If the price of oil does not fall dramatically in the near future or medium term, as most experts now project, the size of the fund will expand quite rapidly. Thus, it makes increasing sense for Russia to designate part of the surplus to a longer-term fund as exists in a number of other oil-exporting countries.

The Stabilization Fund is currently held as a ruble account at the Central Bank. Fears that some Russian assets abroad could be frozen in legal disputes have delayed the investment of the Stabilization Fund in foreign assets. The current law permits only investment in safe and highly liquid foreign government bonds. Yet the government is currently considering changing this law in a manner that would allow the investment of part of the Fund in equities.

This is advantageous for two important reasons: First, for a longer-term investment strategy, a portfolio that includes equities gives a significantly higher return. Second, the returns on many corporate stocks are negatively correlated with oil prices. Thus, if appropriately selected, corporate securities can actually help hedge against the risk of an oil price shock.

If oil prices remain at rather high levels over the medium

term, Russia would be able to accumulate a diversified investment fund in foreign securities that would offer partial solutions to a number of Russia's current development challenges listed above. Over the medium term, Russia's fiscal reserve fund would become sufficiently large, and the return sufficiently high, that Russia could consume only the return on the fund (without even eating into the capital) in a manner that would create substantial opportunities:

Given the diversified nature of the Fund and its negative correlation with oil prices, the current problem of high vulnerability of the state budget to changes in oil prices could be significantly alleviated. In addition to the important security that this would provide the Russian government against oil shocks, it would alter the entire framework for fiscal policy. In particular, it would substantially decrease the risks of promoting diversified growth through a lower tax burden for the non-oil sector. Less reliance on oil revenues



will also allow for a lower tax burden on the oil and gas sectors themselves, thereby creating incentives and funds for the high investment that these sectors need for their successful development. In addition, the Fund will support the development of effective counter-cyclical fiscal policy, i.e. drawings from the Fund can be increased in order to pull the Russian economy out of an oil-price related recession.

Russia currently faces a demographic crisis in the form of an ageing and declining population. The Pension Fund is already in deficit, and this deficit is projected to grow. The ageing of the population also places a huge burden on health care. While many countries in the world are struggling with similar problems, Russia has a huge possible advantage for capitalizing the pension fund and accumulating a reserve to meet the future social needs of the country.

Russia has recently launched important budgetary reforms



that promise to rationalize and increase the effectiveness of public expenditures, including investment spending.

These reforms are still in their early stages, however. A higher efficiency of government spending in future years implies a possible gain from postponing expenditures on some projects to a later date, and instead reaping returns on this money in a managed international portfolio.

The World Bank conducted a simulation exercise to give a general feel for the extent of the opportunities for Russia from accumulation in a managed Fund. This scenario assumes that oil prices will gradually decline, but still remain generally high over the medium term, thus allowing for the accumulation to take place. The question of protecting the budget from a sharp fall in oil prices is taken up subsequently below. More specifically, we assume that oil prices in real terms decline gradually to US\$ 40 a barrel by the year 2030. Federal government expenditures are fixed at 17 percent of GDP, and all additional fiscal revenues are assumed to accrue to the Fund. The assumption on GDP growth in the simulation is rather conservative:

GDP growth slows gradually from 5.5 percent to 3 percent. Overall tax collection is presumed to increase in pace with GDP, so that fluctuations in oil receipts are the only cause of changes in budgetary revenue. We assume that the ruble will continue to appreciate in real terms against the dollar in the near future, beginning from 10.6 percent in 2006, but that this appreciation will gradually slow as the balance of payments moves toward equilibrium. The elasticity of federal budgetary revenues in the price of oil is taken as a constant at 0.7. This estimate, while on the conservative side, is in the ballpark of other estimates in the literature.

Finally, annual US dollar inflation is assumed to be 3.0 percent. Until the fund reaches a large enough size, and until Russia creates the requisite oversight institutions and laws for a longer-term portfolio, Russia will most likely need to protect the budget by holding a large share of its fiscal reserve in highly liquid and relatively safe assets.

The implied accumulation of the Fund is quite impressive.



Even if it were not invested, the Fund would accumulate by 2030 to an estimated 1.47 trillion (2006) dollars, roughly double the current value of Russian GDP, and 29 percent of the projected 2030 value of GDP. If the government were to invest the Fund according to the assumed scenario, and spend nothing until 2030, Russia's wealth would expand by an additional estimated USD 818 billion (2006) dollars, bringing the entire size of the Fund to USD 2.29 trillion dollars, or 43 percent of estimated 2030 GDP.

What about future income possibilities for the government? If the government takes a decision either in 2015, 2020, or 2025 to stop rolling over the returns and maintain a constant value of the Fund in real dollar terms indefinitely. In the case of 2015, this would free up annual funds that could be used (beginning) in 2016 of US\$ 77 billion, a sum roughly equivalent to current federal revenues from the oil extraction and export taxes. Of this amount, US\$ 25 billion would be income from the Fund itself (as opposed to new surplus oil revenues). If the government waits until 2020, the numbers would be 91 and 39 billion, respectively. Waiting to 2025 would yield 110 and 55 billion, respectively. In any case, the relative dependence of the federal budget on oil could be significantly reduced. Given negative correlation of the Fund's returns with oil prices, a lower oil price would decrease oil revenues but may increase an annual return on the portfolio.

Of course, if the price of oil were to fall significantly in the short or medium term, then Russia would no longer have the

option of accumulating such a large Fund. Following a sharp fall in the price of oil, the Stabilization Fund would be depleted over the short term in financing deficits of the federal budget. If oil prices remained this low, the medium term would require a serious fiscal adjustment that could be particularly painful for an economy reeling from an oil-related recession. Thus, the question of protecting the country in this contingency is understandably a primary political priority.

In the scenario above, the government protects the budget by maintaining a relatively large portfolio of highly liquid assets in the short term, and only gradually expands the longer-term invested portion of the portfolio. International financial markets also provide other opportunities for Russia to hedge against the risks from a sharp fall in oil prices. Given today's expectations that a drastic fall in oil prices in the short or medium term is unlikely, it has become relatively inexpensive to purchase guarantees of minimum future prices for sales of oil. For example, Bank experts estimate that Russia could purchase a five-year guarantee (put) for the annual sale of one billion barrels of oil at today's price for roughly US\$ 9.5 billion. Given the existing

accumulation in the Stabilization Fund, another option would be to make a more limited purchase to insure against future years for which more uncertainty exists. For example, purchasing guarantees for 2009 and 2010 would give Russia a five-year cushion against oil price fluctuations, during which time a good portion of the Reserve Fund could accumulate and put Russia in a very strong position for future years. Purchases of guarantees on the market could potentially free up a larger share of the Fund at an earlier date for the longer-term high-return portfolio.

The opportunities are many for Russia in the management of its surplus oil revenues. The opportunity costs are also extremely high. Reality will most likely deviate significantly from the scenario presented above. In particular, oil prices could end up being significantly higher or lower than those projected here. The government has understandably made the management of the Stabilization Fund a primary priority in its current policy discussions. Future textbooks on Russian history will likely evaluate the economic policies of the current government to a large extent on how effectively it manages the country's growing oil wealth. ■



## Eurasian Development Bank holds maiden meeting

On June 9, 2006 the 1st meeting of Governing Board of the Eurasian Development Bank was held in Almaty, which focused on a wide range of organizational issues.

The Board comprises Kazakh Industry and Trade Minister Vladimir Shkolnik (Kazakhstan's plenipotentiary to the Bank Board), Vice Finance Minister Askar Yelemesov and Russian Industry

and Energy Minister Viktor Khristenko (Russia's plenipotentiary to the Bank Board), Vice Finance Minister Sergey Storchak.

The Board elected Khristenko as its chairman, and Shkolnik was appointed as its deputy chairman.

Russian Finance Undersecretary Igor Finogenov was nominated as the Bank's president. Its headquarters will be located in Almaty. It was decided that the Bank should set up its branches in Saint Petersburg, Moscow and Astana.

Next regular session of the Eurasian Development Bank Board will convene this August in Moscow. As it is known, Presidents of Kazakhstan and Russia initiated the establishment of the Bank. An intergovernmental agreement on the Bank was signed in January 2006 during Vladimir Putin's visit to Kazakhstan. The treaty was ratified by the parliaments of the two countries this spring.

With its registered capital of USD 1.5 billion, the Bank aims to finance huge development projects both in Kazakhstan and Russia as well as other CIS countries. ■



## Exim Bank Annual Lecture 2006

# A Panacea for Economic Ills & an Elixir for Growth

Sir Suma Chakrabarti, Permanent Secretary, Department for International Development, UK, has a "Panacea" for India's economic ills and an "Elixir" for the country's economic growth. In a methodical analysis that is the hallmark of an economist dealing with developmental issues across the world and specially relevant to India, Sir Suma's lists Seven Deadly Sins which a State should avoid and Seven Heavenly Virtues that it should adhere to in order to effectively play the role of a facilitator to ensure the country's economic progress. Sir Suma's observations form the crux of the Exim Bank of India's Commencement Day Annual Lecture, delivered in Mumbai on May 2, 2006, on the theme "Role of the State in Trade and Development." Following are the excerpts.

As Permanent Secretary of the UK Department for International Development, I do believe the State has the capacity either to foster or to wreck trade and development.

I view the private sector, large and small, as vital, the very motor of economic growth, at the heart of trading relations, of development itself. Whether the private sector is allowed to play that role is up to the state. That is why what the State does is make or break for development.

First, I want to outline what is most critical in the category of "the basics", by which I mean "what the State must do". Without these, the private sector cannot thrive.

Second, and perhaps most importantly, we should look at State's failure what the State really ought not to do. Finally, I will look at what else the State might usefully do. As the State's capacity increases, there is scope to take on more ambitious functions. For a modern economy, these

functions are also more or less essential.

It is better to view State and market as complements rather than competitors, though it is also sadly true that a bad or predatory State does destroy, compete with, and undermine the private sector.

My list of absolutely basic functions of the state would include (1) peace and security, (2) property rights, and (3) macroeconomic stability. Let me give a few points of illustration for my list.

### Peace and security

Peace and security is perhaps the most fundamental requirement of all for trade and development, as without this, it is almost impossible to invest, and sometimes impossible even to do business.

It has been estimated by Paul Collier, a respected British





development economist, that the average conflict in a developing country costs \$50 billion, and there are on average two conflicts per year, so developing countries are losing much more from conflict than they are gaining in aid. Nor is conflict restricted to only a few countries. 45 million people are affected annually by the devastating consequences of war.

## Property rights

The quality of property rights is now widely recognized as a key ingredient to trade and development. There is a strong correlation between property rights and per capita income levels. It is vastly inefficient for individuals and firms to have to invest in assuring their own property rights without reliable state institutions to support them.

India is improving the property rights of the poor through the provision of titles in informal urban settlements and computerized registration of landholdings. And the bankers here will understand the importance of assisting the poor to become bankable clients. There is a huge and profitable market out there, and until we can serve it, India will remain underdeveloped as far as the poor of the country are concerned.

## Macroeconomic stability

Happily, there has been much progress throughout the developing world in assuring macroeconomic stability, though it is important not to be complacent. Inflation rates in low income countries are now on average very low. The

median inflation rate in low income countries with an IMF programme was less than 5.0 percent in the period 2000-2004. Very high levels of inflation are bad for growth. One study found that, during periods of high inflation (more than 40 percent), economic growth is negative.

On average it has been estimated that reducing inflation by 10 percentage points can increase growth by 0.5 percent per year. Over time, that has a huge impact on rate of poverty. The Reserve Bank of India has done a superb job of managing the monetary performance of the economy to keep a relatively low rate of inflation despite a very high public deficit.

## The 7 Deadly Sins

Having listed three basic things the state must do for growth, I now want to cover what the state should not do, which I characterize as the "7 deadly sins". What are the seven deadly sins of statehood, from the point of view of trade and economic development? My list contains the sins of corruption, bad regulation, excessive trade barriers, exchange rate distortions, stifling the financial sector, fiscal profligacy, and wasteful subsidies.

## Corruption

Corruption is rising up the agenda of many institutions and governments. It is now amongst the issues of greatest concern to the public in developing countries, and it undermines public support for overseas aid in donor countries. This is not to say that corruption is the sole preserve of developing countries, but it is certainly associated with underdevelopment. The correlation between the Transparency International index of corruption and per capita income is striking.

Does corruption prevent development, or does development lead to the reduction of corruption? I believe that both of these forces are at work, but governments will promote growth if they take effective action against corruption as this improves the business climate.

## Excessive regulation

Regulation by the state, unlike corruption, has been all too often a road paved with good intentions. Regulation is essential for many reasons ensuring competition, protecting public safety, securing fair benefits for workers. Regulation is good up to a point, but beyond that, as with taxation, regulation kills growth and becomes a public bad.

Another reason is that regulation slows down business. Excess or inappropriate regulation and corruption are



bedfellows. Every new regulation is an opportunity for unscrupulous officials to demand money. India has made great strides in terms of deregulation since the end of "License Raj", but has a considerable further agenda to modernize and simplify business regulation, including labour laws.

## Trade barriers

Like regulation, trade barriers have a legitimate basis in economics. Infant industry protection may be justified, but the danger is that the protection is simply used to stifle foreign competition, which reduces innovation and costs the consumer dearly. I welcome the steps that the Government of India has taken to open the market to foreign trade and investment (with a fall in weighted average tariffs from over 70 percent in the 1990s to around 25 percent by 2004) and would welcome further steps to reduce tariffs, and as importantly to remove other non-tariff barriers to trade. Although the WTO remains controversial with NGOs and public opinion, I believe that the WTO has been a massive force for good and gives great strength to developing countries in negotiation of a more equitable trading system.

## Exchange rate distortions

To integrate successfully in the global economy, it is necessary to maintain a competitive and fair exchange rate. If the exchange rate is over-valued, this makes imports cheap relative to exports. This undermines the balance of payments and hits competitiveness. Similarly, the fixed exchange rate regimes of some Asian countries proved very damaging in the 1990s during the Asian Crisis. Happily, most of the developing world has moved on from the era of

fixed exchange rate regimes. But maintaining a competitive exchange rate – neither too high nor too low – remains a challenge for many countries.

## Stifling capital markets and the financial sector

Provision of credit and other financial instruments are fundamental to economic growth. Amongst the most important things the state must avoid is to set interest rates at levels which undermine the profitability of the banking system. Central banks have a key role to play, and there is evidence that the more we can establish independent central banks which take account of technical issues and not political ones, the better the prospect for financial deepening. In India, it will be important to expand gradually the scope of the private sector in banking and insurance. More open competition will allow financial sector deepening and broadening.

## Fiscal profligacy

Across many developing countries, fiscal profligacy was facilitated by international development finance institutions and donors, and governments that were all too willing to mortgage the future on an unsustainable basis took advantage of available finance.

In India, whilst large public sector deficits have been well managed in terms of macroeconomic stability, their impact on the ability of the government to spend resources on current development priorities is a major concern. With interest payments accounting for more than a fifth of the expenditure at central level, development priorities are being crowded out. There is also the "crowding out" effect that high state borrowing imposes on the rest of the economy through higher real interest rates.

## Inefficient subsidies

My final "sin" is the use of subsidies, which are justifiable neither by concerns of social equity nor economic efficiency known as "non-merit" subsidies in the jargon of the Indian White Paper on this topic. Indeed, many subsidies are quite regressive in that the better off benefit most, and this is not just a problem in developing countries.

More often than not they pander to a vested interest. We have to live with buying off vested interests to an extent, but this should be minimized.

## The 7 Heavenly Virtues

I turn now from deadly sins the state should avoid, to the



heavenly virtues that the state “should” do to promote development.

## Promote human development

The case for the state's intervention in human development can be built on the modern notion of equity and social justice. But from a purely economic perspective, there is of course a clear benefit from a skilled and educated workforce. Labour is not just one of the “factors of production”, but the driver of innovation and enterprise. The case for investing in education and health rests both on equity and efficiency.

Left to the market, investment in education would normally be insufficient because parents do not take account of wider benefits to society. On equity grounds, without state intervention, there are large inequalities of opportunity between rich and poor that will perpetuate. State provision in the human development sector should not crowd out

private sector activities, and indeed we should separate the issue of who finances services and who provides them.

## Provide infrastructure

The 1994 World Development Report described infrastructure as the “wheels of economic activity”. Infrastructure is a key ingredient of any successful trade and growth strategy. It is important for the state to distinguish the role of the private sector from that of the state. The state should only provide infrastructure which cannot be provided more efficiently and more effectively by the private

sector. And where there are barriers to private participation, the option of addressing the barriers or working in partnership with the private sector should always be considered rather than simply assuming a role for the public sector.

## Promote competition

Firms everywhere seek profits and will use whatever means they can to find opportunities to exploit what economists call “economic rents”, that is profits in excess of what can be made in a competitive environment. This leads to the raising of barriers to entry in markets, lobbying for protection against international competitors, and the use of predatory pricing to destroy the viability of competitors. Yet competition is in the public interest. Reforms can have a major impact on economic growth and innovation - a study in the US found gains of more than 7.0 percent of GDP from deregulation undertaken.



## Raise revenue fairly and efficiently

It is a challenge for all governments to finance their activity without distorting their economy and reducing the incentive to work or save or consume, all of which are essential for growth. There is a tendency for public policy makers to view every increase in revenue as a positive indicator since this will finance investment or social development or reduce the need for public borrowing. There is a tendency for the taxpayer to view every increase in revenue as a negative indicator since this means less net income. We should remember that if public expenditure is inefficient, it is not necessarily





going to help development or growth.

So I am pleased to learn that the introduction of VAT at the State level in India in 2005 has yielded good growth in tax revenue for the State governments, and that this year's Budget commits the government to phase in a national goods and service tax in four years. And overall revenue has to be increased without inhibiting economic growth. This will mean spreading the tax burden fairly across different sectors of the economy and not focusing the burden disproportionately on certain activities..

## Foster external linkages

There is strong evidence that economic growth and poverty reduction is associated with greater integration into the global economy. This means more two-way trade and more foreign investment. These processes have to be managed, and there is a strong role for government here.

The idea that exports are necessarily good and final product imports necessarily bad is a perspective of the producer, but does not reflect the interests of the broader economy. Yet, this perspective seems to dominate the discourse on trade reform and liberalization. The government must balance the interests of the consumer as well as the producer, and manage a process of providing incentives to the private sector for integration into the world economy.

## Sustain the environment

Failure to protect the environment is another classic case of market failure in which state intervention can redress the gap between what individuals will do in their own interests, and what is best for society as a whole. The costs of environmental degradation, for example in terms of air pollution and water pollution, are enormous, and fall disproportionately on poor people. And these costs are not trivial. An ADB report estimated the costs of water and air

pollution alone to be \$10 billion per year in India. Direct action now can be extremely effective – witness the marked improvement in Delhi's air quality over the past few years.

There is growing alarm in relation to the impact that climate change could have, for example, on Indian agricultural output. One study estimated that Indian farm incomes could fall up to a quarter with temperature rises of 2–3.5 degrees centigrade. This will again hit the poorest as rain-fed agriculture will be hit hardest.

## Protect the vulnerable

As with environmental protection, thinking on social protection is changing globally. No longer is this thought to be a rich country luxury good, but rather an essential ingredient for effective states at all levels of development.

This is not just a moral imperative, but also an economic one. Including poor people in the economy is the only way to ensure that the whole population becomes more valuable as consumers and workers, the lifeblood of trade and the economy.

## Concluding Remarks

This is a fairly rapid canter through the development “do's” and “don'ts” of state-hood. My lists are at a sufficient level of generality to be relevant to most country circumstances, though it goes without saying that agendas must be tailored to local circumstances. There is no single “model” of a modern state and there is scope for very different approaches to be effective in different cultural settings.

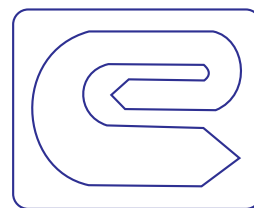
Looking globally, the pendulum of discourse on the role of the state swung substantially towards the private sector in the 1980s and 1990s, with Mrs Thatcher in Britain, and the pioneering 1991 reforms of Mr Singh as Finance Minister in India.

The emergence of the “Washington Consensus” policies associated with the era of structural adjustment embraced a vision of private sector-led growth supported by a state which did little more than create the enabling environment. Since then we have learned that institutions matter even more than policies, and that the state needs to take a pro-active role in shaping economic growth and development.

Inequality – between richer and poorer, between men and women, between regions, and between ethnic groups impacts on the ability of a nation to remain dynamic and cohesive. Without state action, such inequalities will tend to persist and sometimes increase. So we need a strong and capable state to tackle an increasingly challenging national and international development agenda. ■

Exim Bank shows overall progress in 2005-06

## An Excellent Report Card



**EXIM BANK**

### Business Highlights

Project Export Contracts supported by Exim Bank amounted to Rs. 9679 crore secured by 39 companies in 26 countries. Loan Approvals: Rs. 20489 crore, an increase of 29 percent. Disbursements: Rs. 15039 crore, an increase of 32 percent. Loan Assets: Rs. 18028 crore, an increase of 34 percent. Guarantee Approvals: Rs. 4326 crore. Guarantees Issued: Rs. 2196 crore. Guarantees on Book: Rs. 3402 crore. New Lines of Credit totalling US\$ 836 mn. extended to Africa, Russia, Iran & others.

### Financial Performance

Pre-tax Profit at Rs. 377 crore. Net Profit (after tax) at Rs. 271 crore. Net worth of the Bank stands at Rs. 2720 crore. Dividend to Government of Rs. 86.75 crore. Capital to Risk Assets Ratio (CRAR) stands at 18.42 percent. Net NPAs to net loan assets at 0.59 percent as on March 31, 2006.

### Resources/Treasury

Bank raised borrowings of varying maturities aggregating Rs. 7886 crore comprising Rupee resources of Rs. 4384 crore and foreign currency resources of US\$ 785 million equivalent. Market borrowings as on March 31, 2006 constituted 80 percent of the total resources.

During the year, Bank received share capital to the tune of Rs. 100 crore from the Government of India. Bank's paid-up capital increased to Rs. 950 crore as on March 31, 2006.

Foreign currency resources raised during the year included JPY 23 bn by way of Samurai bond offering (bonds issued in the domestic Japanese market by foreign issuers) which is the first such offering from India in 15 years. FC resources of US\$ 590 mn equivalent were raised through bilateral/club loans. As on March 31, 2006, the Bank had a pool of foreign currency resources equivalent to US\$ 1.87 billion.

The Bank's debt instruments continued to enjoy the highest rating viz. 'AAA' rating from the rating agencies, CRISIL and ICRA. As on March 31, 2006, outstanding Rupee borrowings including bonds and commercial paper amounted to Rs. 11825 crore.

Bank obtained 'BBB' rating, which is one notch above investment grade rating, from Japan Credit Rating Agency Ltd. (JCRA) in August 2005. Bank also has international

credit rating from Moody's (Baa3, 'Investment grade') (stable outlook), S&P (BB+) (positive outlook) and Fitch (BB+) (stable outlook), on par with sovereign rating.

**New Initiatives** The Bank has signed a Memorandum of Cooperation with DHAN Foundation, (a leading NGO active in 4 states) for marketing, advisory and financial support for export related activities.

The Bank has also signed a Memorandum of Cooperation with BASICS, Hyderabad and Uravu (an NGO involved in employment generation programs in the bamboo sector for tribal and poor families in Waynad, Kerala), for promoting products of village industries. The Bank has also supported BASICS towards part financing its equity investment in PNG Micro Finance Ltd., Papua New Guinea.

The Bank in association with NABARD and Bank of India is in dialogue with non-profit organisations in USA to promote export of Madhubani paintings from Bihar. Financing R&D and New Product Development in Pharma/Biopharma industry Exim Bank has introduced a structured product for pharmaceutical/biopharma companies for facilitating R&D expenditure with the aim to assist approvals in regulated pharmaceutical markets. The financing by Exim Bank will be in the form of either term loan / equity participation or a hybrid product.

### Development of Natural Resources Abroad

There is an increasing trend in Indian companies in the development/exploitation of natural resources in foreign geographies. Exim Bank selectively supports Indian companies in these endeavours as a means of strategic support, both by applying its own resources as well as by leveraging support by syndication and similar arrangements.

### Pan-Asia Project Development Fund

The Bank is in the process of investing US\$ 10 million in the Pan-Asia Project Development Fund sponsored by Infrastructure Leasing & Financial Services Ltd and Orix Corporation, Japan. The objective is to catalyse involvement of Indian companies with project execution capabilities towards participating in infrastructure projects across Asia by providing seed capital. Countries to be covered include (apart from India) Cambodia, Indonesia, Malaysia, Philippines, Sri Lanka, Thailand and Vietnam.

## Quarterly Publication : India-China Newsletter

The Bank has introduced a new publication titled "India-China Newsletter", a quarterly bilingual (English and Chinese) newsletter, which focuses on issues relating to bilateral trade and investment relations between India and China. This is a new addition to a range that includes bilingual quarterly magazines titled 'Indo-African

Business', (which focuses on bilateral trade and investment between India and Africa), 'Indo-LAC Business', (covering Latin America and the Caribbean region) and 'Indo-CIS Business' (covering the CIS countries). All the publications have been well received amongst the constituents.

## Overseas Investment Finance Programme

The Bank has a comprehensive programme in terms of equity finance, loans, guarantees and advisory services to support Indian outward investment. In select cases, the Bank takes an equity position along with the Indian promoter. During the year, 21 corporates were sanctioned funded and non-funded assistance aggregating Rs. 1132 crore for part financing their overseas investments in 13 countries. Exim Bank has provided finance to 144 ventures set up by over 120 companies in 45 countries so far. Aggregate assistance extended for overseas investment amounts to Rs. 3020 crore. Overseas investments financed by Exim Bank during the year include : acquisition of a Taiwanese company engaged in manufacture of gelatin; acquisition of soda ash facilities in Romania; acquisition of a large home textiles company in the UK; acquisition of a company in UK having a chain of retail stores selling garments and home textiles; acquisition of a company in the agriculture sector producing seeds with manufacturing facilities in Australia, Thailand and Argentina; setting up a wholly owned subsidiary in China for manufacture of printed circuit boards; acquisition of glassware manufacturing facility in the US; acquisition of drug store chain in the US; acquisition of a company in US providing geo-spatial mapping services; acquisition of BPO service provider in the US. Exim Bank also provided equity support to overseas ventures of Indian companies, including inter alia, special purpose vehicle (SPV) set up for acquisition of soda ash business in Romania, a turnkey project exporting company in the UAE and a joint venture in Iran for manufacture of pharma gelatin. Equity Investments approved for overseas ventures aggregated Rs. 71 crore.

## Participation in Overseas Trade Fairs

With a view to promoting international trade and strengthen economic linkages, the Bank participated and showcased its products and services in the 'Made in India Show', Johannesburg, South Africa, organised by the Confederation of Indian Industry. The Bank also participated in the 'India Initiative 2005' organised by All

India Association of Industries in Warsaw, Poland.

## Business for the Year: Contracts Secured

During the year, 568 export contracts aggregating Rs. 13530 crore, covering 64 countries were secured by 174 Indian exporters with Exim Bank's support as against 198 contracts valued at Rs. 7945 crore covering 64 countries secured by 198 Indian exporters during the previous year. Exim Bank/Working Group accords post-award clearance to such export contracts. Of these, 77 contracts valued at Rs. 9679 crore were project export contracts, comprising civil construction, turnkey and consultancy contracts. The balance were trade finance oriented supply contracts.

Export contracts secured during the year consisted of nine construction contracts valued at Rs. 663 crore, 16 service contracts valued at Rs. 245 crore, 491 supply contracts valued at Rs. 3852 crore and 52 turnkey contracts valued at Rs. 8771 crore.

Some major turnkey contracts secured during the year included 500 MW steam based power plant and 2000 TPD cement plant in Sudan; 378 MW gas turbine based power plants in Oman; substations projects in Qatar; lubricant base oil plant in Malaysia, high voltage transmission line projects in Algeria, Ethiopia and Libya; distribution network projects in Afghanistan and Ethiopia; electro-mechanical and plumbing works for commercial complexes in UAE; plant for manufacture of concrete sleepers in Mozambique; LPG bullets for a nickel mine and processing plant in Australia; supply and installation of reactors and separators for refinery project in USA; and supply and installation of thick wall stainless steel vessels for refinery project in UK.

Construction contracts included construction of buildings and commercial complexes in UAE, construction of a cricket stadium in Guyana, reconstruction of roads and alteration and refurbishment of the British Council building in Afghanistan and construction of the Canadian Chancery in Bangladesh.

Supply contracts secured during the year included export of defence products and petroleum products to Sri Lanka, pharmaceuticals, textiles, gems and jewellery, industrial products and fine chemicals to countries in America, Europe and South East Asia, automobiles and auto components to countries in Africa, and agri-products to West Asian and South East Asian countries.

Some of the major technical consultancy and services contracts included rehabilitation and adaptation of refinery projects in Algeria; charter hire of diesel locomotives to Malaysia; offshore drilling rigs to Iran; contract for providing onshore and offshore oil field development services in Iran; project management consultancy for tank farm upgradation facilities in UAE. ■





## "Trade with CIS" seminars call for frequent buyer-seller interaction

Trade and investment from India has a wide scope of development in CIS countries said experts from Federation of Indian Exporters Organization (FIEO) at recent seminars held in Kolkata and Mumbai.

The seminars on "Trade with CIS Countries" were organised by FIEO where exporters and senior diplomats from Kazakhstan, Azerbaijan, Belarus, Kyrgyzstan, Armenia and Russia participated to explore ways and means to boost bilateral trade. More than 100 leading Indian exporters participated in both seminars.

The Kolkata meet was represented by prominent members of FIEO including J.K. Jain, Member FIEO Managing Committee, Sanjeev Nandwani, Executive Director, CAPEXIL, and Tapan Chattopadhyay, Dy. Director General, FIEO (Eastern Region).

Nandwani, in his welcome address said the meeting was a useful exercise in highlighting the critical analysis of the CIS countries in terms of scope for development of trade and investment from India. According to him frequent buyer-seller meets between the CIS Countries and India would increase the prospects of two-way trade. India exports pharmaceuticals, tea, machinery, packaging material, plastic items, garments, knitwear, surgical items and consumer goods among other items to CIS countries.

Jain maintained that India had traditionally shared very good relations with the CIS countries, on both economic

and political fronts. However, trade had taken a downslide in the recent years, he said. According to Jain, the main reasons that have affected trade between India and CIS countries are: distance, language barriers, inadequate transit facilities, inadequate information about business opportunities, macro-economic instability, low progress in liberalization and privatization, lack of regular interaction between business entities and inadequate banking facilities.

But speakers generally agreed that under "Focus: CIS" launched by the Commerce and Industry Ministry in 2003 with the aim of tapping business and trade opportunities in the CIS countries, the government's is making efforts to extend assistance to exporters, export promotion councils, various chambers of commerce to organize two-way delegation visits, organize trade fairs and buyer-seller meets. These initiatives had received encouraging response from the Indian trading community, they said.

Jain said that FIEO had also done its bit to further the Indo-CIS business relationship, which had now picked up.

Kairat E Umarov, Ambassador, Kazakhstan, pointed out that his country possessed enormous fossil fuel reserves as well as plentiful supplies of other minerals and metals. Besides, Kazakhstan had also been endowed with agricultural resources, besides livestock.

Umarov said Kazakhstan's industrial sector rested on the extraction and processing of natural resources and also on

a growing machine-building sector specializing in construction equipment, tractors, agricultural machinery, and some defense items. He said that an increasing number of Indian companies had started setting up joint ventures in Kazakhstan and the presence of leading Indian banks and other trade facilitating bodies would pave the way for a huge volume of Indo-CIS bilateral trade.

Said Zabitov, Senior Russian Consul based in Kolkata said the Russian coal technology companies were keen to provide technical assistance to Indian companies for upgrading their technology in the area of open cast mines. A coal delegation from Russia would soon be visiting India to hold discussions with Coal India Ltd on the issue of technology transfer in mining.

Speaking on the future of eastern India, Zabitov said that prospects of beneficial schemes like the automobile industry seemed bright. In fact a Russian automobile company would shortly start assembling its trucks at its Haldia unit and also provide after-sales service there. He said that the test run of the trucks on the Indian roads had already been completed successfully.

Referring to the quality of Indian tea, Zabitov said that if exporters paid attention to upgrade the quality of their product, they would attract huge Russian demand. He offered full support in the field of night navigation in Kolkata and other ports, which was a major problem for exporters from the eastern region.

Orkhan Zeynalov, Commercial Attache, Embassy of Azerbaijan, said agriculture and food processing was a very promising field for business exchanges between the two countries. Zeynalov found the seminar as an excellent platform for interaction with the prominent exporters and hoped that this would be a good beginning for stepping up two-way trade.

Andrew M Chernetsky, First Secretary, Embassy of Belarus, said the main roadblock in trade between India and his country was the problem of communication, which should be improved first and foremost. He said that micro-electronic, chemicals, machine tools, heavy machinery etc were some of the areas where the two countries could share common business interests.

In Mumbai, before the start of the seminar, exporters with foreign dignitaries, the delegation was taken on an extensive industrial tour by D Brar, Jt. Director General (FIEO), and Rajesh Bhatia, Jt. Director, FIEO (Western Region) to four units in Murbad pertaining to yarn and garment manufacture, drum closures and shuttering material and engineering. The delegation was impressed with the level of vertical integration achieved by some of

these units and also the high level of commitment towards quality and the technological advances made in manufacturing processes in cutting down production costs. Some of the delegates showed keen interest in joint ventures with technologically advanced Indian companies in the areas of their interest.

At the seminar, FIEO Chairman (WR) S K Saraf called for spreading awareness about the potential existing in CIS countries as well as India.

Kazakhstan Ambassador in India, Kairat Umarov described the business environment in his country as the most investment-friendly and was being recognized as a market economy nation by the European Union and the United States.

Orkhan Zeynalov, Commerical Attache, Embassy of Azerbaijan, said besides agriculture and food processing, the areas that held great potential for cooperation included oil and natural gas, petroleum products, petrochemicals, oilfield equipment, steel, iron ore, cement, chemicals and textiles. He invited Indian collaborators to come up with proposals for joint ventures.

Olg Laptienok, Ambassador of Belarus, said his country offered great investment potential because of the opportunities for setting up industries based on natural resources. Investments in Belarus until 2005 were dominated by Switzerland (27.7 percent) and Russia (19.1 percent), he said. Public catering industry, communications and transport were the main sectors for investment in 2004, Laptienok added. Since Belarus was geographically located in the centre of Europe, it was fast becoming a springboard for trade with other CIS and European countries and could provide greater impetus for its growth.

Daniar Sydykov, Second Secretary, Embassy of Kyrgyzstan, said that free repatriation in foreign currency for profit, dividend and other forms of income had made his country very attractive for investing in the six priority sectors: fuel and energy, mining industry; transportation and communication; light industry; electronics and IT, agri-processing and tourism.

Ashot Kocharian, Armenian Ambassador, said Indian companies could invest in textile equipment, pharmaceuticals, Information Technology, telecommunications and education, stressed the fact that his government was encouraging foreign direct investment (FDI) and all the legal procedures for investing and setting-up companies in his country had been simplified.

The seminar was indeed an eye-opener for both Indian exporters and CIS delegates as they got to know of several opportunities and potential their countries could offer. ■

## Reforms create more SME jobs in CIS countries



The governments of the Commonwealth of Independent States (CIS) have stepped up the pace of reform to facilitate small and medium enterprises (SMEs) generate more jobs. Georgia tops among the global reformers although overall the reforms in the region lag behind their Eastern European neighbours. Heavy legal burdens on businesses continue to remain the sore point in most countries, obstructing investments, according to report of the World Bank.

Doing Business in 2006: Creating Jobs, cosponsored by the World Bank and the International Finance Corporation (IFC), the private sector arm of the World Bank, finds that such reforms, while often simple, can create many new jobs.

"Jobs are a priority for every country, and especially the poorest countries. Doing more to improve regulation and help entrepreneurs is key to creating more jobs--and more growth. It is also a key to fighting poverty. Women, who make up three quarters of the work force in some developing economies, will be big beneficiaries. So will young people looking for their first job. The past year's diverse range of successful reformers - from Serbia to Rwanda - are showing the way forward. We can all learn from their experience," said Paul Wolfowitz, President of the World Bank.

The annual report, which for the first time provides a global ranking of 155 economies on key business regulations and reforms, finds that every country in the CIS improved at least one aspect of the business environment among the highest rate of reform of any region. Yet the pace of reform is slower

than the new entrants to the European Union, which are aggressively wooing entrepreneurs with radical and far-reaching reforms that streamline business regulations and taxes.

Of course the report tracks a set of regulatory indicators related to business startup, operation, trade, payment of taxes, and closure by measuring the time and cost associated with various government requirements. It does not take into account variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Georgia was the top reformer in the region and the number two reformer globally. Starting up a business is made easier, and the number of activities licensed, are cut down from 909 to 159. The reform policy also includes easing the cost of firing redundant workers, cutting the time and cost to register property, and introducing a new tax law with fewer and simplified taxes.

Other notable reforms in CIS countries in the past year:

- Russia, Ukraine and Azerbaijan have made it easier for entrepreneurs to start a business in Russia's case, it is for the second year in a row.
- Armenia has introduced case management into courts, streamlining contract enforcement. The country also increased the flexibility of employment law
- Kazakhstan has cut 20 days from the time to enforce a contract by allowing approved private firms to execute court



judgments. Belarus streamlined the court appeals process.

- Ukraine has improved the regulations of credit markets with a new collateral law, allowing entrepreneurs to use a broader range of assets as collateral, and allowing creditors to enforce collateral privately, without a lengthy court trial. Creditors now have first priority to the collateral if the debtor defaults.
- A new credit bureau has been established in the Kyrgyz Republic, making it easier for lenders to evaluate creditworthiness. Public credit registries were established in Armenia and Azerbaijan.
- Russia and Kazakhstan have introduced new laws to encourage sharing of credit information.
- Moldova and Uzbekistan have cut the corporate tax rate by three and two percentage points respectively.

Overall, European nations were the most active in enacting reforms. The top 12 reformers in the past year, in order, were Serbia and Montenegro, Georgia, Vietnam, Slovakia, Germany, Egypt, Finland, Romania, Latvia, Pakistan, Rwanda, and the Netherlands.

Doing Business in 2006 updates the last year's report on seven sets of business environment indicators: starting a business, hiring and firing workers, enforcing contracts, registering property, getting credit, protecting investors, and closing a business. It expands the research to 155 countries and adds three new indicators: dealing with business licenses, trading across borders and paying taxes.

The new indicators in the current report further reinforce the overwhelming need for reform, especially in poor countries. It is found that poor countries levy the highest business taxes in the world, which create incentives to evade, driving many firms into the underground economy, that do not translate into higher revenues.

The analysis also shows that reforming the administrative costs of trading can remove significant obstacles to exporting and importing. Contrary to popular belief, customs paperwork and other red tape (often called "soft infrastructure") cause maximum delays for exporting and importing firms. Less than a quarter of the delays are caused by problems with "hard

infrastructure" such as poor ports or roads. In Azerbaijan, for example, an entrepreneur would have to submit 18 documents and obtain 55 signatures to import goods. For manufacturers in developing countries, the administrative burdens of trading can pose larger costs than tariffs and quotas.

The annually published report gives policymakers the ability to measure regulatory performance in comparison to other countries, learn from best practices globally, and prioritize reforms. Now in its third year, the report has already had an impact on business environment reforms around the world.

"The Doing Business benchmarking has inspired and supported reforms in more than 20 countries, and since last year, nine governments have asked for their countries to be included in the Doing Business analysis," said Caralee McLiesh, one of the co-author of the report.

The ranking of the Baltic countries Lithuania, Estonia, and Latvia, in the top 30 countries is a remarkable achievement, considering that only a decade has passed since they first began reforms. But the rankings highlight significant obstacles in CIS countries, with Armenia ranked at 46, Russia at 79, Moldova at 83, Kyrgyz Republic at 84, Kazakhstan at 86, Azerbaijan at 98, Georgia at 100, Belarus at 106, Ukraine at 124, and Uzbekistan at 138.

Particular obstacles in the region are rigid employment laws and high and complex taxes. For example, 80 percent of countries require women to retire at a younger age than men a rule that hurts women's career opportunities and pay. In Belarus, if a business paid all of its taxes, it would amount to more than gross profits, and it would take 113 tax payments a year to 3 different agencies and 1,188 hours to do so. Such high taxes create incentives for evasion. In Uzbekistan, evading 20 percent of business taxes could increase gross profits by 60 percent.



The Doing Business project is based on the efforts of more than 3,500 local experts business consultants, lawyers, accountants, government officials, and leading academics around the world - who provided methodological support and review. The data, methodology, and names of contributors are publicly available online. ■

# Go For Niche Product Exports

-Exim Bank study on Indian leather industry



Exim Bank's latest study titled, "Indian Leather Industry: Perspective and Export Potential" highlighted the capability of the country to increase its share in the global leather trade, in view of its rich resource base of raw hides and skins and human capital. The study noted that leather exports from India accounted for around 3.0 percent of global leather exports. The study observed that the major export markets for India are the United States, Germany, UK and Spain. India has a lot of potential in these markets, as it has unique advantage of economies of scale and capability of producing niche products.

With about 40 percent of production being exported, the Indian leather industry accounted for around 3.0 percent of total exports from India in 2004-05. Leather footwear is the largest exported product among different categories of leather exports. Footwear is a critical segment, as this is expected to be the engine of growth for the Indian leather industry.

The study focused on various challenges that hinder the export growth of the Indian leather industry. These include

effluent management, quality specifications, non-tariff barriers, and cost of compliance to various standards. However, the study is of the view that there are ample opportunities to realize the export potential of this sector, with the adoption of proper strategies.

The world leather industry is in the process of shifting its manufacturing base from developed to developing countries. This presents an opportunity for increased flow of foreign direct investment into India. Against such scenario, factors such as abundance of leather, increasing awareness for quality, production know-how and designing capabilities, work in India's favour. Increasing presence of large corporate houses in this sector would help enhance the investments required, and thereby the competitiveness in international markets.

The study delineated the importance of foreign direct investment (FDI) along with technology transfer, which would help India to attain a quantum jump in leather exports. This will be one way of meeting the large funding

requirements needed for modernization of the leather industry in India. Diversification of export markets is another important strategy for the Indian leather industry. The study observed that a lot of emphasis is being given to latest fashion trends in the international markets and hence the industry should give equal importance to the design and fashion trends.

The study highlighted the importance being given to this industry by the Indian Government as one of the focus sectors. Various schemes and programmes have been recently announced to augment the growth of this sector. These schemes are expected to position the Indian leather industry in high growth trajectory. ■



## Exim Bank Study on Indian Petroleum Products Industry:

# Upgrade tech, tap nearby markets, China & Japan



The importance of petroleum industry can be gauged from the fact that it contributes in a huge manner to the total energy requirement of the world. Over 55 percent of world primary energy consumption is met by oil and gas industry. A detailed study undertaken by Export Import Bank of India looks at the petroleum industry, the opportunities that it offers for global economic growth in general and India in particular, as well as the challenges that are built into its development. The study suggests that Indian oil refineries must plan to infuse new technology to upgrade their operations and explore possibilities of exporting petroleum products to neighbouring countries as well as China and Japan.

Petroleum is a natural mixture of hydrocarbons in gaseous, liquid or solid state. Petroleum products fall into three major categories; 1) Fuels such as motor gasoline and distillates fuel oil; 2) Finished non-fuel products such as solvents and lubricating oils; and

3) Feedstock for the petrochemical industry such as naphtha and various refinery gases.

The products are mainly used for transportation, agriculture, domestic and industrial purposes. The industry is mainly segmented into: 1) Upstream sector, which is involved in the process of exploring oil, developing oil fields, and producing oil from the oil fields;

2) Downstream sector, which encapsulates all of the linked businesses, which refine and market petroleum, including pipeline systems, refineries, gas distribution, and petrochemical companies.

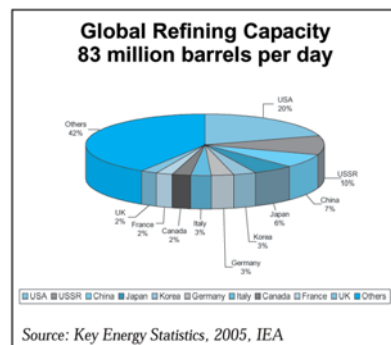
### Global Scenario

Globally the petroleum crude production is undertaken in oil-rich countries and the refining is mainly done in countries with high demand for petroleum products. A cartel of oil producing countries named OPEC (Organization of Petroleum Exporting Countries) holds 897

billion barrels of oil reserves, around 78 percent of the world's proven reserves of 1.14 trillion barrels. Saudi Arabia is top producer as well as top exporter of crude oil. The United States is the largest importer of oil with a share of 27 percent in world imports of oil.

As of 2003, over 90 percent of the world's 83 million barrels per day of refining capacity was located in non-OPEC countries. A type of correlation could be established between production of petroleum products and crude distillation capacity of a country. Out of top 10 countries in terms of refining capacity, eight are also in the list of top 10

producers. The US is the leading country in terms of both refining capacity and production of petroleum products. The US has 20 percent of the global refining capacity. Despite this position, the US is the largest importer of petroleum products also.



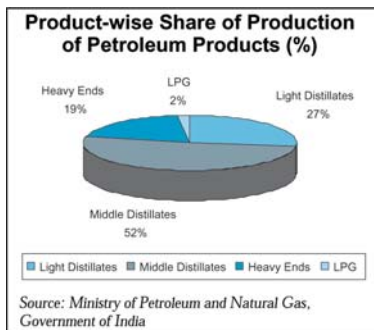


The high demand for petroleum products can be gauged from the fact that many large producers thereof are large importers also. Apart from the US, other major importers, which are also large producers, include China, Japan, Germany and Italy. India, though with a low refining capacity in comparison to world, is the sixth largest producer of petroleum products with 118 million tonnes production in 2004-05. There are several countries (e.g. Singapore) that are important to world trade in refined petroleum products despite very low (or non existent) level of crude oil production and low refining capacity.

The product pattern of refineries has undergone significant changes with additions and modernization of secondary processing facilities and the availability of light and sweet crude. At present, middle distillates account for more than 50 percent of refinery production by products.

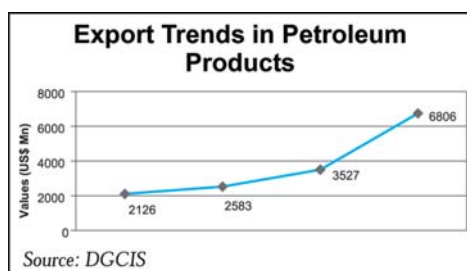
## The Indian Petroleum Industry

As of July 2005, there were a total of 18 refineries in India with an aggregate installed capacity of 127 million metric tonnes per annum. Provisional data for the production of petroleum products for the year 2004-05 was placed at 120.47 million tonnes, up from 115.78 million tones in the previous year. Middle distillates accounted for the largest chunk of total production followed by light distillates.



The petroleum products sector has seen upsurge in exports since 2001-02. In the year 2000-01, India was a net importer of petroleum products. However, since 2001-02, India has become a net exporter of petroleum

products. This could happen mainly due to increase in refining capacity. Provisional figures of exports of petroleum products in 2004-05 stood at US \$ 6.8 billion. The exports of petroleum products have risen by more than 90 percent in 2004-05, over the previous year.



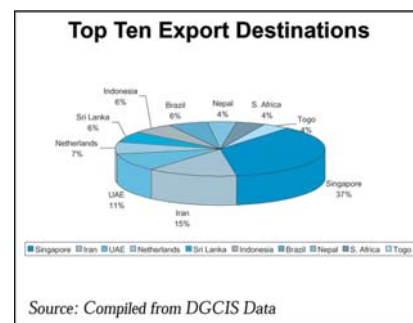
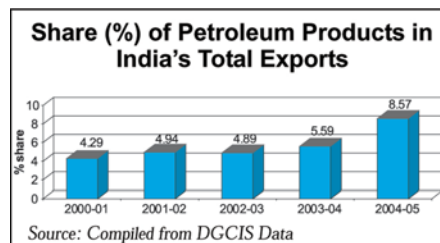
The share of petroleum products in India's total exports has also increased over the five-year period

2001-05. From a level of 4.29 percent in 2000-01, the share has increased to 8.57 percent in 2004-05. As a result, petroleum products improved their ranking in India's exports from the eighth position in 2000-01 to fifth position in 2004-05.

Major destinations of India's exports of petroleum products include Singapore (25.5 percent), Iran (9.8 percent), UAE (7.4

percent), the Netherlands (5.1 percent), Sri Lanka (4.5 percent), Indonesia (4.4 percent), Brazil (4.3 percent), Nepal (3.1 percent), South Africa (3.1 percent), and Togo (3.0). These 10 countries together account for over 70 percent of India's total petroleum products exports. High-speed diesel (39.4 percent), light oils and preparations (19.5 percent), aviation turbine oil (13.8 percent) and fuel oil (8.0 percent) are the major petroleum products being exported from India.

India holds more than 1.0 percent share in major petroleum products import markets, such as Singapore, Japan, the United Kingdom, Belgium and Korea. The share of India in the Singapore market is high at 10 percent. Top three importers Indian petroleum products are Singapore, Iran and UAE. Of these three markets, India is the leading supplier in UAE and Iran. India ranks third in the Singapore market, next to Saudi Arabia and Kuwait. Another major competitor in the Singapore market is China. Pakistan is emerging as a major competitor in the UAE market, while Singapore and China are emerging as competitors in Iran. It appears that Singapore and Pakistan are largely re-exporting the petroleum imports, sourced from other countries, including India.



## Challenges - Price Volatility

Crude oil prices touched a record high of US \$ 70 per barrel in 2005. While the fall in oil prices would affect the viability of the projects in the upstream sector, the rise in oil prices

would affect the viability of the projects in the downstream sector. In addition, post-APM, oil companies involved in the downstream marketing will have to deal with risks including price risk for crude oil, refining margins and foreign currency risks.

## Supply disruptions

OPEC producers account for a major portion of world's crude oil production. India's dependence on these countries as primary source for crude oil imports is also very high.

Thus, any supply disruptions in the Middle East could lead to volatility in oil prices and more importantly, affect supply to India, adversely.

## Technology

Most of the public sector refineries in India are more than two decades' old and need up-gradation and modernization. Commercial vehicles shifting from Bharat Stage (BS) I to BS II and BS II to BS III require specific quality products and refineries are already working out strategies to provide fuels conforming to these environmental measures. Refineries also have to meet product specifications in order to conform to international environment specifications, particularly the EURO III emission norms

## Competition

Indian companies have had to pursue opportunities in various countries on the basis of global energy margins. However, tough competition exists in international markets, especially from China National Petroleum Corporation (CNPC), who is also securing exploration rights to improve China's energy security.

## Prospects: Growing demand for petroleum Products

The last three years witnessed India converting itself into a product surplus nation, thanks to additional refining capacities created in this sector. In the domestic market, supply of petroleum products will be more than their demand in the coming years and hence refineries should resort to export markets.

## Market potential in neighbouring countries

India needs to take advantage of its strategic leadership in refining and increase its refining capacity, as demand for petroleum products is high in Asia. India's close neighbours themselves are energy deficient countries and there is a huge potential for exports of petroleum products to Pakistan, Myanmar and China. Besides, the huge demand

that exists in Japan could also be captured.

## Integration of operations

Indian companies have realized the potential of integration (upstream and downstream) and are also planning to integrate themselves. While HPCL, IOC and BPCL plan to enter into exploration, ONGC plans to enter in the refining and marketing segment, and IOC is also planning to enter the petrochemicals segment.

## Securing overseas energy resources

India is in the process of securing overseas energy resources, and is keen to secure more resources in order to meet its accelerating energy demands. As a result, Indian energy corporations have emerged as significant threats to established multinational energy.

## Companies in the overseas oil and gas markets.

Suggestions: Strategic Reserves

India is a growing economy and thus needs to improve its oil security and avoid any supply disruptions. Creation of strategic reserve of crude oil and petroleum products is necessary to improve oil security in India.

## Integration of refineries

Indian refineries have low integration with petrochemical sector. It is attractive, in refiners' interest, to move towards integration with petrochemicals to capture full

synergies with refineries. This will also help use the optimal refining capacities of respective refineries within the country.

## Infrastructure creation

The demand for petroleum products in India is high in north and north-western region and coastal locations are appropriate for refinery construction because of effective supply and transportation facility. Strategic location of inland refineries with more effective supply and evacuation system through pipelines nearer to the consumer market would add strength to this sector.

## Capacity addition through de-bottlenecking

De-bottlenecking in refinery means increasing the capacity of the refinery without much capital expenditure. De-bottlenecking is relatively a different concept than capacity expansion, where the capital expenditure and modifications in the plants are relatively high. De-bottlenecking of existing facilities always has been an attractive option to enhance a

plant's capacity and profitability. Many Indian refineries, both public and private sector have increased the capacity through de-bottlenecking.

## Research and Development

Typically, research and development (R&D) spend of oil and gas companies, as a percentage of sales, is relatively low in India. However, the enormous size of Indian oil and gas companies means that considerable sums are being spent in R&D. Such expenses have also paid dividends in the past. Research has provided the industry with tools to discover and produce oil and gas efficiently. Thus, thrust should be given for more R&D spends in the Indian petroleum sector. Industry players have proposed setting up of Petroleum Economic Zone, where international service providers could be encouraged to set up research and development centers, which would help India to become a major service provider in this sector.

## Technology

Oil and gas industry is technology-intensive. Indeed, technology plays a key role in the entire value chain from exploration to refining to marketing and final consumption. New technologies such as 3-D seismic interpretation and advanced reservoir simulation techniques are taking the guesswork and risk out of exploration. Production and marketing of petroleum products in India should also be leveraged with new techniques and technologies.

## Strengthening energy diplomacy

The solution for India's energy problems lies overseas and can only be tackled through energy diplomacy. India is a member of International Energy Forum (IEF), which provides a biennial meeting of the ministers from the energy producing and consuming nations. India, being a big consumer of oil, will have to ensure its oil security by strengthening the dialogue process in such meetings. Further, such forums do provide a plethora of opportunities to forge ahead with individual oil-surplus countries.

## Future Outlook

With a large population base and currently very low per capita consumption of petroleum products, India is amongst the fast emerging markets for petroleum products. The liberalization and its effect of high growth in all economic sectors would increase the demand for petroleum products in India. The 10th Five-Year Plan has projected the demand for petroleum products to reach 135.9 million tonnes by 2006-07 in India. High Speed Diesel, one of the middle distillates, will dominate the

projected demand and product availability.

The Indian automobile industry is witnessing an unprecedented growth in recent years. The arrival of new and variations in existing models, easy availability of finance at relatively low rate of interest and price discounts offered by dealers and manufacturers have stirred the demand for vehicles and a strong growth for the Indian automobile industry. It is estimated that the production of vehicles in India will exceed 10 million by 2006 from an estimated 8.5 million in 2004-05.

Furthermore, an increase in investment in the country's road transport facilities and rural, urban infrastructure will add to rapid growth of the automobile industry. India's three ambitious road projects, viz., Golden Quadrilateral (GQ), North-South East-West (N-S E-W) Corridors and connectivity of major ports, would spur roads traffic capacity and hence demand for petroleum products would also pick up.

Keeping in view the need for enhancing the refining capacity to meet the growing demand for petroleum products, a number of grass-root refineries as well as expansion of existing refineries are at various stages of implementation. About 28 million tonnes additional capacity is estimated to be required to meet the expected demand of 135.9 million tonnes by 2006-07.

The refineries in the country are also allowed with forward integration in the fields of petrochemicals, for better value-addition, which opens up another vast area for investment. India has a strong commitment to pursue an energy policy, which will take into consideration the issues of environmental safety. Accordingly, the country is adopting more environmentally benign measures with regard to usage and quality of fuels. Phasing-out of lead, benzene reduction in gasoline, sulphur reduction and cetane improvement of diesel are amongst the prominent measures that are under implementation. Such quality upgradation of fuels will call for adopting latest/state-of-the-art technology, requiring huge investments.

The prospects for export of petroleum products to our neighbours, viz. Pakistan, China, and Myanmar are very bright. Pakistan mainly imports petroleum products from Saudi Arabia, Kuwait and UAE. Diesel from India would definitely be cheaper in comparison to the current sources due to proximity. Indian refineries in the western and north-western region are suitable for this purpose. Some of the Indian refining companies have begun finalising both sea and land transport routes for export of diesel to Pakistan. ■



# Post- Chernobyl Rehabilitation: \$50 mln WB loan for Belarus

The World Bank has approved a US\$ 50-million loan to Belarus for an energy efficiency project targeted at people living in Chernobyl-affected areas. This project marks a shift from humanitarian assistance towards longer-term sustainable development. Counterpart funding from the government of Belarus amounts to an additional US\$11 million.

“By providing people with cleaner, less contaminated sources of energy, the project delivers a vital public good and helps affected people move beyond the kind of dependency that has prevailed since the Chernobyl accident 20 years ago,” said Shigeo Katsu, World Bank Vice President for Europe and Central Asia.

The Post-Chernobyl Recovery Project is expected to provide cleaner as well as more energy-efficient heating systems through the installation of new equipment and better insulation in schools, hospitals and orphanages. With the amount sanctioned, the project will replace inefficient communal boilers and dilapidated heat distribution systems. Investments in residential gas connections will also provide clean and improved space heating to households now burning contaminated wood, peat and other fuels inside their homes.

The project responds to the recommendations of the Chernobyl Forum, which stress socio-economic factors in helping people living in the area to recover and prosper. The Chernobyl Forum, whose members are attending an international conference in Minsk this week on the occasion of the 20<sup>th</sup> anniversary of the accident, is an initiative of the International Atomic Energy Agency (IAEA). It is supported by WHO, FAO, UNDP, UNEP, the UN Office for the Coordination of Humanitarian Affairs, the UN Scientific Committee on the Effects of Atomic Radiation, the World Bank and the governments of Belarus, Russia and Ukraine.

Paul Bermingham, World Bank Country Director for Belarus, Ukraine and Moldova said: “The new project is an important part of an international effort to improve the quality of life of people affected by the accident,”

The accident at the Chernobyl power plant on April 26, 1986 contaminated Belarus with more than two-thirds of its fall-out. Contamination covered a quarter of the country's territory and affected some two million people, or one-fifth of the population. People in the fall-out zone have lived for years with the consequences of contamination and a legacy

of depressed economic development.

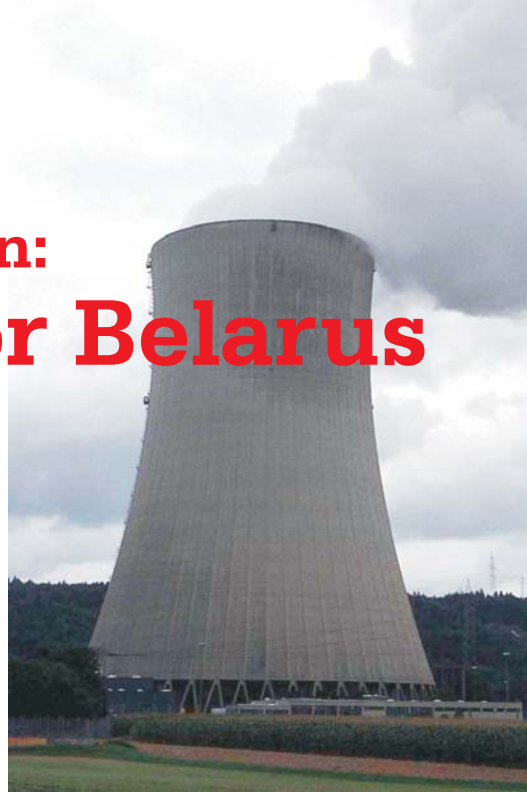
“This project will change peoples lives for the better in the contaminated zones by providing a reliable supply of energy and a

healthier environment in their homes, schools, hospitals and other community centers,” said Maha Armaly, the World Bank staff member managing the project. Previous efforts by multilateral and bilateral institutions have focused mainly on technical, scientific, and humanitarian assistance.

Under the first \$48 million component, the project will fund the replacement or rehabilitation of inefficient old boilers and heat distribution systems in schools, orphanages, and hospitals. The project will also cover the costs of replacing windows, improving insulation, and introducing energy efficient lighting. Children and hospital patients who are among the country's most vulnerable groups will benefit directly from these improvements.

The second component, which will cost an estimated \$8.5 million, consists of investments in residential gas connections to provide clean space heating to about 3,000 homes. Many families now burn contaminated wood and other fuels inside their homes, jeopardizing their health and damaging the environment. Extensive public information activities and outreach will facilitate the participation of communities.

The third component, worth \$5 million, covers the design and supervision of project investments, and project management, staffing and fiduciary responsibilities. Project implementation will be closely monitored, with all works, equipment and services procured through competitive bidding. The World Bank's financial management procedures will ensure that funds are spent for the purposes intended in the project agreements. Annual, mid-term and final progress reviews will ensure that benefits reach the intended recipients. ■





## Better **B2B** tie-ups needed to tap mineral-rich **CIS**

The Commonwealth of Independent States (CIS) is rich in mineral resources that are awaiting tapping. When it comes to Indo-CIS collaboration in the field of minerals, the biggest hurdle appears to be a lack of awareness of each other's potential. This barrier could easily be overcome through business to business (B2B) interaction between the private sectors of India and the CIS region. This is the crux of the seminar held recently in Kolkata organized by the Engineering Export Promotion Council (EEPC) in which representatives from business organizations of both sides participated. They noted with satisfaction that

under the Government of India's Focus-CIS programme, most of the impediments in the Indo-CIS bilateral trade had been removed.

**D**elivering the keynote address at the interactive session with Indian Commercial Representatives of CIS Countries, P.K. Mahapatra, Joint Secretary, Ministry of Commerce, said lack of awareness of each other's trade potential could be minimised through greater private sector business interaction with the eight resource-rich countries of the region.

Expansion of trade with the potentially rich CIS region could be possible only through better business-to-business contacts, Mahapatra said adding, "Central Asian countries such as Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan are extremely rich in mineral resources, which are waiting to be tapped, exploited and converted into value-added products."

### Focus-CIS

Pointing out that most of the hurdles that existed earlier had now been removed under the 'Focus-CIS' programme of the Government, Mahapatra said: "International trade is now a partnership game, and governmental support is extended only through programmes such as the Market Access Initiative (MAI) for conducting market surveys and

the Market Development Assistance (MDA) for product promotion through fairs, buyer-seller meets etc."

Asked if EEPC was thinking of setting up centralised warehousing in any one of the eight CIS countries, R.P. Sehgal, Regional Chairman of the Council, said once the beneficial fallout of the Chicago warehousing model was fully assimilated, which might take some six months or so, the council would try to replicate the model in the CIS region to push engineering exports in a big way.

He said among the CIS countries, the Russian Federation, Ukraine and Belarus are technically advanced, and "to enhance cooperation with these countries, we need to make concerted efforts."

According to him, both the speedy economic liberalization measures adopted by the CIS countries and establishment of institutional mechanisms for mutual interaction and development of fast/direct shipping links to the region have contributed to increased Indo-CIS economic cooperation.

At another occasion in the southern city of Coimbatore, New Delhi-based EEPC Executive Director C.S. Shukla said that the Indian engineering industry was not only looking at

the developed markets but also developing markets like the CIS countries.

Speaking to newsmen, he said EEPC had some months back had organised an India Tech exhibition in Almaty in Kazakhstan which elicited interest among the buyers there. As a follow up to that show, the Union Minister of State for Commerce and Industry E.V.K.S. Elangovan had led a 60-member delegation to Almaty.

Shukla said the EEPC is opening an India Engineering Centre (IEC) in Chicago in the US as part of efforts to expand the US market for Indian engineering goods and is also relocating the centre from Lagos to Johannesburg in South Africa in view of its strategic location in serving not only the African market but the Latin American market too.

During the visit, an agreement for the establishment of a joint venture for the manufacture of batteries and UPS units in Kazakhstan at an investment of \$1.5 million was signed. There were indications that further agreements for investment up to \$10 million were possible. The second agreement was for construction machinery in Uzbekistan at a cost of \$1 million and another for manufacture of machinery for food processing industry involving \$2 million in the same country.

Shukla said a CIS delegation will be visiting India to hold discussions with Indian companies in buyer-seller meets scheduled to be held during March 22-26 in Mumbai, Delhi and Chennai which would provide an opportunity for

more number of Indian companies to interact with buyers from the CIS region.

He said export of engineering goods has been witnessing an upswing and compared to 2003-04 exports figure of \$10.8 billion, this year's target has been revised from \$11.50 billion to \$12.75 billion at the instance of Union Commerce Ministry. EEPC has estimated that by 2008-09, the engineering exports would touch \$30 billion, recording a 25 per cent annual growth. He said the pattern of exports also had undergone a tremendous change both in terms of 'composition and direction.' The fact that the US and the EU are the major buyers of Indian engineering goods certified the quality and competitiveness of these products.

He said the EEPC is opening an India Engineering Centre (IEC) in Chicago, USA in a 5,000 sq.ft area that would have 50 windows to display products of Indian companies. The warehousing facility would be outsourced and every quarter, a buyer-seller meet would be organised. The Chicago project would cost about Rs 3 crore. EEPC has also decided to shift its office from Lagos to Johannesburg to serve better both African and Latin American markets.

Engineering exports to ASEAN region was around \$1.2 billion, constituting around 10 per cent of the total engineering goods exports. EEPC is organising an India Tech in Jakarta in March and the seminar was part of efforts to encourage Coimbatore based companies to participate in the exhibition there. ■

## Texprocil pact with Kazakhstan

**T**exprocil has signed an MoU with Kazakhstan for enhanced co-operation between the textile industries in the two countries.

In the presence of J.N. Singh, Textile Commissioner, Prem Malik, Deputy Chairman of Texprocil, and Berdibek Saparbayev, signed the MoU at an interactive meeting attended by leading manufacturers of textiles in Mumbai recently.

The MoU highlights the importance of working together in the field of exchange of information pertaining to textile industry, exploring possibilities of participating in fairs and exhibitions in both countries, and encouraging joint ventures and investment proposals so as to strengthen the manufacturing sector in the two countries.

The high-powered delegation led by Saparbayev was in Mumbai seeking the participation of leading Indian textile companies, particularly from the cotton sector, to set up a manufacturing base in the Ontustik SEZ. ■





## CII signs pact for textile investment in Kazakh SEZ

The government of Kazakhstan is eyeing investments from Indian textile players in the Ontusyk Special Economic Zone (SEZ) and has offered a slew of tax incentives for potential investors.

A business delegation from Kazakhstan, in partnership with the Confederation of Indian Industry (CII), recently organised a presentation highlighting investment opportunities in the SEZ for Indian textile players.

Accordingly, an agreement of co-operation was signed in New Delhi between the CII and the Kazakh Government, focusing on investment activity in the SEZ, located in South Kazakhstan, by Indian textile sector players.

Berdibek Saparbayev, Special Envoy of the Prime Minister of Kazakhstan and Deputy Head of Kazakhstan's Prime Minister Chancellery, led the delegation. S.P. Oswal, Chairman of the CII textile committee, headed the Indian Textile industry at the New Delhi meeting.



### Tax Concessions

The incentives announced for potential investors in this zone include long-term tax concessions, customs duty relaxation and cheap inputs. According to Saparbayev, investors would be fully exempted from corporate income-tax, VAT, property and land tax for a period of 10 years. The only basic requirement for investors would be that the textile products should be made from 100 per cent cotton, of which not less than 30 per cent must be Kazakh cotton. ■

## Indo-Uzbek protocol on wide-ranging cooperation

Uzbekistan has agreed to directly source a large number of products from India including cotton, yarn, grain, flour, mineral, fertilisers, polyethylene, liquid gas, raw silk and silk products, cable-conductor products, copper, zinc and the products of chemical industry. This was indicated in the Protocol of the Sixth Session of the Inter-governmental Commission on Trade, Economic, Scientific and Technological cooperation between India and Uzbekistan, signed in New Delhi recently.

The Protocol was signed by Jairam Ramesh, Minister of State for Commerce and Co-Chairman of the Commission from the Indian side, and Dr Ashier Erkinovich Shaykhov, Minister of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan and Co-chairman of the Commission from the Uzbek side.



To expedite concrete proposals for Indian companies in mining of gold in Uzbekistan, the Uzbek side was requested to nominate their agency for signing the MoU with MMTC Ltd and National Mineral Development Corporation (NMDC) from Indian side. To tap the huge potential for cooperation in the oil and gas sector, the two sides agreed to the constitution of a Joint Working Group on hydrocarbons.

It was also decided that a delegation from GAIL (India) Ltd would visit Uzbekistan soon to explore the opportunities in construction of LPG plants, gas pipelines and gas processing facilities.

Earlier, the two countries resolved to build on their centuries-old cultural and trade relations by forging a mutually beneficial economic co-operation in their respective areas of strength encompassing information technology, oil and gas sector.

Addressing the sixth session of the inter-governmental commission on trade, economic, scientific and technological co-operation between India and Uzbekistan Ramesh, expressed satisfaction over the progress made in setting up of Indo-Uzbek IT Centre in the Tashkent University of Information Technology (TUIT) with a grant of Rs 30 million.

Ramesh told Dr Shaykhov that experts from C-DAC, Pune, were scheduled to arrive in Tashkent shortly to install equipment and to conduct IT training courses. Eight faculty members from TUIT have already completed advanced IT

training from C-DAC.

The Uzbek side offered to extend full co-operation for encouraging investment by Indian IT companies in Uzbekistan and to make Uzbekistan their base for further expansion into the Commonwealth of Independent countries. Ramesh proposed that Indo-Uzbek IT Centre in Tashkent be named after Pandit Jawaharlal Nehru and the Uzbek Minister welcomed the proposal.

## Visas to Uzbekistan

To facilitate bilateral trade, Ramesh proposed that Indian businessmen intending to visit Uzbekistan be granted on visas on the basis of letters issued by the recognised Indian Chamber of Commerce and Industry.

Besides tapping the huge potential for co-operation in the oil and gas sectors, the two sides also resolved to concentrate on textiles (cotton and silk) and garments, pharmaceuticals and hospital equipment, healthcare, food processing, construction and industrial processing of minerals. ■

## Russia to open a business centre in Brussels to facilitate tie-ups

The announcement of an important Russian commercial development - the opening in Brussels of a Russian 'business centre' is expected shortly. Registered under Belgian law as a non-profit making association (ABSL), the Russian Business Centre Europe, will have its offices in the centre of the Belgian capital at 10-11 Avenue des Arts.

The Centre was incorporated on 22 May. Its founders are Vladimir Golubev, president of the Russian Inter-regional Scientific and Industrial Aviation Association; Ivan Mazur, president of the oil and gas constructor Rosneftegazstroy; and Vasily Medvedenko; vice-president of Rosneftegazstroy and the Russian Inter-regional Association for Innovation in Energy.



The four-member Council of Administration will be headed by Mededenko, a former Russian diplomat, who has been appointed for a term of four years, with responsibility for day-to-day management and the association's representation. Medvedenko said in Moscow that the Centre's aim was to promote the interests of associated businesses and businessmen - 'by lobbying, protection of rights, transmission of information, and all other means appropriate for the integration of Russian business with that



of European Union member states, in conjunction with to  
adhesion of Russia to the World Trade Organisation'.

## To this end, it will:

- furnish information to members seeking business partners;
- assist the harmonisation of Russian norms and standards with those of the EU;
- organise international conferences, forums and business displays; and
- contribute to the training and education of Russian and EU business managers.

## No limit

There will be no limit to numbers. Full membership will be open to Russian-denominated firms and individuals; while associate membership will be available to non-Russian businesses operating, or planning to operate, in Russia.

According to Medvedenko, the Centre will operate entirely from its own resources, including payments for membership (€5,000 for full members, €4,000 for associates), donations, and payments for consultation and analysis.

Why in Brussels? Because Brussels is the centre of business activity in all Europe, including between the EU and Russia, says Medvedenko. Are there equivalents elsewhere? Yes, there is a European Business Association in Russia.

Medvedenko says he had it himself, when he was serving in the Russian embassy in Brussels in 1985-89 and 1992-

1996). 'It struck me that the Russian governmental representations in Brussels lacked the machinery for providing practical assistance with the organization of common East-West business enterprises'.

## Better Choice of Partners

The main idea is to widen the choice of possible partners and simplify the process of making a 'good marriage' on the strength of on reciprocal interests, he says. Nearly all kinds of Russian enterprises and business sectors are interested in being represented in Brussels, in order to establish themselves in the EU market, to adapt their methods to EU law, and to achieve a harmonisation of standards.

At the same time there are enterprises in EU member countries looking for quick, practical ways to establish themselves in the market in Russia. 'Obviously the simplest way to do this is to work with a Russian partner.'

Medvedenko says the Centre has the support at a higher level. It has the backing of the Russian permanent representation in Brussels; from the Russian parliament, the Russian Chamber of Commerce, the Russian Union of Industrialists and Entrepreneurs, and from other federal and regional bodies

## Promoting Russia

Asked if the Centre sees a role for itself in explaining Russian enterprises, and their way of doing business, at a moment when EU-Russian relations are at their lowest for years, Medvedenko speaks optimistically.

'The most important thing in the past five or six years has been the 180 degree turn of the Russian economy. This has brought calls for help from overseas investors and players in the world market, and particularly the European market. Now it is the moment to look at European co-operation in the real and most constructive sense of the word. 'The active, even aggressive, intervention of non-European business in Europe calls for a prompt pan-European response.' Medvedenko sees the negative reaction of the West to the proposed Arcelor-Severstal merger as a classic case for the establishment of a centre capable of filling the 'information gap' in the minds of Westerners regarding the potential of European-Russian co-operation by 'giants' no less than among medium, and even small, businesses. ■



## Становление экономической сверхдержавы

# Индия движется вперёд На скоростной полосе

**Т.С. Венкат Субраманиан**

председатель и управляющий директор Экспорт-Импорт Банка Индии



Т.С. Венкат Субраманиан

Далеко идущие экономические реформы содействовали Индии сбросить с себя кандалы социалистического прошлого и вырваться на скоростную полосу экономического роста.

Глобализация ещё более подстегнула ее скорость. Т.С. Венкат Субраманиан, председатель и управляющий директор Экспорт-Импорт Банка Индии, хорошо осведомлён о деятельности экономических реформ и их каталитического воздействия на общий прогресс страны. Как учреждение Экспорт-Импорт Банка Индии сыграло образцовую роль в расширении экспорта, особенно в области информационной технологии (ИТ) и услуг с помощью информационной технологии (УПИТ). Венкат Субраманиан предоставляет аналитический обзор индийской экономики в нынешней глобальной обстановке: Потенциалы и возможности.

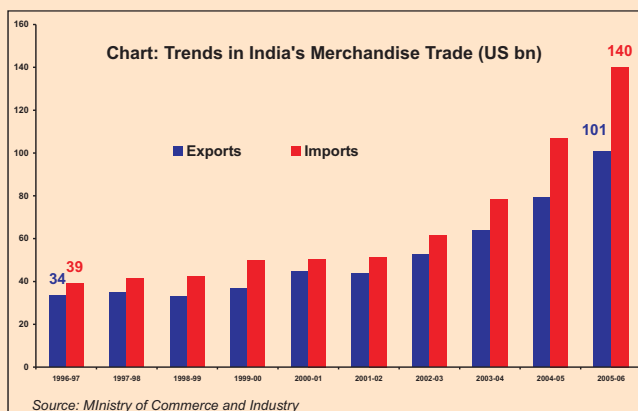
## ПРЕДИСЛОВИЕ

Обладая сильными макроэкономическими принципами и направлениями политики, Индия сегодня обрела живость мощной экономической державы и имеет самый высокий темп роста в мире. Устойчивый бодрый рост экономики вместе с возросшей конкурентоспособностью, особенно на заграницных рынках, является хорошим предзнаменованием для индийской экономики в становлении мощной силой в международной экономике. Впечатляющий годовой средний темп роста ВВП составлял 8,1% в течении трех

последних лет, т.е., с 2003-04 до 2005-06, благодаря оживлённой деятельности в секторах производства и услуг с поддержкой энергично растущих сельскохозяйственной отрасли и смежных секторов.

На внешнем фронте экспорт товаров Индии превысил показатель 100 миллиардов долларов США в 2005-06 г., с поддержкой устойчивого роста экспорта услуг. Растущая глобализация индийской экономики была чётко отражена в данных ВТО, в соответствии с которыми доля Индии в области глобальной торговли и услуг возросла за последние годы, и таким образом подтвердила увеличивающую внешнюю конкурентоспособность индийских компаний. В результате чего Индия также выходит на международный рынок как глобальный инвестор, с растущим присутствием многих индийских компаний в различных регионах мира.

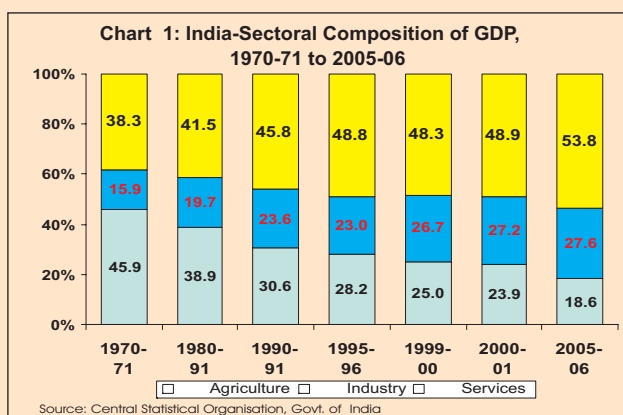
В результате устойчивого расширения торговли товарами Индии в последние годы, возросла и доля внешней торговли Индии в ВВП и мера открытости экономики. В течение периода от 1990-91 г. до 2005-06 г., доля экспорта в ВВП поднялась от 5,7% до 12,7%, и от 7,4% до 17,7% в отношении импорта. Повышенная деятельность в секторе внутреннего



производства привела к крутому подъему нефтеного ввоза. Несмотря на расширение торгового баланса из за сильного промышленного роста и высоких глобальных цен на нефть, оживлённость в экспорте услуг ограничивала влияние на текущий баланс учета.

## СТРУКТУРНОЕ ПРЕОБРАЗОВАНИЕ ИНДИЙСКОЙ ЭКОНОМИКИ И СЕКТОРА УСЛУГ

Заметной чертой динамики структурного преобразования индийской экономики в последние годы был растущий вклад индустрии услуг,



включающей существенные услуги с дополнительной ценностью и интенсивным мастерством програмного обеспечения, в общий

выпуск продукции экономики. Между 1970-71 и 2005-06, доля услуг в ВВП увеличилась от 38,3% до 53,8% (см. диаграмму № 1). Важно отметить, что рост индустрии услуг обеспечил очень необходимую устойчивость в общем росте индийской экономики, особенно во время неблагоприятных аграрных шоков и промышленного замедления.

Более важно отметить, что индустрия услуг стала самым быстро развивающимся сектором в экспорте влияя на продуктивность, занятость, торговлю и фискальную перспективность экономики. Это нашло свое отражение в экспорте услуг Индии, который поднимался от 4,6 миллиардов долларов США в 1990 г. до 67,6 миллиардов долларов США в 2005 г. (см.таблицу № 1), страна достигла десятого места в ряду поставщиков услуг (от 16-ой позиции в 2004 г.). На самом деле, доля Индии в глобальном экспорте услуг составляла 2,8% в 2005 г. гораздо выше чем её доля в глобальном экспорте товаров (0,9%). Таблица № 2 показывает тенденцию в доле ведущего глобального экспорта услуг в течение периода от 1990 г. до 2005 г.

Нидерланды, США, Великобритания, Германия, Франция, Япония, Италия, Испания, Китай, Индия Гонконг, Ирландия. Глобальный Экспорт. Таблица 2: Ведущие инвесторы в международной торговле в коммерческой службе (% доли в глобальном экспорте

**Table 1: Leading Exporters in World Trade in Commercial Services (US\$ bn)**

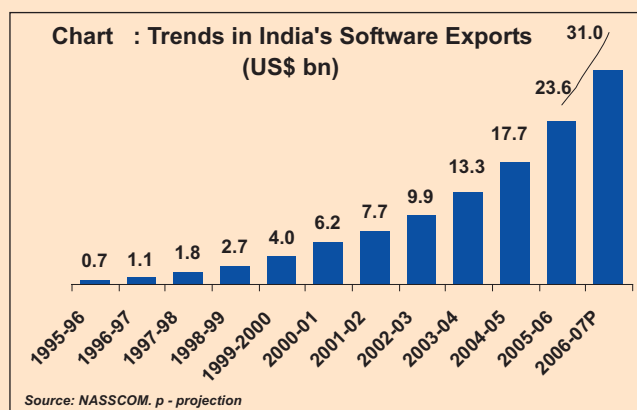
Rank in 2005	Country	1990	2000	2001	2002	2003	2004	2005
1	United States	132.9	277.3	269.1	272.6	282.5	318.3	353.3
2	United Kingdom	53.8	115.0	109.6	123.1	129.5	171.8	183.4
3	Germany	51.5	82.8	86.9	99.6	111.7	133.9	142.9
4	France	66.3	80.3	80.0	85.9	98.0	109.5	113.7
5	Japan	41.4	68.3	63.7	64.9	70.2	94.9	106.6
6	Italy	48.6	56.0	57.1	59.4	72.8	82.0	93.4
7	Spain	27.6	53.2	57.8	62.1	76.4	84.5	91.2
8	China	5.7	30.1	32.9	39.4	44.5	62.1	81.2
9	Netherlands	28.5	48.4	50.1	54.6	64.1	73.0	75.0
10	<b>India</b>	<b>4.6</b>	<b>17.5</b>	<b>20.8</b>	<b>23.3</b>	<b>24.9</b>	<b>39.6</b>	<b>67.6</b>
11	Hong Kong	18.1	38.7	39.4	43.3	43.2	53.6	60.3
12	Ireland	3.3	16.6	23.3	28.1	35.3	46.9	54.7
	<b>Global Exports</b>	<b>819.6</b>	<b>1472.2</b>	<b>1487.2</b>	<b>1561.1</b>	<b>1763.0</b>	<b>2125.0</b>	<b>2415.0</b>

**Table 2: Leading Exporters in World Trade in Commercial Services (% share in global exports)**

Rank in 2005	Country	1990	2000	2001	2002	2003	2004	2005
1	United States	16.22	18.84	18.09	17.46	16.02	14.98	14.63
2	United Kingdom	6.56	7.81	7.37	7.89	7.35	8.08	7.59
3	Germany	6.28	5.62	5.84	6.38	6.34	6.30	5.92
4	France	8.09	5.45	5.38	5.50	5.56	5.15	4.71
5	Japan	5.05	4.64	4.28	4.16	3.98	4.47	4.41
6	Italy	5.93	3.80	3.84	3.81	4.13	3.86	3.87
7	Spain	3.37	3.61	3.89	3.98	4.33	3.98	3.78
8	China	0.70	2.04	2.21	2.52	2.52	2.92	3.36
9	Netherlands	3.48	3.29	3.37	3.50	3.64	3.44	3.11
10	<b>India</b>	<b>0.56</b>	<b>1.19</b>	<b>1.40</b>	<b>1.49</b>	<b>1.41</b>	<b>1.86</b>	<b>2.80</b>
11	Hong Kong	2.21	2.63	2.65	2.77	2.45	2.52	2.50
12	Ireland	0.40	1.13	1.57	1.80	2.00	2.21	2.27
	<b>Global Exports</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: WTO

Причиной этого исключительного роста экспорта услуг является феноминальный рост экспорта программного обеспечения. Индийская индустрия программного обеспечения, которая растёт быстрым темпом, является успешным игроком в международном рынке программного обеспечения и пользуется хорошей репутации, сулящей хороший рост в будущем. В 2005-06 г., индийский экспорт программного обеспечения намерен достигнуть 31 миллиарда долларов США, регистрируя впечатляющий показатель CAGR 37,2% в последние 10 лет. Более того, в индустрии услуг, Индия находится в авангарде, разрабатывая новую область экономики знаний, обладая богатством научных и творческих людских ресурсов и средств на исследование и развитие.



Индия стала одним из крупнейших в мире поставщиком программного обеспечения. Индия обладает одним из крупнейших в мире ресурсов научной и технической высококачественной и дешевой рабочей силы, говорящей на английском языке. Индийское программное обеспечение оказывает услуги как офшоре так и внутри страны.

### Потенциалы индийской экономики

Недавние исследования таких всемирных организаций как AT Kearney, World Economic Forum, подтверждают потенциалы Индии в конфигурации глобальной торговли и инвестиций.

### Потенциалы инвестирования в Индии

Сейчас индийская экономика привлекает большие инвестиционные потоки, имея большой растущий рынок. В этом отношении рейтинг Индии значительно улучшился за последние годы. К примеру, рейтинг Индии, согласно индексу доверия прямой иностранной инвестиции, составленный организацией AT Kearney's, поднялся до второго места после Китая в 2005 году, опережая США, Великобританию и Россию. Согласно AT Kearney's подсчитавшей индекс темпа развития оптового рынка стран мира, Индия является ведущей экономикой опередившей Россию, Вьетнам, Украину, Китай и Чили, что указывает на обширный и растущий оптовый рынок Индии.



Выше указанные данные подтверждены в отчёте о глобальной конкуренции, подготовленным Всемирным Экономическим Форумом. В отчёте индекс глобальной конкуренции Индии поднялся на пять пунктов выше до 50 и стоит выше Польши, Маврикия, Египта, Мексики, Бразилии и России. Подчеркивает эту растущую тенденцию также индекс деловой конкурентноспособности, поднявшийся до 31 пункта, значительно выше Таиланда «37», Италии «38», Бразилии «49» и Китая «57».

И совсем недавно организация IMD опубликовала ежегодную книгу международной конкурентноспособности в 2006 году, соответственно которой Индия занимает 29 место в рейтинге международной конкурентноспособности, в результате чего рейтинг Индии выше не только развивающихся стран таких как Чехия «31», Таиланд «32», Словакия «39», но и таких развитых стран как Шотландия «30», Испания «36» и Греция «42».

## **Р о ж д е н и е   и н д и й с к и х т р а н с н а ц и о н а л ь н ы х   к о м п а н и й**

Растущая тенденция зарубежной инвестиции Индии, подтверждает возросшую способность индийских компаний выходить зарубеж. Одобрённая инвестиция Индии увеличилась в более чем пятикратном размере от 558.6 миллионов долларов США в 1995-97г. до 2.80 миллиардов долларов США в 2004-05г. В то же время, актуальная сумма зарубежных инвестиций тоже увеличилась почти в восьмикратном размере от 204 миллионов долларов США до 1.60 миллиардов долларов США за тот же период.

Подъём инвестиционного выхода из Индии в последние годы говорит о том, что база индийских фирм расширяется, которые могут конкурировать глобально, отражая возрастающие качество и стоимость конкурентноспособности, способных поддержать зарубежный и внутренний рост в долгосрочном порядке.

**Фокусирование на основной конкурентноспособности и растущих усилий в исследовании и развитии и улучшенное ноу-хау подчеркивают это развитие.** В то же время, подход к рынкам, природные ресурсы, сети распределения, иностранные технологии и стратегические активы, такие как бренды мотивировали индийские компании всё больше смотреть зарубеж в своих усилиях интернационализировать свои операции.

## **ГЛОБАЛИЗАЦИЯ ИНДИЙСКОЙ ЭКОНОМИКИ И РОЛЬ ЭКСИМ БАНКА ИНДИИ**

Предоставление широкого ряда продукции и услуг индийским компаниям в их усилиях интернационализироваться было основной целью банка по экспорту-импорту или **ЭКСИМ БАНКА ИНДИИ**. В этом направлении банк выполняет следующие роли, поощряет и помогает осуществлению экспортных проектов Индии, даёт поддержку индийским фирмам в установлении СП и полностью принадлежащих к ним филиалов на зарубежном рынке, даёт советы и поддерживающие услуги внешне ориентированным индийским фирмам.

За последние 20 лет, индийские компании завоевали с помощью Эксим Банка Индии многие контракты в западной Азии, южной и южно-восточной Азии, СНГ и Латинской Америке. Эти проекты помогают и поддерживают инфраструктурное развитие в тех странах, таким образом содействуя всестороннему экономическому развитию. Разнообразие проектов осуществляемых индийскими компаниями отражает зрелость и индустриальные способности страны. Это подчеркивает растущую способность индийского экспорта предоставлять видимость индийским техническим экспертам и способности осуществлять проекты на зарубежных рынках.

С целью катализирования глобализации индийского бизнеса, повышения доверия индийским предприятиям за границей и содействия торговым потокам Индии и странам, где она осуществляет проекты банк Exim India активно поддерживает индийские компании в осуществлении СП или филиалов различных профилей, как в развивающихся так и развитых странах.

## **ЭКСПОРТ СОФТВЕАР И ЭКСИМ БАНК ИНДИИ**

В свете того, что Индия стала крупным экспортёром программного обеспечения и бурного роста экспорта программного обеспечения было бы правильно подчеркнуть роль банка Exim India в этом отношении. Банк Exim India ассоциируется с развитием программного обеспечения в Индии с 1986г. В 1986г. правительство Индии в своей самой первой формуляции политики по экспорту программного обеспечения назначила эксим банк Индии как главное агентство по финансированию валютой импорта хардвара или металлических

частей компьютеров.

Эксим Банк Индии выработал и установил финансовый пакет для экспортёров программного обеспечения чтобы всесторонне обеспечить им финансовые потребности, в числе которых условия кредитов на капитальные расходы, финансы оборудования для покрытия стоимости обретения самых современных компьютерных систем вместе с соответствующим программным обеспечением, финансы для установления или расширения предприятия по развитию программного обеспечения и финансы рабочего капитала для экспортёров софтвера. Банк Эксим Индия имеет программу по финансированию развития продукции программного обеспечения и также установлению исследовательских условий компаниями экспортёрами программного обеспечения.

Эксим Банк Индии предоставляет финансовую поддержку компаниям программного обеспечения для осуществления планов стратегического экспорта нацеленных на развитие, увеличение присутствия в идентифицированных рынках и также поддержку экспортёров программного обеспечения в деле получения международных сертификатов качества таких как ISO 9000, TickIT, различных уровней CMMSEI, которые улучшат их способность и зависимость на зарубежных рынках. Более того банк выдаёт займы индийским компаниям на финансирование их акционерных вкладов в зарубежные предприятия. С целью удовлетворения растущего спроса на квалифицированную рабочую силу банк также имеет программу кредитирования установления или расширения институтов компьютерных наук известными компаниями экспортирующими софт wear.

## **ЭКСИМ ИНДИЯ И МЕЛКИЕ ПРЕДПРИЯТИЯ**

В духе дорожной карты предусмотренной политикой внешней торговли от 2004-2009 г-ы, которой предусматривается эффективный вклад международной торговли в всестороннее экономическое развитие, путём предоставления специального акцента на создание занятости особенно в полу-городских и сельских местностях. Эксим банк Индии прилагает большие усилия в оказании помощи мелким и средним предприятиям в экспорте их продукции. Имея это в виду банк имеет партнёрство с определёнными не правительственными организациями в различных штатах, чтобы предоставить механизм

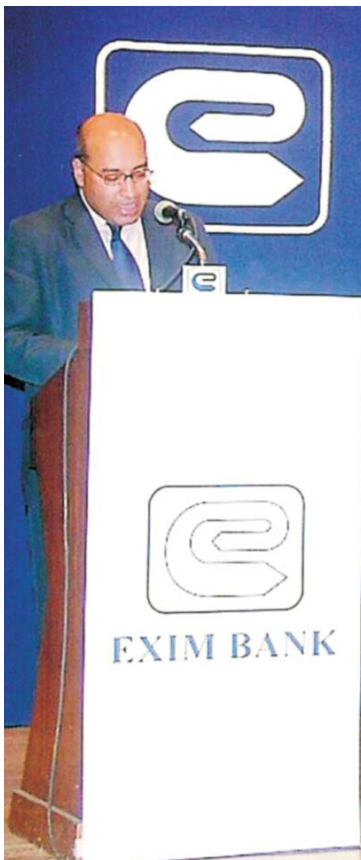
институциональной поддержки, который способствует им выходить со своими товарами на международный рынок.

## **ГЛОБАЛИЗАЦИЯ И ВЫЗОВЫ**

Создание конкурентноспособности и поддержание её являются высоким приоритетом как для развитых так и развивающихся стран. С возрастанием глобализации, индийские компании должны будут постоянно адаптироваться чтобы успешно выдерживать растущую конкуренцию. На ряду с иностранной конкуренцией, внутренний спрос переместится на продукцию лучшего качества., тем самым сокращая рыночную долю индийских компаний. Учитывая динамические изменения характеризующие ключевые экспортные индустрии и растущую конкуренцию среди стран, необходимость непрекращающегося подъёма цепи ценности и улучшения привлекательности преимуществ местностей расположения являются большими задачами для лиц разрабатывающих политику в развивющихся странах.

Многие индийские фирмы уже пользуются высокой репутацией во многих областях. Эти фирмы достигли такого положения благодаря высокой качественной и ценовой конкурентноспособности, чтобы успешно выдерживать внутренний и внешний рост на долгосрочной основе. Поэтому чтобы они смогли устоять перед растущей внутренней и внешней конкурентностью, очень важно для фирмы сосредоточиться на главных способностях и развивать исследовательские усилия и технологическое know-how.

Выполнение задач на фронте политики также обретает важность в глобальной экономике. Эффективность и работоспособность фирм поддерживается характером политической обстановки, в которой оперирует фирма и макро-экономической политикой способствующей ей достичь необходимый масштаб продуктивности. В атмосфере растущей взаимозависимой глобальной экономики очень важно обеспечить, чтобы макроэкономическая политика была направлена на сокращение неопределённостей и рисков. А для этого нужно обеспечить внутреннюю и внешнюю стабильность в экономике с помощью поддержания устойчивой политики и установления подходящих систем гарантий и защиты против отрицательных международных шоков и обеспечения сокращения обнажения риску. ■



## Современная притча о роли государства в торговле и развитии

# 7 Смертных грехов и 7 божественных добродетелей

Господин Сума Чакрабартти, Постоянный Секретарь Отдела Международного Развития, Великобритании, имеет "панацею" от болезней экономики Индии и "эликсир" для экономического роста страны. В методическом анализе, являющемся пробирным клеймом экономиста, имеющего дела с вопросом развития по всему миру и, особенно, по Индии, господин Сума составляет список 7 Смертных грехов, от которых государство должно избежать и 7 божественных добродетелей, которых государство должно придерживаться для того, чтобы эффективно сыграть роль способствования и обеспечить экономический прогресс страны. Эти замечания господин Сума формирует в своем выступлении по случаю Ежегодной Лекции по Дню Начала Эксима Банка Индии в Мумбае 2 -го мая, 2006 г., на тему "роли государства в торговле и развитии". Ниже даны отрывки от этого выступления:

Как Постоянный Секретарь Отдела Международного Развития, Великобритании, я верю, что Государство имеет способность, или благоприятствовать, или разрушить торговлю и развитие. Рассматривая частный сектор, включая и большой и малый, как существенный и как двигатель экономического роста на сердце торговых отношений и развития. Позволено ли частному сектору сыграть эту роль? это зависит от Государства. Поэтому то, что Государство делает, или обеспечивает развитие, или ломает его.

Во-первых, я хочу изложить в общих чертах то, что самое критическое в категории "Оновных", которые, я понимаю как "то, что Государство должно делать". Без них, частный сектор не может процветать. Во-вторых, возможно, и самое важное, мы должны смотреть как неудача государства - то, что Государство реально не должно делать. И последнее, смотрю на то, что еще полезное, Государство сможет делать. По мере того, как возможность Государства увеличивается, возникает возможность принятия более честолюбивых функций. Для современной экономики эти функции также являются более или менее необходимыми.

Лучше посмотреть на Государство и рынок как дополняющие, а не как соперники, хотя также верно,

что плохое или захватническое Государство разрушает частный сектор, состязается с ним и подрывает его.

В мой перечень, совершенно основных, функций Государства включил бы:

(1) мир и безопасность, (2) право на имущество, (3) макроэкономическая стабильность. Разрешите мне, рассказать несколько пунктов иллюстрации из моего списка.

### Мир и безопасность

Мир и безопасность является, возможно, самым основным в числе всех требований для торговли и развития, так как, без этого, почти невозможно инвестировать, и иногда, невозможно даже осуществлять дело.

Паулем Коллиером, уважаемым Великобританским экономистом по изучению развития, подсчитано, что средний конфликт в развивающейся стране стоит 50 миллиардов долларов США, и бывают, по среднему, два конфликта в год, поэтому развивающиеся страны теряют много больше от конфликта, чем они приобретают в виде помощи. Конфликт не ограничивается только немногими странами. Ежегодно 45 миллионов людей страдают





от опустошительных последствий войны.

## Права на имущество

Качество прав на имущество теперь широко признано, как ключевой ингредиент торговли и развития. Существует сильная корреляция между

правами на имущество и уровнями дохода на душу населения. Совершенно неэффективно для индивидуалов и фирм проинвестировать в обеспечении их собственных прав на имущество без поддержки надежных государственных заведений.

Индия улучшает права бедных на имущество путем обеспечения правовых титулов на неофициальные урбанические выселки и компьютеризированной регистрации владений земель. Здесь, и банкиры поймут важность помощи к бедным стать пригодными клиентами к учету. Здесь существует огромный и выгодный рынок, но пока и не можем служить ему, Индия останется недоразвитой относительно бедных в стране.

## Макроэкономическая стабильность

Благополучно, что был большой прогресс повсеместно в развивающем мире в обеспечении макроэкономической стабильности, хотя важно и не быть самодовольным. Уровень инфляции в странах с низким доходом теперь ниже среднего. Средний уровень инфляции в странах низкого дохода, где осуществляется программа Международного Валютного Фонда, была менее 5,0 процентов в период 2000-2004 г. Очень высокий уровень инфляции - плохо для развития. Исследование показывает, что, во время периодов высокой инфляции (больше чем 40 процентов) экономический рост будет отрицательным. В среднем, было установлено, что уменьшение инфляции на 10 процентов может увеличить рост на 0,5 процента в год. По времени, это имеет огромный удар на уровень нищеты. Резервный Банк Индии совершал превосходную работу по управлению монетарной деятельности экономики для того, чтобы держать относительно низкий уровень инфляции, несмотря на очень высокий общественный дефицит.

Перечислив 3 основных пункта, которые Государство должно делать для развития, я теперь хочу охватывать того, что Государство не должно делать. Я характеризую их как "7 Смертных грехов".

Какими являются 7 Смертных грехов государственности, с точки зрения торговли и экономического развития? Мой список содержит грехи коррупции, плохого урегулирования, чрезмерных барьеров торговли, искажения обменного курса валюты, удушения финансового сектора, фискальной расточительности и неэкономных субсидий.

## Коррупция

Коррупция повышается в повестке дня многих заведений и правительств. Теперь она является вопросом большой заботы публики в развивающихся странах, и подрывает поддержку общественности в донорских странах, оказывающих помощь другим государствам. Это не говорит о том, что коррупция является единственным заповедником развивающихся стран, но она, конечно, связана с недоразвитостью. Поражает Корреляция между индексом коррупции Транспаренси Интернэшнл и доходом на душу населения.

Коррупция прекращает развитие, или развитие ведет к уменьшению коррупции? Я верю, что обе силы действуют, но правительства обеспечивают рост, если они принимают эффективное действие против коррупции, так как это улучшает деловой климат.

## Чрезмерное урегулирование

Регулирование государством, не как в случае коррупции, слишком часто было путь с хорошими намерениями. Регулирование необходимо из-за многих причин - обеспечение конкуренции, защита общественной безопасности, обеспечение справедливых преимуществ для работников. Регулирование хорошо в некоторой степени, но за пределом этого, как, например, с налогообложением, регулировка убивает рост и будет общественной неудачей.

Другой причиной является, что урегулирование замедляет дела. Сверхнормальное или неуместное урегулирование и коррупция являются партнерами. Каждое новое урегулирование дает возможность для бессовестных должностных лиц потребовать денег. Индия сделала большие шаги в отношении перерегулирование с конца "Княжества Лицензии", но имеет значительную, более последующую повестку дня для того, чтобы модернизировать и упростить дело урегулирования, включая право трудящихся.

## Торговые барьеры

Как и урегулирование, торговые барьеры имеют правомерную основу в экономике. Предохранение



неокрепшей отрасли промышленности может быть оправдано, но опасно, когда предохранение просто использовано для того, чтобы придушить иностранную конкуренцию, и это уменьшает рационализаторство, дорого стоящее потребителю. Приветствую шаги, принятые правительством Индии для того, чтобы раскрыть рынок к внешней торговли и инвестиции (с падением в утяжеленный усредненный тариф более 70 процентов в 1990 г, до около 25 процентов в 2004 г) и. приветствуются дальнейшие шаги для уменьшения тарифов, также важно снять другие торговые барьеры, несвязанные с тарифом. Хотя Организация Международной Торговли (ОМТ) остается спорной с Неправительственными Организациями и общественным мнением, я верю что ОМТ - массивная сила для блага, и дает большую прочность развивающимся странам в переговорах за более равноправную систему торговли.

## Искажения обменного курса валюты

Для того, чтобы интегрировать успешно с международной экономикой, необходимо поддерживать конкурентный и справедливый обменный курс валюты. Если обменный курс валюты сверх-оценен, то это делает ввозы дешевым по отношению к экспортам. Это подрывает платежный баланс и ударит конкурентоспособность. Подобным образом, режимы фиксированного обменного курса некоторых азиатских стран были доказаны очень вредными в 1990 г, во время азиатского кризиса. К счастью, большинство из развивающихся стран, перешло от эры режимов фиксированного обменного курса к рыночному. Но поддерживать конкурентный обменный курс валюты ни слишком высоко и ни слишком низко - это остается как вызов для многих стран.

## Удушающие рынки капитала и финансовый сектор

Обеспечение кредита и других финансовых услуг является существенным для экономического роста.

Среди тех самых важных пунктов, которых государство должно избегать, является установление процентных ставок на уровни, подрывающие доходность банковской системы. Центральным банкам необходимо сыграть ключевую роль, и, очевидно, чем больше мы можем установить независимые центральные банки которые рассматривают технические, а не политические, вопросы, тем выше перспективность углубления финансово-хозяйственных дел. В Индии, важно расширять постепенно поле действительности частного сектора в сфере банковских и страховых дел. Более открытая конкуренция позволит финансовому сектору углубляться и расширяться.

## Фискальная расточительность

Во многих развивающихся странах Фискальная расточительность была обеспечена международными финансовыми заведениями и донорами; и правительства, которые были слишком охотно готовы заложить будущее на не неподдержанном основании, использовали ситуацию имеющихся финансов. В Индии, когда большие дефициты общественного сектора наилучшим образом управляются, с точки зрения макроэкономической стабильности; их воздействие на способности правительства потратить ресурсы на текущие приоритеты развития является главной заботой. Уплата процентов стала больше чем пятая часть расходования на центральном уровне, приоритеты развития вытеснялись. Также имеется влияние "вытеснения" от высоких государственных займов на остальные сектора экономики через более высокие ставки реального процента.

## Неработоспособные субсидии

Моим последним "согрешением" будет использование субсидий, которые не оправдываются, ни заботами социальной справедливости, ни эффективностью экономики. Это есть так называемые "негодные" субсидии в жаргоне индийской Белой книги по этой теме. Действительно, много субсидий довольно регрессивны, где богатые больше всех получают большинство преимуществ, и это не единственная проблема в развивающихся странах. Чаще всего они угождали узаконенные имущественные права. Мы должны в каком то мере смириться с покупкой узаконенных имущественных прав, но это должно быть уменьшено.

## 7 божественных добродетелей

Я перехожу от Смертных грехов, от которых Государство должно избежать, к божественным добродетелям, которые Государство должно "делать" для того, чтобы обеспечить развитие.

## Повышать развитие людских ресурсов

Аргументы за государственную интервенцию в развитии людских ресурсов могут быть построены на современном понимании о справедливости и социальной справедливости. Но, с точки зрения чисто хозяйственной перспективы, конечно, есть реальная выгода от опытной и квалифицированной рабочей силы. Труд является не просто одним из "факторов производства", а еще и двигателем рационализаторства и предпринимательства. Аргументы за инвестицию в образовании и здравоохранении ляжет и на справедливости и на



эффективности.

Оставить рынку инвестицию в образовании было бы в нормальном случае недостаточным, потому что родители не придают значение более широким выгодам обществу. На основании справедливости, без интервенции государства, будут большие неравноправности в возможностях между богатыми и бедными, которые смогут сохраняться. Государственное обеспечение развития сектора людских ресурсов не должно вытесняться из деятельности частного сектора, и, действительно, мы должны отделить вопрос о том, кто финансирует для обслуживания, и кто обеспечивает их.

## Обеспечивать инфраструктуру

Отчет 1994 г. о мировом развитии описал инфраструктуру как "колеса хозяйственной деятельности". Инфраструктура является ключевым ингредиентом любой успешной стратегии торговли и развития. Важно, что Государству необходимо различать роль частного сектора от роли государственного. Государство должно только обеспечить инфраструктуру, которая не может быть обеспечена эффективно и успешно частным сектором. И там, где будут барьеры к участию частного сектора, вариант адресовать барьеры или работать в партнерстве с частным сектором должен всегда быть рассмотрен, скорее чем простое предположения роли государственного

сектора.

## Развивать конкуренцию

Фирма везде ищет выгоды и будет использовать любой возможный способ найти возможности эксплуатировать, что экономисты навязывают "хозяйственными доходами", то есть, добавочные выгоды, по сравнению с тем, что можно сделать в конкурентной среде. Это приводит к поднятию помех при входе на рынки, лоббируя для предохранения против международных конкурентов, и использованию захватнического ценообразования для того чтобы разрушить выживаемость конкурентов. Но конкуренция находится в интересах общества. Реформы могут иметь главный импульс на экономический рост и рационализаторство исследование в США показало повышение больше чем 7,0 процентов ВВП из за предпринятого перерегулирования.

## Повышение дохода справедливо и эффективно

Требованием всех государств является то, чтобы профинансировать их деятельность без передергивания их экономики и без уменьшения стимула к работе, сбережению или потреблению, и все это необходимо для развития. Существует тенденция у создателей общественных правил осмотреть каждый рост доходов как положительный индикатор в виду того, что это профинансирует инвестицию или социальное развитие или уменьшит потребность в общественной взаиме. Существует тенденция у налогоплательщиков осмотреть каждый рост доходов как отрицательный индикатор, в виду того, что это намеревается меньше чистый доход. Мы должны вспомнить, что если общественный расход не работоспособен, то он обязательно не идет помочь развитию или росту.

Так я радостно узнал, что введение НДС на государственном уровне в Индии в 2005 г. произвело хороший рост дохода от налога для правительств штата, и что бюджет этого года поручает правительству к введению национальный налог на товары и услуги в течение 4 лет. И общий доход должен быть увеличен без блокирования экономического роста. Это значит, распространять налоговый гнет справедливо через разные секторы экономики и не фокусировать тяготу несоразмерно на некоторые деятельности.

## Обеспечивать внешние рычаги

Существует убедительное доказательство, что экономический рост и уменьшение нещиты, связаны с большим внедрением международной экономики. Это намеревается более двухсторонняя





торговля и зарубежные инвестиции. Эти процессы должны управляться, и здесь у правительства будет сильная роль.

Идея о том, что вывозы обязательно хороши и ввозы готовой продукции обязательно плохи, является перспективной для производителя, но она не отражает интересы более обширной экономики. Пока, кажется, что преобладает эта перспектива в обсуждениях по торговой реформе и либерализации. Правительство должно сбалансировать интересы и потребителя и производителя, и управлять процессом обеспечения стимула частному сектору для внедрения в мировую экономику.

### защитить окружающую среду

Отказ защитить окружающую среду является другим классическим случаем проявления неэффективности рыночного механизма, в котором государственная интервенция может покрыть зазор между тем, что сделают индивидуалы в их собственных интересах, и тем, что будет самое лучшее для общества в целом. Цены ухудшения окружающей среды, например, загрязнения воздуха и загрязнения воды, преогромны, и падают несоразмерно на бедных людей. И эти цены не тривиальны. Отчет АБР оценил цены загрязнения воды и воздуха на сумму 10 миллиардов долларов США в год в Индии. Прямые действия теперь может быть весьма эффективны свидетельствуют маркированное улучшение в качестве воздуха Дели в течение последних лет.

Растет сигнал тревоги по отношению к удару изменения климата, например, на объем сельхозпроизводства в Индии. Изучение оценило, что индийские фермерский доход смогли понизиться до четверти с повышением температуры от 2 до 3.5 градусов стоградусно. Это снова будет ударять самых бедных по мере того как дождь-зависящее земледелие будет ударено наиболее крепко.

### Защищать уязвимого

Как на счет охраны окружающей среды, так и на счет социальной защищенности изменяются мнения глобально. Чтобы иметь такую мысль, уже не нужно быть хорошей богатой страной, роскошной, а она является довольно необходимым ингредиентом для эффективных государств на всех уровнях развития.

Это не только просто нравственный императив, но и хозяйственный. Включение бедных людей в экономику является единственной дорогой чтобы быть уверенным в том, что вся населенность будет более ценной как потребители и работники, источник жизненной силы торговли и экономики.

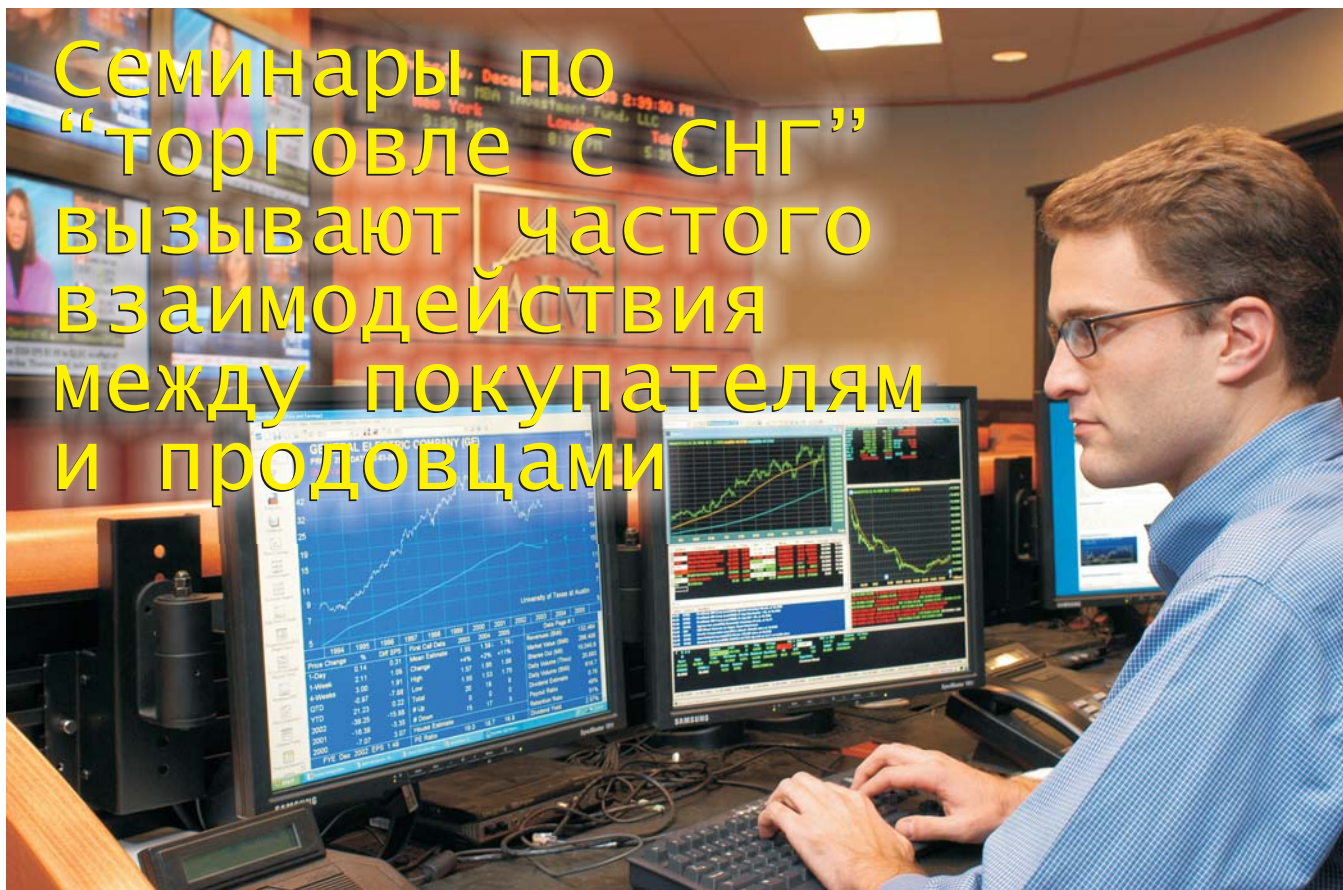
### Заключительные примечания

Это был довольно быстрый галоп через развитие "что делать" и "чего не делать" государственностью. Мои списки находятся на уровне достаточной общности, и уместны к большинству обстоятельств страны, хотя не нужно оговорить о том, что повестка дня необходима выдерживать в стиле местных обстоятельств. Нет единственной "модели" современного государства и разные подходы имеют свои возможности быть эффективными в разных культурных установках.

Смотря глобально, маятник обсуждения о роли государства отброшен существенно к частному сектору в 1980-х и 1990-х гг, с Тачер в Велико Британии, и с началом реформы Синга как министра финансов в 1991 г. в Индии.

Возникновение "политики Вашингтонского консенсуса" связанной с эрой структурной регуляции приняла представление роста, управляемого частным сектором и поддерживаемым государством, сделало немного больше, чем создания благоприятных обстоятельств. С того времени мы учились, что больше чем политики, заведения имеют значимость, и, что государству необходимо принять положительную роль в формировании развития и роста экономики.

Неравноправность - между богатыми и бедными, между мужчинами и женщинами, между зонами, и между этническими группами это удары на способности нации остаться динамической и сплоченной. Без действия государства, такие неравноправности будут иметь тенденцию упорствования и склонность к увеличению. Поэтому нам необходимо сильное и способное государство, чтобы энергично браться за все больше и больше потребность повестки дня национального и международного развития. ■



Торговля инвестиция и Индии страны СНГ имеют широкие перспективы развития – сказал специалист и Федерации Организации Индийских Экспортеров (ФОИЭ) на недавних семинарах, проведенных в Колкоте и Мумбае.

Семинары по 'торговле с странами СНГ' были организованы ФОИЭ, на которых принял участие экспортер и дипломат высокого ранга из Казахстана, Азербайджана, Беларуси, Киргизии, Армении и России для того, чтобы найти путь средства стимулировать двустороннюю торговлю. Более чем 100 ведущих индийских экспортеров участвовали на обоих семинарах.

На встрече в Колкоте были представлены видные члены ФОИЭ, включая Дж. К. Джаина, члена комитета по управлению ФОИЭ, Санджи Нандвани, Исполнительного Директора, CAPEXIL, Тапан Чаттопадхьяй, Заместителя Генерального Директора, ФОИ (восточной зоны).

В своей приветственной речи Нандван сказал, что встреча была полезной для того, чтобы подчеркнуть большое значение критическому анализу стран СНГ в отношении

перспектив для развития торговли и инвестиций из Индии. Согласно ему частые встречи покупателей и продавцов стран СНГ и Индии увеличили бы перспективность двусторонней торговли. Индия экспортирует фармацевтики, чай, оборудование, упаковочный материал, пластмассовую продукцию, готовые одежды, трикотажные изделия, хирургические продукты, товары широкого потребления, другие продукты экспорта страны СНГ.

Джаин поддерживает мнение о том, что Индия традиционно поделила очень хорошие отношения с странами СНГ, на хозяйственных и на политических фронтах. Однако, торговля падала в последние годы, сказал он. Согласно Джаину, главные причины, которые влияли на торговлю между Индией и странами СНГ были расстояние, языковой барьер, недостаточные средства перехода, недостоверная информация, возможности для бизнеса, макроэкономическая нестабильность, низкий прогресс либерализации и приватизации, отсутствия регулярного взаимодействия между деловыми организациями, недостаток банковских услуг.



Однако, выступающие в целом согласились с тем, что программой "фокус на СНГ", запущенной министерством торговли и промышленности в 2003 г. целью подключения сети деловых и торговых возможностей стран СНГ, правительство делает усилие расширить помощь экспортерам, советом содействия расширению экспорта, различным Торговым Палатам организовать двухстороннее посещение делегации, организовать торговые выставки и встречи покупателей и продавцов. Они сказали, что эти инициативы получили ободряющие реакции от общины индийско-торговой.

Джайн сказал, что ФОИ также сделал свои усилия продвигать деловые отношения между Индией и странами СНГ, которые теперь поднялись вверх.

Каират Умаров, посол Казахстана, указав на то, что его страна имеет большой запас каменного угля и также много других минералов металлов. Кроме того, Казахстан также обеспечен доходом от ресурсов сельского хозяйства и поголовья.

Умаров сказал, что промышленный сектор Казахстана занят извлечением и обработкой природных ресурсов, также развивающийся машиностроением, специализирующийся в оборудовании конструкции, тракторах, сельскохозяйственном оборудовании, некоторых продуктах обороны. Он сказал, что увеличивающееся количество индийских компаний, которые начали создавать совместные предприятия в Казахстане, присутствие ведущих индийских банков и других организаций, обеспечивающих торговлю обслуживания, проложит путь для огромного объема двусторонней торговли между Индией и странами СНГ.

Забитов, Старший Консул России в Колькоте, сказал, что русские компании в технологии угля готовы обеспечить техническую консультацию индийским компаниям, чтобы модернизировать их технологии в шахтах открытого разреза. Делегация угольщиков из России скоро прибудет в Индию для того, чтобы проводить обсуждения угольным предприятием Coal India Ltd. (Coal India Ltd) по вопросу передачи технологии горных дел.

Говоря о будущем восточной Индии, Забито сказал, что выгодны проекты, как автомобильная индустрия, имеют яркую перспективность. На самом деле, русская автомобильная компания скоро начнет сборку своих грузовиков на своем заводе Халдиди также обеспечит обслуживание после продажи. Забито сказал, что испытание грузовиков на

индийских дорогах уже прошло успешно.

Обсуждая качество индийского чая, Забито сказал, что если поставщики обратили бы внимание на повышение качества и продукции, то они привлекут огромное требование из России. Он предложил полную поддержку области ночной навигации в Колькоте и других портах, которая была большой проблемой для поставщиков и восточного региона.

Орхан Зейналов, Аташе, Коммерческого отдела посольства Азербайджана, сказал, что земледелие и пищевая промышленность были самыми перспективными секторами для делового обмена между двумя странами. Зейналов нашел семинар как превосходную платформу для взаимодействия видными поставщиками, надеется, что это будет хорошим началом для повышения двусторонней торговли.

Андрей Чернецкий, Первый Секретарь посольства Белоруссии, сказал, что главный барьер торговле между Индией и его страной была проблема коммуникации, которая должна быть улучшена в первую очередь. Он сказал, что микроэлектроника, химикаты, механические инструменты, тяжелые оборудования и т.д. были бы некоторыми областями, где обе страны смогли бы поделиться общими деловыми интересами.

В Мумбае, в начале семинара, членам делегации, экспортерам и высокопоставленным иностранным лицам была организована длительная промышленная поездка по 4 заводам в Мурбаде, занимающимся изготовлением пряжи и одежды, затворов барабанчика материалов заслонок и проектированием. Их проводил Д. Бхарат, Совместный Генеральный Директор ФОИЗ Раджеш Бхатия, Совместный Директор ФОИ (Западной Зоны). Они произвели впечатление уровня объединения функциональных смежных предприятий достигнутых некоторыми из этих заводов также высокими уровнями обязательств к качеству научно-технологическому прогрессу, достигнутым в процессе производства в уменьшении стоимости производства. Некоторые члены делегации выразили глубокий интерес к созданию совместных предприятий с технологически продвигнутыми индийскими компаниями в области их интереса.

На семинаре, К. Сараф, Председатель ФОИЗ (Западной Зоны) вызвал распространение информации о существующем потенциале стран СНГ и Индии.

Каират Умаров, посол Казахстана в Индии





описана экономическая обстановка в своей стране как самую благоприятную для инвестиций и добавляет, что его страна признана Европейским Союзом и Соединенными Штатами как рыночная экономика.

Орхан Зейналов, Аташе, Коммерческого отдела посольства Азербайджана сказал, что кроме земледелия пищевой промышленности, есть и большой потенциал для сотрудничества имеют такие области, как нефть и природный газ, нефтепродукты, нефтехимикаты, оборудованы для нефтяных полей, сталь, железный руд, цемент, химикаты и ткани. Он пригласил индийских сотрудников предложить создание совместного предприятия.

Олег Лаптев, Посол Белоруссии сказал, что его страна имеет большой инвестиционный потенциал из-за возможности установления индустрии на основе природных ресурсов. До 2005 г., преимущественно инвестировал в Белоруссию Швейцария (27,7%) Россия (19,1%). Индустрия общественных услуг, средств коммуникации транспорт был главным сектором для инвестиций в 2004 г., добавил Лаптев. Видно, что Белоруссия географически расположена в центре Европы, он быстро становится трамплином для торговли другими странами СНГ Европы,

сможет обеспечить большой стимул для своего роста.

Данияр Сидяков, Второго Секретаря посольства Киргизии сказал, что свободная репатриация дохода, дивидендов и других форм дохода в иностранной валюте сделал его стран очень привлекательно для инвестиций в шесть приоритетных участках, как топливо энергия, горнодобывающая промышленность, перевозки и коммуникация, индустрия света, электроника и информационная технология, сельское хозяйство обработка туризма.

Ашот Кочариан, Посол Армении сказал, что индийские компании смогут проинвестировать в оборудование тканей, фармацевтики, информационные технологии, радиосвязь и образование, подчеркнул тот факт, что его правительство поощряет прямую иностранную инвестицию, были упрощены все правовые процедуры для инвестирования установления компании в стране.

Семинар действительно стал большим возможностью как для индийских экспортеров, так и для членов делегации СНГ, они узнали о больших возможностях и потенциале, которые их страны смогут предложить. ■