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FOCUS:
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PERSPECTIVE:
Economic Integration Key to Caribbean Development

FEATURE:
Business + Pleasure Is Total Tango in DR

LatAm Firms Redefine Strategic Vision

Evolving A Global Agenda

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In This Issue

EDITORIAL

Dear Reader,

Greetings. With economies of nations getting increasingly globalized, corporate companies worldwide are redefining their strategic vision in order to survive and thrive. Gone are the times in which companies operated in protected domestic markets. Now, competition is the buzzword of global commerce. In order to improve their competitiveness, companies across the world are widening their horizons through mergers and acquisitions. This metamorphosis is especially sweeping the developing countries in Asia and Latin America. Many Indian companies, both in the manufacturing and knowledge sectors, have gone global. Latin American companies are following suit. A detailed study conducted by the global management consultant company McKinsey says that corporate companies in Latin America, which have hitherto depended mostly on the US and Canadian markets, are increasingly looking at Europe, Asia and Africa. Today, the size matters and the economies of scale do matter. The latest issue of Indo-LAC Business highlights this corporate wisdom through its cover story. One reason why the Latin American companies are increasingly getting competitive is because of the economic growth in their respective countries, which is conducive to expansion of capacities both at home and abroad. David Sinate, Deputy General Manage, Export Import Bank of India, traces in an analytical article that it is the external demand for energy products and commodities that is driving growth in Latin America as a whole. We carry it as the issue's Focus. Many factors contribute to the economic growth of a nation. But the overall economic integration contributes to the social development a region, in which each nation is an integral part. In a speech delivered at a conference organized by Sir Arthur Lewis Institute of Social Sciences, Ewart S Williams, Governor of Trinidad and Tobago, effectively drives this point home. We report it as the issue's perspective. Trinidad and Tobago is a country that is a Caribbean role model for other nations to follow. We carry a report on the high-points of T&T's economy, which is buoyant, thanks to rising oil prices. There is more to Latin America than meets the eye. It is the region's jest for joy. So, doing business with Latin America amounts to pleasure and when the two are mixed it is Total Tango. R. Viswanathan of India's External Affairs Ministry, an old hand at Latin American affairs, discovers this experience in Dominican Republic. In a refreshing insight into the bonding between India and Brazil, Manish Chand writes about the Magic and Business Realism that is forging it, especially in the wake of Prime Minister Manmohan Singh's visit to that country last September. One Indian company that has discovered the Latin American potential is Tata Consultancy Services, the IT and BPO giant, which has big plans for the region. We report. Plus, the issue carries some interesting CAF news as well.

Wish you happy reading,

Satya Swaroop
Managing Editor
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LatAm Firms Redefine Strategic Vision

Evolving A Global Agenda

Today, few Latin American companies can be considered global leaders. Partly because they have long operated in protected domestic markets that gave them little incentive to develop a global orientation and a vision for expanding abroad. As economies are getting globalized, the Latin American companies must aspire to expand abroad by building the necessary strategic vision and organizational skills, particularly talent development, says a McKinsey study. The study, made by Pablo R. Haberer and Adrian F. Kohan, observes that companies in the Lastin American region will fulfill their potential abroad only if they pursue clear global aspirations and find systematic ways to develop their talent and integrate cultures and organizations. True, many Latin American companies do extensive business in the region beyond their home markets and may even be well known in it, but that kind of recognition remains elusive at the global level, says the study. Why do Latin American companies still lag behind in their attempts to create world-scale businesses? The study attempts to answer this question and suggests ways and means of building global businesses. Following are the findings of the study, titled Shaping a new agenda for Latin America

The fact that Latin American companies operated for many years in protected domestic markets gave managers little incentive to develop a global orientation and a vision for expansion abroad. Neither did the region's underdeveloped capital markets. But the gradual opening of product markets and improved access to capital are creating opportunities for global expansion and not a moment too soon. Relatively small home markets mean that Latin America's companies are running out of headroom for growth, while the region's volatile economic conditions have held back consumer and business demand.

Yet a handful of Latin American companies have overcome the inertia to establish global leadership positions in their respective industries. These international competitors include, among others, Embraer, the Brazilian aircraft manufacturer; Companhia Vale do Rio Doce, the Brazilian minerals giant; and Tenaris, the Argentine maker of specialty steel pipes. Their growing global prowess is exemplified by

CVRD's acquisition of Canada's Inco, the world's leading nickel producer. Such companies are showing by example that Latin Americans can indeed compete globally.

One school of thought holds that emerging markets, such as those in Latin America, can provide an excellent springboard for global business.2 Its proponents, including ourselves, argue that factors such as demanding but price-sensitive customers, a challenging distribution infrastructure, and volatile political and economic environments compel companies to develop distinctive capabilities that can serve them well abroad. Dealing with such conditions on a daily basis sharpens these capabilities.

But companies must also be able to transfer them abroad, and that requires excellent organizational skills that range from developing talent to finding and retaining leaders who can thrive in a variety of cultural settings. Such companies must also learn to replicate in other markets the operating systems they have successfully created at home An inability to leverage these skills effectively abroad can sink even the best overseas strategy be it through organic growth, mergers, or acquisitions.

As the years pass, Latin America's companies are losing the luxury of remaining homebound. As a first step, they must develop a strategic vision to expand beyond their national boundaries while carefully matching their strategies and capabilities.

A company's chances of succeeding in global markets should therefore improve greatly if it develops a better understanding of its distinctive capabilities and of how it could export them.

Getting to global

Creating a global company takes time, often decades. A necessary condition is the development of a strong local-market position. A business that has one not only can spin off the cash required to finance growth but also enjoys a nurturing environment for distinctive capabilities that could then be applied abroad.

For many decades governments in Latin America tried to promote industrialization by closing markets to foreign competitors, providing privileged access to assets or concessions, and offering tax incentives. On the one hand, closed markets gave Latin American executives little reason to pursue global opportunities. On the other, favorable treatment helped local companies, in industries ranging from steel to oil and gas, to develop the solid home market position that is a prerequisite for international expansion. Some companies have successfully built on that support to develop capabilities and technologies as a platform for future growth.

The Brazilian energy company Petróleo Brasileiro (Petrobras), for example, has used the significant profits generated from local oil and gas fields to acquire other companies in the region. Petrobras also built unique exploration skills by using its own R&D and contracting partnerships with other companies. Because its expertise in deep-water wells is recognized around the world, it has become an industry leader, especially in other parts of Latin America and in Africa.

Likewise, Siderca started by producing seamless steel tubes for Argentina's oil and gas market but, over the years, invested heavily in the development of high-end products and services that enable oil and gas companies to drill in difficult conditions.

During the past 15 years, Siderca has executed many mergers and acquisitions around the world, thus giving birth to Tenaris, the world's largest producer of seamless steel tubes. In the 1990s a number of Latin American governments began to privatize public-sector companies and to open markets to foreign players. These moves obliged local companies, wittingly or not, to raise their game and helped prepare them for global expansion. In the case of basic materials, globalization was also a matter of survival given the worldwide consolidation of the sector.

A few companies in it for example, the Mexican cement maker Cemex and Tenarispitched their global ambitions high from the start. These aspirations were often defined by the business owners, who diffused them throughout the organization. Target markets were chosen to match capabilities that were then strengthened and expanded to allow further growth into new markets. Meanwhile, other companies initially confined themselves to regional or hemispheric ambitions and are only now aiming at a global presence. The Brazilian steelmaker Gerdau, for instance, focused first on the United States and Canada and is currently considering expansion beyond the Americas.

In contrast to basic materials, other sectors in Latin America had neither the aspiration to expand globally nor the favorable conditions that would have allowed them to develop strong cash flows and distinctive capabilities. As a result, they are less prepared for globalization. Slow economic growth and high levels of informality have crimped global opportunities.

The Samsung Success Story

South Korea's Samsung Electronics, often cited as one of the most successful companies that originated in an emerging market, illustrates how an enterprise can transfer world-class capabilities abroad. The company initially developed deep expertise in product development and operations. One of the most efficient electronics companies in the world, it used its large-scale manufacturing capabilities and expertise in innovation to enter new markets in Europe and the United States. The company then invested heavily in R&D and global branding, allowing it to raise its global market share even more.

Transferring distinctive capabilities also requires a group of executives who know how to apply standard practices in different countries, contexts, and cultures. Samsung, for its part, has created an "engine" to develop global talent. It recruits people from different nationalities at leading universities across the world and has institutionalized training and development by setting up an in-house training center and implementing a systematic approach to performance management.

The Samsung model that brings about integration of markets, capabilities, and talent one of the essential elements for global growth is still far from being fulfilled by most Latin American companies, even those that already do business around the world.

The search for talent

In our view, and that of many executives in the region, one of the main factors restricting the overseas growth of many Latin American businesses is a shortage of managers who can work effectively abroad. In a recent McKinsey study, executives of large Latin American

companies seeking growth abroad admitted that leadership development was an important area for improvement. In the words of a high-ranking local executive, "Talent is the single most critical issue in our company today."

One of the challenges of globalization is the increasing pressure on multinational companies to become "local." Yet Latin America, with a strong history of developing world-class engineers and managers, does have an adequate pool of talented people for the international market. Once hired, young managers typically go through a long process of in-house development before occupying important positions. But as companies become more international and the need for experienced executives grows, this development routine breaks down, stymied by the indifference of many Latin American executives to overseas assignments. In countries such as Chile, and to a lesser extent Brazil, these executives tend to put family and friends ahead of successful global careers.

Family-Owned Businesses

Many Latin American companies are or started out as family-owned businesses, which have trouble attracting mid- and high-level executives. These enterprises have a number of advantages, such as the ability to take a longer-term view of investments than their publicly held counterparts often will. But there are also limitations. Our experience working in the region shows that some family businesses have evolved corporate cultures where informal networks are more valued than formal processes, direct hires from other companies tend not to be successful, and top managers are often appointed based on a long history with the owning family. There's another issue that crops up even if a company can find people willing to work abroad: some potential managers are put off by the fact that many of the bigger Latin American companies with global aspirations are in basic materials sector that is considered, rightly or wrongly, not to be very glamorous and that has few well-known brands.

If the supply of executives is insufficient, what can be done to increase it? Companies with global ambitions have no choice but to take matters into their own hands. If, as many senior executives believe, a group of global managers is more important to a company than all its tangible assets, it will have to build what some call a "leadership factory" to develop one. CEOs and executive committees will need to invest much time in this effort.

Adopting Best Practices

A few Latin American companies, taking their cue from Europe and the United States, are setting up their own leadership factories, adapting the best practices of current global leaders:

1. Systematically identifying global talent sources. Latin American companies have started pursuing talent at foreign universities. Gerdau, for example, participates in recruiting events in the United States and routinely invites groups of students to visit its overseas operations in order to build its name in the labor market. In the future, Latin American companies may need to imitate their global peers by tapping into talent farther from the corporate center, perhaps in China or India countries with many science and engineering graduates.

2. Developing global training programs and managing careers carefully. The recently created Tenaris University trains the company's employees around the world and introduces new hires to Tenaris. Corporate universities are excellent places for employees not only to develop new managerial and technical capabilities but also to build informal networks and absorb a common culture and values. Career management involves much more than just carefully designing an academic curriculum: it is mostly about matching opportunities with available talent and takes many years to develop. Since talent is the scarcest resource, top-notch companies link their strategic-planning process (opportunities) with their talent evaluation process (talent supply) to design career-development plans and identify recruiting needs in advance. These practices are not widespread in Latin America, though some companies are designing programs that incorporate many of them.

3. Implementing appropriate compensation and mobility policies. To compensate and otherwise reward

people who choose overseas careers, Latin American companies are experimenting with various formulas, such as distinguishing between local managers and global ones. There is no one-size-fits-all model, and a company's culture will in the end determine the proper approach. In a clear break with the past, however, more and more of the region's business executives understand that the main benefit of global mobility is a successful career. Compensation is therefore becoming less of an issue.

An approach to unifying culture

Having the right managers in the right projects is hardly enough: people must be able to interact and work together in a way that makes the most of their potential. That means having a common set of values and a unified culture something that is more easily said than done.

M&A has become a popular and effective way to expand internationally. In addition to rapid growth, it can provide access to local talent. But unless the post-acquisition integration process is managed well, companies may end up with an identity crisis that can drive the most talented people to other businesses, possibly jeopardizing the acquired one's operational and commercial continuity.

More and more Latin American companies now recognize that proactively managing the integration of corporate cultures is a fundamental component of successful M&A. This understanding came late, however, so it isn't uncommon to find companies where different corporate cultures coexist under one umbrella, making day-to-day interactions problematic. In Latin American companies, particularly family-owned ones, informal channels are often used to solve conflicts and make things happen. Building these personal networks can prove particularly challenging for executives from another region sometimes so much so that frustration drives them to leave.

Businesses in Latin America (and elsewhere) use a variety of approaches to diagnose the most important cultural differences and to define the desired culture and values. Cultural integration can be achieved through different paths, but successful companies normally use a combination of four drivers.

Role Modeling

The first is role modeling, which Latin American executives are taking more and more seriously. It can be accomplished by flying people overseas to work at subsidiaries a few days a month, for example a hands-on way of showing them how things are done. Companies are also creating multifunctional, multinational teams to address the top operational and strategic challenges and, in this way, to build relationships and spread corporate values.

Capability building, formal or on the job, is another way of promoting integration, elaborating values, and spreading the corporate culture. Latin American companies are starting to recognize the value of training; some, like Tenaris, are establishing programs for their global workforce.

Formal processes are also an important part of efforts to address cultural issues. Some businesses have set up mobility programs for acquired companies, so that their executives spend some time in Latin America to understand the parent's culture and values. Formal executive assessments have grown in importance, since such tools make it possible to compare executives across different countries and to develop global career plans. In such processes, a global committee evaluates top managers and discusses promotions, bonuses, and

career paths, thus helping to generate a sense of corporate citizenship.

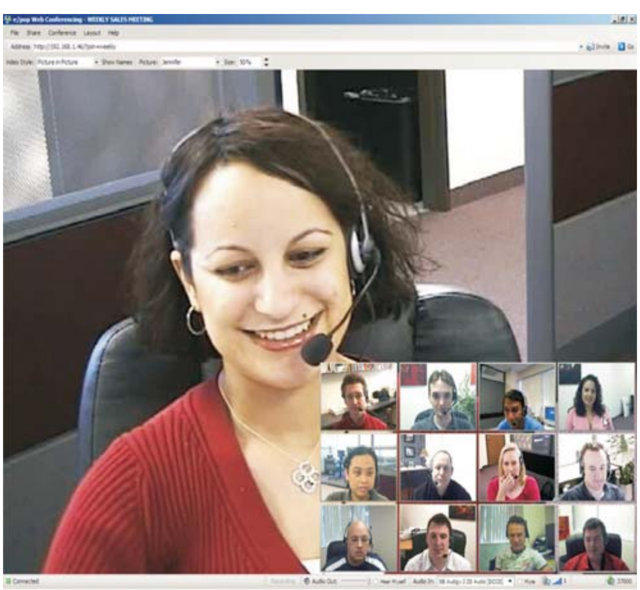
Communication Key Factor

Finally, communication is another key element in creating a unified corporate culture. Improving internal communication might seem an obvious priority, but until recently only a handful of Latin American companies organized global events to convey the company strategy, discuss technical or managerial issues, or just promote socializing among executives. Technology, such as videoconferencing and intranets, also encourages internal communication and facilitates corporate integration even at remote locations. In that sense, language can be a barrier or an integration device. An increasing number of companies, however, are adopting English as their primary language, making the integration possible.

In general, the factors that help Latin American companies succeed in their home markets relationships, local knowledge, privileged assets, tariff barriers do not apply to international expansion. At first glance, many of these companies therefore do not seem particularly well equipped to embark on a globalization effort.

Yet just the opposite may be true. Emerging markets are a vast and tough training ground. The combination of complex operational environments, rapidly changing economic and political contexts, and shallow financial markets has forced companies to shape up, preparing them for competition on the international stage. Latin America already has world-scale companies, and others are large enough to qualify for the role.

To fulfill their potential abroad they will need to find systematic ways of developing talent and integrating cultures and organizations. Even with the initial advantages these companies possess, this task won't be easy. Yet given today's global market and the instability of Latin America's economies, international growth is a matter of survival.



Putting operating systems in place

Large companies use operating systems to create and sustain competitive advantage. Six Sigma (popularized by GE) and Toyota Motor's lean-production system both aim to improve systematically the way companies work by reducing waste and variability in their processes. Standardization helps companies to disseminate knowledge around the world an important element of any sustainable globalization strategy. We think of operating systems broadly as having three important elements: a technical system, a management system, and an approach to changing mind-sets and behavior.

A technical system a set of operating procedures, problem-solving techniques, and tools to develop and disseminate knowledge allows a company to improve and standardize its operations constantly. Many people describe these procedures, techniques, and tools as a common language that facilitates the way executives exchange information, help one another to streamline operations, and share best practices. Six Sigma programs typically focus on technical systems.

A management system provides a rigorous set of tools not only financial and operational indicators but also incentives for individuals to manage a company's performance.

Finally, the mind-set and behavioral element of an operating system aims to develop a common culture and values through four levers: role modeling, capability building, formal processes, and communication. It also includes knowledge-sharing systems.

Many Latin American companies are moving in this direction. Some have developed strong performance-management systems, others have standardized procedures and implemented continuous-improvement efforts, and a few have started cultural-transformation programs. But no Latin American company has mastered all three, and in our experience it is the interaction of these three elements that makes operating systems so powerful. Acting on every front will help make the globalization journey of the region's companies more sustainable. ■

External Demand to Drive LatAm Economic Growth in 2007-08

David Sinate

Latin America is passing through a remarkable phase in its economic development, thanks to the region's political stability, open market economic reforms initiated by respective governments. In a detailed, analytical assessment of the Latin American economic evolution in recent years, Export Import Bank of India Deputy General Manager David Sinate argues that the economies of major LatAm nations will be driven by external demand for oil and commodities such as metals.

More than a decade ago, some Latin American and Caribbean (LAC) countries transformed from closed to open economies. In doing so, they entered into a world of great competence and diversity. This movement provoked dramatic changes in the internal structures of these countries. Among the changes that occurred were the decentralization of operations, the reorganization of production, and the reinforcement of scientific management and strategic planning. The combined effect of such changes has resulted in a significant increase in production and foreign investment and, consequently, a rise in the gross national product (GNP) of these countries.

Economic Growth in the Region

The sustained growth of global economy, strengthening domestic demand, and further increase in commodity prices supported Latin America to extend its economic expansion in 2006. Driven by acceleration of growth in Brazil, Mexico, Colombia and Peru, real gross domestic product (GDP) of the region increased to an estimated 4.9 percent, up from 4.1 percent in 2005. The growth of regional domestic demand reached a two-decade high of 6.9 percent on the back of rising income, buoyant sentiment and generally accommodative macroeconomic policy. Table 1 reveals the real GDP growth rate of major economies in the region.

Table 1: Real GDP Growth Rate of Latin American Countries In percent

Countries	Year			
	2005	2006e	2007f	2008f
Argentina	9.2	8.5	7.2	5.4
Brazil	2.3	2.9	3.8	3.5
Chile	6.3	4.2	5.0	4.8
Colombia	5.2	6.5	5.4	4.4
Mexico	3.0	4.8	3.5	3.3
Peru	6.4	8.0	5.5	4.5
Venezuela	10.3	10.3	7.0	5.0
Latin America	**4.1**	**4.9**	**4.5**	**3.9**

Source: Regional Overview, IIF., e: Estimates; f: forecast

It shows that Venezuela has the most rapid growth rate in the region followed by Argentina. Additional support to the region came from the growth acceleration in Mexico (from 3.0 percent in 2005 to 4.8 percent in 2006), Colombia (from 5.2 percent in 2005 to 6.5 percent in 2006) and Peru (from 6.4 percent in 2005 to 8.0 percent in 2006).

LAC Region and the Global Trade

The trend in international trade of the LAC region is presented in Table 2.

Table 2: Trend in Global Trade of LAC Region, (US$ bn)

Year	Export	Import	Total Trade
1999	308.4	317.4	625.8 (5.5)
2000	363.4	382.3	745.7 (5.8)
2001	348.5	378.1	726.6 (5.9)
2002	325.8	381.0	706.8 (5.5)
2003	339.1	427.5	766.6 (5.1)
2004	419.3	529.1	948.4 (5.2)
2005	491.7	628.0	1119.7 (5.4)

Source: Direction of Trade Statistics Year Book 2006, IMF.
Values in parenthesis show percentage share in global trade.

Further, it provides the share of the region in global trade. Exports of the region have increased from US$ 308.4 billion in 1999 to US$ 491.7 billion in 2005. Imports also have gone up from US$ 317.4 billion in 1999 to US$ 628.0 billion in 2005. This reveals the faster increase in imports to the region than exports from LAC. The region's share in global trade has remained stable at over 5.0 percent.

Latin American and Caribbean trade is benefitting from persistently strong international demand, especially from China and the United States, and from highly favourable terms of trade. In addition, the region has been enjoying ready access to international financial markets at low interest rates. This is a positive result when viewed from the standpoint of the region's medium-term and potential growth trends, but is less heartening when compared with the considerably higher rates being recorded in emerging economies in Africa, Asia and Eastern Europe. In real terms, Latin America and the Caribbean recorded the second-largest increase in exports, after China, in 2005.

The Latin American and Caribbean region has reaped the benefits of rapid growth in the United States, which is its main export market. In fact, the US absorbs half of Latin America's exports and accounted for 40% of the increase in the region's external sales in 2005, although this share varies sharply across countries, standing at over two thirds in the case of Mexico and Central America, one half in the case of the Andean Community and only a small fraction for the MERCOSUR countries.

From Japan's standpoint, the Latin American and Caribbean region is a relatively small market, and its importance as a trading partner is waning. In fact, in 2005 the region accounted for only 4.0% of Japan's exports and 3.0% of its imports. Meanwhile, Japan absorbed less than 2.0% of the Latin American and Caribbean countries' exports in 2005, except in the cases of Chile (12%), Bolivia (5.0%), Peru (4.0%) and Brazil (3.0%). China, on the other hand, accounts for a much larger percentage. Trade between Mexico and Japan expanded considerably in 2005, due to the 'Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership', which came into effect in April 2005.

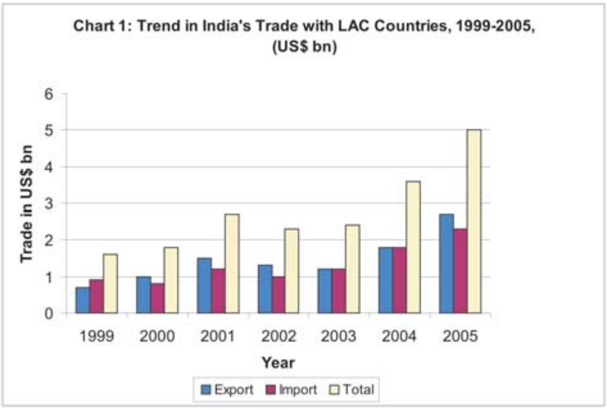
Japan is a relatively significant source of FDI for Latin America and the Caribbean, however, since it contributed US$ 6.4 billion of a total of US$ 45 billion in FDI inflows in 2005. Japan has invested quite heavily in Brazil (mainly in transport equipment, food and some services sectors) and Mexico (transport equipment and textiles). The upswing seen in Japanese FDI in Mexico since the two countries signed a free trade agreement (FTA) shows that FTAs may be a way of encouraging Japan to invest in the region. Japan is currently negotiating an FTA with Chile.

Remittances by the Latin Americans working abroad reached an estimated US$ 60 billion in 2006, nearly twice net foreign direct investment flows to the region with Mexico leading the region as the recipient of 42 percent of total remittance.

LAC's trade with India

The Latin American and Caribbean market is still not very significant for India, although it is gaining in importance. In 2005, the region's import from India amounted to US$ 2.7 billion (2.8% of India's exports) and exports to India amounted to US$ 2.3 billion (1.7% of India's total imports), which yielded a surplus in favour of India (Chart 1). Nevertheless, these figures indicate that exports to the region tripled and imports doubled in the past two years. Trend in India's trade with LAC region is presented in Chart 1. As in the case of China, India's pattern of trade with South America is different from the pattern it maintains with Central America and Mexico. Under existing trade agreements with India, the countries of MERCOSUR and Chile export mainly vegetable oils, minerals and their concentrates and sugar and honey to India. Similarly, imports of these countries comprised refined petroleum products,

medicines and pharmaceutical products, other organic chemicals and textiles. On the other hand, trade between India and Mexico and Central America is very limited. This sub-region exports mainly oil, pharmaceutical products and telecommunications equipment to India and imports automobiles and automobile parts as well as textiles and clothing from India, items that seem to offer a comparative advantage



Source: Direction of Trade Statistics Year Book 2006, IMF.

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to the region.

Outlook for the Region

External demand will continue to help drive growth in Latin America and the Caribbean due, among other, to a 6.0% improvement in the region's terms of trade in 2007, which will mainly benefit oil and metals exporting countries. The nations that stand to gain the most will be Venezuela, Bolivia, Chile and Peru, which will see their terms of trade increase by 25%, 22%, 18% and 14%, respectively. As a result, exports and imports in current dollars will expand by 20% and 17% in 2007, respectively. Just over half of this rise will reflect higher export prices, while in the case of imports, only one-fifth of the increase will be attributable to prices and the remainder to volumes. Projections point to a continuation of the uptrend in the region's trade balance for goods, expressed in current dollars, which began in 2001. Costa Rica, the Dominican Republic and Mexico are the only countries to have posted merchandise trade deficits since 2001. According to Economic Commission for Latin America and Caribbean (ECLAC) projections, in 2007 Latin America's exports will expand at a similar rate to 2006 in terms of volume, that is, between 7.0% and 8.0%, although with large differences across countries.

The greatest risk in the outlook period is inflationary pressure, owing to the persistently high prices of petroleum and some other commodities, especially metals, both in the US and in other developed countries.

Export-Import Bank of India as facilitator in the LAC region

Export-Import Bank of India (Exim Bank) operates a range of lending services and support programmes to facilitate and promote India's trade and investment relations with countries in the LAC region.

Exim Bank has currently 10 operative Lines of Credit (LOCs) amounting US$ 133 million covering 17 countries in the LAC region. These LOCs have been extended to two governments, regional banks and national banks in the region. This include, LOCs of US$ 30 million, US$ 19 million US$ 16 million extended to the Government of Honduras, Guyana and Surinam, respectively; LOCs of US$ 10 million each extended to Banco de Comercio Exterior de Colombia S.A. (Bancoldex), Colombia; Corporacion Andina de Fomento (Andean Development Corporation) (covering Bolivia, Colombia; Ecuador, Peru and Venezuela); Banco Nacional De Comercio Exterior S.N.C. (Bancomext), Mexico; Banco Bradesco S.A., Brazil; Central American Bank for Economic Integration and Uniao De Bancos Brasileiros S.A. (Unibanco), Brazil; and Central American Bank for Economic Integration (CABEI) covering Honduras, Nicaragua, El Salvador, Costa Rica and Guatemala. Further, the Bank has an LOC of US$ 8.0 million with the Republic Bank Ltd., Trinidad & Tobago. It may be highlighted that the LOC to Guyana was earmarked for the construction of a cricket stadium for the cricket world cup in 2007.

Indian companies have implemented numerous contracts in the LAC region with Exim India's support in sectors/areas such as ethanol plant project, construction of railway network in Colombia; pharmaceuticals and textiles in Mexico; pharmaceuticals in West Indies; bauxite and textiles in Brazil; bauxite in British Virgin Islands; automobiles in Dominican Republic; El Nino emergency assistance project and strengthening procurement administration of the government in Guyana; shipping in Cayman Islands; textiles in Peru and Argentina; and transmission lines & substation projects and heavy machines in Suriname.

With a view to building institutional linkages, Exim Bank has signed MOUs with Banco de Inversion Y Comercio Exterior S.A. (BICE), Argentina; Central American Bank for Economic Integration (CABEI/ BCIE), Honduras; Caribbean Association of Industry & Commerce, Trinidad & Tobago; and Banco Mercantil (Banco Universal) C.A., Venezuela.

Exim Bank has also conducted a number of research studies focusing on enhancing trade and investment relations with the LAC region. Further, Exim Bank also helps bring out a quarterly bilingual (English & Spanish) publication titled "Indo-LAC Business", which aims to facilitate business information between India and the LAC region and also provide a platform for business communities to express their views on the scope for enhancing trade and commerce between India and LAC countries. ■

Trinidad & Tobago: An Ideal Gateway to Western Markets

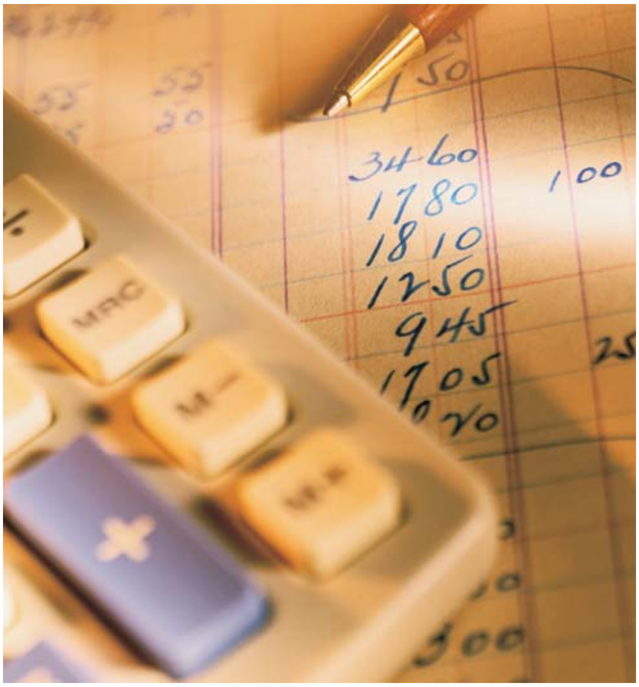
Kenneth Cyril Valley, Minister of Trade and Industry, Republic of Trinidad & Tobago, was in Mumbai recently exploring opportunities for attracting investment from Indian entrepreneurs into the oil-rich Caribbean country. In a brief interview with Satya Swaroop, Valley talks about his government's policies, tax benefits and other incentives, which are conducive to encourage investments in joint ventures in T&T. Valley's Ministry is responsible for stimulating both Domestic and Foreign Investment and is upgrading the entire framework for attracting investment, which is the lifeblood of industrial activity.

Kenneth Cyril Valley

What are the various benefits that your government would like to offer to Indian investors?

The government has an incentive pool ready for investors coming to Trinidad & Tobago. For example, exemption of custom duties on plant and equipment, besides the tax benefits. We are concentrating on reducing the tax rate.

We still have the free zone legislation in place. For example, an Indian company located in a free zone will be qualified for an entry into countries with which we have free trade agreements as long as the company adds 25 percent value to goods coming from India. You will qualify to enter markets in the US and Europe and other countries. You still can sell 20 percent of the produce in T&T without your stature in the free zone getting affected.



What is the purpose of this mission?

Strictly Business. Our story is simple. Like China, we would like to see India is competitive in terms of capital goods, competitive in terms of primary goods. Therefore, our manufacturers can source primary goods and capital goods from this country.

More importantly, we have a location, a platform, where India can invest. We have supporting infrastructure in place. We have a strategic location, we have competitive public utilities. We are not a country of 1.2 million people, we are a platform from which a manufacturer can get into markets abroad.

Will you be signing any agreements?

We would be signing an investment protection and promotion agreement.

How has been your experience?

Very good. There are opportunities in all the areas.

What is your message to Indian business community and the readers of Indo-LAC Business?

My message is simple. Trinidad and Tobago is the platform and the ideal location if you are considering a place to do business in the western hemisphere. ■

Economic Integration Key to Caribbean Development

Ewart S. Williams

Ewart S. Williams, Governor, Central Bank of Trinidad and Tobago, in a recent lecture delivered at Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) Conference on the "Issues in Caribbean Economic Development," talked about the challenges facing the region and the proposition that economic integration specifically the CSME is a necessary condition for meeting the region's economic and social objectives and the role that savings and financial integration needs to play in the process. Excerpts.

A convenient point of departure for my presentation is the theme of the recent and much-quoted World Bank study entitled: "A Time to Choose Caribbean Development in the Twenty-First Century". The study's theme is that "As the twenty-first century begins, the abiding impression (with respect to the Caribbean) is one of unfulfilled potential and concern about the sustainability of past accomplishments". The report notes correctly that over the past three decades, Caribbean economic development has lagged behind that of similarly small and comparable countries like Singapore, Ireland and Cyprus. The study argues pointedly that the main reason for this is that while these countries based their economic strategy on improving competitiveness, the Caribbean sought to depend disproportionately on the exploitation of its natural resources (in the case of Trinidad and Tobago) and ill-advised reliance on preferential arrangements for our main products sugar and bananas.

It is an interesting thesis and even if a bit over simplified, has a lot of truth to it. In 1975, the Caribbean as a whole was more or less in line with Ireland, Singapore and Cyprus, in terms of GDP per capita. By the turn of the century, Ireland and Singapore were way ahead of the region, and with per capita incomes almost twice the region's highest per capita country the Bahamas. And it is not only in terms of per capita income, the disparity exists on a range of development indicators]. Indeed, Ireland is ranked number 4 in The Human Development Index: Singapore is number 25, and the highest Caribbean country Barbados is at number 31.

GDP Growth

What happened in the interim? To address this question, let us first examine the economic performance of the region in the last three decades.

The story of the Caribbean is that of steadily declining growth in per capita GDP. In the 1970s, the annual average per capita growth rate in the region was 3.9 percent; this rate declined to 2.2 percent in the 1980s and to 1.9 percent in the 1990s. This pattern was marginally better than that of Latin America. However, it was lower than the average rate of growth of "all small island states" in the world and at the other extreme, emerging Asian countries grew at nearly three times the pace observed in the Caribbean.

Almost all the countries in the Caribbean region suffered declines in per capita incomes in the 1980s. In many cases, the poor growth performance continued in the 1990s. A notable exception is, of course, Trinidad and Tobago, where the implementation of economic policy reforms and the resurgence of world oil prices led to a resumption in per capita growth.

Since 2000, real GDP growth in the Caribbean has improved somewhat and per capita incomes have risen marginally. In Trinidad and Tobago, high oil prices and expanding capacity have led to a near-doubling in per capita incomes in the period 2000-2006. In the rest of the region, the recent surge in economic growth has been driven by increasing construction of infrastructure and tourism facilities related to preparations for the 2007 Cricket World Cup. (Lest I be misunderstood), let me clarify that the reality of declining per capita growth in the three decades to 2000 does not negate the progress that has been achieved by the region during the period. This progress could be seen in the evolution of the universally accepted indicators of development such as, income, health, education and life expectancy.

In terms of income, for instance, all the countries of the region, with the exception of Haiti and Guyana, are classified as middle income countries or higher, with per capita incomes ranging from an average of US$6,000 for the OECS to US$18,900 for the Bahamas. The Caribbean ranks high on the Human Development Index, relative to other developing and emerging market countries.

The region's average literacy rates are very high and life expectancy at birth is high at nearly 70 years. On the other hand, poverty rates in the region are also high, averaging nearly 30 percent and income inequality, while not severe as in South America, is significant.

Economic Challenges

Given where we are, what are the main economic challenges facing the Region? While it can be argued that these are many, I would like to select three. The first is the loss of preferential arrangements and the need to restructure our economies to meet the current global trading environment; the second is the critical importance of achieving higher productivity levels and the third relates to the need to strengthen fiscal positions and reduce the public debt burden.

First, the loss of preferential arrangements. Declining aid flows and the transition from traditional agriculture, as preferential access to European markets is eroded, continue to constitute a major economic challenge. These two developments are taking place at a time when exogenous shocks (be it high oil prices, 9/11, or natural disasters) have become more commonplace and at a time when Governments are facing strong political mandates to improve social and economic conditions.

There is no denying the perverse geo-politics of the trade preferences issue the fact that developed countries argue strongly for freedom of markets while they are reluctant to eliminate their own large agricultural

subsidies or their harsh restrictions on freedom of labour. Be that as it may, it is difficult to deny that some Caribbean countries have not exactly taken advantage of the long period of preferential market access to increase productivity in the sugar and bananas sector.

It is largely our fault that after all these years the estimated cost of producing and exporting sugar in Guyana and Belize the lowest cost Caribbean producers, is 50 to 60 percent higher than that of the higher cost free market exporters. Similarly in bananas, the Caribbean countries are the highest cost producers in the world, rooted in low land productivity and high labour and transportation costs.

Given the impending further erosion of preferential arrangements for sugar and bananas, in the next five years, few (if any) of the current regional exporters will be able to export profitably. This means that if exports are to be maintained, government subsidies to cover losses could rise to unsustainable levels.

Economic restructuring

This brings us to the imperatives of economic restructuring: With the current open trade regime, the challenge for the Caribbean is to quickly develop new high productivity sectors that could drive the region's developmental thrust. The reality in the Caribbean is that the regional agricultural sector will find it difficult to be globally competitive for the same reasons that affected sugar and bananas. Similarly, labour intensive manufacturing can no longer compete internationally given the region's relatively high wage structures and the rise of China as a major exporter of manufactures. However, the examples of Ireland, Singapore and Cyprus have shown that small economies can be competitive in many service sectors and in niche manufacturing.

Need to improve productivity

Whatever sectors we target for attention, we must engage in a concerted push to improve productivity. It is not easy to measure productivity for the economy as a whole. However, notwithstanding the measurement problems, various estimates for the Caribbean economies show gains in productivity in the 1980s, followed by a sharp decline (in productivity) in the 1990s. One apparent reason for the decline in the 1990's is the lower productivity of both public and private investments (which, in the smaller economies, have been concentrated in the declining agriculture sector, or in tourism, a sector which is now in a mature phase and likely to produce smaller productivity gains).

Migration of Labour

A second factor that could have led to declining productivity is migration. The economics of migration is a complicated phenomenon. At one stage of our history, we saw migration as a safety valve against possible social explosion arising from high unemployment. Migration has also benefitted our economies to the extent that remittances have become a major contributor to foreign exchange receipts in the region. In contrast to these positives, however, the evidence suggests that Caribbean migration has represented a brain drain which has weakened the skills base and capacity of regional economies. The excessive emigration of skilled labor not only creates immediate gaps in the labour force, which affects productivity, but also means that resources invested in education and training do not benefit the region as intended.

Public Debt

The third challenge that, in my view, regional economies will need to address in the quest for self-sustaining growth and development is the need to deal with chronic fiscal imbalances. For many countries in the region, these imbalances, which have largely resulted from excessive government spending, have led to a build-up in public debt to unsustainable levels. According to IMF data, seven Caribbean countries are among the 10 most indebted countries in the world. In general, public debt to GDP ratios of 50 to 60 percent of GDP are considered high. However, six Caribbean countries (St Kitts and Nevis, Jamaica, Dominica, Antigua and Barbuda, Grenada, Belize and Guyana) have debt ratios between 95 and 160 percent of GDP. Guyana is one of the world's highly indebted countries, identified by the multilateral institutions for special treatment under the HIPC programme. In the last two years, two of the regional countries Dominica and Grenada have needed external debt restructuring. A third, Belize is in the process of debt restructuring.

High public debt hurts growth as resources that should be devoted to productive expenditure and social programmes are redirected to debt servicing.

Moreover once high public debt sets in, it could be self-reinforcing on account of high debt servicing costs. The two options available to highly indebted countries are

debt restructuring (as discussed above) or the generation of high primary surpluses as in the case of Jamaica. Even though Jamaica has generated primary surpluses in the range of 8-13 percent of GDP for many years, public debt has continued to rise because of high interest costs and low growth.

Regional Integration (CSME)

The region sees the implementation of the CSME as an essential element of any strategy to further the development of the regional economies. I finally agree with that position. The current integration model is what CY Thomas describes as one of open regionalism, based on an outward looking market-oriented framework in which the private sector is expected to take the lead. As you know, the CSME covers, inter alia, the liberalization of trade in goods and services, the free movement of labour and capital, a regional strategic sectoral plan, the adoption of a harmonized investment code and the development of a regional capital market. The first phase of the model the Caribbean Single Market, formally went into effect in the first half of 2006. The second stage the implementation of the Single Economy now has a target date of 2009.

The integration model is fundamentally sound in that it seeks to address the principal constraints that have led to regional economic under-achievement over the past three decades. One cannot argue with the reasoning that, greater integration within the CARICOM region, on several fronts, could be a critical input in improving competitiveness.

For example:

• regional trade liberalization (which is essentially in place) should result in a reduction in the cost of inputs and contribute to the rationalization of production;

• labour mobility within the region has the potential to improve skill and wage arbitrage;

• co-ordinated investment promotion could make the region more attractive for foreign investment and reduce the fiscal cost attached to expensive and sometimes wasteful tax concessions; and

• regional planning could facilitate the exploitation of production integration opportunities, through clusters of economic activities.

• The CSME model also presents opportunities for joint marketing in extra-regional markets, joint research and development, and joint purchasing arrangements.

While this is the framework, it is no secret that, implementation of many of the critical provisions of the CSME has lagged. For example, the impact of trade liberalization has been reduced by the large number of exemptions from the common tariff reduction scheme. Free movement of labour so far has been limited to a small group of employment categories though further progress in this area is on the cards; agreement on the liberalization of trade in services has been slow in coming and there have been problems in implementing the rights of establishment which is pivotal to unlocking the potential of the regional private sector.

But the CSME faces other challenges. The implementation of the programme is going to require considerable financial resources, the exact quantum of which has not yet been determined. Funds need to be found for financing new regional institutions: to fund compensatory mechanisms : to finance national and regional public infrastructure and to finance the activities of the regional private sector, which ultimately will be the engine of growth and development.

While many of the regional institutions are being funded from contributions made by existing member states, there is some concern that many Governments, face an acute insufficiency of fiscal resources and will be hard pressed to take on new commitments. Moreover, the willingness of the region's traditional bilateral and multilateral partners to go beyond current funding levels is uncertain. To say the least, the desirability of depending on extra-regional bilateral donors to fund regional institutions is a delicate matter.

The Caribbean Development Bank has played a pivotal role over the years in financing infrastructural development and social programmes in the region. A significant increase in the Bank's resources will be required if the development thrust envisaged by the Single Economy programme is to be attained. It is widely accepted that the benefits of regional integration are often asymmetrically distributed among participating countries. This inevitable outcome therefore requires that compensatory and/or corrective mechanisms form a necessary and prominent feature of the CSME. A Regional Development Fund is envisaged to be part of these compensating arrangements.

The current proposal is for a Fund of US$250 million US$120 million of which is to be contributed by member states with the remainder being sought from the region's development partners. This will be another financing gap that needs to be filled.

Private Sector Funding

And finally, regional development in the context of the CSME will require new and expanded private sector financing mechanisms. Over the past several years we have seen increasing integration of the regional financial system. Much of this integration has come through cross-border ownership of financial institutions. However, by and large, despite ample liquidity the financial system has made only a limited contribution to regional development through a reduction in the cost or an increase in the availability of financing for business investment.

If the private sector is to play the pivotal role earmarked for it, regional private financial institutions need to adopt more innovative and more supportive financing strategies. One cannot over-emphasize the need for appropriate mechanisms to finance small and medium sized firms that are the likely candidates for niche

manufacturing. We will also need to expand the availability of alternative financing options such as leasing and venture capital.

Undoubtedly, the evolution of the financial sector in the direction envisaged would need to be accompanied by enhanced regional regulation and supervision to minimize the risk of cross-border contagion. The final piece of the financing puzzle should come from the further development and integration of the regional stock market. A first step, involving the cross-listing of 12 securities has already been taken. The next step is the establishment of an integrated regional stock exchange where all member states are linked electronically for the trading in bonds and equities. A fully integrated regional stock exchange would allow firms to have access to a wider market for raising risk capital. In turn, this would allow the productive sectors to become more productive internationally.

In conclusion, the implementation of the Single Economy could put the Caribbean region once more on the verge of a new development thrust. If the region is to remain competitive in the global economy, it will need to reconfigure its production structures and raise its level of productivity. But the integration process will require significant financial resources, the source of which is not yet clear. Even if external financing is forthcoming, what is certain is that the region will need to increase its level of savings and improve financial intermediation in order to fund its long-term developmental objectives. This is a matter of the greatest urgency since time is not on our side.

T&T Economy Booms, Buoyed by High Oil Prices

Buoyed by booming oil prices, the economic growth of the Caribbean country Trinidad & Tobago rose sharply to 12.6 percent in 2006. Trinidad's exports to India, which constituted mainly petroleum products, doubled to $66 million in 2005-06.

Domestic Economy

• Real GDP of Trinidad & Tobago registered a sharp rise of an estimated 12.6% in 2006, improving over that of 8% in 2005. GDP growth was driven by growth in the energy sector, higher export volumes and growth in investments.

• In absolute terms, Trinidad & Tobago's estimated GDP was US$ 16.1 bn in 2006, while GDP per head was US$ 12385.

• In 2006, consumer price inflation rose to average an estimated 8.5% from 6.9% in 2005, despite the tightening of monetary policy. This was due to the increased core inflation coupled with rising food prices, and rising liquidity.

• Petroleum sector is the largest contributor to Trinidad & Tobago's GDP. In 2005, it contributed 42.9% of the nation's GDP.

• Other major origins of GDP in 2005 were distribution (12.6% of total), finance, insurance & real estate (11.4%), construction (7.6%), manufacturing (6.1%), and transport, storage & communication (6%).

Foreign Trade and Current Account Balance

• Trinidad & Tobago's exports amounted to an estimated US$ 13.2 bn in 2006, reflecting a sharp rise of 36.1% over that of US$ 9.7 bn in 2005. The sharp rise can be attributed to the increased output and higher prices of oil, natural gas and petrochemicals, which account for about 80% of total goods exports earnings.

• Imports also increased sharply by 46.1% to an estimated US$ 7.6 bn in 2006 from US$ 5.7 bn in 2005.

• Trinidad & Tobago's trade surplus thus improved to US$ 5.6 bn in 2006 from US$ 4.0 bn in the previous year.

• Fuels accounted for 69.7% of the nation's exports in 2005, with total exports of US$ 6745 mn. Other important export items in the same year were chemicals (US$ 1828 mn), manufactured

goods (US$ 474 mn), and food items (US$ 166 mn).

• Consumer goods formed the major share in Trinidad & Tobago's imports basket, accounting for a share of 18.5% of total imports in 2005, amounting to US$ 1058 mn. Other important items of import in 2005 were capital goods (US$ 1032 mn), raw materials & intermediate goods (US$ 910 mn), and other commodities (US$ 712 mn).

• The US is the main trade partner of Trinidad & Tobago accounting for as much as 69.7% of total exports, and 28.3% of total imports in 2005. Other important export destinations of Trinidad & Tobago were Jamaica (5.4% of total), France (3.0%), and Barbados (2.3%).

• Other major origins of imports in 2005 were Venezuela (14.3%), Germany (12.6%) and Spain (5.6%).

• With improvement in trade surplus, Trinidad & Tobago's current account surplus also registered a rise to US$ 5.2 bn from that of US$ 4.1 bn in the previous year.

Exchange Rate, Foreign Exchange Reserves and External Debt

• The local currency is the Trinidadian dollar, which is under managed float regime against the US dollar. Average exchange rate remained steady in 2006 at TT$ 6.30 : US$ 1.

• Foreign exchange reserves is estimated to have increased in 2006 to US$ 6.9 bn from the previous year's US$ 4.9 bn and represented an import cover of 10.8 months.

• Total external debt decreased to US$ 2.8 bn in 2006. The debt service ratio rose to an estimated 2.9% in 2006 from 2.5% in 2005.

Country Risk Rating

• Euromoney, in its September 2006 ratings of 185 countries, placed Trinidad & Tobago at 53, which is a fall of five places over the previous ranking of March 2006. India is placed at 60.

• According to Institutional Investor's ranking of 173 countries in September 2006, Trinidad & Tobago was at the 52nd position, representing the improvement of two places from previous ranking of March 2006. India is placed at 58.

• Export and Credit Guarantee Corporation Ltd. (ECGC), rates countries according to an increasing order of risk in seven groups, A1, A2, B1, B2, C1, C2 and D. In October 2006, it placed Trinidad & Tobago in Group A2.

Trade with India

• India's exports to Trinidad & Tobago more than doubled to US$ 66.1 mn in 2005-06 from that of US$ 28.9 mn in 2004-05. During 2005-06, petroleum products emerged as the largest exported item to Trinidad & Tobago, accounting for around 27.3% of

total exports.

• India's imports from Trinidad & Tobago, on the other hand, decreased sharply to US$ 1.8 mn in 2005-06 from US$ 14.0 mn in 2004-05, due primarily to fall in imports of primary steel pig iron based items, and inorganic chemicals.

• India's trade surplus with Trinidad & Tobago thus increased to US$ 64.2 mn in 2005-06, compared to US$ 15.0 mn in 2004-05.

• The important items in India's export basket to Trinidad & Tobago during 2005-06 were petroleum products (US$ 18.0 mn), dyes intermediates & coal tar chemicals (US$ 9.9 mn), drugs & pharmaceuticals (US$ 5.8 mn), primary & semi-finished iron & steel (US$ 4.4 mn), manufactures of metals (US$ 3.8 mn), gems & jewellery (US$ 3.3 mn), and machinery & instruments (US$ 3.1 mn).

• Metaliferrous ores & metal scraps are the single largest item of import from Trinidad & Tobago, amounting to US$ 1.8 mn in the same year.

Recent Developments and Outlook

• Growth will be stimulated by the increase in production of oil, petrochemicals and LNG and commencement of several large projects. The cycle of monetary tightening that began in March 2005 will impact on consumer demand through slower credit growth, hence pace of expansion will moderate to around 6.2% in 2007.

• The Central Bank is expected to tighten the monetary policy further, with an aim of reducing inflation to the target set at 5% in 2006. However, heavy government spending, increased liquidity and wage pressure will offset the effect of interest rate hikes. Inflation is expected to be average at 8.4% in 2007.

• Strong foreign exchange reserves position, underpinned by large foreign-exchange inflows from the energy sector, has allowed the Central Bank to maintain the exchange rate at close to TT$ 6.30: US$ 1. However, Trinidadian dollar is forecast to appreciate by 2.5% in 2007 to average at TT$ 6.26: US$ 1.

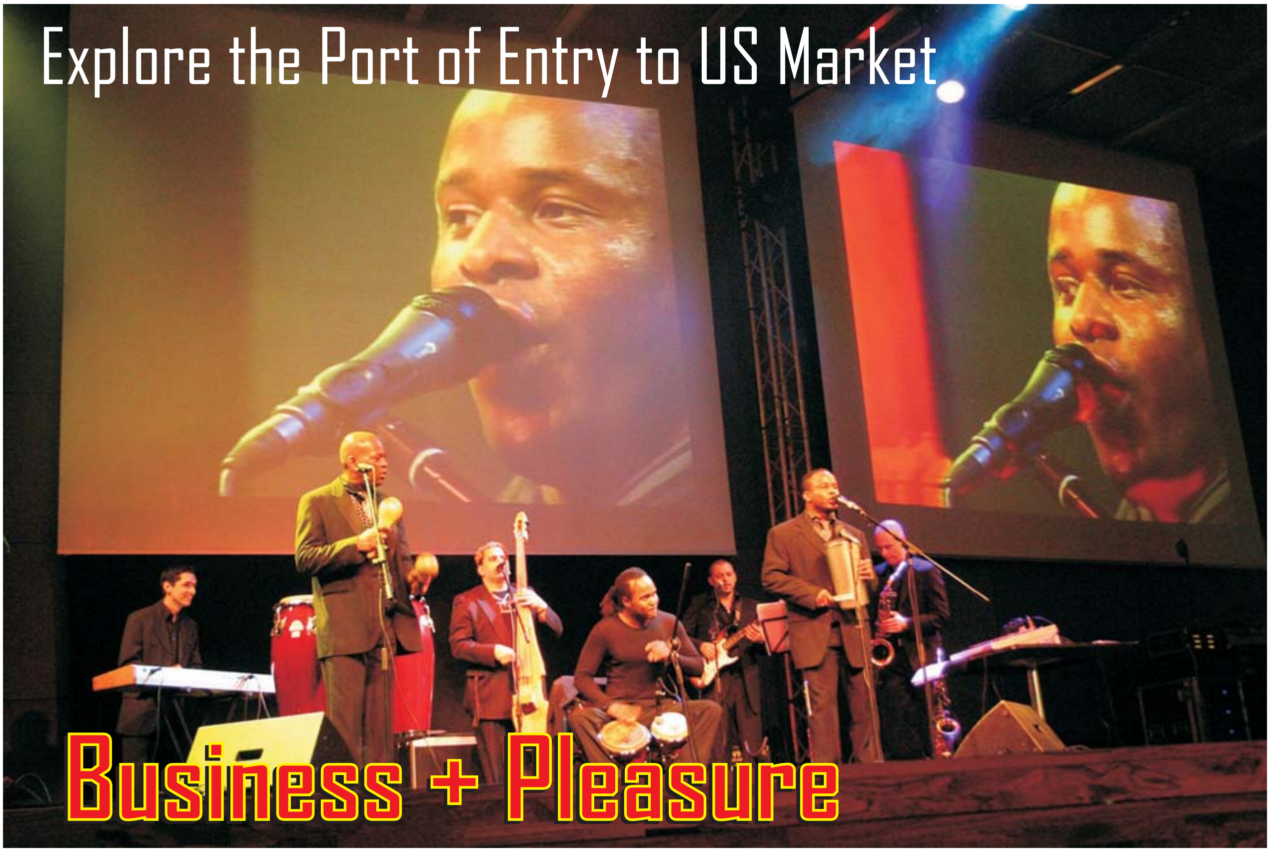
• Exports are expected to increase in 2007 to US$ 14.0 bn, with firm prices and development in the oil, LNG and petrochemicals. Imports would go up in 2007 to US$ 8.8 bn.

• Indian steel maker Essar Steel is constructing US$ 1.2 bn iron & steel complex, apart from major energy related projects in the region. The first phase of US$ 440 mn investment in oxide pellet plant is to be completed by 2008. Second phase is to be completed by 2009, and final phase by 2010.

• Locally owned Trinidad Energy Industries Ltd. proposes to begin work on a US$ 700 mn urea plant in the first quarter of 2007, for completion by 2010. ■

Trinidad & Tobago: Economic Structure

Economic Indicators	2002	2003	2004	2005	2006b
GDP (US$ bn)	8.9	10.5	11.4	14.4	16.1
GDP at market prices (TT$ bn)	55.4	66.2	71.9	90.5	01.3
Real GDP growth (%)	6.8	13.2	6.2	8.0	12.6
Consumer price inflation (av; %)	4.2	3.8	3.7	6.9	8.5
Population (mn)	1.3	1.3	1.3	1.3	1.3
Exports of goods f.o.b. (US$ mn)	3,920.0	5,205.0	6,403.0	9,672.3	13,225.2
Imports of goods f.o.b. (US$ mn)	3,682.0	3,912.0	4,894.0	5,724.6	7,647.7
Current account balance (US$ mn)	76.0	985.0	1,448.0	4,068.3	5,226.4
Reserves excluding gold (US$ mn)	2,027.7	2,451.1	3,168.2	4,856.4	6,856.4
Total external debt (US$ bn)	2.5	2.6	2.9	3.0	2.8
Debt-service ratio (%)	5.3	3.8	5.4	2.5	2.9
Average exchange rate (TT$: US$)	6.25	6.30	6.30	6.30	6.30



Explore the Port of Entry to US Market

Business + Pleasure Is Total Tango in DR

R. Viswanathan

For those Indian businessmen who raise their eyebrows at the mention of business with the Dominican Republic, here is a fact that should make them take notice. At $11 billion in 2006, the Dominican Republic is the largest importer among the 21 countries in the Central American and Caribbean region. Even a one per cent share of this $11 billion amounts to $110 million, and Indian exporters can easily exceed this target if they take this market seriously.

DR, as the Dominicans call their country, has a population of nine million and a GDP of $30 billion. The country's macro-economic fundamentals are strong and healthy. The economy has been growing at over 8.0 percent in the last two years among the highest in the entire Latin American and Caribbean region.

The Government has put in place an investor-friendly policy framework and is keen to attract foreign investment. The economy, which was earlier dependent on sugar, coffee and tobacco exports, has now diversified with the growth of industries and tourism.

Light engineering goods and textiles exports from the free trade zones have surpassed traditional exports of primary commodities. The DR's total exports in 2006 were $6 billion. Tourism revenue accounted for $4 billion and remittances from the Dominicans settled in the US accounted for $3 billion.

Access to US market

DR offers a port of entry to the US market because of its free trade agreement (FTA) with the latter and its closeness and good connectivity. There are 13 daily flights to US cities and Miami is just 90 minutes away. DR is an associate member of SICA, the Central American Regional Economic Group, which is moving towards a Customs union. The strategic location of DR bridging the Caribbean and Central American regions makes it an ideal hub for doing business in the two regions.

The Government of DR has been bitten by the IT bug. It is keen to develop DR as a near-shore IT service and delivery centre. It has set up a large cyberpark complex, which offers infrastructure and world-class telecom facilities. BPOs and call-centres in English and Spanish have started operating from there.

The demography of DR is perfect for IT business, since much of the population is young with an average age of 24. Although Spanish is the official language, English is popular, thanks to the influence of the large Dominican community in the US. Dominicans have come to work in India too! There are 30 of them working in a BPO in Hyderabad.

Stable polity

What about political stability? After having gone through military dictatorship and instability, like many other Latin American countries, DR is now a stable democracy with established institutions and practices. DR is free from the crime and violence that characterise some of the countries in the region.

The Government of DR is seriously courting Indian business. DR's IT and Investment Minister Eddy Martinez visited India four times in the last two years. The DR's Foreign Minister was in India in 2006 with a large business delegation. DR has had an embassy in Delhi since 2006. The embassy issues one-year multiple-entry business visas on the same day of application and is proactively promoting business between the countries.

In the last two years, many Indian companies have started entering the DR market. A pharmaceutical delegation visited DR in 2006 and has come back with several orders and optimism. Some IT companies are exploring the possibility of setting up BPOs and delivery centres.

Looking beyond business

Besides business opportunities, DR offers other attractions too. Golf is the first among them. Some of the golf courses in the country are among the best in the world. For instance, the `Teeth of the Dog' golf course at the La Romana resort is among the top 50 in the world. Six fairways curve into the Caribbean Sea with the greens guarded by waves, wind and rocks. While this could be intimidating for beginners, good golfers enjoy the thrill of these challenges. The other three top courses are the Dye Fore, Capcana and Playa Grande, considered the Pebble Beach of the Caribbean.

La Romana, Punta Cana and Puerta Plata are the popular beach resorts. Also on the islands are the holiday homes of celebrities such as Brad Pitt, Angelina Jolie and Shakira. Another luxury resort for the rich and famous is being developed by Donald Trump.

DR is a favourite destination for honeymooners, who are drawn by the romantic and invigorating ambience of shining silver beaches, greenish blue Caribbean waters, lush tropical greenery, delicious sea-food and the hospitality of the local people.

Merengue music

DR is where Merengue music and dance, a vigorous variation of Salsa, was born. The Dominicans drop everything and start dancing when they hear this lively and joyful music. Juan Luis Guerra and Mily Quezada are famous Merengue singers.

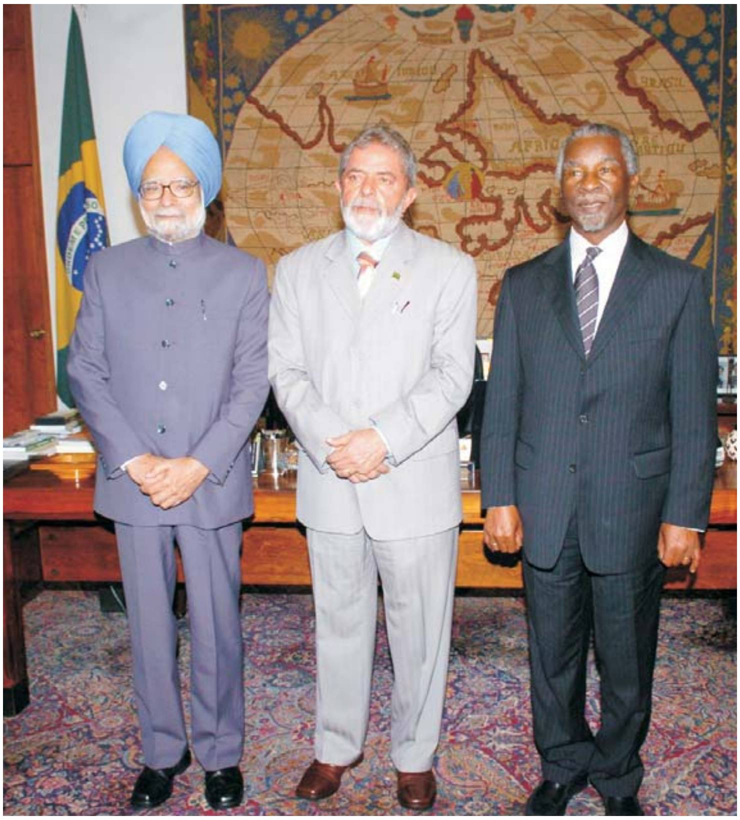
For those interested in literature, writer Julia Alvarez gives a vivid description and flavour of Dominican society in her novels, essays, children's books and poems. Her philosophy sums up the DR way of life: "You go where your life takes you and the song comes out of that adventure".

The Dominican Republic was one of the countries where Columbus landed on his first voyage in 1492. He christened it Hispaniola and promptly claimed it for the Spanish crown. He returned to the island the following year and established a European settlement, the first-ever in the Americas. Hispaniola became the springboard for the subsequent Spanish conquest of Caribbean and the Americas. Just the inspiration for Indian business?

(The author is with the Ministry of External Affairs. The views are personal. E-mail: rv@rviswanathan.com)

India & Latin America Discover The Magic in Business Realism

By Manish Chand



There is now both magic and realism in India's relations with Latin America, the energy-rich region known for its exotic beauty, joyous love of life and world-famous authors delighting in the way history and myths intersect everyday life.

The renewed camaraderie between a continent-sized country, seen increasingly as an emerging world power, and one of the world's most resource-rich regions was on display in September last year when Indian Prime Minister Manmohan Singh went to Brazil in a first visit by an Indian head of government in nearly four decades. The romance of the Latino way of life, revolving around samba, soccer and songs dripping with sadness and sensuality, has been felt in India for some time, but in the last few years this cultural attraction has taken on the complexion of a lasting relationship in which there is much to give and take.

In many ways, Prime Minister Singh's "voyage of discovery" to Brazil to attend the IBSA summit of India, Brazil and South Africa brought together various strands of New Delhi's accelerated engagement with Latin America, home to a large Indian diaspora, into focus. In his speech in Brasilia, Singh talked feelingly of a beautiful country that had "fascinated me personally" and spoke of growing "complementarities" between the two, separated by continental distances but culturally close in spirit, in areas as diverse as energy security, agro-processing, Information Technology, mining, forestry, biotechnology and pharmaceuticals.

Although expansion of trade and investment between India and Brazil, which remains much below potential with bilateral trade close to $6 billion in comparison to China-Latin America bilateral trade of $40 billion - dominated the visit, Singh also underlined the need to forge strategic relationship with Brazil and the region. India and Brazil, the two biggest democracies and economies of Asia and Latin America, have also agreed to start a strategic dialogue and committed themselves to creating a multi-polar world order. They also plan to cooperate closely in UN Security Council reforms and in multilateral World Trade Organization (WTO) negotiations. In a sure indication of more defence cooperation between the two sides, Indian Army Chief J.J. Singh also accompanied the Prime Minister to Brazil - the first by an Indian army chief to the region. But for prospects of emerging strategic ties to become real, India and Latin America have to first concentrate with renewed vigour on multiplying trade and business relations between them.

To tap immense two-way opportunities, the Confederation of Indian Industry (CII) organized a Latin America and Caribbean (LAC) conclave in February in New Delhi this year. The conclave, the first such event that follows on the success of a similar exercise with Africa over the last two years, brought together LAC trade and industry ministers, businessmen, chambers of commerce and trade and industry organizations for a business meeting with their Indian counterparts.

In an address to the CII, R. Viswanathan, joint secretary in charge of the LAC division in the external affairs ministry, spoke recently about four stages in India's evolving business relationship with Latin America - a region that has recorded sustained economic growth of more than 4.0 percent for the fourth consecutive year. "These four stages are:

barrier mindset, flirtation, romance and partnership. In this current stage Indian and Latin American business have developed a healthy respect based on their changed mindset about the new emerging profile of each other's markets," he said. He also outlined the contours of "a win-win partnership" between the two sides with India's value addition to Latin America by Indian IT, pharmaceuticals and manufacturing companies which contribute to human resource development, reduction of cost of healthcare and employment and industrialization. "India benefits from access to Latin America's oil and gas, mining and forestry and agricultural resources," he said.

Indian companies have clearly woken up to the untapped potential of doing business with Latin America and are already moving into the region with enthusiasm and confidence. Jindal Steel won the bid for the Bolivian mine El Mutún, one of the largest iron ore deposits in the region last year. Although the deal is yet to be finalised, the Jindal group has already committed an investment of \$2.3 billion. Another biggie, the Essar Group, has also made its presence felt in the region and is building a \$1.2 billion steel plant in Trinidad and Tobago. Tata Motors has started a joint venture with Marcopolo, Brazil's largest bus manufacturers, and Bajaj Auto has announced the opening of a factory in Argentina. The idea now is to set more ambitious trade targets.

Chile's ambassador to India Jorge Hein has proposed raising bilateral trade to \$40 billion with the LAC region by 2008. To reach this target, he has advocated expanding trade agreements between India and LAC that will be critical in removing extant trade barriers and facilitating the flow of goods and services between the two sides. "The ones signed between India and MERCOSUR (a regional trade agreement between Brazil, Argentina, Uruguay, Venezuela, and Paraguay) in 2005 and between India and Chile in 2006 are a first step in that direction (a Preferential Trade Agreement with Peru is under consideration)," he wrote in an article in an Indian newspaper last year. Heine is also all for increased participation of private companies to boost business between the two sides. "The key would seem to lie in getting into the supply chains of production and distribution that cater to the respective markets, thus making the most of their comparative advantage," he wrote. In the area of energy security, Latin America could well emerge an alternative source of energy for India, which currently imports the bulk of its oil and gas requirements from the Middle East.

Venezuela has one of Latin America's largest crude oil reserves. India also supports the ethanol/biodiesel alternative fuel initiative by Brazil. As India's economy continues to grow at over eight percent and it emerges an economic powerhouse, it will need huge resources of Latin America to feed its growing economy and energy needs. And as more and more countries of Latin America industrialise and democratise, it will only expand an arc of mutual advantage and prosperity between the two sides. What is also striking is a radical transformation of India's image in the region from a poverty-stricken developing country afflicted with democratic chaos to that of a vibrant emerging power that, along with China, could hold the key to the balance of power in Asia and the world.

Latin America has responded to the rise of India and China in a positive manner and has smelt new opportunities and complementarities in the economic transformation of these two Asian giants, which serve as "the world's service centre" and the world's factory respectively. This is borne by two recent studies on the subject: "Latin America and the Caribbean's Response to the Growth of China and India" by the World Bank, and "China and India and its Trade Relations with Latin America and the Caribbean: Opportunities and Challenges" by the UN's Economic Commission for Latin America and the Caribbean.

In the days to come, the burgeoning economic ties are set to acquire strategic character with the Latin American countries and India cooperating more proactively on global issues like counter-terrorism, energy security, multilateral trade negotiations and the expansion of the UN Security Council.

(The Author is a keen watcher of Latin American affairs.) ■

India & El Salvador Agree on Wide-ranging Cooperation

Pranab Mukherjee

El Salvador's Minister of External Relations Francisco Esteban Lainez, accompanied by a high level delegation, visited India from 4 to 9 March, 2007. The delegation comprised the Presidential Commissioner of Agriculture and Cattle Raising Carmen Elena de Sol as well as businessmen. The delegation visited Bangalore on March 5 and 6 and had meetings with Indian IT companies.

Lainez had a meeting with Minister of External Affairs Pranab Mukherjee. He had delegation level talks with Minister of State for External Affairs Anand Sharma in which officials of the various Ministries of the Government of India participated. In these meetings, the two sides agreed to promote bilateral relations and cooperation in a variety of areas.

The Indian side reiterated its interest to continue and expand its development partnership with El Salvador as part of its commitment to South-South cooperation. In this context, Mukherjee conveyed that (1) India would set up an Information Technology Training Centre in El Salvador to contribute to the human resource development of the country (2) agreed to increase the annual ITEC training scholarships to the nationals of El Salvador from the existing ten to fifteen and (3) willingness to extend a Line of Credit (LOC) of 15 million dollars for further development of economic cooperation. The El Salvador side thanked the Government of India for these gestures and expressed interest in a higher quantum of LOC. The Indian side agreed to consider further amounts after the initial LOC is fully utilized.

The two sides agreed for cooperation in the areas of Tourism, Education, Culture, Films and visual arts and exchange of cultural troupes, exhibitions, academic scholars and film festivals.

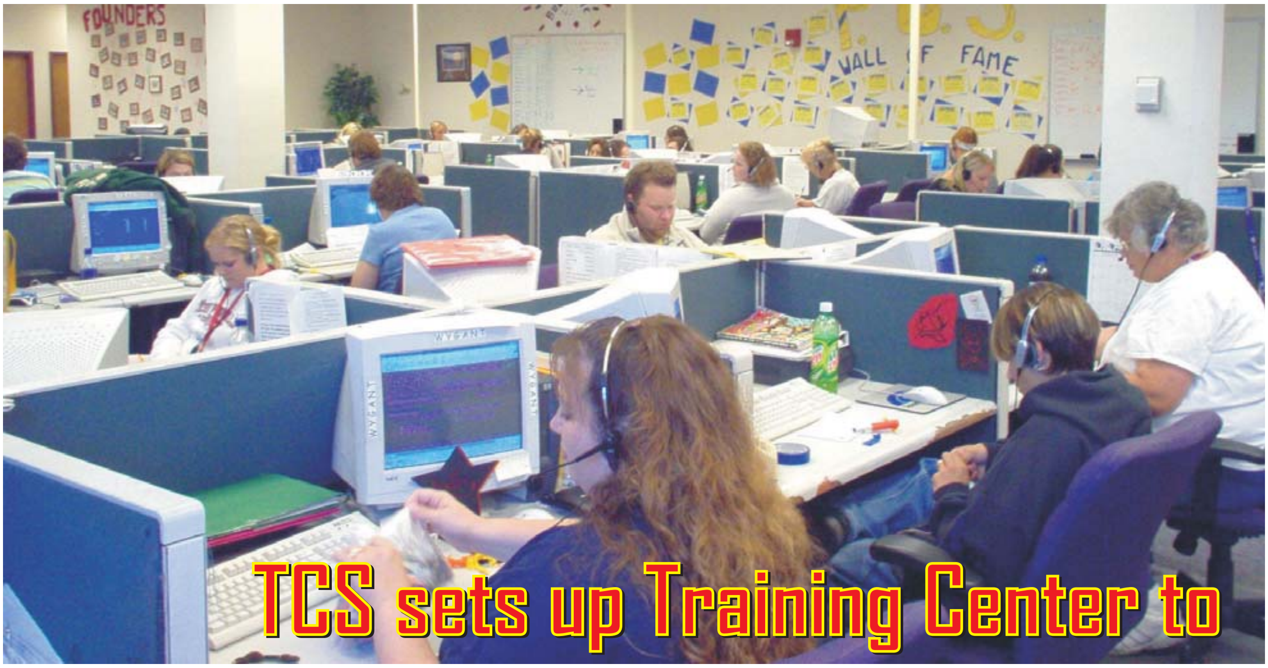
El Salvador attached special importance to cooperation in the Agriculture sector and expressed its particular interest in the production of ethanol as a source of energy derived from sugar cane and of other bio-fuel production alternatives and also in implementing an exchange programme of experts in the agro-industrial fields, particularly for the industrialization of tropical fruits like mangoes, cashew nuts and coconuts, and for other areas where India has developed internationally recognized expertise. The El Salvador side sought India's cooperation for projects for sustainable and productive horticulture, fisheries and Information Technology applied to the Salvadoran Agricultural Development Bank and also to hotel management. The Indian side agreed to facilitate cooperation with the authorities and institutions concerned in India and consider signing a MoU for cooperation.

The Salvadoran side explained the significance of its initiative to insert the issue of International Cooperation for Middle Income Countries in the international agenda and to develop mechanisms to mobilize ODA for such group of countries. The Indian side took note of the initiative and promised to consider it. The El Salvador side would provide a detailed non-paper on this matter to the Indian side.

Minister Lainez had a meeting with Minister of Commerce and Industry Kamal Nath. The two sides agreed on the need to enhance bilateral trade, which is much below the potential. They agreed to promote trade and encourage the companies from both sides to explore each other's market for trade, investment and joint ventures. The El Salvador side agreed to the request of the Indian side to facilitate business visas for Indian business visitors to El Salvador.

Minister Lainez addressed a meeting of senior business executives organized by the Confederation of Indian Industry (CII).

The Indian side attached importance to the Central American Integration System (SICA), of which El Salvador is a member. The two sides agreed to strengthen India-SICA cooperation. The El Salvador side agreed to facilitate India-SICA dialogue and to hold the next ministerial meeting at the earliest. ■



TCS sets up Training Center to Upgrade LatAm IT, BPO Tech Skills

Tata Consultancy Services (TCS) has set up a regional training center for Latin America established in the Knowledge Development Center (KDC), which is hosted by the Uruguayan technology lab (LATU). The KDC site, which was inaugurated by Uruguayan Minister of Industry, Energy and Mining Jorge Lepra will also serve as a hub for training needs of local software companies in Uruguay.

The TCS training center will be based in Montevideo, Uruguay and will serve as a training platform to upgrade the technology skills of the firm's employees across Argentina, Brazil, Chile, Colombia, Mexico, Uruguay and other countries in the region. With increasing demand for IT and BPO services in Latin America, the opportunities for job creation in this sector are immense but the supply of trained manpower could serve as a barrier to growth.

"Latin America today is becoming an increasingly important IT services marketplace with some of the highest projected growth rates over the next five years. It is also rapidly becoming an important hub for global sourcing of IT skills. It is crucial that the proper investments are made in training in technology skills, global client orientation and English language skills. TCS' investment in collaboration with the Uruguayan government could serve as a valuable example of public-private cooperation to meet this growing need," said Bob Welch, Group VP and GM of IDC's Global Services Research.

TCS invests more than 6.0 percent of its annual revenues in training and development and will bring in experts from across the world to serve as faculty in its Latin America Training Center. The center is also expected to give a boost to the local software industry in Uruguay and help promote technology careers and jobs in the country. "We intend to train over 3,000 employees in the next four years in a wide range of technologies, methodologies, language skills and cultural sensitivity in serving clients from offshore," said Mario Tucci, Vice President of TCS Iberoamerica.

TCS currently runs an extensive Global Delivery Network in Latin America with centers in Uruguay, Brazil, Argentina and Chile serving over 150 clients. The Uruguayan operations, which recently underwent a major expansion, employ over 800 professionals and also provide near shore services to major US and Europe headquartered clients. "We chose Uruguay as a location for this regional training center due to its geographic centrality, excellent human resources, high quality academic environment and superior cost structure. This center will serve as a backbone to our high growth plans in Latin America by ensuring our human resources in this region are at par with the best in the world," added Gabriel Rozman, President of TCS Iberoamerica.

TCS to Handle Total Outsourcing for Ecuador's Largest Private Bank

One of the largest ever outsourcing deals in Latin America, worth over $140 million

- Comprehensive solution includes core banking product, IT outsourcing & BPO services
- Strategic engagement aims to strengthen Banco Pichincha´s business efficiency ratios
- Will set up a new center of 500 personnel in Ecuador, retaining the bank's employees

Tata Consultancy Services (TCS), a leading global information technology services, consulting and outsourcing firm, has announced that it had signed an agreement with Banco Pichincha, Ecuador's largest private bank, to provide a comprehensive outsourcing solution valued at over $140 million over a period of five years.

Banco Pichincha, a renowned regional leader in adopting innovation and new technology, has over 1.5 million clients, a loan portfolio of over $1.5 billion and over 232 branches spanning Ecuador, Peru, Colombia, Panama, Spain and the United States. "This initiative will be a critical part of our business strategy as we continue to create excellent results in improving our business efficiency ratios," said Antonio Acosta, joint president of Banco Pichincha.

The General Manager of the bank, Fernando Pozo added, "We chose TCS as our strategic partner on the strengths of its end-to-end technology capabilities, reputation in providing certainty of results, deep domain expertise in banking & committed scale of operations in this region."

The comprehensive solution being developed for the bank will include a complete renewal of the banks core banking solution with a TCS' BANCS solution followed by IT & BPO outsourcing of the banks operational processes. "This is the first BANCS implementation in Latin America and indeed the first ever strategic outsourcing of such comprehensive nature in this region, demonstrating Banco Pichinchas clear vision to play on the same level as the best run banks in the world," said Gabriel Rozman, president of TCS Iberoamerica.

TCS will set up a new company in Ecuador, which will comprise over 500 personnel in the country supported by its offshore Business Process outsourcing (BPO) center in Chile and Global Delivery centers across the world. "Our entry in Ecuador is part of a long term plan to invest in and grow in the country. We will retain all of Banco Pichincha's current staff engaged in these processes and bring in our best human resources and practices worldwide to train our employees in Ecuador," said Henry Manzano, CEO of TCS' BPO unit in South America.

In 2005 TCS acquired Comicrom, the leading BPO firm in Chile. "Having successfully integrated the acquisitions we had invested in last year, we are able to offer a complete end to end outsourcing solution to our banking clients. This strategic engagement with Banco Pichincha validates our strategy and marks TCS clear arrival as a full services player in the Banking sector," said N. Chandrasekaran, head of global sales and operations for TCS. ■

Reorient LatAm's Economic Growth Model Towards Raising Productivity

An invitation to the countries of Latin America to promote a process of productive transformation aimed at generating greater trade diversification with productivity gains was made by Luis Miguel Castilla, chief economist of the Andean Development Corporation (CAF)at a seminar in Bogota recently.

The seminar, sponsored by Banco de la República, on the theme titled. Preparing us to compete: productive transformation in Colombia, analyzed the importance of reorienting the region's economic growth model toward productivity. The issue of productivity assumes importance since the lagged growth in Latin America in recent decades has been associated, among other factors, with low quality international participation which is reflected in a high concentration of exports and a low productivity level which limit the competitiveness of the region's export offer.

Castilla said that exports from most Latin American countries were highly concentrated and based mainly on primary products. This pattern has been exacerbated recently with the boom in raw material markets, which has widened the productivity gap between Latin American countries and the rest of the world.

The experience of some countries after the Second World War shows that productive transformation can increase participation in global markets and achieve economic growth that generates quality employment and systematically reduces poverty.

In this context, a set of strategies was proposed to achieve a productive transformation in the countries of the region including cluster development, implementation of new activities so that countries can move ahead with their diversification process, as well as creating conditions to strengthen the benefits of foreign direct investment.

The event was opened by CAF representative in Colombia Freddy Rojas Parra. The participants included Alejandro Gaviria, Dean of the University of the Andes; Maria Angélica Arbeláez, researcher with Fedesarrollo; Osmel Manzano, acting director of OPPC of CAF; Cristina Fernández, CAF country economist; Juan Carlos Echeverri, economist from Latinsource; Marcela Eslava, researcher from University of the Andes; and José Luis Machinea, ECLAC/CEPAL executive secretary.

The session was closed by Vice Minister of Business Development Sergio Diaz-Granados, and Banco de la República general manager José Darío Uribe. ■

The Magic of Micro-Financing

The International Finance Corporation (IFC) and the Andean Development Corporation (CAF) have recently confirmed their investment in MicroCred Mexico. IFC acquired a 15 percent interest in the capital of MicroCred Mexico while CAF took 9.0 percent. The new investors join MicroCred S.A., PlaNet Finance México, and the Mexican Protama Investment Fund.

Through its equity interest in MicroCred S.A., IFC strengthens its social commitment and participates in improving the quality of life of vulnerable sectors of the population. The CAF investment in MicroCred Mexico is perfectly in line with its work of expanding access by micro-enterprises to products and financial services, as a means of reducing poverty and inequality in Latin America.

Sergio Arenas, director general of MicroCred Mexico, is pleased with the growth of MicroCred, which, he said, had been constant since the first loan granted in February 2006. After nine months of activity, MicroCred had benefitted 2,796 active clients and granted 3,700 loans. "The IFC and CAF investments will give us the means to achieve our objectives in the region and benefit our small businesses," Arenas said.

CAF president & CEO Enrique Garcia said that "this is one of the multilateral financial organization's efforts to strengthen the Latin American microfinance system, contributing to the development and integration of the region's financial markets and strengthening one of the most dynamic and strategic sectors of its shareholder countries."

After beginning with one branch in February 2006, MicroCred Mexico now has six branches in five cities in Vera Cruz state. The finance institution plans to open three new branches in the state, promoting development in the region.

Sister institutions of MicroCred Mexico and MicroCred Madagascar (the group's second institution) are planned for China, Senegal and North Africa in early 2007. The MicroCred Group is considering opening at least six institutions in 2007 to develop access to financing by micro-enterprises. ■

CAF Starts 2007 with Successful US$250-million Issue

The Andean Development Corporation (CAF) has reopened its issue of last September 2006 on the US market maturing 2017 for US$250 million. This amount is the result of demand received from investors, which almost tripled the announced initial value. The lead bank was Merrill Lynch.

CAF President & CEO Enrique García said, "We are beginning the year with this successful reopening with placement of US$250 million, which marks the start of the CAF presence in the leading international capital markets in 2007." The Corporation is recognized as one of the most competitive Latin American issuers with respect to rates and terms. He added that the institution has made 54 bond issues since 1993.

In 2006, CAF made four issues totaling US$809.5 million. The September issue for US$250 million, which is now being reopened, was placed on the Yankee market, and in November 300 million euros were offered on the European market. In addition, at the start of 2006 CAF entered local capital markets in the region. Last June the Corporation issued bonds for a total of 215 billion bolivars (equivalent to US$100 million) on the Venezuelan market, becoming the first multilateral issuer to enter the market in that country since 1976. And in Peru the institution issued bonds for 248 million new soles (about US$75 million) at the end of May.

CAF has four ratings granted by the most prestigious rating agencies which confirm its standing as the frequent Latin American issuer with the best risk rating: Moodys (A1), Standard & Poor's (A), Fitch Ratings (A+), and JCR (AA-). The sustained growth of the Corporation, its continuing profitability and efficient financial performance, its political independence, as well as the immunities and privileges conferred by its international legal status, are the primary elements underlying recognition of the credit quality of the multilateral organization by these agencies.

The Corporation's financial strategy is based on diversification and expansion of sources of funds, as well as reduction of costs on financial markets. The purpose of the CAF bond placements on international markets is to obtain funds to finance important projects, in line with its mission of supporting integration and the productive expansion of the public and private sectors in its 17-member countries. ■

Linking National Trade with Environment Strategy

Thanks to The Andean Development Corporation (CAF) and USAID four macro-regional consultation workshops have been held to define the main points of the National Trade and Environment Strategy. In the workshops held in Iquitos, Trujillo, Lima, and Arequipa consultations were also presented on trade and environment issues related to the Trade Promotion Agreement between Peru and the United States.

Starting from the premise that a well planned relation between trade and environment could contribute to sustainable development, four macro-regional consultation workshops were held in four cities of the Peruvian coast, sierra and Amazon from November 27 to December 5 on the National Trade and Environment Strategy. The initiative was jointly sponsored by the National Environment Council (CONAM), and the Peruvian Ministry of Foreign Trade and Tourism (MINCETUR), with the support of the Andean Development Corporation (CAF), and the US Development Agency (USAID).

The strategic view adopted by Peru in this Strategy, which is part of the 19th State Policy, consists of converting the country by 2011 into an important exporter of goods and services derived from its biological mega-diversity, genetic resources and associated traditional knowledge in full compliance with environmental standards and international environmental commitments.

The National Trade and Environment Strategy is based on definition of eight basic points ranging from strengthening efficient environmental management in the trade and environment areas, to stimulating and strengthening actions to promote the sustainable exploitation of biological and cultural diversity as a competitive advantage in trade, with a fair and equitable distribution of the benefits. CAF also promotes these aspects through its BioCAF Program, which supports the development of markets derived from exploitation of bio-diversity, through good environmental and social practices.

The workshops held in Iquitos, Trujillo, Lima, and Arequipa presented the results of consultations whose purpose was to define the key points of this important National Strategy. The workshops are designed to receive feedback from interested parties (local and regional government authorities, academics, private sector, sectoral associations, NGOs and other civil society groups) on the Strategy with the aim of reaching consensus on a final version in early 2007 for endorsement by the Presidency of the Council of Ministers for later implementation. ■

Empresas LatAm Redefinen su Visión Estratégica

Desarrollando una Agenda Global

Hoy, pocas compañías Latinoamericanas pueden ser consideradas líderes globales. En parte porque han funcionado largamente en mercados domésticos protegidos que les dieron poco incentivo para desarrollar una orientación global y una visión para ampliarse en el extranjero. Mientras las economías se están globalizando, las compañías latinoamericanas deben aspirar a expandirse en el extranjero construyendo la visión estratégica necesaria y las habilidades de organización, particularmente el desarrollo del talento, según lo menciona un estudio de McKinsey. El estudio, realizado por Pablo R. Haberer y Adrian F. Kohan, observa que las compañías en la región Latinoamericana alcanzarán su potencial en el exterior solamente si persiguen aspiraciones globales claras y encuentran formas sistemáticas de desarrollar su talento y de integrar culturas y organizaciones. En realidad, muchas compañías Latinoamericanas realizan extensivos negocios en la región más allá de sus mercados domésticos y son incluso reconocidas por ello, pero esa clase de reconocimiento sigue siendo mínimo en el nivel global, afirma el estudio. ¿Por qué las compañías Latinoamericanas siguen rezagadas en sus intentos de crear negocios a escala mundial? El estudio intenta contestar esta pregunta y sugiere medidas para construir negocios globales. Seguidamente se encuentran los resultados del estudio, bajo el título Formando una nueva agenda para América Latina.

El hecho de que las compañías Latinoamericanas funcionaron por muchos años en mercados domésticos protegidos ofreció a los gerentes poco incentivo para desarrollar una orientación global y una visión para la expansión al exterior. Tampoco lo hicieron los mercados de capitales subdesarrollados de la región. Pero la apertura gradual de los mercados de productos y el acceso mejorado al capital están creando las oportunidades para la expansión global -y no en un momento muy cercano. Los mercados internos relativamente pequeños significan para las compañías de América Latina que no están dejando espacio libre para el crecimiento, mientras que las volátiles condiciones económicas de la región han mantenido retrasados el consumo y la demanda del negocio.

Sin embargo, un puñado de las compañías Latinoamericanas han superado la inercia para establecer posiciones globales de liderazgo en sus industrias respectivas. Estos competidores internacionales incluyen, entre otros, Embraer, el fabricante de aviones brasileño; Companhia Vale do Río Doce, el gigante de los minerales brasileños; y Tenaris, el fabricante Argentino especialista en pipas de acero. Su valor global cada vez mayor es ejemplificado por la adquisición de CVRD's de Inco de Canadá, el productor principal del níquel en el mundo. Tales compañías están demostrando por ejemplo que los Latinoamericanos pueden competir de hecho, globalmente.

Una escuela de pensamiento sostiene que los mercados emergentes, tales como los de América Latina, pueden proporcionar un trampolín excelente para los negocios globales[2]. Sus defensores, incluyéndonos a nosotros mismos, sostienen que los factores tales como demandar pero con precio-sensible a los clientes, una infraestructura desafiante de distribución, y ambientes políticos y económicos volátiles obligan a las compañías a que desarrollen capacidades distintivas que pueden servirles beneficiosamente en el exterior. El ocuparse de esas condiciones sobre una base diaria agudiza estas capacidades.

Pero las compañías deben ser capacez de transferir estas capacidades al extranjero, y eso requiere de habilidades de organización excelentes que se extiendan desde el desarrollo de talento a encontrar y retener líderes que puedan prosperar en una variedad de escenarios culturales. Tales compañías deben a su vez aprender a replicar en otros mercados los sistemas operativos que han creado con éxito en su país. Una inhabilidad de transferir estas experiencias eficientemente al extranjero pueden incluso hundir la mejor estrategia internacional –a través del crecimiento orgánico, las fusiones, o las adquisiciones.

Mientras que los años pasan, las compañías de América Latina están perdiendo el lujo de permancer confinados a los mercados internos. En primer lugar, deben desarrollar una visión estratégica para ampliarse más allá de sus límites nacionales mientras que cuidadosamente emparejan sus estrategias y capacidades.

Las oportunidades para que una compañía tenga éxito en mercados globales debe por lo tanto mejorar principalmente si desarrolla una mejor comprensión de sus capacidades distintivas-y de cómo podría exportarlas.

Alcanzando la globalidad

Crear una compañía global toma tiempo, a menudo décadas. Una condición necesaria es el desarrollo de una posición fuerte del mercado local. Un negocio que tiene uno no solamente puede mobilizar el efectivo requerido para financiar el crecimiento sino también gozar de un ambiente fomentador de las capacidades distintivas que se podrían entonces aplicar al exterior.

Por muchas décadas los gobiernos en América Latina intentaron promover la industrialización cerrando mercados a los competidores extranjeros, proporcionando el acceso privilegiado a los activos o a las concesiones, y ofreciendo incentivos fiscales. Por un lado, los mercados cerrados dieron a los ejecutivos Latinoamericanos pocas razones de buscar oportunidades globales. Del otro, el tratamiento favorable ayudo a las compañías locales, en las industrias como el acero, el petróleo y el gas a desarrollar una posición sólida del mercado interno que es un prerequisito para la expansión internacional. Algunas compañías han construido con éxito sobre esa base las posibilidades de desarrollar capacidades y tecnologías como plataforma para el crecimiento futuro.

La compañía de energía brasileña Petróleo Brasileiro (Petrobras), por ejemplo, ha utilizado los beneficios significativos generados del petróleo y de los campos de gas locales para adquirir otras compañías en la región. Petrobras también ha construido habilidades únicas de exploración usando su propio R&D y en asociación con otras compañías. Esto se debe a que su experiencia en pozos profundos es reconocida alrededor del mundo, lo que la ha convertido en una empresa líder de la industria, especialmente en otras partes de América Latina y en África. Del mismo modo, Siderca empezó produciendo tubos de acero sin soldadura para el

mercado argentino de petróleo y gas, sin embargo con el transcurrir de los años, invirtieron fuertemente en el desarrollo de los productos de alto acabado y de los servicios que permiten a las compañías de petróleo y gas perforar en condiciones difíciles.

Durante los últimos 15 años, Siderca ha ejecutado muchas fusiones y adquisiciones alrededor del mundo, así dando a luz a Tenaris, el productor de tubos de acero sin soldadura más grande del mundo. En los años noventa un número de gobiernos Latinoamericanos comenzaron a privatizar las compañías del sector público y abrir los mercados a los inversionistas extranjeros. Estos movimientos obligaron a las compañías locales, queriéndolo o no, a levantar su juego y ayudarlos a preparar su expansión global. En el caso de materias primas, la globalización era también una cuestión de supervivencia dada la consolidación mundial del sector.

Algunas compañías en esta línea -por ejemplo, el fabricante mexicano de cemento, Cemex y Tenaris- ajustaron sus ambiciones globales desde el comienzo. Estas aspiraciones fueron definidas frecuentemente por los dueños de los negocios, que las difundieron a través de la organización. Los mercados objetivo fueron elegidos para igualar las capacidades que después fueron consolidadas y ampliadas para permitir el crecimiento adicional en nuevos mercados. Mientras tanto, otras compañías inicialmente confinadas a las ambiciones regionales o hemisféricas ahora están teniendo como objetivo una presencia global. El productor de acero brasileño Gerdau, por ejemplo, se centró primero en los Estados Unidos y Canadá y está considerando actualmente la expansión más allá de las Américas. ■

Demanda externa para dirigir el crecimiento económico de LatAm en el 2007-08


David Sinate

América Latina está pasando por una fase notable en su desarrollo económico, gracias a la estabilidad política de la región y a las reformas económicas de mercado abierto iniciadas por los gobiernos respectivos. En una detallada y analítica evaluación de la evolución económica de Latino América en años recientes, el Director General Adjunto del Banco Export Import de la de India, David Sinate, señala que las economías de las naciones importantes de LatAm serán conducidas por la demanda externa por el petróleo y bienes tales como los metales.

Más de una década ha pasado y algunos países Latinoamericanos y del Caribe (LAC) se han transformado de economías cerradas a economías abiertas. Al hacer esto, entraron en un mundo de gran competencia y diversidad. Este movimiento provocó cambios dramáticos en las estructuras internas de estos países. Entre los cambios que ocurrieron estaban la descentralización de operaciones, la reorganización de la producción y el refuerzo de la gerencia científica y del planeamiento estratégico. El efecto combinado de tales cambios ha dado lugar a un aumento significativo en la producción e inversión extranjera y, consecuentemente, una subida en el Producto Nacional Bruto (PNB) de estos países.

Crecimiento Económico en la Región

El crecimiento sostenido de la economía global, la consolidación de la demanda interna, y el posterior aumento en los precios de los bienes ha permitido a América Latina ampliar su expansión económica en el 2006. Conducido por la aceleración del crecimiento en Brasil, México, Colombia y Perú, el Producto Bruto Interno (PBI) real de la región aumentó a un 4.9 por ciento estimado, por arriba del 4.1 por ciento en el 2005. El crecimiento de la demanda doméstica regional alcanzó un 6.9 por ciento mayor en dos décadas sostenida en una subida del ingreso, sentimiento boyante y de la generalmente acomodada política macroeconómica. La Tabla 1 revela el índice del crecimiento real del PBI en las economías importantes en la región.

Tabla 1 Índice de crecimiento real del PBI en los países Latinoamericanos; en porcentaje

Países	Año			
	2005	2006e	2007p	2008f
Argentina	9.2	8.5	7.2	5.4
Brasil	2.3	2.9	3.8	3.5
Chile	6.3	4.2	5.0	4.8
Colombia	5.2	6.5	5.4	4.4
México	3.0	4.8	3.5	3.3
Perú	6.4	8.0	5.5	4.5
Venezuela	10.3	10.3	7.0	5.0
Latino América	**4.1**	**4.9**	**4.5**	**3.9**

Fuente: Mirada Regional, IIF. e: estimados; p: predicciones

El cuadro muestra que Venezuela tiene el índice de crecimiento más rápido en la región seguida por Argentina. El soporte adicional a la región vino del crecimiento acelerado en México (de 3.0 por ciento en el 2005 subió a 4.8 por ciento en el 2006), en Colombia (de 5.2 por ciento en el 2005 subió a 6.5 por ciento en el 2006) y Perú (de 6.4 por ciento en el 2005 subió a 8.0 por ciento en el 2006).

Región LAC y el Comercio Global

La tendencia en el comercio internacional de la Región LAC es presentada en la Tabla 2.

Table 2: Tendencia en el Comercio Global de la Región LAC (US$ bn)

Año	Exportaciones	Importaciones	Comercio Total
1999	308.4	317.4	625.8 (5.5)
2000	363.4	382.3	745.7 (5.8)
2001	348.5	378.1	726.6 (5.9)
2002	325.8	381.0	706.8 (5.5)
2003	339.1	427.5	766.6 (5.1)
2004	419.3	529.1	948.4 (5.2)
2005	491.7	628.0	1119.7 (5.4)

Fuente: Dirección del Anuario de Estadística de Comercio 2006, FMI. Valores entre paréntesis muestran el procentaje compartido en el comercio global.

Además, esto proporciona la parte compartida de la región en el comercio global. Las exportaciones de la región han aumentado de US$ 308.4 billones en el 1999 a US$ 491.7 billones en el 2005. Las importaciones también se han disparado de US$ 317.4 billones en el 1999 a US$ 628.0 billones en el 2005. Esto revela el rápido aumento en Iimportaciones a la región que exportaciones de LAC. La parte compartida en el comercio global de la región se ha mantenido estable sobre un 5.0 por ciento.

El comercio Lationamericano y del Caribe está beneficiándose de la fuerte y persistente demanda internacional, especialmente de China y de los Estados Unidos, y de los términos altamente favorables para el intercambio comercial. Asimismo, la región ha estado gozando del acceso listo a los mercados financieros internacionales con bajas tarifas de interés. Esto es un resultado positivo cuando es observado desde el punto de vista del mediano plazo y de las potenciales tendencias de crecimiento de la región, pero es menos inspirador en comparación con las considerablemente más altas tarifas registradas en economías emergentes en África, Asia y Europa del Este. En términos reales, América Latina y el Caribe registraron el segundo más largo aumento en exportaciones, después de China, en el 2005.

La región Latinoamericana y del Caribe ha cosechado las ventajas del rápido crecimiento en los Estados Unidos, que es su principal mercado de exportación. Más aún, los E.E.U.U. absorbe la mitad de las exportaciones de América Latina y reportó el 40% del aumento en las ventas externas de la región en el 2005, aunque esta parte varía severamente en los países, estando sobre los dos tercios en el caso de México y América Central, la mitad en el caso de la Comunidad Andina y solamente una fracción pequeña para los países del MERCOSUR.

Desde el punto de vista del Japón, la región Latinoamericana y del Caribe es un mercado relativamente pequeño, y su importancia como una contraparte negociadora está disminuyendo. En efecto, en el 2005 la región reportó solamente 4.0% de las exportaciones de Japón y 3.0% de sus importaciones. Mientras tanto, Japón absorbió menos del 2.0% de las exportaciones de los países Latinoamericanos y del Caribe en el 2005, excepto en los casos de Chile (12%), Bolivia (5.0%), Perú (4.0%) y Brasil (3.0%). China, por otra parte, conto con un porcentaje mucho mayor. El intercambio comercial entre México y Japón se amplió considerablemente en el 2005, debido al 'Acuerdo entre Japón y los Estados Mexicanos Unidos para la Consolidación de la Sociedad Económica ', que entro en vigencia en abril del 2005.

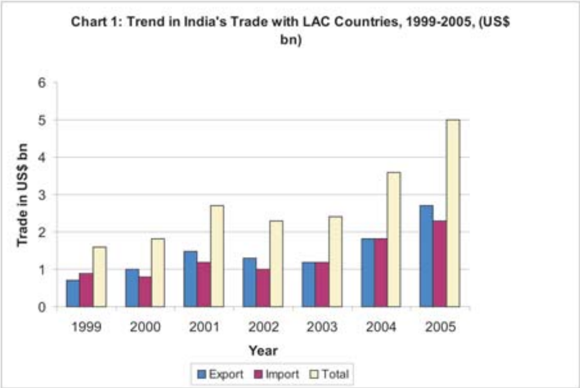
Japón es una fuente relativamente significativa de la Inversión Extranjera Directa (IED) para América Latina y el Caribe, sin embargo, sólo contribuyó con US$ 6.4 billlones de un total de US$ 45 billones de los flujos de la IED en el 2005. Japón ha invertido bastante en el Brasil (principalmente en el equipo de transporte, alimento y algunos sectores de servicios) y en México (equipo de transporte y textiles). La mejora observada en la IED japonesa en México se da desde que los dos países firmaron un Tratado de Libre Comercio (TLC) lo que muestra que los TLCs pueden ser una manera de animar al Japón a que invierta en la región. Japón está negociando actualmente un TLC con Chile.

Las remesas por los latinoamericanos que trabajan en el exterior alcanzó un estimado de US$ 60 billones en el 2006, casi el doble de la red de los flujos de la Inversión Extranjera Directa a la región con México liderando la región como el receptor del 42 por ciento de la remesa total.

LAC y el Intercambio Commercial con India

El mercado Latinoamericano y del Caribe todavía no es muy significativo para la India, a pesar de que está ganando en importancia. En el 2005, las importaciones de la India a la región llegaron a los US$ 2.7 mil millones (2.8% de las exportaciones de la India) y las exportaciones a la India llegaron a US$ 2.3 billiones (1.7% de las importaciones totales de la India), que rindió un exceso en favor de la India (Gráfico 1). Sin embargo, estas figuras indican que las exportaciones a la región se triplicaron y las importaciones fueron dobladas en los últimos dos años. La tendencia en el comercio de la India con la la región LAC es presentada en el Gráfico 1. Como en el caso de China, el modelo de comercio de la India con Sudamérica es diferente del modelo que mantiene con América Central y México. Según los términos de los acuerdos comerciales existentes con la India, los países del MERCOSUR y Chile exportan principalmente aceites vegetales, minerales y sus concentrados y azúcar y miel a la India. Similarmente, las importaciones de estos países abarcaron productos de petróleo refinados, medicinas y productos farmacéuticos, otros productos químicos orgánicos y textiles. Por otra parte, el intercambio comercial entre India y México y América Central es muy limitado. Esta sub-región exporta principalmente petróleo, productos farmacéuticos y equipos de telecomunicaciones a la India e importa automóviles y piezas automotrices así como textiles y ropa de la India, artículos que parecen ofrecer una ventaja comparativa a la región.

Gráfico 1: Tendencia en el Intercambio Comercial de India con los países de LAC, 1999-2005, (US$ bn)



Fuente: Dirección del Anuario de Estadística de Comercio 2006, FMI.

Perspectivas para la región

La demanda externa continuará ayudando a guiar el crecimiento de América Latina y el Caribe debido, entre otras cosas, a una mejora del 6.0% en los términos del intercambio comercial de la región en el 2007, que beneficiará principalmente a los países exportadores de petróleo y metales. Las naciones que tendrán la oportunidad de una mayor ganacia serán Venezuela, Bolivia, Chile y Perú, que verán aumentar sus intercambios comerciales en un 25%, 22%, 18% y 14%, respectivamente. Como resultado, las exportaciones y las importaciones actulamente en dólares se ampliarán en un 20% y un 17% en el 2007, respectivamente. Más de la mitad de esta subida se reflejará en precios de exportación más altos, mientras que en el caso de las importaciones, sólo un quinto del aumento será atribuible a los precios y el resto a los volúmenes. Las proyecciones señalan continuidad en la tendencia positiva en la balanza comercial de la región para los bienes, expresadas actualmente en dólares, que comenzaron en el 2001. Costa Rica, la República Dominicana y México son los únicos países que han reportado déficits en el intercambio comercial de sus bienes desde el 2001. Según las proyecciones de la Comisión Económica para América Latina y el Caribe (CELAC), en el 2007 las exportaciones de América Latina se ampliarán con un indice similar al del 2006 en términos del volumen, es decir, entre un 7.0% y un 8.0%, aunque con grandes diferencias entre los países.

El mayor riesgo en este período de perspectivas es la presión inflacionista, debido a los persistentes y elevados precios del petróleo y de algunos otros bienes, especialmente los metales, tanto en los E.E.U.U. y en otros países desarrollados.

Banco Export-Import de la India como facilitador en la región

El Banco Export-Import de la India (Banco Exim) maneja una gama de servicios de préstamos y de programas de soporte para facilitar y promover las relaciones comerciales y la inversión de la India con los países en la región LAC.

El Banco Exim tiene actualmente 10 Líneas Operativas de Crédito (LOCs) que ascienden a US$ 133 millones y cubren 17 países en la región de LAC. Estos LOCs se han extendido a dos gobiernos, los bancos regionales y a los bancos nacionales en la región. Esto incluye, las LOCs de US$ 30 millones, US$ 19 millones y de US$ 16 millones otorgadas a los gobiernos de Honduras, Guyana y Suriname, respectivamente; además se han ampliado LOCs de US$ 10 millones para cada uno de los siguientes: Banco de Comercio Exterior de Colombia S.A. (Bancoldex) en Colombia; Coorporación Andina de Fomento cubriendo Bolivia, Ecuador, Perú y Venezuela; Banco Nacional de Comercio Exterior S.N.C. (Bancomext) en México; Banco Bradesco S.A. en Brasil; Banco Central Americano para la Integración Económica y Unión de Bancos Brasileros S.A. en Brasil; y el Banco Central Americano para la Integración Económica (BCAIE) cubriendo Honduras, Nicaragua, El Salvador, Costa Rica y Guatemala. Además, el Banco tiene una LOC de US$ 8.0 millones con el Banco Ltd. de la República de Trinidad y Tobago. Puede ser resaltado que la LOC a Guyana fue destinada a la construcción de un estadio de cricket para la Copa Mundial de Cricket realizada en el 2007.

Las compañías indias han puesto en ejecución numerosos contratos en la región LAC con la ayuda del Banco Exim en sectores/áreas tales como el proyecto de la planta de etanol, la construcción de la red ferroviaria en Colombia; productos farmacéuticos y textiles en México; productos farmacéuticos en las Antillas; bauxita y textiles en el Brasil; bauxita en las islas Virgenes Británicas; automóviles en la República Dominicana; un Proyecto de Ayuda a la Emergencia de El Niño y la consolidación de la procuración administrativa del gobierno en Guyana; embarques en las Islas Cayman; textiles en el Perú y la Argentina; y líneas de transmisión y proyectos de subestación y maquinaria pesada en Suriname.

Con el objetivo de construir relaciones institucionales, el Banco Exim ha firmado MOUs con el Banco de Inversión y Comercio Exterior S.A. (BICE) de la Argentina; Banco Central Americano para la Integración Económica (BCAIE) en Honduras; la Asociación Caribeña de Industria y Comercio en Trinidad y Tobago; y el Banco Mercantil (Banco Universal) C.A. en Venezuela.

El Banco Exim también ha conducido numerosos estudios de investigación centrados en realzar las relaciones comerciales y de inversión con la región LAC. Además, el Banco Exim ha contribuido en la publicación trimestral bilingüe (Ingles & Español) titulada "Negocios India-Lac" con el objetivo de facilitar el intercambio de información de negocios entre la India y la región LAC y a la vez, para proporcionar una plataforma para que las comunidades de negocios expresen sus opiniones sobre el campo de acción para la intensificacion del intercambio comercial entre la India y los países de LAC. ■