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Coping with Fiscal Crisis

Public Investment &
Job Schemes Vital

- ECLAC & ILO

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Dear Reader,

Greetings. Each and every country in the Latin America and Caribbean region has initiated its own economic stimulus package in dealing with the current financial crisis and resultant recessionary conditions. However, in order to boost their efforts, the Economic Commission for Latin America and the Caribbean (ECLAC) of the United Nations and the International Labour Organization (ILO) have in a joint bulletin appealed to the governments of the region to maintain and improve public investment and emergency employment programmes, which are "very powerful" tools for tackling the consequences of the crisis, even during economic recovery. The cover story of the current issue of Indo-LAC Business presents the ECLAC-ILO solution in detail. In a major development of South-South economic cooperation, President of Argentina, Cristina Fernandez de Kirchner will be paying a state visit to India on 14 and 15 October, accompanied by a huge business delegation, to sign major agreements with this country. We present a report on the presidential visit in our diplomacy section. In this connection, we also carry a detailed report by India's Ambassador to Argentina R. Viswanathan on the potential existing between the two countries, especially in the field of agriculture, and how best it could be tapped to mutual advantage. There is a detailed study of the Indian electronics industry, conducted by the Export Import Bank of India (Exim Bank), stressing the need for this crucial sector to produce goods for the global consumer. We also carry an Exim Bank report on Mexico, whose recession-hit economy is expected to rebound in 2010. There is a feature on the Uruguayan wizard of the Tata Consulting Services (TCS) who has helped the Indian software company take giant strides in Latin America. We carry a success story of an Indian company, whose very name – Confident Engineering- inspires confidence and trust among its clientele in Latin America. We have plenty of CAF news, including the Chilean President Michelle Bachelet's insightful observation that access to finance is key to economic recovery. The Davos-based World Economic Forum has rated Chile as the most competitive among the Latin American countries. We carry a report. There is a detailed write-up on how Brazilian companies are increasingly going global but are in need of tax relief from their own government to sustain their efforts. We carry a personality feature on an Argentine young lady, devoted to Indian culture. There is the regular Spanish section besides the usual features that enrich the magazine.

Wish you happy reading

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Coping with Fiscal Crisis

Public Investment & Job Schemes Vital

Latin American and Caribbean nations should maintain and improve public investment and emergency employment programs, which are "very powerful" tools for tackling the consequences of the crisis, even during economic recovery, says a joint bulletin issued in September 2009 by the Economic Commission for Latin America and Caribbean (ECLAC) of the United Nations and the International Labour Organization (ILO).

The bulletin -The Employment Situation in Latin America and the Caribbean. Crisis in Labour Markets and Countercyclical Responses - examines the progress made in the implementation of countercyclical policies with effects on employment, and specifically analyzes the impact of public investment and emergency employment programs.

"They can be very powerful tools if certain aspects of their design, implementation and evaluation are taken into account," said the document.

The bulletin reports that during the first semester of this year, governments in the region increased capital spending between 0.6 percent-1.8 percent of GDP, compared to the same period last year.

"Some countries, in addition, try to give priority to investments that have a greater effect on job creation and/or replace machinery for labour," it adds.

Raising public investment as a means for countercyclical reactivation has a greater impact on employment and economic reactivation, and also tends to be better from the viewpoint of social justice than lowering taxes, says the document.

ECLAC and ILO explain that several countries in the

region adopted public investment measures to create jobs by allocating additional resources, establishing regulatory frameworks to ensure speedier execution, and in some cases, increasing the labor intensity of projects.

Emergency employment programs are complementary, although the bulletin sustains that the use of them during the crisis has been moderate. However, their implementation provides several advantages, given that a high proportion of resources is allocated to hiring labor and may be focused on especially needy workers.

The bulletin includes an analysis of the most recent statistics on the crisis, forecasting 8.5 percent unemployment for 2009, up from the 7.5 percent in 2008. This means that another 2.5 million people will join the ranks of the unemployed.

In terms of public investment programs, says the document, some of the important challenges ahead are to achieve an effective execution of programs and allocate resources towards labor-intensive projects.

The bulletin also cautions that "programs based on increasing public investment as well as emergency employment programs need to meet the challenge of focusing on the right beneficiaries."

ECLAC and ILO pose the need to persist in institution-building for better execution, focusing and monitoring public investment and employment programs even when there are concrete signs of recovery.

They assert that both strategies "will also bring many benefits during periods of favorable economic conditions" and may help solve structural problems in labor markets.

"Even with the return to a growth path, there should be no illusion that labor problems will immediately disappear," say ECLAC Executive Secretary Alicia Bárcena and the ILO Regional Director for Latin America and the Caribbean, Jean Maninat, in the foreword to the bulletin.

In a context of economic recovery, "countries should not relax their efforts to defend and create decent jobs, but rather should take steps to improve the effectiveness and efficiency of available instruments," they add.

Following is the gist of the document

Public investment can undoubtedly be a powerful tool for creating jobs and boosting the economy in times of crisis. In addition, emergency

employment programmes complement this and their advantages include the fact that a higher percentage of resources can be spent on labour. Both types of response to the crisis can complement each other to ensure appropriate targeting, and especially equitable access to benefits for men and women. Increasing public investment as a means of job creation during a crisis involves a lag inherent in the cycle of formulating and approving projects, as well as the subsequent tendering and execution. In the short term, the most important variable is therefore not the quantity of additional resources allocated, but rather the pace of execution of existing resources.

It is also clear that the positive effects increase in direct proportion with the capacity to: execute investments in a decentralized way; measure the impact on employment for the purposes of prioritization, monitoring and assessment; and strengthen institutions to speed up the execution of investments on the basis of the economic situation. One useful mechanism in this regard would be a project portfolio constantly maintained and updated at the decentralized level (with technical support from central government if necessary), to ensure rapid execution when the implementing institution receives additional resources, during a crisis for example. Institutional improvements for the management of public investment and emergency employment programmes will not only enable the region's countries to tackle future crises even more effectively, but they will also provide many benefits during favourable economic times, both to deal with structural weaknesses in the labour market, as well as to ensure a smoother execution of allocated resources and a resulting improvement in public infrastructure for the population.

Policy Packages & Execution

In response to the crisis, most of the region's countries have implemented countercyclical economic policy packages that have usually included measures designed to reduce taxes while increasing spending and investment.

According to the relevant international literature, increasing public spending tends to have a greater impact on job creation and economic recovery than lowering taxes. In many cases, increasing spending can also produce more favourable results from the viewpoint of social justice. However, measures to raise spending and public investment face greater challenges than tax-reduction measures in terms of the speed of implementation.

The pace at which jobs can be created through public





investment or emergency employment programmes depends on institutional capacities and earlier experience in those areas (i.e., it is easier to add resources to an existing programme than to create a new one). Several countries have found it relatively easy to allocate more resources, as they have been able to allocate both their own resources (available as a result of a prudent fiscal policy implemented in the recent boom times that in some cases led to a build-up of reserves) and resources from loans granted by financial cooperation institutions.

Since before the crisis, indeed, since 2007, Brazil had started to implement the Growth Acceleration Programme (PAC), which includes a large public investment component. One of the responses to the crisis was to allocate more resources to the Programme, by bringing forward to 2009 certain investments scheduled for 2010-2011.

Paraguay also allocated increased resources to public investment, mainly through additional credit from international financial cooperation institutions (including the World Bank and the Inter-American Development Bank (IDB)). Similarly, Peru allocated more resources to public investment as part of its economic stimulus plan.

In Argentina, the “Plan of Public Works for all Argentinians” provides for an increase in resources for infrastructure works in response to the crisis. The 2009 budget estimated outlays of US\$ 8.5 billion, to which US\$ 6.2 billion have been added. Public investment programmes in roads and other strategic sectors have been launched in several Caribbean countries such as the Bahamas, Belize, Jamaica and Trinidad and Tobago. Nonetheless, in the short term it is much easier to allocate additional resources than execute them. This is why several countries (including Chile, Paraguay and Peru) specifically mention the streamlining of public tender procedures as part of the

set of measures to combat the crisis. As a result, several countries have managed to significantly increase public investment, although the original level was extremely low in some cases.

Although government capital expenditure covers not only gross capital formation but also transfers such as those to decentralized governments and public enterprises, it is used as a proxy for public investment.

Some examples will better illustrate the progress made in executing public investment resources and the effects on employment. The experience of Paraguay shows that the average effective execution of public investment in 2008 and previous year was barely above 50 percent of what was budgeted, and the main short-term challenge is therefore the full execution of available resources rather than the allocation of additional resources. As a result, the Minister of Public Works and Communications and the Minister of Finance announced special efforts to speed up execution, without any legal changes to the regulatory framework within which the resources are executed. These efforts have resulted in a 34 percent increase in public investment execution (which amounted to US\$ 103.7 million) between January and June 2009 compared with the year-earlier period. If this result is projected for the entire year, the effect of increased execution (with no additional projects or increased use of labour in investment) would be to create around 6,500 jobs over the year as a whole.

If the 2009 budget were implemented in its entirety, 16,000 more jobs would be created than in 2008 (which is the equivalent of almost 10 percent of the unemployed at the end of that year).

Chile also successfully increased public investment execution. In the first half of 2008, 47.6 percent of the budget was executed, whereas this figure rose to 55 percent for the first six months of 2009. Chile therefore has one of the best records for executing allocated resources. The Chilean authorities estimate that around 125,000 jobs are directly linked to the execution of public investment. In Brazil, execution in the first quarter of 2009 was 20 percent higher than in the first quarter of 2008. Similarly, although execution remains relatively low in Peru compared with resources budgeted, the volume of public investment executed in that country between January and April was 72 percent higher than in the same period of 2008.

Choosing Labour-Intensive Works

For the purposes of job creation, it is clearly not only a matter of how much investment is executed, but also

the percentage of the investment used to hire labour. In this sense, some countries have announced their intention to prioritize labour-intensive public investments (such as Argentina, the Dominican Republic and El Salvador). The challenge of using a high percentage for labour is that most countries do not yet have explicit mechanisms or criteria for prioritizing more labour-intensive public works in times of crisis. As a result, works are often carried out in sectors that have strategic importance for future economic development (such as investments in the petroleum sector as part of Brazil's Growth Acceleration Programme or the modernization of the international airport in the Bahamas), and are more intensive in capital goods than in labour. Activities such as road maintenance, on the other hand, have a major effect on job creation, as up to 90 percent of resources are used to hire labour. Furthermore, works in developing countries tend to be executed with more machinery and less labour than would be socially desirable, especially in a crisis that includes labour market problems. This is why ILO is providing assistance to governments to increase the participation of micro-enterprises and job creation through improvements to project design, bidding procedures and the regulatory framework for public tenders.

The impact on the local economy and employment can also be increased through the use of locally produced inputs, such as tiles instead of zinc (calamine), breeze blocks rather than bricks and wood instead of iron, etc. In the short term, it is usually difficult to develop the institutional capacity required if this was not a concern prior to the crisis.

One possible measure is to execute public investment

in a decentralized way, through departmental, provincial or municipal governments. Decentralized public investment has advantages over execution carried out by central government ministries. Some of these advantages are particularly relevant in times of crisis. First, decentralized decision-making processes usually make the local population more committed to the works and the proper use and maintenance thereof. Second, the works undertaken are usually on a smaller scale and involve less expensive tenders, which means there is less need for heavy machinery and greater job creation for the amount invested.

Third, decentralized tenders are more likely to be executed by local firms using workers from the area, and this will boost the local economy.

The main obstacle to tapping into the potential of executing public investment in a decentralized way is the limited management capacity that often characterizes territorial institutions, compared with central government ones. The budgetary execution rules are frequently complex, which means that decentralized institutions often need training to make proper use of resources. In response to the crisis, the central government of Paraguay is opting for labour-intensive investment projects in municipal infrastructure through two decentralized public investment programmes in addition to the decentralized investment that is already being executed with municipal or local government resources. First, agreements were signed between the binational energy entities Itaipú and Yaciretá and the Ministry of Finance and the governments of six departments to allocate a total of US\$ 6 million (US\$ 1 million per department). Under these agreements, the Government will develop projects that require a massive work force, such as the construction of loose surfaces, paving, bridges, sewers, retaining walls, urban constructions and similar works, including repairs that generate a large labour demand. Second, as part of additional loans that the Ministry of Finance arranged with the World Bank, US\$ 34 million is being allocated to decentralized public investment in each of the country's 17 departments (US\$ 2 million per department). Implementing these two decentralized programmes over a 12-month period would create around 4,800 jobs a year. In Argentina, the National Strategic Investment Plan for Development includes a classification of works where the management system varies according to their type and size. This ensures that most small- and medium-scale works are executed in a decentralized way, with special emphasis on labour intensity in the smaller scale projects. ■



India Ready for Argentine President Cristina's Visit

In a major development that will boost South-South cooperation, Argentina's President Cristina Fernandez de Kirchner will be paying a State visit to India on 14 and 15 October, 2009. On the first day of her bilateral talks, President Fernandez de Kirchner will have meetings with President Pratibha Patil, Vice President Hamid Ansari, Prime Minister Manmohan Singh, Chairperson of UPA Sonia Gandhi. External Affairs Minister S.M. Krishna and the Leader of Opposition L. K. Advani.

President Fernandez de Kirchner is accompanied by a large delegation which includes four Cabinet Ministers (foreign affairs, industry, planning and science and technology) and a business delegation of over 60 Argentine businessmen.

President Patil is hosting a Banquet, in honour of the visiting Argentine leader. President Fernandez de Kirchner will address a business seminar attended by the Argentine business delegation accompanying her, and Indian businessmen.

On 15 October, the Argentine President will visit Agra and Mumbai. She will give a talk to the Indian and Argentine business gathering in Mumbai, India's commercial capital on 15 October. She will have meetings with Rattan Tata, head of the Tata Group in Mumbai, and another meeting with the CEOs of Indian companies which have invested in Argentina.

This is the first Presidential visit from Argentina in the last 15 years. The last visit was by President Menem in 1994. The last visit by an Indian Prime Minister to Argentina was in 1995 when Late P.V. Narasimha Rao attended G-15 Summit in Buenos Aires, the Argentine capital.

The objective of President Fernandez de Kirchner's visit is to renew the ties and to take them to a higher level with a long-term perspective. A number of agreements for cooperation will be signed during the visit. These will cover areas such as energy, trade, mining, sports, science & technology, agriculture and business visa.

The bilateral trade has been increasing significantly in the recent years reaching US \$1.3 billion in 2008 from US \$694 million in 2003. India's exports were US \$ 492



million and imports US \$ 836 million in 2008. Argentina is a major source of edible oil. Soya oil is the main import along with sunflower oil. Annual imports of edible oils from Argentina have been around US \$ 700 million in recent years. These are expected to go up in the coming years given the projected increase in India's consumption and inadequate domestic production to cope with the ever increasing demand. Argentina is the largest exporter of soy oil in the world.

Ten Indian companies have made investments and joint ventures in Argentina. These include 7 IT companies, 2 agro-chemicals and one pharmaceutical company. These are: TCS, Cognizant, First Source, Irevna/Crysil, HCL, Cellent, Aaliptha United Phosphours Ltd., Punjab Chemicals and Crop Protections Ltd., Glenmark Pharmaceuticals. Three Non-Resident Indian companies, namely, Arcelor Mittal, Olam and Sterling Group have also invested in Argentina.

Indian IT companies employ 800 Argentines in their software development centres, BPOs and KPOs. TCS inaugurated its new Global Delivery Centre facility in Buenos Aires in September 2009.

More Indian companies have shown interest in investment and joint ventures in Argentina in agri-business, chemicals, pharmaceuticals and IT.

The Argentine film Director, Pablo Cesar proposes to make a film "Thinking of Him" based on the real life story of the encounter between Rabindra Nath Tagore and Victoria Ocampo. Tagore stayed as the guest of the Argentine literary personality Ocampo for two months in Buenos Aires. Inspired by his Argentine experience, he wrote poems dedicating them to Vijaya (Victoria). Pablo Cesar is in touch with some Indian producers for co-production of this film.

Toonz Animation Studios, Trivandrum is making an animated 3D film, 'Gaturro' in collaboration with Illusion Studios of Buenos Aires. It is based on a popular Argentine cartoon character 'Gaturro'. The film, costing six million dollars, will be released in 2010.

Argentine soccer star Maradona had visited India in December 2008 and a Football School has been named after him in Kolkata. The Indian Football Academy is planning to have training and exchanges with Argentine football clubs.

Argentina is the third largest market (GDP US \$ 335 billion and Per Capita US \$ 8,375) and the first most important power in Latin America after Brazil and Mexico. Argentina is an agricultural power house. It produces 100 million tones of food products and exports more than 50 percent of its production. Argentina can increase the acreage and production and can be a global player in agriculture. Argentina has large fertile area, ideal climate and abundant water resources. The Argentine agricultural technologies and practices are world-class.

Argentina is self-sufficient in energy and a net exporter of oil and

gas. It produces 800,000 barrels per day. Argentina has a large diversified industrial base with globally competitive industries in areas such as agri-business, food processing, biotechnology, CNG and energy. Argentine companies in these areas are keen to enter the Indian market. Their CNG companies are already working with Indian gas companies.

The Argentine economy had grown by an average of 8.0 percent in the period 2003 to 2007. In 2008, the GDP growth came down to 6.5 percent and to 1.5 percent in 2009 because of the global crisis.

The Argentine economy has undergone a paradigm shift in recent years. Argentina has brought under control inflation, exchange rate and external debt, which had caused crises in the past. The economy has become more stable and resilient and less vulnerable to external shocks. This is evident from the fact that Argentina is growing by 1.5 percent in 2008 despite the global crisis.

Argentina is a member of the G-20. The President had participated in the last three G-20 Summits. The Argentine Foreign Minister participated in the informal Doha Round WTO meeting held in India in September 2009.

President Fernandez de Kirchner is a lawyer by profession and has been in politics since student days. She has been a Senator for ten years before becoming the President in December 2007. Her husband Nestor Kirchner was the President before her in the period 2003-07.

Following the visit of the President, the Embassy of India in Buenos Aires is organizing the Second Festival of India from 5-15 November with Indian music, classical and folk dances, food, films, handicrafts and seminars. The First Festival was organised in November 2008.

For more info www.indembarg.org.ar ■



Resurgent Argentina Right Partner for India in Agribusiness

Argentina, a resurgent Latin American country and India, an emerging economic power have many areas of common interests to grow together, especially in agri-business, their economies being rooted strongly in agriculture and allied areas, argues R. Viswanathan, India's Ambassador to that country.

Argentina is Latin America's third largest market with a GDP of \$338 billion, after Brazil and Mexico. It has the potential to be one of the richest countries in the region as well as in the world. In fact, it was among the top 10 richest countries of the world in the early 20th century. It is now in the process of reconfiguring its market and mindset to become a prosperous country again.

Argentina is an agricultural power. It produces 100 million tonnes of food products and exports more than 50 million tonnes. Argentina is the second largest producer of agricultural commodities and livestock after the United States. It is a large exporter of wheat, soya and meat. It is the world's largest exporter of soy oil and sunflower oil, the second largest exporter of corn, third largest producer of beef, soybeans and bio-diesel and fourth largest of wheat. Argentina is the fifth largest producer of wine in the world.

Agribusiness is the mainstay of the economy and exports. It is modern, large-scale and globally competitive. While in the US and EU, agro-exports are subsidized, the Argentine government imposes an export tax of over 30 percent for some commodities and still the exports are competitive.

Total area under crops is 32 million hectares. Soy is the main crop and accounts for 16.6 million hectares. Wheat is planted in 5.6 million hectares, maize in four million hectares and sunflower in 2.6 m hectares.

Total production of grains and oilseeds is about 100 million tones.

- Soy - 48 million • Maiz - 22 m • wheat - 15 m
- sunflower seeds - 4 m • sorghum - 3 m

Soy yield per hectare is 3-4 tones per hectare. Corn yield per hectare is 10

tonnes. Wheat yield is around 4.3 tonnes.

Argentina is using at present only 32 million hectares for agriculture. They can easily triple the area of cultivation and production. Argentina has a large area - almost equal to that of India- with variety of fertile soils and climates. There are abundant water resources. The climate is congenial without extremes. It ranges from the warm northern parts to the cold Patagonia in the south lending itself for growing different crops. The famous Pampa region of Argentina, the vast fertile plains, is one of the most productive regions in the world. Most of the farming is done in a commercial scale by large landowners holding thousands of hectares. Most of the farms are managed by professionals who have studied agronomy. They are supported by an excellent network of research and development laboratories.

Argentina has developed an efficient infrastructure, logistics and network for transportation and shipping. The river ports around Rosario connect to the grain silos and agro-processing plants. The food processing industries of Argentina are one of the most advanced in the world and globally competitive. For example, the oil crushing



capacity of Argentina is the third highest in the world - even ahead of Brazil - with the latest technology and plants. The commercialization of agribusiness is done by well established commodity exchanges specializing in cereals and other agro-products in Buenos Aires and Rosario.

Thus, it is evident that Argentina is well-placed to become a global agricultural power in the coming decades in which food shortage is going to be one of the main concerns of the world.

Argentina is self-sufficient in energy and a net exporter of oil and gas. It produces 800,000 billion per day of crude oil of which 300,000 bpd is exported. It has two billion barrels of reserves. Off-shore exploration has only now been started and the land area is under-explored. Argentina is the second largest gas producer (50 billion cubic metres) in Latin America and exports to Chile.

The Argentine manufacturing industry is relatively large and diversified. It is strong in food processing, automobiles, auto parts, engineering, metallurgy, pharmaceuticals and biotechnology. Argentina is a pioneer in the world in the development and use of CNG technology. Some Argentine companies are globally competitive in pharmaceuticals, biotechnology, CNG technology, hydroelectric power machinery and niche engineering fields.

Argentina has significant reserves of gold, silver, zinc, uranium, copper, phosphate and iron. The mineral resources have not yet been fully explored yet.

Argentina has a population of 40 million which is a homogeneous stock of European origin mainly from Spain and Italy - speaking a single language and belonging to one faith (Catholic). There are no ethnic, linguistic, religious strife. The literacy rate is 97 percent and the human resources have a range of good quality skills. The Indian companies operating in Argentina employing 1500 Argentines are impressed and happy with the quality of human resources and the range and depth of the Argentine skill sets. There is a strong base of expertise in science and technology including in IT and

nuclear energy. Many Multinational Corporations including MTV use Argentina as the centre of creative work and production for the Spanish-speaking world. IBM and other IT companies have established off-shore centres of software development, BPOs and KPOs.

Argentina was one of the most developed countries in the beginning of the 20th century. It had the earliest railroads, metro and industrial development. Buenos Aires city was built like the Paris of Latin America with elegant parks, public buildings, apartment blocks, theatres, cafes, restaurants and bars. Even now Buenos Aires stands out as the most well organized, elegant and stylish city of Latin America. Argentina has the most sophisticated and beautiful country clubs and golf and ski resorts in the region.

Argentina celebrated its 25th anniversary of the restoration of democracy in 2008. In this period, democracy has been established firmly and irreversibly. The democratic institutions and practices have taken strong roots.

Since 2003, the Argentine economy has had a go-go growth of over eight percent annually up to 2007. The GDP growth in 2008 is estimated to be seven percent and the forecast for 2009 is less than 3.0 percent. The decline in growth is due to the current global financial crisis, fall in the demand and prices of commodities exported by Argentina, the recession in the developed markets and credit crunch.

In the past six years, the macro economic fundamentals of the economy have become strong and stable. The economy has become more resilient and less vulnerable to external shocks. This is evident from the fact that the Argentine market has withstood the global financial crisis with only moderate adverse impact. This has been recognized and commended by external observers, including IMF. The Argentines have put an end to the curses of hyper inflation, unbearable external debt and drastic fluctuations in exchange rates. The Argentine economy is now poised to sustain its stability and growth in the long term.

The Argentines from all walks of life, including political leaders, businessmen, professionals have, now a new mindset, especially after the historic 2001 crisis. There is greater discipline, restraint and pragmatism in place of adventurism and experiments which characterized policies of the government and the business practices in the past. Policy-makers and

the people in general are now looking towards the future with confidence, hope and vision. This is in contrast to the days of hyper-inflation and crises when day-to-day survival was the biggest worry.

The stability and growth of the Argentina has been reinforced by its membership of MERCOSUR, the regional group formed with Brazil, Uruguay and Paraguay. Argentina has access to the larger market of Mercosur and benefits from the integration process. It is also attaching importance to its integration in the new South American group called as UNASUR (South American Union of the 12 countries).

Argentina has the potential for contributing to India's food security in future. At present, Argentina is a major source of edible oils for India. In 2008, India's imports of soy and sunflower oil were worth \$700 million. According to the Solvent Extractors Association of India (SEA), the requirement of edible oils in 2006 was 12 million tonnes of which seven million was produced domestically and five million imported. In 2010, the requirement of edible oils is expected to increase to 15 million tones and more in the years to come. But the production of oilseeds in India cannot match the demand and India will continue to be a long term importer of edible oils. In this respect, India can count on Argentina as a reliable source. Argentina is the world's largest exporter of soy oil and sunflower oil. Argentina has the third largest capacity for edible oil processing after China and the US.

India has imported wheat from Argentina from time to time, including purchase of \$44 million in 2008. Besides, edible oil and wheat, Argentina can be a new source of pulses. India imports about two million tonnes of pulses from countries such as Myanmar, Australia, Turkey and Canada. Although, India does not import any pulses from Argentina at present, the Argentine soil is suitable for cultivation of pulses of interest to India. The Argentine agro-business companies are willing to grow these, attracted by the large and growing market in India.

It is advisable for India to think beyond imports and go in for acquisition of land in Argentina to grow oil seeds, wheat and pulses for its requirements. There is no restriction on foreign investment in land in Argentina. A number of foreign companies and individuals own thousands of hectares

of land. Sterling Group of NRI Sivasankaran has acquired an olive farm of 1700 hectares in the Catamarca province of Argentina. A Non-Resident Indian company 'Olam' has leased 15,000 hectares of land in Argentina to produce peanuts. Encouraged by the success of this venture, they are now planning to grow wheat, soybeans and pulses with additional leasing of land. Land is available in lots of hundreds and thousands of hectares. SEA had sent two delegations to Argentina (also Uruguay, Paraguay and Brazil) in 2006 and 2007 to study the possibility of acquisition of land for production of oilseeds. They have already formed a consortium of 14 companies which proposes to invest in agricultural land in the region. To start with, they have a plan to invest 40 million dollars in Paraguay. Besides SEA of India and STC, private sector groups have also shown interest in acquisition of land in Argentina.

India is going to be under more pressure for agricultural land in future. India's population increases by 15 million every year and it adds a new Argentina (40 million) every 32 months. On the other hand, agricultural land is diminishing because of the increasing use for residential, industrial and commercial purposes. This is in contrast with Argentina which has a small population of 40 million with an area almost equal to that of India. Besides the large area, the Argentine productivity of grains and oilseeds are three times that of India. For example, average yield per hectare of soybean in India is 900 kg while the Argentine average is three tonnes. In India, the subsistence



farmers with their average land holding of just a few acres are unable to invest and increase productivity significantly. But the Argentine farmers who hold thousands of hectares of land do farming commercially and professionally and are able to invest in innovation and productivity.

Argentina can also contribute, to a small extent, to India's energy security. Argentine oil resources are under-explored. They have two billion barrels of discovered reserves and are currently producing 800,000 bpd. They are just starting off-shore exploration and the land area has not been fully explored. Indian oil companies in public and private sector could make entry here. Reliance has formed a joint venture with an Argentine private company Pluspetrol (along with an Australian company Woodside) and their consortium has won concessions in Peru and Bolivia for oil and gas exploration. They are also exploring opportunities in Argentina and in other countries of the region. ONGC Videsh Ltd. (OVL) is planning to sign an MOU with their Argentine counterpart ENARSA and jointly seek opportunities in Argentina and in this region.

Argentina is the third largest exporter of bio-diesel in the world. They exported 1.4 million tonnes in 2008 and are increasing production capacity to 3.7 million tonnes by 2010. India can also consider imports from Argentina. The only problem is that the Argentine bio-diesel is made from soy and this adds to the price rise of food items. But whether India likes it or not, the Argentine companies are going to continue production and exports.

There are thousands of hectares of land available in the warmer northern parts of Argentina where



jatropha can be grown and used to produce bio-diesel. There are some land offers for sale. The Indian companies can also invest in commercial forestry in Argentina to take back to India wood and paper pulp, which are imported by India regularly.

India's exports to Argentina in 2008 were worth \$418 million increasing by 27 percent from \$328 million in 2007. There is scope for increasing the exports to a billion dollars in the next four years if the exporters target this market systematically. Major export items are: chemicals, bulk drugs, engineering products, auto parts and textiles. There is scope for new items such as tractors, automobiles and agricultural machinery.

There are 10 Indian companies (six IT companies, two in agro-chemicals, one in pharma and one in mining) who have invested and established operations in Argentina. The IT companies (TCS, Cognizant, First Source, Irevna, Cellent and Aaliptha) have found a new business model of 12 hours of service from Argentina (same time zone as North America) and 12 hours from India to their North American clients. They also use Argentina as the base to service European clients in Spanish, Italian and other European languages in which the Argentines have skills. According to them, the Argentine human resources are less expensive in comparison to those of Brazil, Chile and Mexico. It should be noted here that the operations of the Indian IT companies are managed successfully and almost exclusively by Argentine managers and professionals. For example, an Indian manager came to establish the KPO of Irevna in Argentina. He stayed here only for less than a year recruiting and training the local staff. Now he has left and the operations are managed by the Argentines to the satisfaction of the Indian company and the North American clients.

United Phosphorus Ltd (UPL) and Punjab Agrochemicals and Crop Protection Ltd. have a total of five manufacturing plants producing agro-chemicals and seeds in Argentina. They export part of their production to other Latin American countries.

Glenmark has acquired an Argentine company specializing in oncological products. They are building a new factory (to be inaugurated in the middle of 2009) which will become their global centre of oncological products. They are already exporting to 20 countries.

Indo-Borax Ltd. has bought a small borax mine and is planning to buy bigger mines. There is scope for entry of Indian companies in copper and silver mining in Argentina.

More Indian companies have shown interest in entry into Argentine market in areas such as chemicals, pharmaceuticals, agribusiness, mining, energy and IT.

The Argentine business as well as the government look at India as a large and growing market for their exports and business. Argentine exports were one billion dollars in 2007 and \$946 million in 2008. Their main export is edible oils for which the demand in India will continue to increase in the long term. They also see opportunities for export of other agricultural products. Since agribusiness and exports is the core competence of Argentina, they are targeting India as a strategic market to be cultivated.

The Argentine government and business are discovering the reach and strength of Indian companies which have invested over \$9 billion in Latin America, including in Argentina. The Argentine government is keen to encourage and invite more

Indian companies for investment and joint ventures. Argentina has opened a Consulate in Mumbai in 2009. This is a confirmation of the priority they attach to Economic Diplomacy with India. Argentina is the second Latin American country to open a Consulate in Mumbai.

On the other hand, there are some Argentine companies who have started showing interest in investment and joint ventures in India. An Argentine biotech company Biosidus is planning to establish a plant in India to cater to the Indian and Asian market. The Argentine CNG companies are in contact with Reliance and other Indian companies for transfer of Argentine technology to India. The Argentine engineering company IMPSA has set up an office in Gurgaon to explore projects and joint ventures in hydroelectric projects and in new sources of energy. Argentine food processing companies are also interested in joint ventures in India.

Given the complementarities between the two economies with their bright growth prospects, the mutual attraction of the two markets and the forward looking new mindset of the businessmen and policy makers, the two countries could become long term partners, contributing to the prosperity of each other.

(R. Viswanathan is Ambassador of India to Argentina. The views expressed are strictly personal and do not reflect those of the government.) ■



Indian Electronic Industry Must Design & Make Global Products

- Exim Bank Study

The Indian electronic industry is unlikely to be affected much by the global financial crisis as the domestic market has the potential for growth for electronics consumption and applications, says a study conducted by Export-Import Bank of India (Exim Bank). The study projects the market size of the electronic industry to exceed US\$150 billion by 2015, from US\$25 billion in 2007-08. It says that in order to achieve this level of growth, India needs to concentrate and focus more on designing and manufacturing global products, and then reach out to the rural areas in the domestic market, and emerging export markets.

Worldwide, the electronic industry is one of the most flourishing and extremely diversified sectors, growing at a rapid pace with the invention of innovative technologies and growing customer inclination towards electronic goods and services. The industry has been experiencing phenomenal and remarkable changes over the years, and is being distinguished with fast technological advances than other industries. The key segments of the electronic industry are electronic components, computer and office equipment, telecommunications, consumer electronics and industrial electronics.

Production

The growing Indian market for electronic products is estimated to be over US\$25 billion, and is growing at around 30 percent per annum. In 2007-08, total production of electronics in India touched Rs 80,800 crore. Consumer electronics took the largest share in India's electronics production accounting for 28 percent in 2007-08, followed by computers (20.2 percent), communication and broadcasting equipment (17.7 percent) and industrial electronics (14.7 percent).

Table 1

Production of Electronics in India (Rs Crore)

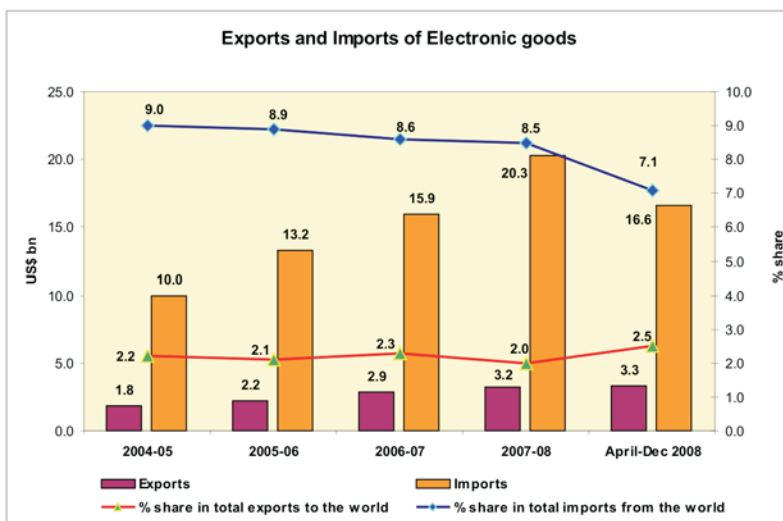
Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Consumer electronics	12,700	13,800	15,200	16,800	18,000	20,000	22,500
Industrial electronics	4,500	5,550	6,100	8,300	8,800	10,400	11,950
Computers	3,550	4,250	6,800	8,800	10,800	12,800	16,400
Communication and broadcast Equipment	4,500	4,800	5,350	4,800	7,000	9,500	14,350
Strategic electronics	1,800	2,500	2,750	3,000	3,200	4,500	6,100
Components	5,700	6,600	7,600	8,800	8,800	8,800	9,500
Total Hardware	32,750	37,500	43,800	50,500	56,600	66,000	80,800

Source: ELCINA (Electronic Industries Association of India); Department of Information Technology, GOI

Exports & Imports

India has been largely an importer of electronic goods rather than an exporter of the same. Electronic goods were one of the most important items of imports in India. However, India's export of electronic goods has been growing over the years. The growth trend has been impressive even in the current year in which most of the sectors have been witnessing a slowdown in exports. During 2007-08, the exports of electronic goods were worth US\$3.2 billion and it constituted 2.0 percent of the total exports from India. The share of electronic goods exports in the total exports to the world, have more or less remained around 2.0 percent over the years. During the period April-December 2008-09, India's electronics exports were valued at US\$3.3 billion, with a share of 2.5 percent in India's total exports. During this period, electronic exports have grown at 40 percent, over the corresponding period of the previous year.

Exhibit 1



Source: Directorate General of Commercial Intelligence and Statistics (DGCIS)

India's electronics exports from October 2008 (since when there has been deceleration in India's exports) and up to December 2008 (latest data available at disaggregated level) has also been impressive with over 25 percent export growth, as compared to the

corresponding period of the previous year.

In 2007-08, imports of electronic goods were valued at US\$20.3 billion, constituting a share of 8.2 percent of the total imports into the country. The import of electronic goods as a percentage share of total exports has been showing a decline over the years (Exhibit - 1). During April-December 2008-09, imports of electronic goods were valued at US\$16.6 billion, a growth of 8.5 percent over the corresponding period, the previous year. While the electronic goods imports by India have grown marginally at 7.1 percent during the period April-September 2008, the imports witnessed a growth of 10.9 percent during the period October-December 2008, over the corresponding period, the previous year.

During 2007-08, total exports from India were US\$ 3.2 billion, and major export destinations for India were USA (21 percent), Singapore (9.6 percent), Germany (8.0 percent), UAE (6.9 percent), Netherlands (6.7 percent) and Hong Kong (5.4 percent). During 2007-08, imports of electronic goods by India were valued at US \$ 20.3 billion, with the major source countries being, China (37.6 percent), USA (8.9 percent), Singapore (8.0 percent), Malaysia (5.6 percent) and Germany (4.4 percent).

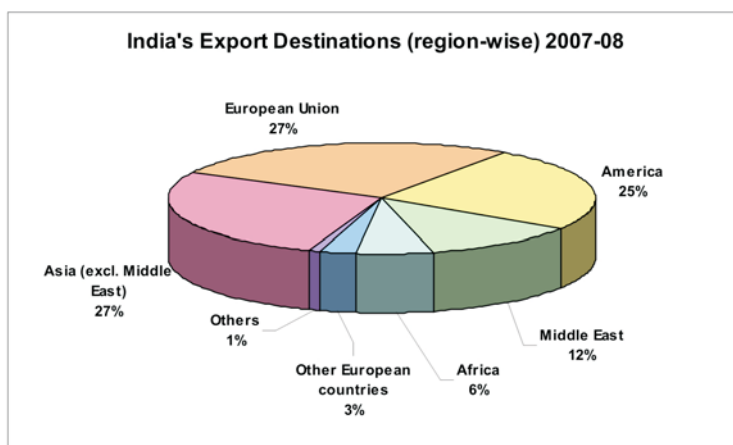
Table 2

Description	Trade Performance of Indian Electronic Industry					
	Apr-Dec 2008		Apr-Sep 2008		Oct-Dec 2008	
	US \$ Mn	Growth	US \$ Mn	Growth	US \$ Mn	Growth
Electronic Exports	3343	40.0	2257	49.4	1086	25.1
Total Exports	130709	15.2	96183	31.3	34526	(-) 14.1
Electronic Imports	16619	8.5	10599	7.1	6020	10.9
Total Imports	235409	36.7	162319	44.8	73090	21.7

Source: Compiled from DGCIS

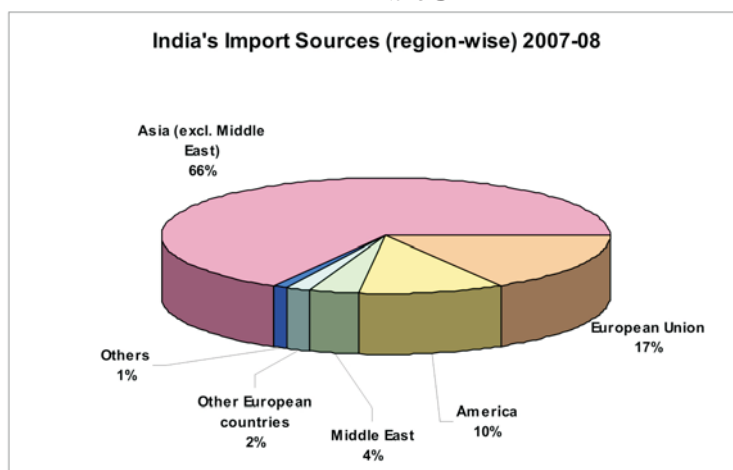
Source: Compiled from DGCIS

Exhibit 2



Source: Directorate General of Commercial Intelligence and Statistics (DGCIS)

Exhibit 3

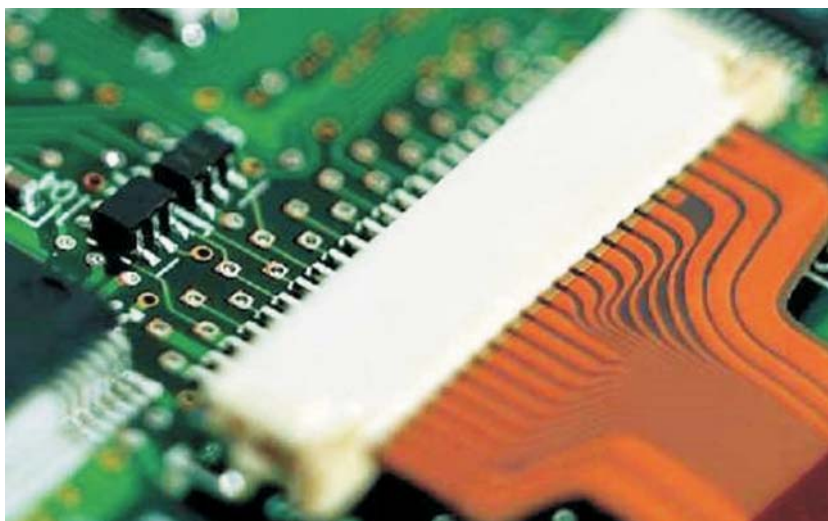


Source: Directorate General of Commercial Intelligence and Statistics (DGCIS)

According to the Manufacturers' Association of Information Technology (MAIT), sales of computers and peripherals have come down in the quarter ending December 2008; total PC sales during this quarter, including desktop computer and notebooks, were 1.4 million units, registering a decline of 19 percent over the same period last year. The industry is hopeful that the sales performance may be better in the January-March 2009 quarter; however, given the current macro-economic conditions and the buying sentiment in the market, overall PC sales for the year 2008-09 is estimated to have clocked 7.3 million units, a marginal growth of around 1.0 percent. The announcement of excise duty cut, as one of the stimulus measures by the Government, is expected to bring down the price of electronic goods at the hands of consumers; however, as the imported components account for nearly two-thirds of total manufacturing cost of computers and peripherals, and that the Rupee has depreciated by over 20 percent, the selling cost may go up nullifying the impact of excise duty cut.

Outlook

The market for electronic products in India has witnessed significant growth in recent years due to several factors, such as manufacturing growth, ICT penetration, growing disposable income, retail boom and attractive finance schemes. Following the global slowdown, the demand for electronic products has come down as also the production in the domestic market.



Overall, it is expected that the demand for computers and peripherals may remain subdued in the first half of 2009-10.

In the consumer electronic segment, several products, which have low market penetration level, or at a nascent stage of product life cycle (such as DVD players, MP3 players, I-Pods, digital cameras), have tremendous growth potential. Availability of low-cost software for such products is one of the reasons for the growth in this segment of consumer electronic industry in India.

The colour television industry, which is largest segment of consumer electronics industry, is estimated to have achieved a production growth of 15 percent in 2008-09 to cross 20 million units. The industry is expected to grow at a similar rate in the year 2009-10 also. Various strategies are being adopted by colour television manufacturers to combat the financial crisis. The firms are increasingly focusing on expanding the market share and reach in rural markets, and launching of new versions/products, which is expected to push the volume of sales. It is expected that the price difference between conventional TVs and high-end TVs (LCD, Plasma) would come down, leading to segmental shift from conventional TVs to high-end televisions. Despite rise in input prices, prices of high-end TVs in India have already dropped by 30 percent in 2008-09

In India the market size of medical electronic instruments is expected to grow in the years to come with increase in number of people affected by lifestyle diseases. Also more and more new applications are innovated in the area of monitoring of healthcare, as also remote technologies, including telemedicine.



Apart from these segments, new applications (technology controlled operations) in manufacturing sector would also increase the demand for electronic products in India.

It may be surmised that the Indian electronic industry may not be affected much by the global financial crisis, as Indian market still holds the potential for growth for electronics consumption and applications. The market size of the electronic industry is projected to exceed US\$150 billion by 2015, from a level of US\$25 billion in 2007-08. In order to achieve this level of growth, however, India needs to concentrate and focus more on designing and manufacturing global products, and then reach out to the rural areas in the domestic market, and emerging export markets. Also, India should leverage its strengths in software to build high-complexity, but medium-volume products, for the global market. Further, the Indian industry should focus on inventing mass-products that matter to rural and bottom of the pyramid segments. The demand for appliances and energy efficient consumer electronics is huge and can be explored by the Indian electronic industry. ■

Trade with India Healthy & Rising

Recession-Hit Mexican Economy to Rebound in '10

- Exim Bank Study

Mexico is one of the countries worst affected by the current global economic crisis as its economy is heavily dependent on exports. According to a study made by the Export Import Bank of India (Exim Bank), the real GDP of Mexico is expected to contract by 7.1 percent in 2009, due to poor performance on both the manufacturing and export fronts. However, Mexico's economy is expected to rebound to 2.8 percent in 2010 and pick up further thereafter, the study says. As far as Mexico's bilateral trade with India is concerned, it has been healthy, with the latter's exports of pharmaceuticals as well as imports of petroleum products continued to rise, the Exim Bank study adds.

Real GDP growth of Mexico is estimated to have slowed down to 1.4 percent in 2008, as compared to 3.3 percent in the previous year, primarily as a result of weak performance of manufacturing sector and real estate activities. In absolute terms, GDP grew to an estimated US\$ 1088.1 billion in 2008, and per capita GDP was US\$ 9892. Consumer price inflation rose to an estimated 5.1 percent in 2008 from 4.0 percent in the previous year, mainly due to higher import prices

during the first half of 2008. Services dominated the economy, accounting for 70.2 percent of GDP in 2007, followed by industry (25.9 percent), and agriculture (3.9 percent) sectors. Total foreign exchange reserves increased to US\$ 95.3 bn in 2008 as compared to US\$ 87.2 bn in the previous year, mainly owing to higher capital inflows, representing an import cover of 3.7 months. Total external debt is estimated to have increased to US\$ 185.9 bn (17.1 percent of GDP) in

Table: Macroeconomic Indicators

Economic Indicators	2005	2006	2007	2008b	2009c
GDP (US\$ bn)	849.0	952.3	1025.4	1088.1	822.1
GDP at market prices (Ps. Bn)	9,253	10,380	11,206	12,111	11,520
Real GDP growth (%)	3.2	5.1	3.3	1.4	-7.1
Consumer price inflation (av; %)	4.0	3.6	4.0	5.1	5.5
Population (mn)	106.2	107.4	108.7	110.0	111.2
Exports (f.o.b. US\$ bn)	214.2	249.9	271.9	291.3	218.5
Imports (f.o.b. US\$ bn)	221.8	256.1	281.9	308.6	243.5
Current-account balance (US\$ bn)	-4.4	-4.4	-8.3	-15.7	-28.8
Total international reserves (US\$ bn)	74.1	76.3	87.2	95.3	79.9
Total external debt (US\$ bn)	167.9	160.7	179.7	185.9	186.9
Average exchange rate (Ps: US\$)					
Local currency is Mexican Peso (Ps)	10.90	10.90	10.93	11.13	14.01

Note: b- Estimates; c- Projections. Source: EIU.

2008, as compared to US\$ 179.7 bn in the previous year. The exchange rate of peso averaged at Ps. 11.13: US\$ 1 in 2008, depreciating by 1.8 percent from the previous year (Table).

Trade and External Sector

Mexico's exports increased by 7.1 percent to US\$ 291.3 bn in 2008, as compared to US\$ 271.9 bn in the previous year, mainly due to higher commodity prices and oil exports during the first half of 2008. Manufactured goods dominated exports, amounting to US\$ 219.7 bn (80.8 percent of total exports) in 2007 (as per latest data available) with maquila exports (In-bond assembly for re-exports) accounted for 55.2% of manufactured goods exports in the same year. Other major exports in the same year were oil (US\$ 42.9 bn), agricultural goods (US\$ 7.7 bn), and mining products (US\$ 1.7 bn).

Imports of Mexico aggregated to an estimated US\$ 308.6 bn in 2008, an increase of 9.5 percent over the previous years value of US\$ 281.9 bn, primarily led by import of intermediate goods. Imports are dominated by intermediate goods, amounting to US\$ 205.5 bn (71.5 percent of total imports) in 2007 (as per latest data available) with maquila imports accounted for as much as 46.4 percent of intermediate goods imports in 2007. Other imports in the same year were consumer goods (US\$ 43.1 bn) and capital goods (US\$ 34.7 bn).

The US is the major destination of exports, accounting

for 80.1 percent of total exports in 2008. Other important destinations of exports in 2008 were Canada (2.4 percent of total exports), Germany (1.7 percent), and Spain (1.5 percent). The US is also the main origin of Mexico's imports, accounting for 59.5 percent of total imports in 2008. Other important origins of imports during the same year were Germany (3.8 percent of total imports), Japan (3.4 percent), and South Korea (3.1 percent). The current account deficit increased to an estimated US\$ 15.7 bn in 2008 from US\$ 8.3 bn in the previous year, primarily due to higher deficit in trade account.

Bilateral Trade Relations with India

During 2007-08, Mexico was the third largest export destination, and also the second largest import source for India in Latin America. India's exports to Mexico increased by 10.6 percent in 2007-08 to reach US\$ 592 mn, as compared to exports of US\$ 535.4 mn recorded in the previous year. The rise in exports was mainly due to increase in exports of pharmaceutical products. Imports from Mexico stood at US\$ 1184.3 mn in 2007-08 from that of US\$ 789.9 mn recorded in the previous year, mainly due to higher import of petroleum crude and products. Thus, India's trade deficit with Mexico widened to US\$ 592.3 mn in 2007-08, compared to a deficit of US\$ 254.4 mn registered in previous year. During 2008-09 (April-February), India's exports to Mexico have increased by 10.0 percent to US\$ 589.2 mn as compared to US\$ 535 mn during the same period in the previous year. During 2008-09 (April-

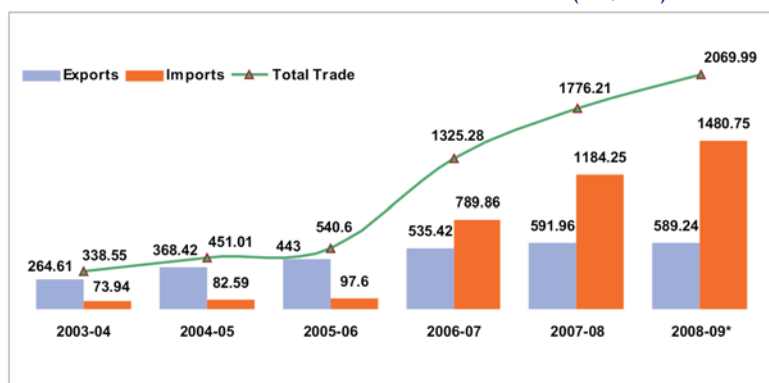
Export-Import Bank of India in the LAC Region

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 the Latin America & Caribbean (LAC) region. Exim Bank has currently 15 operative LOCs amounting US\$ 167.89 mn covering 17 countries in the LAC region. Exim Bank has also signed MOCs with a number of institutions in LAC region, which include: Caribbean Association of Industry & Commerce (CAIC), Trinidad & Tobago; Banco Mercantil, Venezuela; Central American Bank for Economic Integration (CABEL), Honduras; and Corporacion Andina De Fomento, Venezuela. Further, the Bank has

supported several Indian project exporters to execute contracts, in the LAC region, in various sectors including: chemicals (Colombia); Pharmaceuticals (Mexico); construction (Guyana); Power Transmission (Brazil); and Construction (Barbados). Exim Bank has supported several Indian companies to set up joint ventures in LAC region, in various sectors, which include, pharmaceuticals and electricals (Brazil), and chemicals and construction (Cayman Islands). The Bank has also carried out a number of research studies to examine India's trade and investment potential with the LAC region.

February), India's imports from Mexico have also increased by 50.6% to US\$ 1.5 bn as compared to US\$ 982 mn during the same period in the previous year (Chart 1).

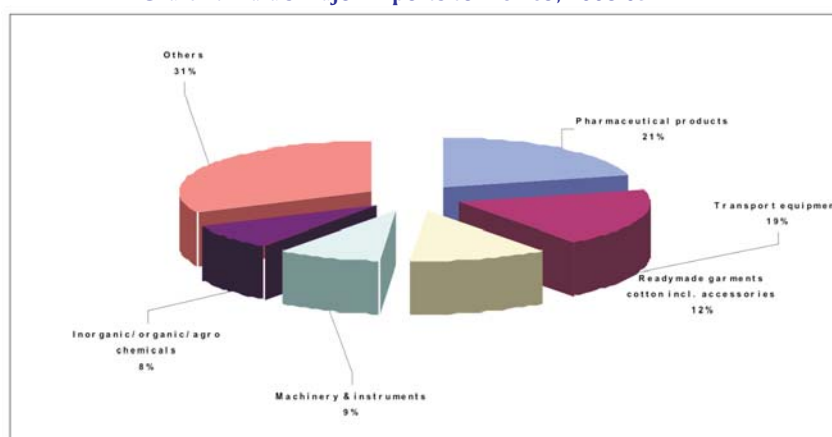
Chart 1: Trend in India's Trade with Mexico (US\$ mn)



Note: *- April-February; Import data from 2006-07 include petroleum crude and products import.
Source: Ministry of Commerce and Industry, Government of India.

India's principal exports to Mexico during 2008-09 (April-February) were pharmaceutical products (US\$ 100.2 mn), transport equipment (US\$ 88.2 mn), RMG of cotton (US\$ 54.9 mn), machinery & instruments (US\$ 40.5 mn), inorganic/organic/agro chemicals (US\$ 38.4 mn), and manufactures of metals (US\$ 29.2 mn) (Chart 2).

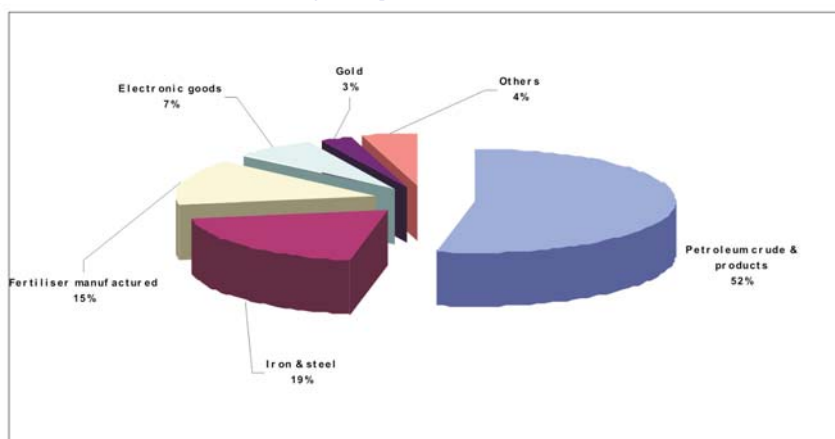
Chart 2: India's Major Exports to Mexico, 2008-09*



Note: *- April-February. Source: Ministry of Commerce and Industry, Government of India.

India's main imports from Mexico during 2008-09 (April-February) were petroleum crude & products (US\$ 733.3 mn), iron & steel (US\$ 258.9 mn), fertiliser manufactured (US\$ 200.4 mn), electronic goods (US\$ 91.1 mn), gold (US\$ 36.8 mn) and transport equipment (US\$ 28.4 mn) (Chart 3).

Chart 3: India's Major Imports from Mexico, 2008-09*



Note: *- April-February. Source: Ministry of Commerce and Industry, Government of India.

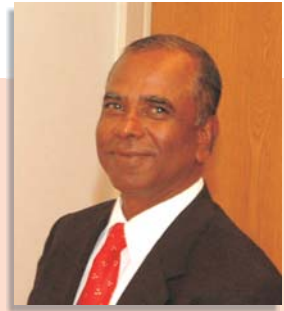
Macroeconomic Outlook

The real GDP of Mexico is expected to contract by 7.1 percent in 2009, due to poor performance of manufacturing sector and exports, in the light of global economic crisis. However, economy is expected to rebound to 2.8 percent in 2010. Currency weakness and inefficiencies in product markets are expected to prevent a rapid decline in inflation, and as a result, inflation is expected to rise to 5.5 percent in 2009. However, a

sharp weakening in demand is expected to allow it to fall to 3.6 percent by end-2010. Peso is expected to depreciate to Ps 14.01: US\$ 1 in 2009, primarily due to fall in capital account inflows. Further weakening of peso is expected to result in an average exchange rate of Ps 16: US\$ 1 in 2010. The current-account deficit is expected to widen sharply, from 1.4 percent in 2008 to 3.5 percent in 2009 and 4.4 percent of GDP in 2010, mainly owing to higher deficit in trade account.

CONFIDENCE: Small Indian Firm's LatAm Success Mantra

What's in a name, the Bard has asked. But it appears there is everything in it. India's Confident Engineering Pvt Ltd has what it needs to be in a name. Confidence, of course, and plenty of it as author **R. Viswanathan** chronicles the success story scripted by a man from Coimbatore in the southern state of Tamil Nadu.



Confident Engineering is a small but confident company which has inspired confidence among Latin American clients. More precisely it is the self confidence of Rathnakumar, the Managing Director of the company who has managed to inspire the

confidence of the textile companies of South America.

The textile machinery manufacturing company has received orders worth \$500,000 from its customers in Peru, Ecuador, Dominican Republic and Argentina. And many more orders appear to be in store.

Hardwork and perseverance have complemented Rathnakumar's confidence in bringing about success in Latin America. He has spent the last one month in Argentina, Peru and Ecuador. He came with the CII delegation on 28 June and left Buenos Aires on 31 July. He spent ten days in each country. He is planning to come back to the region in the next three months and target Brazil and Colombia.

Rathnakumar has appointed dynamic and proactive agents in these three countries. These agents had taken him to visit over 30 textile plants. He convinced the technical staff and management of some of these companies that he could help them reduce their cost of production with his dyeing and finishing and effluent treatment machinery which costs just half the price of those which they import from Europe. He carried a small prototype of his Effluent water treatment plant and gave demonstration to the clients using their plant waste water. Confident Engineering has innovated a new technology to treat waste water of dyeing plants through an electrocoagulation method without the use of chemicals. The company is

applying for patent for this innovation.

Rathnakumar wanted to participate in an exhibition in Buenos Aires in 2008 and paid \$1500 for the stall. But the Argentine embassy in Delhi did not give him visa. He lost the money and the opportunity. The Embassy wanted him to produce an original invitation from an Argentine client attested by an Argentine notary public. This is an unauthorized procedure being adopted by some corrupt elements in the Argentine embassy in Delhi, in violation of the Argentine government procedure. Was Rathnakumar deterred. No! He waited and got the visa now without an invitation letter. He does not have any rancour. He is focussed on the future potential and does not bother about past setbacks.

In Peru, he got an order for \$70,000 for a machine which he has never made so far. He showed the client a French machine in a Peruvian plant and told him he could make a similar one. The client was convinced by the confident competence of Rathnakumar and gave him the order.

What difference did he find in doing business with South American clients? He says here they don't want to open LC. Most of them prefer to deal in cash. They pay an advance amount by TT and the rest they pay later. They retain a percentage of payment as guarantee for performance of his machine. Of course, Latin American importers open LCs for large orders.

Confident Engineering is a small scale enterprise with a turnover of just \$1.5 million and 40 employees. Their machines cost from \$20,000 to \$100,000. The company was started by Rathnakumar, an electronics engineer and his partner in 2003 with an investment of \$20,000. Rathnakumar had worked with Larsen & Tubro for six years but left it to follow his entrepreneurial instinct. He got a breakthrough in Bangladesh for his dyeing and finishing machines.

Now he has set up a full-fledged office in Dhaka to manage supply of machines and service them. Then he got some orders from Indonesia and Sri Lanka.

Now his focus is on Latin America. He expects to get orders worth five million dollars in the next few years. He has already established his reputation in Peru, Ecuador and Dominican Republic and now in Argentina. His next targets are Colombia and Brazil.

How did the Latin Americans treat Rathnakumar in his business and personal interactions in the last one month, I asked him. He found the Latin Americans pleasant and friendly. Of course, they needed to be convinced that they could risk their money with a small company in a remote corner of India. But they were willing to listen to him with open mind.

The Latin American textile industry had been importing machinery from Europe and Japan. But now they want to try lesser expensive sources such as China and India. In these days of global financial crisis, local credit crunch, tough market conditions and globalized competition, the Latin Americans are focussing on cutting the cost of production. For this, they are turning to less expensive import sources such as China and India. They mentioned to him about their preference for India over China because of cultural reasons. They told him that they could understand and communicate and trust the Indians better. They looked at him as a person from the well-known land of Yoga, Meditation, Sai Baba, Hare Krishna, Mahatma Gandhi...

What about language and food? I ask him. This mild mannered Sambar-Idly South Indian smiles and says "No problem. I have already picked up some basic Spanish in my two trips. I can understand the technical and price parts of the negotiations. Now I plan to take a crash course for a couple of weeks. I advised him to try the Instituto Hispania in Chennai.

Food. He eats whatever Latin America offers except beef. He does not miss Idly Sambar in this one month absence from India. He liked the ceviche of Peru and empanada (latino samosa) of the region.

In my last blog story I wrote about the Latin American success of TCS, which is a big company. But in the case of Confident Engineering, it is the story of success of a small Indian company. I hope this will inspire and motivate the small and medium exporters of India. Confidence is embedded in the name of the company itself.

It is Confident Engineering Pvt Ltd.

<http://www.confidentengineering.com/>
Their email is confidentindia@gmail.com



What our exporters need for doing business with Latin America isConfidence! Confidence in Latin America!

Indian exports to Latin America increased by 50 percent in 2008 to \$7.5 billion from \$5.0 billion in 2007. What else is needed to inspire confidence?

(The author is the Ambassador of India to Argentina, Uruguay and Paraguay)

Access to Finance Key to Economic Recovery: Bachelet

CAF President & CEO Enrique Garcia and Chilean Finance Minister Andrs Velasco an important have recently signed an agreement to facilitate the future development of CAF's activities in Chile. Present at the ceremony were Chilean President Michelle Bachelet, Foreign Minister Mariano Fernndez; Minister of Economy, Development and Reconstruction Hugo Lavados; and Minister of Public Works Sergio Bitar, among others.

Also at the meeting in La Moneda Palace, a memorandum of understanding (MoU) was signed between the multilateral financial organization and the Ministry of Public Works; and a technical cooperation agreement with the Ministry of Economy, Development and Reconstruction.

President Bachelet said, "We are living in very complex times for the region; the international community faces the most severe economic crisis of the last 60 years, in which institutions such as the Inter-American Development Bank and the Andean Development Corporation are being called on to play a very important role."

She emphasized the need for capitalization of the multilateral credit organizations, adding that access to financing by countries would be the key to the economic recovery of Latin America.

On the agreement on immunities and privileges signed with CAF, President Bachelet expressed her satisfaction considering it a "tremendous step" which will stimulate the partnership between Chile and CAF to the full. "CAF is a solid stable institution with excellent management which has been recognized by international risk rating agencies and given the highest ratings," she said.

Garcia said, "This is an historic opportunity for CAF to deepen its interaction with Chile and marks the start of a new stage in bilateral relations. With this agreement the Corporation will be able to promote important activities and operations with the public and private sectors in Chile."



He added that a mission would visit Chile soon to develop projects which are strategic for the country, and for regional integration and sustainable development. He said the multilateral institution was interested in opening an office in Chile in the near future.

Joint effort

The MoU signed with the Ministry of Public Works will give technical support to the sectoral authorities of the countries of the region on key areas of infrastructure development and management, especially roads, ports, air and urban transport. As a result the positive experiences in infrastructure achieved by Chile will be applied in other Latin American nations.

Finally, as support for the Third Competitiveness Forum of the Americas, an agreement was signed with the Ministry of Economy, Development and Reconstruction under which CAF will provide non-reimbursable funds for this high-level meeting to be held in September in Santiago. The forum will open a valuable space where the ministers of Economy and Industry of the Americas can meet with academics and business leaders to discuss scenarios and opportunities in the region in the current world economic situation. ■

Overwhelming Response for \$1bn Bond Issue in US Market

A “new milestone” is how the US\$1 billion bond issue launched recently on the US market by the CAF has been described. The multilateral agency's rapid growth, combined with good reception on the part of investors, resulted in the biggest placement in its history.

Demand from numerous institutional investors in the United States, Europe, and Latin America tripled the amount offered. Also worthy of mention is the participation of new prestigious investors, which, throughout the operation, significantly increased the order book. The agents handling the issue were Credit Suisse and Bank of America Securities - Merrill Lynch.

“This level of placement indicates that CAF, even in this difficult environment of the financial crisis, has consolidated its position as a reliable issuer,” according to statements by CAF Executive President Enrique García, who pointed out, “this is the biggest issue in the Corporation's history, for which there was a demand of approximately US\$3 billion, with a high level of participation by new investors.”

García added that “this would not be possible without the financial solidity of the institution, reflected in the continuous growth of its equity, consistent improvement in its risk ratings, and the staunch commitment of its members, which allow it to steadily attract funds on competitive terms, so strengthening its catalytic and anti-cyclical role.”

As a financial intermediary, CAF attracts funds to Latin America to promote investment and business opportunities in the region. With these funds, it concentrates its action strategy on the socioeconomic development of its shareholder countries by financing operations that improve the competitiveness of their economic sectors, develop their economic and social infrastructure, support physical and border integration in the region, reduce poverty, promote small and medium business, strengthen national and regional financial markets, develop human capital, and foster the reform and modernization of the State. ■

Argentine Private Initiative to Build Uruguayan Highway

Argentine investment group Corporación América (CASA) has submitted a private initiative to the Uruguayan government for the construction of an urban highway, an official from Uruguay's presidential office said.

The group, which controls capital Montevideo's Carrasco international airport, is looking to build a US\$130mn expressway to connect the airport to the city's bus terminal Punta Carretas, the official said.

The project would reduce the current 35-40 minute travel time to nine minutes. In a second stage, the

highway would be extended to Montevideo port, the official said.

The concession would be financed through tolls, but authorities are considering providing state support to partly cover the cost of construction, given the benefits it would bring to Uruguay's tourism and productive sectors, the official added.

CASA is investing US\$134mn in the modernization of Carrasco airport through the firm Puertas del Sur. The group also owns Aeropuertos Argentina 2000. ■

Forum on Microfinance Debates Means to Fight Meltdown

The Andean Development Corporation (CAF) invited its clients in the microfinance sector to the III CAF Microfinance Forum with the theme: Economic Crisis: Challenges for Microfinance, held in the city Quito.

CAF President & CEO Enrique Garcia, who attended the forum meeting, emphasized the importance of this international conference which debated the current state of microfinance in the region in the context of the world crisis.

He said that in an effort to achieve equitable and inclusive economic growth, CAF had been meeting the financing needs of the micro-enterprises of Latin America since 1995 through its support for specialized microfinance institutions. For two days national and international experts debated factors that could affect the institutions offering microfinance services in the world economic crisis.

The Forum consisted of three discussion panels on the following subjects: Economic crisis: Challenges for microfinance; Competitive productivity with inclusion; and Effective paths for sustainable development in microfinance.

CAF considers support for micro, small and medium-sized enterprises in the region to be an essential pillar for effective reduction of poverty and sustainable development in its shareholder countries, and is part of the integrated development agenda which the Corporation is promoting. CAF backs initiatives that contribute to the permanent and sustainable strengthening of microfinance and has become one of the region's main sources of financing for this sector.

The Forum is held every two years as a strategic space for those involved in development of microfinance. This year, participants included: Alfonso Prat Gay, former president of the Central Bank of Argentina; Damian Von Stauffenberg, president of the Microrate rating agency; Luis Felipe Derteano of Grupo ACP of Peru; and Javier Vaca of the Rural Financial Network, among others.

The Andean Development Corporation (CAF) is a multilateral financial institution whose mission is to promote the sustainable development of its shareholder countries and regional integration. Its current members are 17 countries in Latin America, the Caribbean, and Europe, namely: Argentina, Bolivia, Brazil, Costa Rica, Colombia, Chile, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Spain, Trinidad & Tobago, Uruguay and Venezuela, along with 14 private banks from the Andean region. With headquarters in Caracas, Venezuela, the CAF has representative offices in Buenos Aires, La Paz, Brasilia, Bogota, Quito, Madrid, Panama City and Lima. ■



CAF President & CEO Enrique Garcia

Pact Inked to Fund Paraguayan Social Infrastructure Scheme

CAF President & CEO Enrique Garcia and Paraguayan Finance Minister Dionisio Borda signed a loan agreement in favor of Paraguay for US\$85 million to finance the "Support Program for Social and Infrastructure Investments (PAISI)." The signing took place in the presidential palace in the presence of Paraguayan President Fernando Lugo as witness of honor.

During the ceremony, Garcia said the financing was aimed at supporting the national government's fight against poverty and mitigating the impact of the global crisis and the long drought which is affecting the country.

The total cost of PAISI is US\$149 million, of which 57 percent will be covered by CAF and the difference by the Paraguayan Government.

The objective of PAISI is to contribute to the government's Economic Reactivation Plan, as part of the Anti-crisis Plan, by supporting the economic reactivation of the country through execution of a set of social investment and infrastructure programs, in various sectors with high economic and social impact,

which will have a favorable effect on improving the quality of life of the population.

The set of programs favor the sectors of agriculture and rural development, housing and habitat, education, social protection and economic infrastructure.

Paraguay, which was initially a CAF "C" series shareholder, is now a full member of the Corporation following the agreement signed in December 2008 during the Latin American and Caribbean Summit held in Brazil. CAF, which has 17 shareholder countries, has become a regional financing entity and is one of the main sources of financing for Latin America. In recent years the Corporation has approved operations for around US\$30 billion in favor of the economic and social development of its member countries and regional integration.

In the current international financial crisis, CAF has been acting dynamically and opportunely to mitigate the effects of the crisis through anti-cyclical and catalytic operations, which is the context of the US\$85 million loan signed with Paraguay. ■

CAF's Continuing Commitment to Aid Ecuador Development

CAF President & CEO Enrique Garcia met with Ecuadorian head of state Rafael Correa in Quito, the capital of Ecuador. At the meeting, Garcia reaffirmed the Corporation's commitment to continue supporting the development of the country through finance for projects in the public and private sectors.

The meeting covered various matters including important operations that the Corporation has executed in favor of Ecuador in recent years, and analyzed approvals for US\$900 million and disbursements of US\$5 million planned for the rest of this year.

At the end of the meeting, Garcia said, "this has been a good



opportunity to review the institution's excellent relations with Ecuador." He added that CAF was the main source of financing for the country and "will continue supporting Ecuador in key projects for its development dynamically and opportunely." ■

Strategic Support for Two Bolivian World Heritage Cities



The Andean Development Corporation (CAF) has approved a non-reimbursable technical cooperation donation to finance the second phase of the project "Implementation of a quality system in 30 enterprises in Sucre and Potosí," aimed at strengthening the process of implementation of continuous quality management in 20 percent of the tourism services chain in the two cities, both world heritage sites.

CAF representative in Bolivia Emilio Uquillas and Régula Chavez, Executive Director of Swisscontact - executing agency of the project - signed the agreements which will implement this donation in Sucre and Potosí.

During the signing ceremony, Uquillas said the Corporation was supporting the program from the start because the tourism industry was a strategic element in the economic development of the country. It is fundamental to generate local capacity and improve the quality of the services in two departments with enormous potential. It was also announced that work with a large number of service providers - hotels,

travel agencies and restaurants, among others - would continue in order to achieve a cross-cutting effect on the entire tourism business chain.

In the first stage, the project achieved positive results in the management of the beneficiary entities, such as a 26 percent rise in sales volume, improvement of labor productivity indicators, and optimization of the quality of the products and services offered, leading to a significant reduction in the number of complaints and claims.

In the new phase, levels of competitiveness in the sector are expected to improve following adoption of the principles of quality management with a view to obtaining ISO certifications. These measures will improve the quality of services and create new attractions aimed at increasing the tourism flow in the project's areas of influence.

The CAF representative said the program was part of the CAF mission to support the integrated sustainable development of its partner countries. He emphasized the importance of working to improve tourism capacity, particularly in this region which is home to one of the country's leading attractions.

The program will be supplemented by the integrated work which the Corporation has been carrying out in this region with projects such as support for the design and implementation of a strategy of sustainable tourism development in Salar de Uyuni and Lagunas de Colores, as well as construction of the Potosí-Uyuni highway. ■

\$100 mln Aid to Rail Project Linking Argentina & Paraguay



CAF President & CEO Enrique García and Argentina's minister of economy and public finance, Carlos Fernández, signed a loan contract for US\$ 100 million in Buenos Aires recently, which will partly finance the implementation of the Argentina-Paraguay Integration Railway Works Programme. The pact was signed in the presence of Argentina's President Cristina Fernández de Kirchner and Minister for Federal Planning, Public Investment, and Services Julio De Vido.

The project will be executed by Yacyretá, a bi-national agency, under an agreement with the Under secretariat for National Railway Transportation.

Enrique García, CAF's executive president, explained that "this approval reflects the Corporation's integrationist dynamic, which has been consolidated by a Latin American vision and agenda, with an ever growing operational presence in the region, and an active, prominent role in regional integration."

He also emphasized that this loan is in addition to the

US\$ 110 billion granted by CAF for the Road Works and Urban Improvements Programme to be implemented in areas on the outskirts of the border towns of Posadas (Argentina) and Encarnación (Paraguay) and access roads to the International Encarnación-Posadas Bridge.

The total cost of the programme is approximately US\$ 166 million, which means that CAF's financing is equivalent to 60 percent, with the remaining 40 percent being provided from local contributions by the Argentine State.

The purpose of this program is to support the execution of investments committed by the Argentine Government to replacing 29 km of railway infrastructure that will be affected by the raising of the Yacyretá Reservoir, in addition to other investments intended to improve the efficiency and operating capacity of the General Urquiza Railway in Posadas and its interconnection with Encarnación. ■

\$6 bn for Colombia Under 3-Yr Economic Development Plan



CAF Executive President & CEO Enrique García has announced in the Colombian capital of Bogotá that, during the period 2009-2011, the multilateral agency will approve a total of US\$ 6 billion for Colombia, and this has been established in the Operational Plan revised with the Colombian Government recently.

“The Operational Plan responds to the strategy agreed upon between the Colombian Government and CAF, geared mainly to financing infrastructure and social development projects as well as to supporting the government's anticyclical programme,” explained García.

The operations approved in 2009 come to approximately US\$ 2 billion and are broken down by sector as follows: 36.5 percent for economic infrastructure and social and environmental development; 29.2 percent for macroeconomic stability and structural reforms; 18.5 percent for competitiveness, the productive sector, and MSMEs; and 15.9 percent for financial systems and capital markets. The public sector maintains the lion's share of the approved funding.

García indicated that, in the area of infrastructure, CAF seeks to strengthen the public and private portfolio with top level clients in the light of the high demand for financing in this sector. Worthy of special mention are the funding of US\$ 270 million for the La Línea Tunnel and private credits for projects in the electricity sector (US\$ 190 million) and airport development (US\$ 75 million, including El Dorado airport).

As for support for the government's anticyclical

program, CAF is apparently to approve US\$ 1.8 billion in freely available funding, short-term lines of credit, working capital, foreign trade capital, and funding for fast-maturing, labor-intensive projects.

With the operations program proposed for Colombia by CAF, a positive net flow for the public sector of US\$ 197 million is planned for 2009. Besides credit funding, CAF will allocate US\$ 1.3 million in non-reimbursable technical cooperation for initiatives in Colombia. These funds will be channeled to the preparation of projects in accordance with the Corporation's strategic guidelines and also to the strengthening of the country's institutions.

The multilateral agency's executive president highlighted CAF's financial soundness, also pointing out that, in 2008, it reached a record level of approvals amounting to US\$ 8 trillion and posted profits of US\$ 311 million. CAF's non-sovereign risk has been on the increase and today represents 58.5 percent of approvals. The total portfolio comes to US\$ 10.3 trillion and equity to US\$ 4.6. The risk rating agencies have ratified their investment grade rating for the Corporation (A and AA).

Finally, García commented that CAF expected an increase in its capital, acceding to the request of its shareholders. In situations such as the present one, in which the governments of partner countries respond anticyclically, the role of the Corporation is to accompany those efforts and, therefore, backing by shareholders for the raising of capital is fundamental for fulfilling this role. ■

Indian Compressor Firm Elgi launches subsidiary in Brazil

Elgi Equipments, a leading manufacturer of compressors in India has launched a 100 percent subsidiary at Sao Paulo in Brazil to directly market its products. It would also start manufacturing the products in the country soon.

"Initially, the new company would concentrate on marketing our products in Brazil. We would import the products from India and then stock them in a warehouse and make it available off-the-shelf," said Elgi Equipments MD Jairam Varadaraj.

Elgi has made the first stage investment of around Rs 10 crore. After an 18-24 months gestation period, the new company would set up a manufacturing plant and commence commercial production, he said. 'Elgi Compressores Do Brazil' would engage in marketing of electric and diesel screw compressors. It would also set up a wide network of distributors with main focus on service and after market products.

"So far, we sold close to 100 pieces in Brazil through distributors. Since we find acceptance for our products, we decided to start a new company to sell our products there," V T Govindarajan, Director Global Business, Elgi Equipments said.

He said Brazil accounts for about 4.0 percent share of the global market for industrial compressors. "We are aiming to capture 10 percent of the Brazil market for screw compressors within a period of four years" Govindarajan added.

Last year, Elgi established two overseas subsidiaries, one in Sharjah in the Gulf and a wholly owned manufacturing plant at Jiaying in China with a marketing office in Shanghai. In 2008-09, Elgi's compressor segment posted a turnover of Rs 471 crores, of which 17 percent was from international operations. ■



Confidence Rising Among BRIC Nations, India Still Wary: KPMG

The summer 2009 KPMG Business Outlook Survey, which covers around 1,800 manufacturing sector firms across the BRIC (Brazil-Russia-India-China) region highlights a strong and broad-based rebound in sentiment following the drop seen in the aftermath of the financial crisis. July's confidence balances show sharp improvements from the winter survey and in many cases, have returned to levels broadly in line with 2008 readings. Optimism is underpinned by expectations for strong demand, coupled with signs of improving economic conditions.

The headline net balance for business activity

climbed sharply from +3.6 in January to +46.5. That was close to the reading of +47 posted last summer and suggests that output levels will rise at a marked pace over the next twelve months. Confidence is highest in Brazil, while firms in Russia and China also predict robust rates of expansion. While Indian firms are much less upbeat than their counterparts elsewhere (and are also less positive than was the case last summer), confidence has still shown a clear improvement from January's depressed level.

Commenting on the BRIC report on manufacturing KPMG (India) head of industrial markets Yezdi Nagporewalla said, "The Indian manufacturing

Chile LatAm's Most Competitive Country: WEF

Chile remains the most competitive country, but saw a 0.02 point drop in its score to 4.70. Chile also dropped two spots on the global ranking - from 28 to 30, according to a Latin Business Chronicle analysis of the Global Competitiveness Index 2009-2010 released recently by the Swiss-based World Economic Forum.

Chile's economy is now less competitive than that of China - a change from last year. However, Chile still remains more competitive than countries like Spain and the Czech Republic.

Mexico also saw its score fall - by 0.09 to 4.19. Within Latin America, it fell from fourth to fifth place, but kept its global rank of 60.

However, Brazil led the way in Latin America when it came to improving competitiveness. Brazil received a score of 4.23, an increase of 0.1 points from last year. No other country grew as much. Brazil now ranks as Latin America's third-most competitive economy, an improvement of two spots from last year. Globally, Brazil now ranks 56th, a strong jump from last year's rank of 64. However, the WEF says the most problematic factors for doing business in Brazil

remain tax regulations and tax rates.

Costa Rica replaced Panama as Latin America's second-most competitive economy, thanks to boosting its score by 0.02 points to 4.25. Its global rank also improved - from 59 to 55. Meanwhile, Panama dropped to fourth place in Latin America and 59th place globally (down one spot from last year) due to a 0.03 point decline in its score to 4.21.

And Uruguay replaced Colombia as the sixth-most competitive economy thanks to a 0.06 point improvement in its score to 4.10. Globally, that meant a jump from 75th place to 65th place, ranking it ahead of countries like Greece and Latvia.

Honduras saw the worst decline - seeing its score fall by 0.12 points to 3.86. As a result, it fell four spots in Latin America and seven globally. Other countries with declines in their scores include Venezuela (down 0.08 points to 3.48) and Ecuador (down 0.02 points to 3.56).

Paraguay remains the laggard in Latin America, although its score improved by 0.05 points to 3.35. It kept its global rank as well - 124. That means it ranks among the ten worst countries worldwide. ■

sector is expected to enhance its attractiveness over the coming year. Domestic demand stimulated by the government spending and coupled with favourable global sentiments will have a positive impact on confidence levels."

BRIC manufacturers are encouraged by the prospects for sales growth during the coming year. A net balance of +44.8 firms predict higher new orders a considerable improvement from +4.9 in the winter. Consequently, business revenues are set to increase strongly, while

expectations for company profits are the highest since the survey began in January 2008.

Panelists view increased new orders and an improving economic situation as the factors most

likely to support growth of business revenues during the next 12 months. New product launches are also set to drive revenues higher. The major threats to revenues are perceived to be a potential relapse in economic conditions that could undermine sales alongside rising raw material prices. ■



Brazilian Firms' OFDI Rising, Needs More Policy Support

Internationalization of Brazilian companies is a relatively recent phenomenon. From 2000 to 2003, outward foreign direct investment (OFDI) averaged US\$0.7 billion a year. Over the four-year period 2004-2008, this average jumped to nearly \$14 billion. In 2008, when global FDI inflows were estimated to have fallen by 15 percent, OFDI from Brazil almost tripled, increasing from just over \$7 billion in 2007 to nearly \$21 billion in 2008. Central Bank data put the current stock of Brazilian OFDI at \$104 billion, an increase of 89 percent over 2003. Caution is in order about these figures, however, as in Brazilian outflows it is difficult to separate authentic FDI from purely financial investment under the guise of FDI. According to the most recent data, 887 Brazilian companies have invested abroad.

Along with other emerging economies, Brazil is suffering from the effects of the global financial crisis. The OECD forecasts that M&A spending from Brazil, Russia, India, China, South Africa, and Indonesia will be reduced by 85 percent in 2009, in comparison to 2008. This matches the partial

performance captured in the data already released: in the period January-May 2009, Brazilian OFDI shrank by 87 percent in comparison to the same period in 2008, from somewhat under \$8 billion to somewhat under \$1 billion. If this trend persists, outward FDI from Brazil will be no higher than \$4 billion in 2009, as against \$21 billion in 2008.

Notwithstanding its remarkable recent growth, OFDI from Brazil needs additional support through sound public policies. As indicated below, this is one lesson that comes home to those who observe Brazilian outward investors closely.

Wide Geographic Spread

Despite its relative novelty, the internationalization of Brazilian companies has achieved a wide geographic spread. Brazilian OFDI can today be found in 78 countries. Admittedly, some destinations matter more than others. Putting aside investment in tax havens, which accounts for 67 percent of the total, by 2007, half the stock of OFDI from Brazil had gone to Denmark, the United States and Spain, with



developed economies together accounting for 75 percent. Among emerging markets, Argentina leads, followed by Uruguay. When it comes to sectoral distribution (and including tax havens), Central Bank data indicate that 54 percent of OFDI stock from Brazil had gone into financial services by 2007. Given the distortion introduced by the inclusion of flows to tax havens, however, it is difficult to arrive at a realistic picture of the final destination of these flows, be it geographical or otherwise.

The internationalization of Brazilian companies is dominated by the private sector, although state-owned enterprises also play a role. Petrobras, for example, has expanded its overseas activities to 15 countries in three continents. In Latin America, the company has energetically pursued a strategy of regional integration in natural gas.

Why are more and more Brazilian companies going abroad? The most frequently cited reason is that they are following clients into international markets. But there are many other reasons as well, such as defending their competitive position, monitoring the competition in international markets, meeting international demand and reducing their dependence on a single (domestic) market. Many Brazilian companies are also interested in natural resources. Yet others are looking for lower costs, better infrastructure and more attractive fiscal incentives. Broadly speaking, Brazilian outward investors are in search of three things: markets, natural resources and investment climates superior to the one they find at home.

In keeping with the usual pattern of early internationalization, one of the main ways in which OFDI from Brazil begins is by setting up offices for overseas sales. This is especially common in the consumer goods industry and the services sector. However, the overseas manufacture of goods and provision of services account for a substantial share of OFDI as well. According to a SOBEET survey of 211 companies, which had a 30 percent response rate, the OFDI of 38 percent of the companies consisted of sales offices and only 23 percent had productive units abroad. However, the latter accounted for a much larger portion of outward investment than the former. Brazilian overseas units also tend to expand into new functions, such as manufacturing goods and providing services, even if not initially set up to do so. It is interesting too to note how other, more sophisticated, functions such as logistics and R&D, already figure among their overseas activities.

Despite the speed and scale of the Brazilian internationalization process since 2004, there are some surprises when it comes to the sources of funding. Most Brazilian companies investing abroad indicate their own capital as the main source of funding. However, many of those that do not mention their own capital also do not mention other Brazilian sources. This suggests that access to funds from BNDES (the Brazilian Development Bank) or from domestic banks is still limited. If this were remedied, the process of internationalization might well become more dynamic. But the lack of Brazilian financing is not the only internal barrier to the internationalization of Brazilian companies. Many Brazilian companies also mention the lack of personnel with the necessary skills and the knowledge of potential markets.

Among external obstacles, the tax burden is pre-eminent. According to SOBEET's 2008 survey of Brazilian multinationals, taxation - and especially the prospect of double taxation - is a major problem for internationalization. Brazil has signed only 12 double taxation treaties in the past 10 years. As a matter of fact, the lack of double taxation treaties is a major concern for Brazilian multinationals.

The internationalization of Brazilian companies, like the internationalization of their counterparts in other emerging markets, is not a flash in the pan. And this internationalization is just beginning. Among the known benefits of OFDI is the fact that it stimulates exports. Another is the improved competitiveness of Brazilian enterprises. Given this, it is important that the Government of Brazil rethink its policies and, in particular, undertake an overhaul of those policies that inhibit Brazilian OFDI.

Taxation Problems

One group of policies that need rethinking is policies on international taxation. Another group concerns bilateral treaties to protect and promote investment. Perhaps the most important kind of policy that needs reform, however, relates to financing. Despite the fact that BNDES does have specific credit lines for OFDI, a greater availability of funds would be helpful to companies considering cross-border investment, especially at a time when the credit crunch that followed the financial crisis has become near universal. ■

Preserving Nature At Its *Purest Best*



Ecuador is a real sustainable paradise. Its commitment on protecting natural, cultural and human mega diversity is the main goal of this country, which leads sustainable tourism in Latin America. While only the size of the state of (Andhra Pradesh), Ecuador is considered to be among the 17 most diverse countries in the world, and its geographical, biological and cultural diversity is unparalleled. Here, visitors can admire the snow-capped Andes mountains, explore the wonders of the Amazon rainforest, surf the waves along the sun soaked Pacific beaches, and visit the legendary Galapagos Islands.

Located in a privileged part of the planet, in the northwest of South America and on the Equator, Ecuador shares borders with Colombia to the north, and Peru to the south and east. Ecuador is divided into four different worlds, including the Galapagos Islands, the Pacific Coast, the Highlands (Northern and Southern Andes), and the Amazon. It contains 33 natural state-protected reserves and extensive tropical forest that are home to approximately 1,640 species of birds; 4,500 species of butterflies, 345 species of reptiles, 358 species of amphibians and 258 species of

TOURISM



INDO-LAC BUSINESS



mammals, amongst others. The Sangay and Galapagos National Parks, as well as the Galapagos Marine Reserve have been declared UNESCO World Natural Heritage Sites.

In its wildly different landscapes, small and large, unique and colorful cities have grown. Situated in an Andean Mountain valley, Quito, the capital of Ecuador, is two cities in one. Quito's "old town" is the largest and best-preserved historic colonial center in Latin America, and its model "new city" is a bustling business and cultural center full of attractions. Cuenca, located in

the Southern Andes, is home to beautiful colonial architecture and some of the country's most impressive art museums. It is also situated in close proximity to a number of historical pre-Colombian archaeological sites.

Both Quito and Cuenca were declared UNESCO World Cultural Heritage Sites for their beautiful colonial centers. Meanwhile, Guayaquil, the country's principal port is a thriving metropolis in which the flavor of the coast, tropical attractions, beaches, history, and the archaeology of the most ancient peoples of the Americas combine with the best urban avant garde designs. Guayaquil has been renowned by the UN as a model for urban development for its innovative urban renewal projects which have restored many of this city's historical neighborhoods, parks, avenues, transportation systems, ports and squares.

The city of Loja, located in Southern Ecuador, boasts numerous attractions including its numerous cultural festivals, a quaint colonial center, the Petrified Forest of Puyango, and the indigenous community of the Saraguro. Vilcambamba, the "Valley of Longevity" is located just south of Loja, and is famous for the long lifespan enjoyed by its locals. The Podocarpus National Park is also a paradise for nature lovers and bird watchers alike.

Mountains and Snow-Capped Peaks. Jungle and Forest. Beaches and Sea. Unique islands. Cities Towns. Culture. Thousands of species of flora and fauna... Life at its purest

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La industria electrónica india debe diseñar y fabricar productos globales

- Estudio del Banco Exim

Es poco probable que la industria de la electrónica de la India se vea muy afectada por la crisis financiera mundial, ya que el mercado interior tiene el potencial de crecimiento para el consumo y aplicaciones de productos electrónicos, según un estudio realizado por el Export-Import Bank de la India (Exim Bank). El estudio prevé que el tamaño del mercado de la industria electrónica supere 150 mil millones de dólares para 2015, desde 25 mil millones en 2007-08. Dice que para alcanzar este nivel de crecimiento, la India necesita concentrarse y enfocarse más en diseño y fabricación de productos globales, y luego llegar a las zonas rurales en el mercado interno y los mercados de exportación emergentes.

A nivel mundial, la industria electrónica es una de las más florecientes con sectores extremadamente diversificados, creciendo a un ritmo rápido con la invención de tecnologías innovadoras y la inclinación creciente de los clientes hacia los productos y servicios electrónicos. La industria ha estado experimentando cambios fenomenales y notables en los últimos años, y se distingue de otras industrias por la rapidez de sus avances tecnológicos. Los segmentos claves de la industria electrónica son componentes electrónicos, computadoras y equipo de oficina, telecomunicaciones, electrónica de consumo y electrónica industrial.

Producción

El creciente mercado indio de productos electrónicos se estima en más de EE.UU. \$ 25 mil millones, y está creciendo en torno al 30 por ciento anualmente. En 2007-08, la producción total de la electrónica en la India tocó 80.800 millones de rupias. La electrónica de consumo tuvo la mayor participación en la producción electrónica de la India siendo un 28 por ciento en 2007-08, seguido por ordenadores (20,2 por ciento), equipos de comunicación y de radiodifusión (17,7 por ciento) y electrónica industrial (14,7 por ciento).

Exportaciones e importaciones

La India ha sido en gran medida un importador de

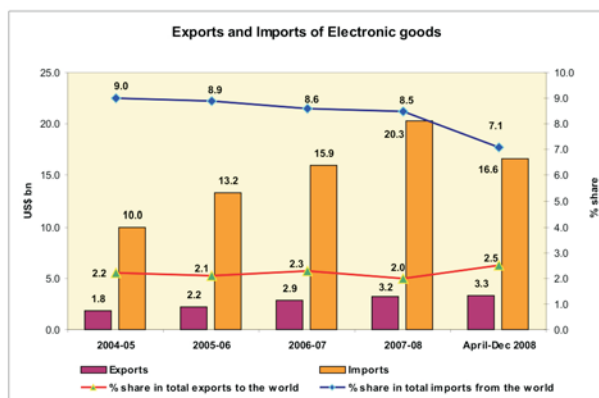
Table 1

Producción de productos electrónicos en la India (Rupias en millones)							
Artículo	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Electrónica de consumo	127000	138000	152000	168000	180000	200000	225000
Electrónica industrial	45000	55500	61000	83000	88000	104000	119500
Computadoras	35500	42500	68000	88000	108000	128000	164000
Comunicación y equipos de radiodifusión	45000	48000	53500	48000	70000	95000	143500
Electrónica estratégica	18000	25000	27500	30000	32000	45000	61000
Componentes	57000	66000	76000	88000	88000	88000	95000
Total de hardware	327500	375000	438000	505000	566000	660000	808000

Fuente: ELCINA (Electronic Industries Association of India); Departamento de Informática, Gobierno de la India

productos electrónicos y no un exportador de los mismos. Los productos electrónicos tenían gran importancia en las importaciones de la India. Sin embargo, la exportación de la India de productos electrónicos se ha ido creciendo con los años. La tasa de crecimiento ha sido impresionante, incluso en el año en curso en el que la mayoría de los sectores han visto una desaceleración de exportaciones. Durante 2007-08, las exportaciones de productos electrónicos valían 3.2 mil millones de dólares y que constituía un 2,0 por ciento de las exportaciones totales de la India. La proporción de las exportaciones de productos electrónicos en las exportaciones totales al mundo, se ha mantenido más o menos alrededor de 2,0 por ciento en los últimos años. Durante el período abril-diciembre de 2008-09, las exportaciones de productos electrónicos de la India alcanzaron un valor de \$ 3.3 mil millones, con una cuota de 2,5 por ciento en las exportaciones totales de la India. Durante este período, las exportaciones de electrónica han crecido en 40 por ciento, en comparación con el período correspondiente del año anterior.

Anexo 1



Fuente: Dirección General de Inteligencia Comercial y Estadísticas (DGCIS)

Table 2

Descripción	Resultados comerciales de la industria electrónica india					
	abril-dic 2008		Abr-Sep 2008		Oct-Dic 2008	
	EE.UU. \$ mn	crecimiento	EE.UU. \$ mn	crecimiento	EE.UU. \$ mn	crecimiento
Exportaciones						
productos electrónicos	3343	40.0	2257	49.4	1086	25.1
exportaciones totales	130709	15.2	96183	31.3	34526	(-) 14.1
Importaciones						
productos electrónicos	16619	8.5	10599	7.1	6020	10.9
importaciones totales	235409	36.7	162319	44.8	73090	21.7

Fuente: Elaborado a partir de DGCIS

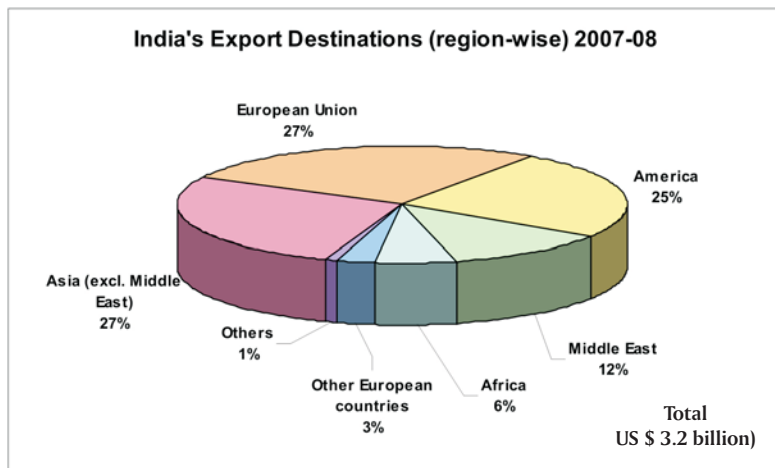
La exportación de productos electrónicos de la India desde octubre de 2008 (la fecha en que se ha producido la desaceleración en las exportaciones de la India) y hasta diciembre de 2008 (últimos datos disponibles a nivel desagregado) también ha sido impresionante, con más de 25 por ciento de crecimiento de exportaciones, en comparación con el mismo período del año anterior.

En 2007-08, las importaciones de productos electrónicos fueron valoradas en 20,3 mil millones de dólares EE.UU., lo que constituye una participación de 8,2 por ciento de las importaciones totales en el país. La importación de productos electrónicos como porcentaje del total de exportaciones ha descendido en los últimos años (Anexo - 1). Durante abril y diciembre de 2008-09, las importaciones de productos electrónicos fueron valoradas en 16,6 mil millones de dólares EE.UU., un crecimiento de 8,5 por ciento durante el período correspondiente del año anterior. Mientras que las importaciones de productos electrónicos de la India han crecido ligeramente en un 7,1 por ciento durante el periodo abril-septiembre de 2008, las importaciones vieron un crecimiento de 10,9 por ciento durante el período octubre-diciembre de 2008, en comparación con el período correspondiente del año anterior.

Durante 2007-08, las exportaciones totales de la India fueron 3.2 mil millones de dólares, y los principales destinos de las exportaciones de la India fueron EE.UU. (21 por ciento), Singapur (9,6 por ciento), Alemania (8,0 por ciento), Emiratos Árabes Unidos (6,9 por ciento), Países Bajos (6,7 por ciento) y Hong Kong (5,4 por ciento). Durante 2007-08, las importaciones de productos electrónicos por la India fueron valoradas en 20,3 mil millones dólares EE.UU., con China (37,6 por ciento), EE.UU. (8,9 por ciento),

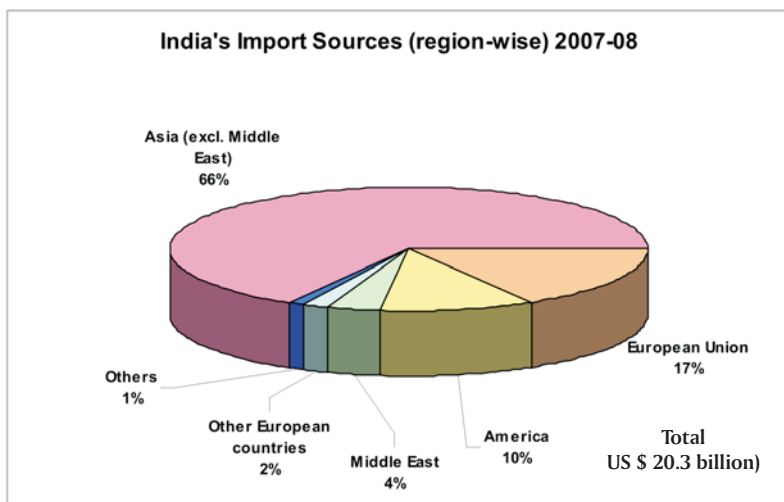
Singapur (8,0 por ciento), Malasia (5,6 por ciento) y Alemania (4,4 por ciento) siendo los principales países de origen.

Anexo 2



Fuente: Dirección General de Inteligencia Comercial y Estadísticas (DGCIS)

Anexo 3



Fuente: Dirección General de Inteligencia Comercial y Estadísticas (DGCIS)

Outlook

El mercado de productos electrónicos en la India ha experimentado un crecimiento significativo en los últimos años debido a varios factores, como el crecimiento de la manufactura, la penetración de las TIC, aumento de la renta disponible, el auge de venta y sistemas de financiación atractivos. A raíz de la desaceleración mundial, la demanda de productos electrónicos se ha reducido como también la producción en el mercado interno.

Según la Asociación de Fabricantes de Tecnología de la Información

(MAIT), las ventas de ordenadores y periféricos han bajado en el trimestre que finalizó en diciembre de 2008; total de ventas de PC durante este trimestre, incluyendo computadoras de escritorio y notebooks, fue de 1,4 millones de unidades, registrando una disminución de 9 por ciento durante el mismo período del año pasado. La industria tiene la esperanza de que el rendimiento de las ventas puede ser mejor en el período enero-marzo 2009, sin embargo, dadas las actuales macroeconómicas y el sentimiento de compra en el mercado, se estima que las ventas de PC en general para el año 2008-09 han sido 7,3 millones de unidades, un crecimiento marginal de alrededor de 1,0 por ciento. Se espera que el anuncio de recorte de impuestos especiales, como una de las medidas de estímulo por el Gobierno, reducirá el precio de productos electrónicos en manos de los consumidores, sin embargo, ya que los componentes importados representan casi dos tercios del coste total de fabricación computadoras y periféricos, y ya que la rupia se ha depreciado en más del 20 por ciento, el costo de venta puede subir anulando el impacto de la reducción de impuestos especiales. En general, se espera que la demanda de ordenadores y periféricos aumentará en el primer semestre de 2009-10.

En el segmento de electrónica de consumo, varios productos, que tienen un bajo nivel de penetración en el mercado, o en una etapa inicial del ciclo de vida del producto (como reproductores de DVD, reproductores de MP3, I-Pods, cámaras digitales), tienen el potencial de crecimiento tremendo. La disponibilidad de

software de bajo costo de estos productos es una de las razones para el crecimiento en este segmento de la industria de electrónica de consumo en la India.

La industria de la televisión en color, que es el mayor segmento de la industria de la electrónica de consumo, se estima haber logrado un crecimiento de producción de 15 por ciento en 2008-09 para sobrepasar 20 millones de unidades. Se espera que la industria crezca a una tasa similar en el año 2009-10 también. Varias estrategias están siendo adoptadas por los fabricantes de televisión en color para luchar contra la crisis financiera. Las empresas se centran cada vez más en la expansión de la cuota de mercado y alcanzar en los mercados rurales, y el lanzamiento de nuevas versiones y productos, que se espera impulsar el volumen de ventas. Se espera que la diferencia de precios entre los televisores convencionales y de televisores de gama alta (LCD, Plasma) bajaría, lo que llevará a un cambio segmentario de televisores convencionales a televisores de gama alta. Pese a la subida de los precios de entrada, los precios de los televisores de gama alta en la India ya han descendido en un 30 por ciento en 2008-09.

Se espera que crezca el tamaño del mercado de instrumentos médicos electrónicos en la India en los próximos años con el aumento del número de personas afectadas por enfermedades de estilo de vida. También más y más aplicaciones se están innovando en el ámbito de la salud, como también las tecnologías a distancia, incluida la telemedicina.

Aparte de estos segmentos, las nuevas aplicaciones (tecnología de las operaciones controladas) en el sector manufacturero también aumentaría la



demanda de productos electrónicos en la India.

Puede suponerse que la industria electrónica de la India no puede verse afectada tanto por la crisis financiera mundial, como el mercado de la India todavía tiene el potencial de crecimiento para la electrónica de consumo y aplicaciones. El tamaño del mercado de la industria electrónica se estima que superará los 150 mil millones de dólares EE.UU. en 2015, de un nivel de 25 mil millones de dólares en 2007-08. Para lograr este nivel de crecimiento, sin embargo, la India necesita concentrarse y enfocarse más en diseño y fabricación de productos globales, y luego llegar a las zonas rurales en el mercado interno y los mercados de exportación emergentes. Además, la India debe aprovechar sus ventajas en el software para construir productos de alta complejidad, pero los de mediano volumen, para el mercado mundial. Además, la industria de la India debe centrarse en la invención de productos de masas para las zonas rurales y la parte inferior de los segmentos de la pirámide. La demanda de aparatos electrónicos eficientes en uso de la energía es enorme y puede ser explorado por la industria de la electrónica de la India. ■

Firma de Compresores India ELGI lanza filial en Brasil

Equipos ELGI, un importante fabricante de compresores en la India ha puesto en marcha una filial al 100 por ciento en Sao Paulo en Brasil para comercializar directamente sus productos. También va a empezar a fabricar los productos en el país en breve.

"Inicialmente, la nueva empresa se centrará en la comercialización de nuestros productos en Brasil. Pensamos importar los productos procedentes de la India y luego guardarlos en un depósito y ponerlos a disposición ", dijo el director gerente de Equipos ELGI Jairam Varadaraj.

ELGI ha hecho de la primera etapa de inversión de alrededor de 10 millones de rupias. Tras un período de 18-24 meses de gestación, la nueva compañía establecerá una planta de fabricación y la producción comercial comenzará, dijo él. 'ELGI Compresores Do Brasil' llevará a cabo la comercialización de compresores de tornillo eléctricos y diesel. También se creará una amplia red de distribuidores centrándose en el servicio y productos post- comercialización.

"Hasta ahora, hemos vendido cerca de 100 ejemplares en Brasil a través de distribuidores. Dado que nuestros productos han sido aceptados, hemos decidido iniciar una nueva empresa para vender nuestros productos allí", dijo VT Govindarajan, Director de Comercio Global, Equipos ELGI.

Dijo que Brasil representa alrededor del 4,0 por ciento de cuota del mercado mundial de compresores industriales. "Estamos decididos a conquistar el 10 por ciento del mercado brasileño para los compresores de tornillo dentro de un período de cuatro años" Govindarajan agregó.

El año pasado, ELGI creó dos filiales en el extranjero, uno en Sharjah, en el Golfo y "una planta de fabricación de propiedad total en Jiaxing en China con una oficina de marketing en Shanghai. En 2008-09, el segmento de compresor ELGI registró un volumen de negocios de Rs 471 crores, de los cuales un 17 por ciento provino de las operaciones internacionales. ■



Confianza en aumento entre las naciones BRIC, la India aún desconfía: KPMG

El KPMG Business Outlook Survey del verano de 2009, que cubre alrededor de 1.800 empresas del sector de fabricación en toda la región BRIC (Brasil-Rusia-India-China), destaca un repunte fuerte y amplio en el sentimiento tras la caída vista en las secuelas de la crisis financiera. Los saldos de la confianza de julio muestran mejoras de la encuesta de invierno y en muchos casos, han vuelto a los niveles ampliamente en línea con 2008. El optimismo se basa en las expectativas de fuerte demanda, junto con signos de mejora de las condiciones económicas.

El saldo neto de título para la actividad empresarial subió bruscamente de +3,6 en enero a +46.5. Esto estaba cerca de la lectura de +47 del pasado verano, y sugiere que los niveles de producción se incrementarán a un ritmo notable en los próximos doce meses. La confianza es mayor en Brasil, mientras que las empresas en Rusia y China también predicen sólidas tasas de expansión. Mientras que las empresas indias son mucho menos optimistas que sus contrapartes en otros lugares (y también menos positivas de lo que eran el verano pasado), hay una clara mejora de confianza si se compara con el nivel disminuido de enero.

Comentando sobre el informe BRIC acerca de la fabricación, el jefe de mercados industriales de KPMG (India) Yezdi Nagporewalla dijo: "El sector manufacturero de la India se espera que mejore su atractivo durante el próximo año. La demanda interna, estimulada por el gasto público y, junto con los sentimientos favorables globales tendrá un impacto positivo sobre

los niveles de confianza. "

Los fabricantes de BRIC se sienten alentados por las perspectivas de crecimiento de ventas durante el año que viene. Un saldo neto de +44,8 de las empresas espera nuevos pedidos una mejora considerable desde +4.9 en el invierno. En consecuencia, los ingresos de negocios van a aumentar fuertemente, mientras que las expectativas de beneficios de las empresas son las más elevadas desde que se comenzó la encuesta en enero de 2008.

Los panelistas ven el aumento de los pedidos nuevos y una situación económica mejorada como factores más propensos a apoyar el crecimiento de ingresos de negocios durante los próximos 12 meses. El lanzamiento de nuevos productos también impulsará mayores ingresos. Las principales amenazas a los ingresos pueden ser una recaída potencial en las condiciones económicas que podría socavar las ventas junto con el aumento de los precios de las materias primas. ■

