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EXIMIUS: EXPORT ADVANTAGE

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Indian Economy in COVID-19 Times

COVID-19 has led to both demand as well as supply shocks to the global economy. The shutdown accompanied by global supply chain disruptions and travel restrictions will result in huge output losses. For India, the lockdowns have led to supply side shocks through factory shut downs, labour shortage, disruptions in input supply, and reduction in cash flow for corporates and MSMEs; and demand side shocks through lower discretionary spending, weak demand, loss in income and employment, and weak market sentiment. According to Government of India (GOI) estimates, India's growth which stood at 4.2% in 2019-20, is expected to be in the negative territory in 2020-21. These effects will be more significant and of a long-term nature, if the outbreak spreads and suspension of business activity is prolonged.

Global growth is expected to be in the range of -5.2% to -4.9% in 2020. In 2021, economic growth is forecast to recover in the range of 4.2% to 5.4% in 2021 **(Table 1)**. However, all these estimates are based on the assumption that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound. As regards trade, the WTO expects world merchandise trade to fall anywhere between 13% and 32% in 2020 as the COVID-19 pandemic disrupts normal economic activity around the world.

Table 1: Growth Projections for India and the World

Forecaster	Release Month	Growth Forecast (%)			
		World		India	
		2020	2021	2020	2021
World Bank	June-20	-5.2	4.2	-3.2	3.1
International Monetary Fund (IMF)	June-20	-4.9	5.4	-4.5	6.0
Asian Development Bank ADB)	June-20	-	-	-4.0	5.0

Source: Respective Press Releases

India's External Sector: Contraction in India's merchandise exports eased at (-) 36.5% (YoY) in May 2020 from (-) 60.3% (YoY) in April 2020 to settle at US$ 19.1 billion in May 2020. Decline in merchandise imports also lessened to (-) 51.1% (YoY) in May 2020 vis-à-vis (-) 58.7% (YoY) in April 2020, to reach US$ 22.2 billion **(Figure 1)**. During April-May 2020, India's exports stood at US$ 32.2 billion and imports stood at US$ 39.3 billion. Accordingly, merchandise trade deficit declined from US$ 30.7 billion in April-May 2019 to US$ 9.9 billion in April-May 2020. As regards the direction of India's exports, Asia accounts for 49% of India's exports and North America accounts for 17%. According to the WTO, in an optimistic scenario, imports from Asia are expected to contract by 11.8% and that of North America is expected to decline by 14.5% in 2020, while in a pessimistic scenario, imports are expected to decline by 31.5% and 33.8%, respectively. Accordingly, India's export recovery appears grim for 2020-21.

India's foreign exchange reserves increased by US$ 9.2 billion in 2020-21 so far (up to May 15) to US$ 487.0 billion, equivalent to 12 months of imports.

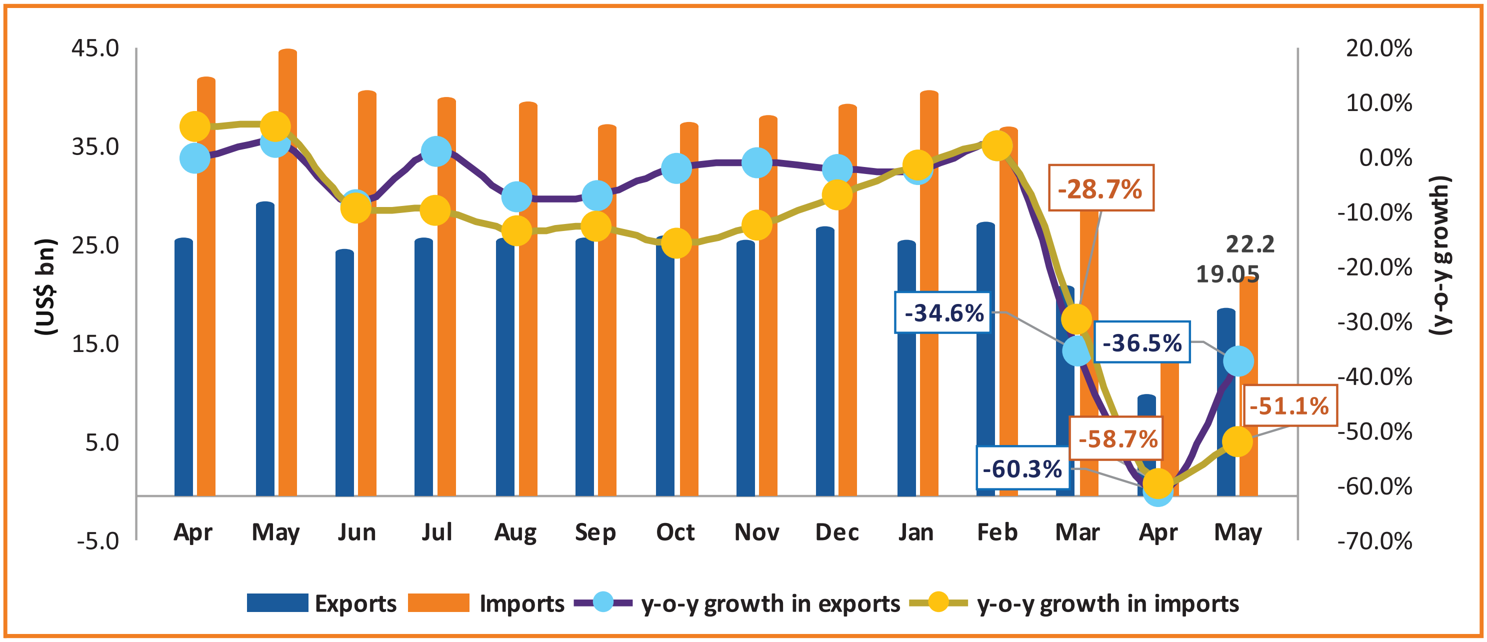
On the external front, the rupee weakened against the dollar with sharp foreign portfolio investor (FPI) outflows. Yet, rupee out performed its emerging market peers displaying a new found resilience in the forex market. The Indian rupee depreciated from ₹ 74.3/US$ in March 2020 to ₹ 76.2/US$ in April 2020.

Considerable drop in domestic economic activity have significantly curtailed imports. India's current account balance may generate a small surplus in the first quarter of 2020-21. India's current account is also supported by low levels of external debt servicing.

India's Sectoral Outlook: There are several evidence that substantiate the fact that COVID-19 has been impacting the Indian industry and economy adversely, with significant implications on the sustainability of businesses and employment. Some major sectors such as automobiles and auto components, textile and apparel, transport, tourism, construction and infrastructure are likely to be in stress due to the disruption in the global supply chain and routine operations. Key sectors that have seen an upsurge in operations post COVID-19 include e-commerce, digital technologies (particularly remote teleconferencing and ICT services, and online content providers), cybersecurity, and healthcare and biotechnology.

Key Policy Measures by India: The COVID-19 pandemic has spurred fiscal and the monetary policy responses across economies. India also announced a series of monetary and fiscal packages since March 26, 2020 to boost liquidity and spur growth. The Government of India had unveiled an economic package, called the 'Atmanirbhar Bharat Abhiyaan', worth ₹ 20.97 lakh crore (nearly 10% of India's GDP) on May 12, 2020, to cushion the economy from the coronavirus blow. The underlying theme of this package is to have a self-reliant India, by focusing on the need to manufacture in India at a quality that is good enough to be exported globally. Of the ₹ 20 lakh package, 38.2% was through RBI's monetary policy announcements. Following this announcement, the RBI on May 22, 2020 cut its policy rate (for the third time in three months), effectively reducing the repo from 5.15% and reverse repo of 4.90% in February 2020 to 4.0% and 3.35%, respectively; and continued to maintain an accommodative stance to revive growth and mitigate the impact of COVID-19. Additionally, the RBI announced measures to support trade such as an increase in the maximum permissible period of pre-shipment

Figure 1: India's Trade and its Growth



Source: Ministry of Commerce and Industry (MOCI) and post-shipment export credit from the existing one year to 15 months for disbursements made up to July 31, 2020; extension for payment for imports (excluding import of gold/diamonds and precious stones/jewellery) into India from 6 months to 12 months from the date of shipment for such imports made on or before July 31, 2020; and liquidity facility for Exim Bank through a line of credit of ₹ 15,000 crore for a period of 90 days (with rollover up to one year) so as to enable it to avail a US dollar swap facility.

Atmanirbhar Bharat Abhiyaan

The Government of India unveiled an economic package called the 'Atmanirbhar Bharat Abhiyaan'. In order to prove the resolve of a self-reliant India, this package emphasizes on Land, Labor, Liquidity and Laws. The package, announced over a period of 5 days, is on the foundation of five pillars – Economy, Infrastructure, System, Demography and Demand.

Of the ₹ 20.97 lakh package, 38.2% was through RBI. In the fiscal package, announcements ensuring liquidity, mainly to MSMEs, had a significant share (28.4% of the Atmanirbhar Bharat Abhiyaan package) **(Table 2)**.

Table 2: Breakup of the Atmanirbhar Bharat Abhiyaan

Date of Announcement	Policy	Amt (₹ Lakh cr)	Impact Horizon
26-Mar-20	First tranche of fiscal package	1.92	**Immediate Impact, however,** per person/ family support amount too small to spur significant increase in demand
March/ April 2020	RBI Policy Announcements (Actual Utilised amount)	8.02	**Immediate Impact,** with regards to moratorium to corporates, boosting liquidity, among others
13-May-20	Second tranche of fiscal package (Part 1-Liquidity mainly to MSMEs and NBFCs)	5.95	**Immediate Impact,** once lockdown lifted
14-May-20	Part 2 – Focusing on Migrant Workers, Farmers, Street Vendors	3.10	**Immediate to medium term Impact**
15-May-20	Part 3- Boosting Agriculture and related sectors	1.50	**Medium to long-term Impact**
16-May-20	Part 4 - Structural Reforms across Eight Core Sectors	0.08	**Medium to long-term Impact**
17- May-20	Part 5 - Government Reforms and Enablers	0.40	**Immediate to Long-term Impact,** as reforms range from having immediate relief by not having fresh insolvency proceedings upto 1 year to having a coherent public sector enterprise policy
	Total -	**20.97**	

Key Indian sectors to have direct benefits from the Atmanirbhar Bharat Abhiyaan include: agriculture and allied activities (including agro processing, micro food enterprises and agri-related infrastructure such as cold storage, warehousing, etc.); animal husbandry; healthcare and related infrastructure; construction (and related industries - cement, iron and steel, among others); education and related infrastructure (mainly e-learning); power; mining; coal; minerals; defence manufacturing; civil aviation; space; atomic energy; MSMEs; banking; and NBFC, MFI and HFC.

India's Tariff Framework: Select Issues and Policy Suggestions

After being a relatively closed economy until 1990s, India embarked on a series of major trade reforms in 1991, by progressively reducing both tariff and non-tariff barriers, phasing out quantitative restrictions, and easing limitations on the entry of foreign investment. Nevertheless, there are several policy areas and issues on the tariff front that need to be addressed to ensure greater trade liberalization, as also to rectify the existing anomalies in the tariff structure.

Level of Tariff

Despite the steady reduction of tariff rates, India's import tariffs are considered to be among the highest in the world, particularly if the total duties are taken into account. India's simple average applied Most Favoured Nation (MFN) tariffs at 17.1% in 2018, is the fifth highest in the world and higher than that of other comparable trading partners of India. Further, following the recent global trend of protectionist measures, both simple and weighted tariffs have risen in 2018.

However, the absolute rates could only aid in understanding the overall general trend. A granular analysis of the relative trends in different tariff indicators suggests that India's tariffs on imports are much lower than what they appear to be, and this has important implications for policymaking. Due to preferential tariffs and various concessions and rebates under the different schemes, effectively applied tariffs and realized tariffs are much lower. While India's average weighted MFN tariff (total) has witnessed a steady decline over the years, the average weighted effective tariffs are lower than MFN Tariffs, clearly indicating the tariff concessions under the various trade agreements signed by India. Realized tariffs (total) have also been falling, and are less than both simple average MFN tariff and simple average effective tariff. Realized tariffs (basic), on the other hand, have the lowest rate ranging from 1.8% to 3.2% during the period 2009-2018. Clearly, effective tariffs in India are much lower. Therefore, there is a need for India to dispel the belief that India is a high tariff country by highlighting the facts and wherever possible rationalizing MFN tariffs closer to effective tariff levels.

It may be noted that India's current applied tariffs are well below the WTO bound tariffs, but there remains significant scope for reducing the tariffs. Careful rationalization of tariffs is needed to bridge the gap between realized tariffs and MFN applied tariffs. To begin with, tariff lines with Basic Customs Duty (BCD) above 10% could be examined for rationalization. Even items at the borderline of the 10% rate in the non-agricultural sector could be considered for rationalization.

Another issue in the case of tariff rationalization is the level of total duties. India's total import duties including BCD, Integrated Goods and Services Tax (IGST) and Social Welfare Surcharge (SWS) is nearly double the BCD in most of the non-agricultural items. There is no refund or input credit for SWS, and in the case of IGST, while Input Tax Credit (ITC) is available, there is the drill of paying IGST first and then claiming input credit later. Beside some final consumption goods, there are problems in claiming ITC. So, there is a need to make IGST less protective and remove SWS on imports to reduce the level of total duties. This can also give India an extra mileage in trade negotiations. Reducing tariffs in a phased manner can also help exports and bode well for greater integration into the global value chains. While prioritizing sectors for tariff reduction, sensitive sectors like electronics and agricultural sector should be kept in the exclusion list to the extent possible, in line with the objectives of 'Make in India' and the interests in these sensitive items.

Inverted Duty Structure

Although the Government of India has been addressing the issue of inverted duty structure from time to time, there remains instances of inverted duties in some sectors, and new ones are also emerging. A new type of inverted duty has emerged due to Free Trade Agreements (FTAs), wherein finished goods imports under preferential tariffs have zero/low tariffs while imports of goods in earlier stages of production like raw materials and intermediate goods have higher duties due to non-preferential tariffs. These and other specific cases of inverted duty need to be addressed.

Non-ad valorem (NAV) Tariffs

While India's non-ad valorem tariffs have fallen over the years in the non-agricultural sector, yet 5.5% of the MFN applied tariff lines had non-ad valorem tariffs in 2018, even though in terms of import share, these tariff lines formed only 0.3% of the total imports of India in 2017.

There are many NAV tariffs in the textiles sector. In agricultural sector, although NAV tariffs are lesser than non-agricultural sector in terms of tariff lines (at 0.3% in 2018), in terms of import share, they had a higher share of 2.9% in 2017. Though some advanced countries also have many tariff lines with NAV tariffs, for simplifying the tariff structure it would be better if India reduces the tariff lines with NAV tariffs to the maximum possible extent. Moreover, specific duties could also be converted to ad valorem duties in the short term to the extent possible.

Multiple Tariff Rates

Another important issue in the context of tariffs is the many rates of BCD in India. While tariff reforms have helped in bringing down India's peak duty, as of 2019, there are still 24 ad valorem tariff rates, including the zero-duty rates, covering 11,839 tariff lines. Although the number of tariff rates have reduced over the years, they are still high, even if only ad valorem tariff rates are considered. If NAVs are also considered, then there are nearly 252 distinct MFN duty rates in India, as of 2018. Further, if non-ad valorem rates are converted to ad valorem in future, the number of rates will increase even more. This calls for a greater need for reducing the number of tariff rates. Merging some tariff rates at the tail ends (upper and lower range) can easily reduce the number of tariff rates at one shot without affecting many tariff lines.

Issues related to Preferential Tariffs

India, though a late entrant in the area of free trade agreements, has entered into many Preferential Trade Agreements (PTAs), Regional Trade Agreements (RTAs), Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreement (CECAs) and Comprehensive Economic Partnership Agreement (CEPAs). During 2016-2018, the share of preferential imports from all FTAs together in total imports of India stood in the range of 16% – 17%. The share of preferential imports by India in its imports from FTA/RTA partners is particularly high in the case of Afghanistan, Bangladesh, Sri Lanka, Nepal, South Asian Association for Regional Cooperation (SAARC), Japan and Chile. However, the share of preferential imports of these FTA/RTA partners in their imports from India is much lower. For instance, in the case of Singapore, the share of preferential imports in its total imports from India is negligible, as Singapore's MFN tariffs were already low. Analysis indicates that preferential tariffs (weighted) is much lower than MFN tariffs on India's import from all FTA partner countries except for Asia-Pacific Trade Agreement (APTA), while in India's FTA partners' side, preferential tariffs are closer to MFN tariffs in all cases except South Korea, APTA and MERCOSUR. This shows that the margin of preference given by India to its FTA partners is higher than the margin of preference given by them to India except mainly in the case of South Korea and APTA. Thus, there is some sort of an 'unequal exchange' in India's FTAs in terms of tariffs.

Another notable issue is the low coverage of items under preferential trade in the imports of FTA partners from India and the relatively low preference margin given to India. This issue is further aggravated by the low utilization rate of FTAs by India. Accordingly, it can be inferred that the benefits from FTAs have been limited for India in terms of tariffs, except in few cases.

While factors other than tariffs are also important in FTAs/RTAs, the importance of tariffs cannot be ignored. In this regard, a proper evaluation of existing FTAs/RTAs is needed, especially on the lines of a zero budgeting exercise. This is important particularly in the context of the revenue impact of existing FTAs/RTAs. Also, India must be careful before concluding any new FTAs/RTAs. Further, with the withdrawal of GSP benefits to India by the USA, the competition in the USA market from India's other FTA/RTA partners has intensified. In this context, India needs to see whether any of the existing concessions given to LDCs could be re-evaluated. Further, along with the 'graduation clause' for the developing country FTA partners, India needs to adapt a 'sunset clause' for some concessions to FTA partners. Hence, a multi-pronged strategy to deal with tariff issues in the context of India's FTAs is required. ■

India's Automotive Industry: At the Crossroads

A well-developed transportation system plays a key role in the development of any economy, and India is no exception to it. In 2018, the sector contributed to 7.1% of the GDP and 49% of the manufacturing GDP. In India, the sector has long been characterized as a 'sunrise' sector, and over the decades has been one of the world's fastest growing market, especially for passenger cars and two wheelers.

It is important to note that the sector assumes the center-stage as a driver of any country's socio-economic growth as it strengthens the upstream and downstream linkages. The significance of various sectoral linkages that the auto sector builds is sufficient to bring multiple sectors in disequilibrium with only the auto sector being the epicenter.

IMF's World Economic Outlook October 2019, mentions the auto sector contributing around 20% of the slowdown in GDP in 2018, and roughly 30% of the slowdown in global trade. The global automobile sales were recorded at 95.1 million units in 2018, up from 68.3 million in 2008, registering an AAGR of 3.5% during this period. However, in 2018 it experienced the first slippage into the negative territory since the global financial crisis - a negative growth was registered in 2018 (fall of 0.6% over 2017), the previous one was in 2009 (fall 4% over 2008).

Since the year 2000, motor vehicle production in India (excluding two and three-wheelers) has grown from 8 lakh units a year, to over 5 million units. Including two and three wheelers, the figure has grown manifolds from 4.76 million units to 31 million. Three key factors that have propelled the overall growth in the automobile sector in the last few decades were, rising Incomes, availability of vehicle loans, and opening up of the industry to FDI. With regards sub-segments, while the two-wheelers underwent substantial evolution, becoming the world's largest manufacturer in 2019, the commercial vehicles growth was largely driven by the growing infrastructure needs in the economy.

With regard to investment the auto sector in India attracted a total of US$ 23.5 billion worth of FDI equity inflows during 2000-2019, emerging as one of the top five sectors of the economy to receive the highest FDI equity inflows. For the year 2018-19, the total FDI equity inflows in the sector stood at US$ 2.6 billion.

The automobile industry in India has gone through phases of phenomenal growth right from the early 80s to India today becoming a favoured destination in Asia for automobile companies to set up their manufacturing plants in the country. The presence of this cost competitive manufacturing in India is evident with global giants which uses India as one of its few manufacturing bases to export abroad.

However, the sector is currently at an inflection point, faced with headwinds that will determine the direction of its transition. While a part of the ongoing slowdown has been closely associated with the declining aggregate demand in the economy, a part of it is also attributed to the inevitable structural changes that have occurred within the auto sector.

Way Forward

Channelizing the growth of shared mobility

- Leading car manufacturers cannot solely rely on the sale of private automobiles and will have to innovate and improvise their business models to survive.

Trade Agreements

- Entering into FTAs is also likely to result in concentration of manufacturing of certain kinds of vehicles in hubs that are particularly suited for regional or global distribution.

Reviving the FDI: Addressing the Gaps

- Growing needs for customization coupled with incorporation, tech-upgradation and adherence to higher standards of safety makes FDI an essential factor for the future of Indian auto industry.

Building on India's stronghold in developing economies

- The rapid surge in the demand for two-wheelers and four-wheelers across economies such as Bangladesh, Nigeria and Sri Lanka not only complements India's areas of core competence in such sprawling markets, but it also provides the avenue for sustained growth as the demand in domestic markets stagnate.

Penetrating the used cars market in Africa

- Export of cost competitive hatchback cars from India to Africa can be mutually benfecial for both the regions.

EV uptake

- Domestic battery manufacturing and enhancing charging infrastructure can take Indian EVs market to newer heights.

RCA Insights: Identifying the areas of focus

- Across the top ten export items by value globally, India enjoys RCA in just three product sub-groups when compared with Germany, Mexico, Japan and the USA.

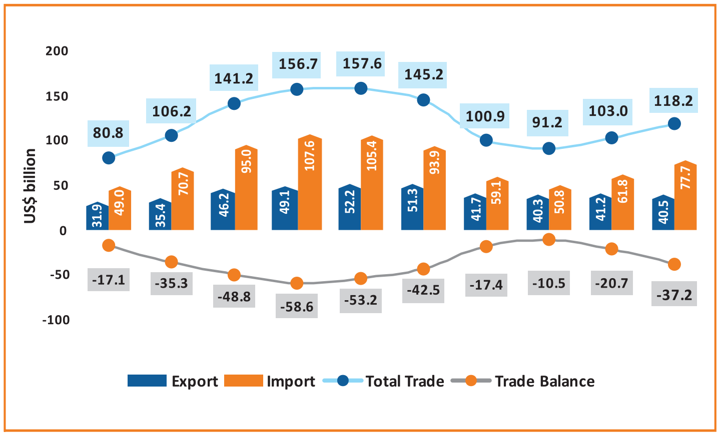
India's Bilateral Relations with the GCC Countries: Trade, Migration and Remittances

The Gulf Cooperation Council, a regional inter-governmental political and economic union of 6 Arab countries viz. the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar and the State of Kuwait, is home to around 56.8 million people. Their economies are thriving on large exports of oils to the world with a combined GDP of US$ 1.7 trillion in 2018 which accounts for 1.9% of the global GDP, increasing from US$ 957.8 billion in 2009.

India's Trade Relations with the GCC

Over the years, the GCC has emerged as a major trading partner for India. The total trade between India and the GCC region increased from US$ 80.8 billion in 2009 to US$ 118.2 billion in 2018. During 2009-2018, India has consistently maintained a trade deficit, stemming from significant dependency on oil import from the region. In 2018, total trade increased by around 15% over the previous year, with exports decreasing by 1.6% and imports increasing by 25.7%, during the period **(Figure 2)**.

Figure 2: India's Trade with GCC Countries (2009-2018)



Source: ITC Trade Map, derived from UN COMTRADE and Exim Bank Analysis

Exports

India's exports to the GCC region is highly concentrated towards UAE, which accounted for more than 70% of the total exports to the GCC region amounting to US$ 29 billion in 2018. This is followed by Saudi Arabia (13.6%), Oman (5.6%), Qatar (4.2%), Kuwait (3.3%), and Bahrain (1.8%).

In terms of products, pearls, precious stones and metals; and mineral fuels and products dominated India's exports to the GCC region. In 2018, the share of pearls and precious stones stood at 24.7% of India's total exports to GCC, followed by mineral fuels and products with 19.6% share. Other export items include cereals (5% of India's total exports), electrical machinery and equipment (4.9%), ships boats and floating structures (4.4%) and machinery and mechanical appliances (3.6%).

Imports

Saudi Arabia and UAE were the largest sources of India's imports in 2018 from GCC, together constituting more than 70% of India's total imports from the GCC region. Saudi Arabia constituted 36.5% of India's total imports from the region amounting to US$ 28.4 billion, closely followed by UAE (34.5%), Qatar (13.6%), Kuwait (10.1%), Oman (4.6%), and Bahrain (0.7%).

India's total imports from the GCC region increased from US$ 49 billion in 2009 to US$ 78 billion in 2018. More than two-third of India's total imports originating from the GCC region in 2018 are in the product category of mineral fuels and oils. Pearls, precious stones and metals (9.7% of India's total imports), organic chemicals (3.4%), plastics and its articles (2.8%), and fertilizers (2%) are some other important products that India imported from the region in 2018.

Opportunities for Enhancing India's Trade with GCC Countries

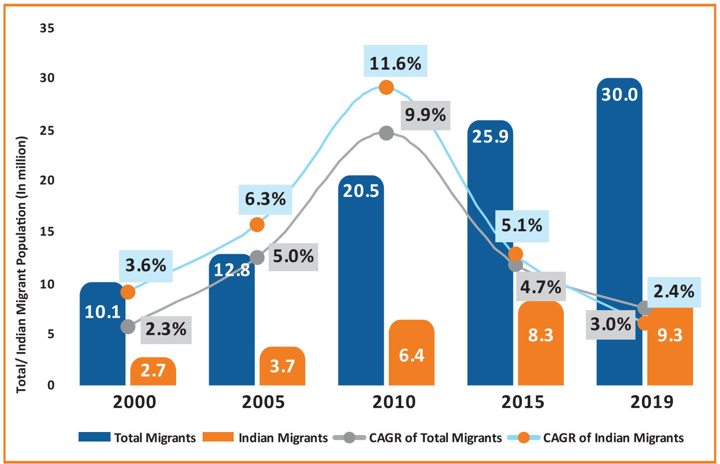
The growth in trade has largely been in favour of the GCC countries with the rate of growth of Indian imports from GCC being higher than rate of growth of Indian exports to GCC. India has an overall trade deficit with the GCC region, as a result of large trade deficit with most individual GCC countries on account of import of large quantities of oil from the region. Except for Bahrain and UAE, India runs a trade deficit with all the other GCC countries. This calls for further expansion and diversification of India's exports to the GCC countries.

Based on import demand in GCC and India's export capability, India has potential to expand exports to GCC region in the following product categories viz.: machinery and mechanical appliances (HS Code 84); electrical machinery and equipment (HS Code 85); vehicles other than railway or tramway (HS Code 87); pharmaceutical products (HS Code 30); pearls, precious stones and metals (HS Code 71); articles of iron and steel (HS Code 73); and plastics and its articles (HS Code 39).

Migration and Remittances

India is a major country of origin and transit as well as popular destination for workers across international borders. India is also key contributor to the world's skilled, semi-skilled and unskilled labour force. As per United Nations, Department of Economic and Social Affairs (UNDESA), there are over 30 million Indian migrants overseas, with as many as 9.3 million Indians in the GCC region alone. Since the oil boom of 1970s, the Gulf region has been a major destination for Indian workers. Thus, an important aspect of India-GCC relations is India's large expatriate population in the Gulf countries providing skilled, semi-skilled and unskilled labour force as also a key source of remittances to India. With the GCC countries largely dependent on migrant labour force from India for their infrastructure projects, this symbiosis has turned out to be mutually beneficial and rewarding **(Figure 3)**.

Figure 3: Trends in Migration to GCC Countries (2000-2019)



Source: United Nations, Department of Economic and Social Affairs (UNDESA)

Indian migrants constitutes a significant share in the total migrant population in the GCC region. On an average, India accounted for a share of around 30% of the total migrant population of GCC since 2000. The number of Indian migrants to GCC has increased from 2.7 million in 2000 to 9.3 million in 2019. Until 2015, the growth rate of Indian migrants has been consistently higher than the overall migration trend. But post 2015, the growth rate of number of Indian migrants to GCC, fell below that of total migrants from the world. The peak growth rate of migration from India was seen during 2005-2010, during which the overall migration increased at a CAGR of 11.6% as compared to a growth of 9.9% in global migrants into the GCC. During 2015-2019, the Indian migration to GCC witnessed a growth rate of just 2.4% as compared to 5.1% witnessed in preceding time period.

GCC, being home to a large number of migrant population and India having the largest diaspora in the world, makes GCC stand as one of the largest remittance sending countries amounting to US$ 116.3 billion in 2018, and at the same time, India as the top remittance recipient country with US$ 78.6 billion in 2018. Remittances to India also make up for 11.4% of the total global remittance inflow. Remittances to India increased by 14% to US$ 78.6 billion in 2018 as compared to US$ 68.9 billion in the preceding year. Remittances to India have increased continuously since 1990 except for a modest decrease witnessed during a few intermittent years.

According to the Reserve Bank of India's Fourth Round of Survey of authorized dealers on India's inward remittances in 2016-2017, GCC countries alone account for more than 53.5% of the total remittances inflow of India. Among the GCC countries, UAE is the largest remittance source for India with the share of 26.7% of the total inward remittances, followed by Saudi Arabia, Qatar, Kuwait, Oman and Bahrain.

Way Forward

India and GCC countries are reaping the mutual benefit of the existing partnership between each other. However, in the long run, for India-GCC relationship to further strengthen and prosper, it is imperative to identify new drivers for India-Gulf synergy and avenues of greater future cooperation. A few policy catalysts that could help boost bilateral cooperation could include (i) expansion of trade based on identified commodities which hold export potential for India, which would help in narrowing India's high trade deficit with the Gulf; (ii) diversification of markets; (iii) re-engaging to explore a Free Trade Agreement (FTA) or an economic partnership agreement with the GCC; (iv) cooperation for allowing temporary movement of people; (v) increased cooperation in services sector; (vi) improving trade logistics; (vii) identifying a unified trade representative body; and (viii) enhancing people-to people interactions, among others.

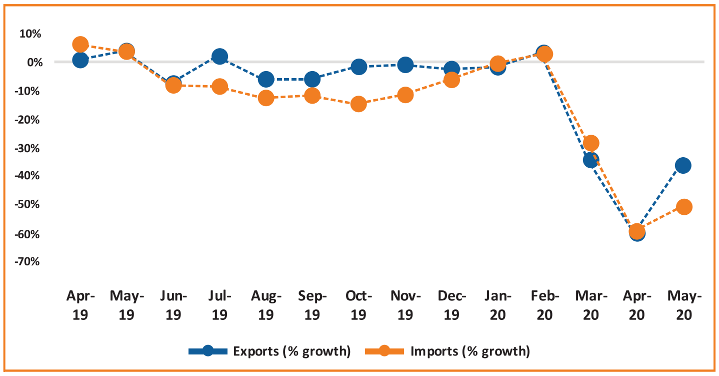
Tackling Trade Uncertainty during COVID-19

The COVID-19 is a pandemic concern, not only to India, but to the other parts of the world as well. While the number of positive cases and the prevalence of healthcare infrastructure might differ from country to country, one common measure applied by every country was adopting temporary lockdown, which is still in place in many countries, including India, though partially.

Recent Trade Trends for India

The Indian merchandize exports and imports both registered a fall of 5% and 8.1%, respectively, in 2019-20 over 2018-19. Albeit Indian exports and imports did record some negative growth rates (y-o-y) during select months of 2019-20, an immensely high negative growth was noted in the month of March 2020. The exports and imports fell by 35% and 29%, respectively, in March 2020 vis-à-vis March 2019. The fall was even higher in April 2020. This can be clearly attributed to the halting of the Indian trade with the rest of the world, as a measure against COVID-19.

Figure 4: Growth of Indian Exports and Imports: A Recent Monthly Trend



Source: Ministry of Commerce and Industry, Government of India; and Exim Bank Research

Strategies to overcome Trade Challenges due to COVID-19

While the COVID-19 in India is still expected to be quite far from its peak, the Government of India has already taken measures to kick-start the economy, and eventually the trade, once the pandemic slows down.

Using the Fiscal Route: Lowering the Fiscal Deficit Target

The shocks to the Indian economy are expected to be from both the demand and the supply side. On the supply side, India is dependent on various countries with respect to the value chains and those countries are also facing the economic crisis. On the demand side, it is expected that the demand slowdown would be prominent in consumer durables, fashion oriented products and luxury items. The government may cut its expenditure and divert the funds in managing the healthcare and economic recovery. There has been announcements to suspend MPLAD funds, and freeze of Dearness Allowance for Central Government employees and pensioners. The legislators are also in agreement to get a cut in their pay and allowances.

At the same time, the Government may also revise its fiscal deficit target upwards, which was set at 3.5% for FY 21 in the Union Budget 2020-21. In fact, the GOI has already started rolling out the fiscal measures.

Supporting the MSME Sector

The MSMEs account for a sizeable chunk of the India's exports and hence, are vital when it comes to tackling any economic crisis. From the monetary policy side, the actions have already started with RBI recently announcing a targeted long-term repo operation (TLTRO) of ₹ 50,000 crore to ensure that small and mid-sized corporates, including non-banking financial companies (NBFCs) and micro finance institutions (MFIs) get enough liquidity.

A comprehensive package can be a way forward which can provide relief in payment of wages, statutory obligations, rental, and utilities. The Central Government may also like to address the concerns interest-free loan to cover forward losses, and enhancement of export benefits.

Providing Environment to Companies for Relocation to India

China, for long, has been the epicentre for the global value chains, with a large number of companies having their production and assembly centres in China. However, an overdependence on China has been proving to be a not so beneficial exercise for the global manufacturers. As a result, a lot of companies are looking for new destinations to set up their plants, and India could reap this opportunity with appropriate measures.

At the policy level, India should work on its gaps and create an environment to emerge as a successful alternate destination for global investors. Improving infrastructure efficiency, especially in power supplies, faster port and road operations, could position India as an attractive destination for investment. India should also consider moving up the value chain where it can manufacture parts and components, especially in electronics, and be a part of the supply chains, rather than depending on the inputs. This will not only generate employment at a large scale but can also be an efficient model for export-driven growth for India.

Exim Bank's Lines of Credit

Exim Bank extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India. Under the LOCs extended with the support of Government of India, Exim Bank reimburses 100% of contract value to the Indian exporters, upfront upon the shipment of goods in which at least 75% of goods and services of total contract value should be sourced from India. LOCs have enabled India to demonstrate project execution capabilities in the emerging markets. LOCs have helped to gather considerable momentum in the recent years, especially in the developing countries of Africa, Asia, Latin America, Oceania and the CIS. The Bank has now in place 261 Lines of Credit, covering over 61 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US$ 25.70 billion, available for financing exports from India. LOCs are thus an effective instrument for promoting and facilitating India's exports of projects, goods and services.

Exim Bank, with the support of Government of India, has signed two LOCs as given below during the period Apr-Jun 2020:

An LOC of US$ 215.7 million has been extended to the Government of the Republic of Malawi, for the purpose of financing drinking water supply schemes and other development projects project. With the signing of the above LOC, Exim Bank, till date, has extended 5 Lines of Credit to the Government of the Republic of Malawi, with the support of the Government of India, taking the total value of LOCs extended to US$ 395.68 million. Projects covered under the LOCs extended to the Government of the Republic of Malawi includes supply of irrigation network, tobacco threshing plant, cotton processing facilities, green belt initiative, sugar processing equipment, fuel storage facility and construction of a new water supply system from Likhubula river in Mulanje to Blantyre.

An LOC of US$ 20.10 million has been extended to the Government of the Republic of Nicaragua, for the purpose of financing reconstruction of Aldo Chavarria Hospital project. With the signing of the above LOC, Exim Bank, till date, has extended 4 Lines of Credit to the Government of the Republic of Nicaragua, with the support of the Government of India, taking the total value of LOCs to US$ 87.63 million. Projects covered under the LOCs extended to the Government of the Republic of Nicaragua includes supply of equipment for building two substations, construction of transmission lines and substations, expansion of the existing substations and reconstruction of a hospital.

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Success Story

Supply of Diesel Electric Locomotives Project under LOC to the Government of Sri Lanka

RITES Ltd. has supplied Diesel Electric Locomotives to Sri Lankan Railways in FY 2019-20, in a project financed under the LOC of US$ 382.37 million to the Government of Sri Lanka. These locomotives are fuel efficient and will help in providing affordable mode of mass transportation to the people of Sri Lanka. ■

The Quarter That Was

Ms. Harsha Bangari Appointed as DMD of Exim Bank

Ms. Harsha Bangari has been appointed as the Deputy Managing Director of the Exim Bank. Prior to this appointment, Ms. Bangari was the Chief General Manager and Chief Financial Officer of the Bank. She joined Exim Bank in 1995 and is currently heading the Treasury and Accounts Group of the Bank. Ms. Bangari is a seasoned finance professional with experience of more than 25 years in the financial sector and has thorough knowledge of the Bank's processes and business policies across functions covering all products of the Bank including Cross Border Project Financing as well as Risk Management, Client Servicing and Liability-side Management covering Treasury Functions and Foreign Currency Resources. Her areas of interest include international debt capital markets and international project finance. Ms. Bangari is a Bachelor of Commerce and a Chartered Accountant.

India Exim Bank's PAT jumps more than 50% in FY 2019-20

Mr. David Rasquinha, Managing Director and Ms. Harsha Bangari, Deputy Managing Director, Export-Import Bank of India (India Exim Bank), announced the Bank's results for the financial year 2019-20 through a virtual press conference in Mumbai on Thursday, June 25, 2020.

Key highlights of the Bank's performance during 2019-20 are as under:

Financial Results of FY 2019-20

Particulars	FY 2019-20 (in ₹ crore)	Change from previous year(%)
Loan Portfolio	99,446	▲ 6.23
Non-funded Portfolio	15,869	▲ 12.59
Net worth	16,285	▲ 11.00
Profit after Tax	124	▲ 51.00
Balance of Profit transferred to Government of India	12.39	▲ 51.00
Business per Employee	621	▲ 8.76
Provision Coverage Ratio	89 %	▲ 400 bps
Capital to Risk Assets Ratio	20.13 %	▲ 106 bps
Net NPAs	1.77 %	▼ 67 bps

Lines of Credit (LOCs): During the year, the Bank extended 27 LOCs, aggregating US$ 3.40 billion, to support export of projects, goods and services from India. The Bank has built up a portfolio of 259 GOI-LOCs with credit commitments aggregating US$ 25.46 billion which are at various stages of implementation. With the ever expanding reach, the LOCs have gained momentum in stimulating economic growth across 64 countries in Africa, Asia, Latin America, Oceania and the CIS region.

Project Exports: During FY 2019-20, India Exim Bank has supported 38 project export contracts valued at US$ 2.81 billion under its commercial window. Some major project exports contracts supported by the Bank during the year include roadways project in Bangladesh; refinery complex project in Nigeria; power transmission projects in Nicaragua and Togo; south west gas field development project in Algeria; development of container terminal at the Yangon port, Myanmar; solar 190 MW DC photovoltaic plant in Chile; installation and commissioning of pumps in Suriname.

Buyers' Credit under National Export Insurance Account (BC-NEIA): An amount of US$ 331.58 million was disbursed during the year under the sanctioned facilities, and the outstanding BC-NEIA portfolio stood at US$ 1.35 billion as on March 31, 2020. Some key projects include water treatment plant in Sri Lanka, LPG storage facility at the Beira Port in Mozambique; supply of vehicles to Cote d'Ivoire, Senegal and Tanzania; transmission line projects in Cameroon, Mauritania, Senegal, Zambia and Kenya; railway line project in Ghana; irrigation project in Suriname; water supply projects in Uganda and Cameroon; and other projects in Maldives, Zambia and Ghana. The Bank has also given in-principle commitments aggregating to US$ 3.53 billion for supporting 28 projects, under BC-NEIA, at the behest of several leading Indian project exporters.

Overseas Investment Finance: During FY 2019-20, 16 corporates were sanctioned funded and non-funded assistance aggregating ₹ 2,837 crore for part financing their overseas investments in 8 countries. Overseas investments supported during the year include setting up of a manufacturing facility in Morocco for the production and supply of auto components; working capital for a plant manufacturing oleoresins in China; setting up of units in the USA for the manufacture of intermediate bulk container bottles and drums; setting up of a calcined petroleum coke manufacturing project with captive power generation in the Sultanate of Oman.

Country Scan

Mexico

The COVID-19 pandemic is expected to shrink Mexico's real GDP by as much as 9.2% in 2020, driven by steep contractions in private consumption and investment, and only a modest increase in government consumption. The economic shock is more painful since Mexican economy had contracted by 0.3% in 2019 as well. Mexico has been hit by the global sell-off in financial markets and the declining oil price since February 2020, local government bond markets saw non-resident outflows of around US$ 13.4 billion (1.3% of GDP), the 10-year dollar credit spread widened from 132 bps to 424 bps at peak on April 28, 2020, but has since declined to 269 bps. The peso has depreciated by over 18% since the start of the year amid concerns about the impact of the pandemic on the economy. Exchange rate as on June 16, 2020 stood at Ps 22.34:US$ 1. However, exchange rate pass through effected is expected be limited this year, as weak consumer demand and lower oil prices are expected to cause the inflation to slow down to 2.6% by the end of 2020, compared to 2.8% at the end of 2019. The current-account deficit is expected to widen from 0.2% of GDP in 2019 to 2.7% of GDP in 2020, as the pandemic hits export revenue, tourist arrivals and remittances.

Sri Lanka

The real GDP of Sri Lanka is expected to contract by 1.6% in 2020, on the back of the COVID-19 pandemic that has spread across the world. The lockdown has led to closure of factories manufacturing readymade garments (the largest export item), at the same time the tourism sector is crippled. Private consumption will be depressed as unemployment rises. The Sri Lankan rupee has been weakening in recent months and is expected to depreciate by 6% against US$, averaging SLRs 190.2:US$ 1 at the end of 2020. Consequently, depreciating rupee and higher food costs are likely to lead to an increase in the consumer prices, with inflation averaging at 4.7% in 2020, compared to 4.3% in 2019. The current account deficit is expected to widen from 0.5% of GDP in 2019 to 1.6% of GDP in 2020, as fall in exports is expected to be greater than fall in imports in 2020, and there will be sharp contraction in tourism revenues.

Singapore

Singapore's export-oriented industries and trade were already affected by a downswing in the global electronics cycle, weaker global demand, and trade tensions between the US and China leading to a modest growth of 0.7% in 2019. The coronavirus pandemic and the accompanying lockdown is expected to depress the domestic and external demand significantly leading to a contraction of 6% of Singapore's economy in 2020. The consumer price inflation is expected to decelerate to -0.2%, as demand contracts significantly and lower global oil prices translate into lower transport and utilities costs. Manufacturing and construction will be adversely affected by supply chain disruptions and weaker exports. Tourism-related services are expected to suffer in the near term as tourist numbers from China, which has provided about 20% of the tourist arrivals in Singapore in recent years are likely to decline sharply. The Singapore dollar is expected to depreciate from S$ 1.36: US$ 1 in 2019 to S$ 1.45: US$ 1 in 2020. Pharmaceutical exports surged in April and May 2020 but total exports are set to fall in 2020. Benefits from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade deal along with an FTA with the EU, is expected to have a positive effect on Singapore's external sector from 2021.

Nigeria

Nigeria's growth had rebounded to 2.2% in 2019, supported by stable oil production. Stagflation is expected in 2020, with an economic contraction of 3.4% (the deepest since 1983) as the result of both recent oil price crash and domestic outbreak of the coronavirus. OPEC+ production cuts will drive down oil output, curtailing industrial performance. Devaluations of the Naira is expected to elevate inflation to 16.3% in 2020 from 11.4% in 2019 which would prevent monetary easing. Low global oil prices likely to cause a sharp fiscal revenue undershoot (as it accounted for 87% of its exports in 2019), forcing public capital projects to be scrapped. The Naira depreciated from N 306.4: US$ 1 in 2019 to N 450.0: US$ 1 in 2020. The current account is likely to remain in deficit, projected at 3.1% of GDP in 2020. Falling oil prices and lower remittances from the large Nigerian diaspora owing to the global economic downturn would outweigh a compression of goods and services imports because of current devaluation and a fall in primary debits as oil sector profits decline.

Currency Currents

Chinese Yuan

¥ The offshore Chinese yuan hit a nine-month low of 7.1963 on May 27, 2020 and has recovered since to close at 7.0608 on June 23, 2020. The onshore yuan hit eight-month lows at 7.1766 as on May 27, 2020 and closed at 7.0575 on June 23, 2020.

Economists upgraded their forecasts for China's economic growth this quarter and for 2020, signalling more optimism that the country is on track for a gradual recovery. Gross domestic product will expand at 1.5% in the second quarter from a year earlier, according to the median estimate of economists in a Bloomberg survey in the third week of June. That's faster than 1.2% growth seen in the last survey in May. Economists also increased their full-year growth projection to 1.8% from 1.7%.

The results indicate the China might be able to escape a technical recession that some economists had envisioned after a historic slump of 6.8% in the first three months of the year amid the coronavirus shutdowns.

British Pound

£ The pound edged towards three-month lows against the euro on June 23, 2020 as better-than-expected PMI data did little to support the currency, which is primarily driven by changes in global risk appetite and Brexit.

The IHS Markit/CIPS flash composite Purchasing Managers' Index (PMI), which measures activity in the services sector and manufacturing, jumped to 47.6 in June from 30 in May. This was a record rise that easily exceeded expectations in a Reuters poll for an increase to 41, though its sub-50 level still represents a modest fall in output.

After reaching a high of 1.2812 against USD in the last three months, the pound was trading at 1.2456 on June 23, 2020 vis-à-vis 1.2376 as on April 01, 2020. Sterling also fell versus the euro, to a three-month low of 1.1012 on June 23, 2020. The pound continues to trade as a risk-on, risk-off currency, responding to changes in global risk appetite as economies around the world reopen.

Four years ago Britain voted to leave the European Union. Having left the bloc at the end of January this year, Britain and the EU now have until the end of 2020 to agree on a new trading relationship.

Japanese Yen

¥ The Japanese currency has remained range bound between ¥ 106 and ¥ 108 against the dollar, close to the zone it has inhabited since well before the coronavirus outbreak and diverged only briefly during the turmoil of early to mid - march. The prolonged sobriety of this key exchange rate is becoming highly significant in itself. Markets are considering this trend as the possible end to the weak yen era.

For years, the dollar-yen pair was famous for its hair-trigger sensitivity to risk appetite, geopolitics, trade and investment flows. Now it's long snooze is a telling sign of the global lack of investment conviction, and the longer it stays around ¥107, the harder it becomes to predict what will prompt that stasis to break. When Tokyo trading began on Monday, May 25, 2020, the city's exit from emergency was just one of many catalysts for what might, in the past, have shaken up the yen. Support for the haven-like currency could have come from mass protests in Hong Kong and a stumble in the Hang Seng; mounting tensions between Washington and Beijing; the lowest approval ratings for Shinzo Abe's cabinet since he became prime minister in 2012; and fears of a second wave of COVID-19 in the US.

Brazilian Real

R$ Major Latin American currencies are expected to retain recent gains against the US dollar, subject to calmer domestic politics and signs of economic recovery, a Reuters poll of foreign exchange analysts showed. Their optimism is striking in light of the human tragedy in the region from the coronavirus pandemic, which could upset local markets again if the already-high death toll rises further and fuels more political strife and economic damage. Brazil's real is expected to trade only slightly softer for the rest of 2020, holding most of a partial recovery after crashing to record lows in March in a global market sell-off of risky assets.

Politics continue to dog Brazilian assets. A Supreme Court judge shelved a request by political parties to seize the President in an investigation on whether he tried to meddle with law enforcement for personal reasons.

A year from now, as per the Reuters poll, the real is forecast at 5 per dollar implying a 1.2% appreciation over the current rate and 4% weaker than the median 12-month estimate in May. The currency is down 20.4% so far in 2020 and closed at 5.1542 against the Dollar on June 23, 2020.

Exim Mitra

Information on ITC HS Code List or India Harmonised Code System Code.

ITC-HS codes are divided into two schedules. ITC(HS) Import Schedule I describe the rules and guidelines related to import policies where as Schedule II describe the rules and regulation related to export policies.

Schedule I of the ITC-HS code is divided into 21 sections and each section is further divided into chapters. The total number of chapters in the schedule I is 98. These chapters are further divided into sub-heading under which different HS codes are mentioned. Export Policy Schedule II of the ITC-HS code contains 97 chapters giving all the details about the guidelines related to the export policies.

Commodity description, weeding out of defunct codes, addition of new codes, change of product description etc., are taken up periodically as a part of the ongoing process towards perfection.

Information on various Export Schemes provided by the Government of India

Following are the various export schemes provided by the Government of India

- Advance authorization scheme
- Customs, central excise, and export duty drawback scheme
- GST tax rebate
- Duty-free import authorization
- Export Promotion Capital Goods (EPCG) zero duty scheme
- Post Export EPCG duty credit scrip scheme
- Towns of Export Excellence (TEE)
- Market Access Initiative (MAI) scheme
- Marketing Development Assistance (MDA) scheme
- Scheme related to Merchandise Exports
- Rebate of State Levies
- Freight Assistance to Exporters

Information on Procedure to Export Coconut from India

The Department of Commerce, Ministry of Commerce and Industry, Government of India has notified Coconut Development Board as the Export Promotion Council (EPC) for all coconut products. You may like to visit Coconut Development Board to get information on services such as:

- Issuing registration-cum-membership certificates to exporters.
- Securing benefits under Merchandise Export from India Scheme for coconut products and coconut-based products
- Facilitating participation in international trade fairs.
- Disseminating important trade information.
- Analyzing market potential and market trends for the benefit of exporters.
- Providing commercially useful information and assistance to exporters in developing and increasing their exports.
- Providing professional advice in areas such as technology upgradation, quality and design improvement, standards and specifications, product development, packaging etc.
- Organizing seminar, conference and buyer-seller meet.

Information on Presentation of Documents for Letters of Credit

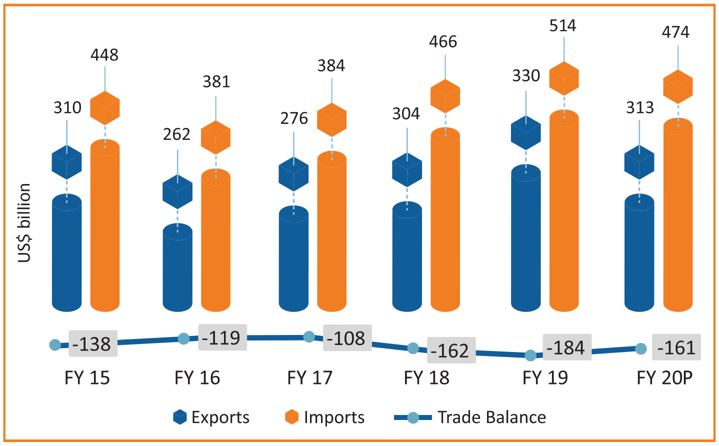
Letter of Credit (LC) is a conditional undertaking to pay a certain amount of money, given by an issuing bank, at the request of an applicant, to a beneficiary, upon presentation of specified documents. The presentation of documents is an essential condition for triggering the payment obligation. The presentation should be in accordance with the terms and conditions of the LC, the applicable provisions of UCP 600 and the international banking practice. As per UCP 600, a presentation including one or more original transport documents must be made by or on behalf of the beneficiary not later than 21 calendar days after the date of shipment as described in these rules, but in any event not later than the expiry date of the credit. For more information, please refer to the Standard for Examination of Documents (1) under FAQ (Letters of Credit) section of the Exim Mitra portal (https://eximmitra.in/en/helpline/letters-credit)

Information on Whole Turnover Post-Shipment Guarantee Scheme

The Whole Turnover Post-shipment Guarantee Scheme of the ECGC Ltd. provides protection to banks against non-payment of post-shipment credit extended to exporters. In the interest of export promotion, banks consider opting for the Whole Turnover Post-shipment Guarantee Scheme. The salient features of the scheme may be obtained from ECGC Ltd. (https://www.ecgc.in/english/whole-turnover-packing-credit-wtpc/)

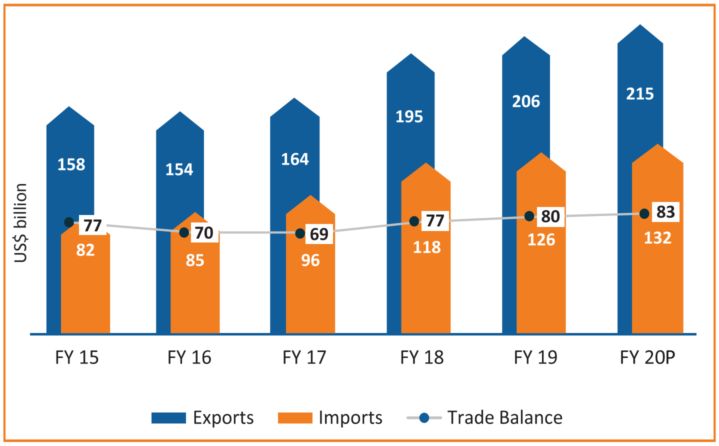
Snippets on Indian Economy

Merchandise Trade



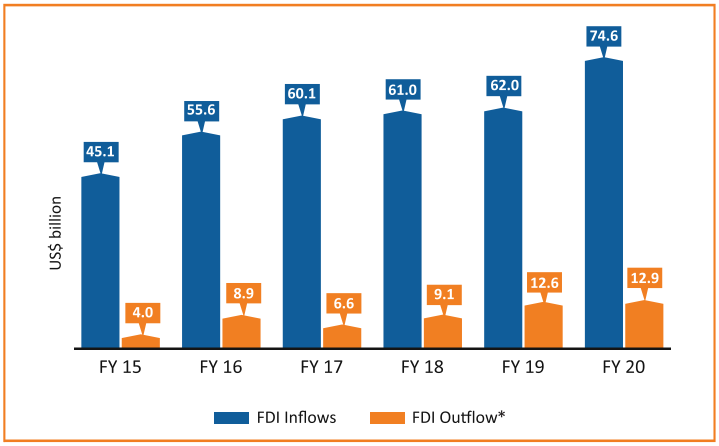
Source: Ministry of Commerce and Industry

Services Trade



Source: RBI

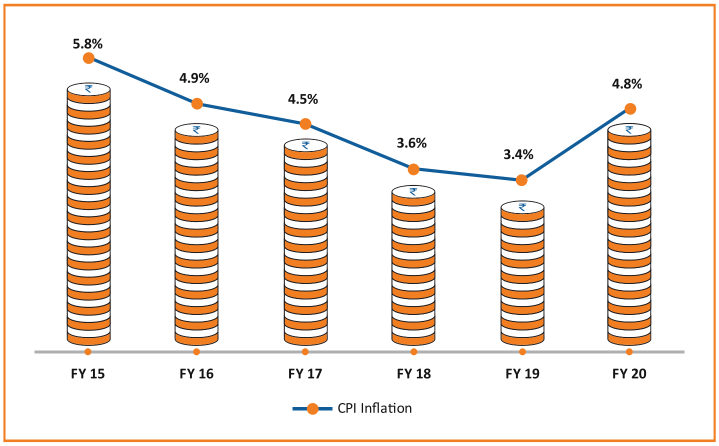
Foreign Direct Investment (FDI) Flows



Note:- FDI Outflows account for equity capital, reinvested earnings and repatriation/disinvestment. They do not include loans or guarantees issued;*

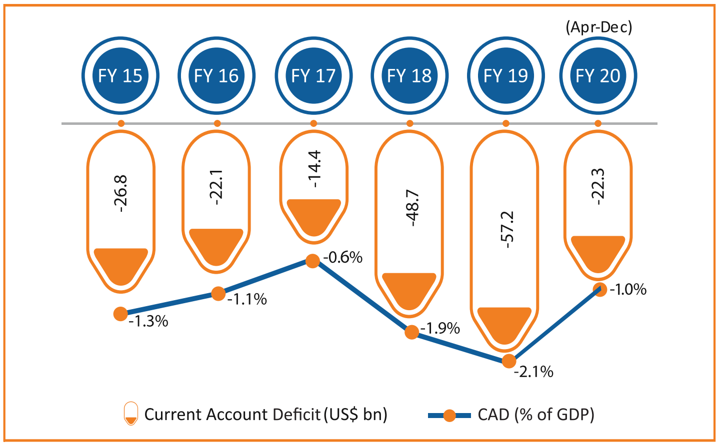
Source: RBI

Consumer Price Inflation



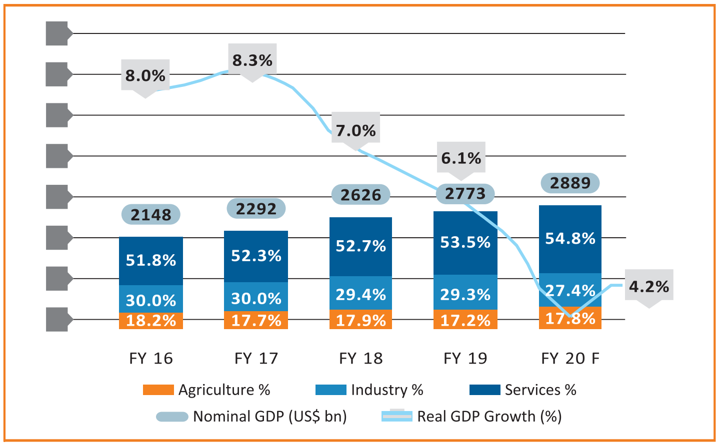
Source: Ministry of Statistics and Programme Implementation

Current Account Deficit (CAD)



Source: RBI

Sectoral Output



Source: IIF & MOSPI , GOI *Note: F – Forecast*

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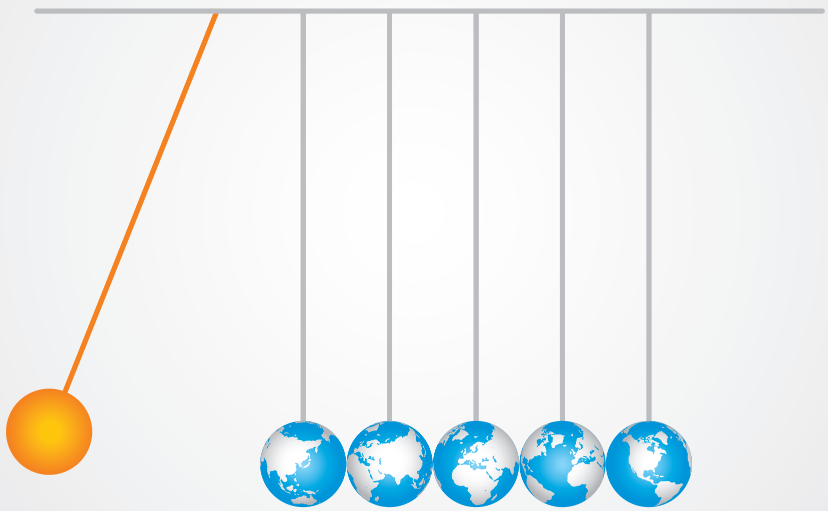

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