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Enhancing Intra-SAARC Trade: An Analysis

The SAARC region (comprising 8 South Asian countries namely Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) is characterized by varying levels of degree of openness. Degree of openness of the region, as measured by trade to GDP ratio for the region peaked in 2008 to 42.4 per cent, but fell drastically in 2009 to 31.8 per cent mainly due to the global financial crisis. The trade to GDP ratio eventually picked up in the subsequent year, and stood at 41.4 per cent by 2013. Interestingly, the smallest economies, Bhutan and Maldives are the most opened economies in the region, at 90.5 per cent and 84.1 per cent, respectively, followed by Bangladesh, Sri Lanka and India.

Accordingly, the share of the SAARC region in global GDP increased from 2.5 per cent in 2008 to 3.2 per cent in 2013, and is expected to increase to 3.7 per cent by 2018. India, the largest economy in the region, accounted for 79 per cent of GDP of the SAARC region in 2013, followed by Pakistan and Bangladesh, contributing around 10 per cent and 6 per cent to GDP, respectively.

While South Asia made significant progress in integrating with the global economy, integration within the region remained limited, and the region is yet to harness the beneficial effects of common cultural affinity, common geography, and the proximity advantage within the region.

To promote intra-regional trade the SAARC countries have taken various initiatives through several bilateral, regional and multilateral agreements. Several bilateral trading arrangements are also in place among members of SAARC, including, among others, India and Nepal (FTA); India and Bhutan (FTA); India and Sri Lanka (FTA); India-Afghanistan (PTA); Pakistan and Afghanistan (Transit Trade Agreement); and Pakistan and Sri Lanka (FTA).

In spite of efforts made by SAARC member nations, however, intra-SAARC trade remained somewhat stagnant at a modest level below 5 per cent of the total trade, much below that of EU-27, ASEAN and CIS (**Table**). While intra-regional exports (5.8 per cent of total exports from the region) stood much higher compared to intra-imports (3.4 per cent of total imports of the region), it remained below that of other trade blocs.

Analysis of trading patterns within the region reveals that levels of intra-regional trade in South Asia are quite diverse, mainly reflecting comparative sizes of the economies and their location. While some countries concentrated within the region, others trade mostly with countries outside the region.

Cooperation in trade was identified as one of the core economic area for SAARC Member Countries. It is interesting to note that during the post-SAFTA i.e. after 2006 period, there has been increasing dependence on SAARC region, both as source of imports as well as export destination, for a larger number of member countries reflecting increasing importance given to the regional market. However, intra-SAARC trade analysis reveals that though SAARC members like Bhutan, Maldives, and Nepal are highly dependent on SAARC region for their exports, they maintain a surmounting trade deficit with the region. Other countries that maintain an intra-regional trade deficit include Afghanistan, Bangladesh, and Sri Lanka. Further, given the complementarities in trade in select commodities and the locational advantage, SAARC members like India, Pakistan, Sri Lanka, Bangladesh, and Afghanistan can source their imports of such commodities from their neighbours in the SAARC region. In this regard, broad strategies on enhancing intra-SAARC trade are stated below.

Strategies for Enhancing Intra-SAARC Trade

➢ ***Enhancing export of the identified potential items***: Exim Bank Study titled 'Potential for Enhancing Intra-SAARC Trade: A Brief Analysis' attempts to highlight the potential for enhancing trade within the region by identifying select commodities at the 6-digit level in which SAARC members have potential for trade within the region. Accordingly, it is estimated that if all these commodities are being traded among the SAARC members to the full potential, i.e. demand for these select commodities from SAARC is met to the fullest extent possible by SAARC countries,

[1]Trade = exports + imports

Table : Intra-Trade of Select Regional Groups (% of total trade of the group)

Intra-Trade	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	AAGR of Intra -Trade in Value term	
											1995-2005	2006 -2012
ASEAN	21.3	22.5	25.4	25.4	25.5	25.2	24.7	24.9	24.4	24.7	9.3	10.9
CARICOM	10.8	11.4	12.3	11.4	11.4	12.5	10.5	11.8	11.8	12.6	10.9	9.8
CIS	30.1	27.8	22.3	21.8	22.8	22.3	22.6	20.2	21.2	20.4	8.9	15.0
COMESA	4.8	4.8	5.6	5.6	5.0	5.5	6.5	7.1	7.6	6.3	11.3	16.0
EAC	12.9	14.3	13.2	10.4	11.0	11.4	12.1	12.3	11.4	12.2	7.8	16.1
ECOWAS	9.4	10.4	10.9	9.8	9.2	10.1	10.1	9.0	7.4	8.6	11.9	12.4
EU-27	64.9	64.6	64.5	64.0	64.6	63.3	63.3	61.6	60.9	59.1	7.0	4.9
MERCOSUR	18.8	19.2	15.3	16.3	16.7	16.6	17.2	17.4	16.6	16.0	6.9	15.4
SAARC	4.8	4.6	5.6	5.1	5.3	4.8	4.2	4.7	4.4	4.3	14.0	14.0

AAGR: Average Annual Growth Rate.

Note: EU-27: European Union-27; ASEAN: Association of South-East Asian Nations; EAC: East African Community; CIS: Commonwealth of Independent States; MERCOSUR: Mercado Común Sudamericano; CARICOM: Caribbean Community; COMESA: Common Market for Eastern and Southern Africa; ECOWAS: Economic Community of West African States; SAARC: South Asian Association for Regional Cooperation

Source: UNCTAD; Exim Bank Analysis.

then, the intra-SAARC trade would have increased by approximately 33 per cent. Thus, having focused only on the identified commodities would have increased the share of intra-SAARC trade to its global trade from the existing 4.3 per cent to approximately 5.7 per cent. In addition to focusing on these commodities, reductions in transaction costs, revision of sensitive list, and elimination/ reduction of the existing tariff and non-tariff barriers would further increase the share of intra-SAARC trade.

➢ ***Revisiting and revising sensitive lists of member countries***: The analysis has also brought out select commodities in which SAARC members may consider revisiting and revising their sensitive lists for LDCs and non-LDCs. Given the existing trade complementarities in select commodities and the locational advantage, SAARC members could source their import requirements from their neighbours in the region. It is expected that this revision under SAFTA, apart from tackling the existing non-tariff barriers, would further enhance trade integration among SAARC members.

➢ ***Power Trade***: Power trade among SAARC members is also an important aspect that can enhance intra-SAARC co-operation. Many regions in SAARC countries face on-peak and off-peak power shortages. Along with this, there is seasonal diversity in demand and supply of electricity (time lag, holidays, etc.) among the member nations. SAARC members can leverage on these differences and enhance power trade in these regions.

Apart from the above, there exists scope for joint investments for development of energy-efficient electricity transmission lines among SAARC members for facilitating power trade, similar to that of which India has with Nepal and Bhutan.

➢ ***Addressing Informal Trade:*** The issue of high level of informal trade may be addressed by streamlining the formal channels and minimise the impediments through institutional reforms and by streamlining customs-related processes at borders, supported by well-targeted investments and strategic implementation of policies. Further, SAARC members may also consider opening more 'border haats' along their borders.

➢ ***Transit Facility***: Enhancing intra-regional connectivity could be in the form of granting transit rights to each, especially taking into consideration the three landlocked countries of the region - Bhutan, Afghanistan and Nepal. Optimum usage of existing trade routes, developments of key ports, improving facilities as well as building necessary infrastructure to ease access to the ports would pave a long way in improving intra-regional connectivity of SAARC in this part of the region.

➢ ***Effective Exchange of Information through Collaborations:*** An important element of the strategy would also be effective exchange of information relating to trade/investment opportunities to potential exporters and investors among SAARC countries as also prospective partners in the region. This can be facilitated through increased bilateral/regional visits by trade and industry delegations. Such economic/ trade missions would serve to enhance awareness in the region about strengths and capabilities of countries in the region. The trade promotion measures could also include participation in specialized regional trade and industry fairs and exhibitions and organizing buyer-sellers meets and conducting annual business forum meet for exchange of opinions and views to enhance co-operation between businessmen from SAARC through collaborations and strategic alliance.

➢ ***Role of SDF in Enhancing Intra-SAARC Trade***: One of the key instruments in reducing cross-border trade related transaction costs is infrastructure and

[2] Exim Bank Working Paper No. 31, Potential for Enhancing Intra-SAARC Trade: A Brief Analysis

related services. An analysis of intra-SAARC trade reveals that the existing low level of intra-regional trade is to a certain extent due to the high trading costs among member nations, emanating on account of poor infrastructure facilities. However, fiscal space and lack of resources have limited governments' capacity to finance large scale infrastructure projects in the region. Traditionally, infrastructure investments in South Asia have been funded largely by the public sector and various multilateral agencies including the World Bank, ADB and JBIC. In recent years, the private sector has also entered the picture. Demand for private capital has increased considerably in the South Asia region, influenced by the financing needs of large infrastructure development programs. With the operation of SDF (economic and infrastructure window) gaining traction and reaching its optimal levels, this void could be plugged, at least to a certain extent.

➢ ***SDF–The Way Forward:*** Trade finance plays an important role in facilitating trade by securing finance, and thus becomes an essential element of enhancing export capabilities. Among South Asian countries, India is the only country to have a dedicated export credit agency exclusively for financing exports from the country. Further, the South Asian region also does not have a dedicated regional development bank (RDB). The SAARC Development Fund, therefore, could assume the role of multilateral financial institution for the region, with active support from member countries. Some of the roles and functions of SDF also may be further fine-tuned with focus on trade financing as well as financing trade promoting infrastructure within the region.

Exim Bank of India in the SAARC Region

Countries in SAARC have always been a focus region for the Government of India, and thus a critical component of the Bank's strategy to promote and support two-way trade and investment. To enhance bilateral trade and investment relations with other SAARC members, and in line with the SAARC charter, Exim Bank operates several programmes in the region.

➢ **Project Exports Finance**

Exim Bank is the coordinator and facilitator for the promotion of project exports from India. The Bank plays a pivotal role in supporting Indian companies in execution of projects by offering both funded and non-funded facilities for overseas turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts.

As on March 31, 2014, 319 project export contracts valued at ₹ 1,40,326 crore (approx. US$ 23.4 billion) supported by the Bank, were under execution in 74 countries across Asia, Africa and CIS by 99 Indian companies. Out of which, 61 project export contracts valued at ₹ 19,419.7 crore (approx. US$ 3.2 billion; i.e 13.8 per cent of total project export contracts), were in the SAARC region. Out of these projects under execution, 42 projects valued at ₹ 6,300.9 crore are under Exim Bank's GOI-supported LOCs.

➢ **Buyer's Credit under National Export Insurance Account (BC-NEIA)**

In order to provide further impetus to project exports from India on medium or long term basis, a new product called Buyer's Credit under National Export Insurance Account (NEIA) was introduced in April 2011. Under this programme, Exim Bank facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government owned entities for import of goods and services from India on deferred credit terms with NEIA cover. NEIA is a Trust, set up by Ministry of Commerce and Industry (MOCI), Government of India, for providing medium to long term export credit insurance covers for promoting project exports from India, administered by Export Credit Guarantee Corporation of India Limited (ECGC).

As on March 31, 2014, the Bank has sanctioned an aggregate amount of US$ 444 million for 5 projects valued US$ 520 million under this programme. Of which, an aggregate amount of US$ 349.6 million (78.7 per cent of the total sanctions) for 3 projects valued US$ 421.6 million were in the SAARC region.

➢ **Lines of Credit**

A Line of Credit (LOC) is a financing mechanism through which Exim Bank extends support for export of projects, equipment, goods and services from India. Exim Bank extends LOCs on its own and also at the behest and with the support of Government of India (GOI), to overseas financial institutions, regional development banks, sovereign governments and other entities overseas.

As on March 31, 2014, the total number of operative LOCs stood at 189, and covered 75 countries in Africa, Asia, CIS, Europe and Latin America, with credit commitments aggregating US$ 10.3 billion. Of these, 173 LOCs aggregating to US$ 10.0 billion, covering 62 countries are guaranteed by GOI. During the same period, there were 10 operative LOCs in the SAARC region with credit commitments of US$ 2.3 billion (22.9 per cent of the total operative GOI-LOCs) covering Afghanistan, Bangladesh, Maldives, Nepal, and Sri Lanka. Exim Bank had also extended a GOI-supported product specific LOC of US$ 150 million to Ceylon Petroleum Corporation, which has been fully repaid. Thus, Exim Bank has so far extended 11 LOCs worth US$ 2.5 billion in the SAARC region.

➢ **Overseas Investment Finance**

Exim Bank's Overseas Investment Finance is a comprehensive programme providing equity finance, loans, guarantees and advisory services to support Indian outward investments including overseas acquisitions. As on March 31, 2014, Exim Bank has provided finance to 494 ventures set up by 391 companies in 80 countries, with an aggregate assistance of ₹ 37,139.4 crore. With the SAARC region, Exim Bank has provided finance to 11 ventures set up by 10 companies in three countries, with an aggregate assistance of ₹ 340.3 crore.

[3] Exim Bank's exposure to SAARC excludes India

Africa is a continent on the rise, with ever increasing commercial vibrancy. In recent years, underpinned by sustained demand for gas and oil, as also that of other products of the extractive industries such as minerals and metals, along with improved macro-economic scenario of some of the major African countries, the Africa as a region has witnessed significant and sustained rise in economic activity. This in turn has benefited a number of resource-rich African economies in providing a boost to their economic activities and growth. Considerable progress has been achieved through improved macro-economic management, market based reforms and continued structural progress in many African countries. This has resulted from the strong commitments of many African governments to prudent fiscal, monetary and exchange rate policies. The opportunities that Africa has to offer can be assessed from the fact that by 2020, Africa's collective GDP is projected to touch US$ 2.6 trillion, with combined consumer spending amounting to US$ 1.4 trillion, and number of working age population is estimated to touch 1.1 billion in 2040.

According to the International Monetary Fund (World Economic Outlook, October 2014), real GDP growth of Africa slowed down to 4.1 per cent in 2013, as compared to 5.9 per cent growth witnessed in 2012. The slow down can be mainly attributed to the impacts of the slowdown of global growth and by the continuation of the transitions relating to the socio-political crises in many countries of the region, especially North African countries. Real GDP growth of the African region is estimated to have slowed down further to 4 per cent in 2014 as the region experienced a slight deceleration in output growth and consequently a decline in productivity growth. However, growth in sub-Saharan Africa was buoyant at 5.1 per cent in

Table : Real GDP Growth and Consumer Price Inflation in Select African Countries

Region / Country	Real GDP Growth (%)				Consumer Prices (%)			
	2012	2013	2014^e	2015^e	2012	2013	2014^e	2015^e
Africa	**5.9**	**4.1**	**4.0**	**5.5**	**8.3**	**5.7**	**5.7**	**5.8**
Sub-Sahara	**4.4**	**5.1**	**5.1**	**5.8**	**9.3**	**6.6**	**6.7**	**7.0**
Algeria	3.3	2.8	3.8	4.0	8.9	3.3	3.2	4.0
Angola	5.2	6.8	3.9	5.9	10.3	8.8	7.3	7.3
Benin	5.4	5.6	5.5	5.2	6.7	1.0	1.7	2.8
Cameroon	4.6	5.5	5.1	5.2	2.4	2.1	3.2	2.6
Comoros	3.0	3.5	3.9	3.9	5.9	1.6	3.0	2.9
Congo, DR	7.2	8.5	8.6	8.5	2.1	0.8	2.4	4.1
Côte d'Ivoire	10.7	8.7	8.5	7.9	1.3	2.6	0.6	2.6
Djibouti	4.8	5.0	5.5	5.5	3.7	2.4	3.2	4.0
Egypt	2.2	2.1	2.2	3.5	8.7	6.9	10.1	13.5
Ethiopia	8.8	9.7	8.2	8.5	24.1	8.1	7.7	9.1
Ghana	8.8	7.1	4.5	4.7	7.1	11.7	15.7	16.8
Kenya	4.6	4.6	5.3	6.2	9.4	5.7	7.3	6.0
Madagascar	2.5	2.4	3.0	4.0	5.8	5.8	7.3	6.6
Malawi	1.9	5.2	5.7	6.0	21.3	28.3	19.6	11.5
Mali	0.0	1.7	5.9	4.8	5.3	-0.6	1.5	2.6
Mauritius	3.2	3.2	3.3	3.9	3.9	3.5	3.7	4.3
Nigeria	4.3	5.4	7.0	7.3	12.2	8.5	8.3	8.7
Senegal	3.4	3.5	4.5	4.6	1.4	0.7	-0.5	1.5
South Africa	2.5	1.9	1.4	2.3	5.7	5.8	6.3	5.8
Tanzania	6.9	7.0	7.2	7.0	16.0	7.9	5.9	4.9
Tunisia	3.7	2.3	2.8	3.7	5.6	6.1	5.7	5.0
Uganda	2.8	5.8	5.9	6.3	14.0	5.0	5.5	5.9
Zambia	6.8	6.7	6.5	7.2	6.6	7.0	8.0	7.8

Note: ^{e} - estimates
Source: IMF, WEO October 2014

2013, which more or less remained unchanged in 2014. This was driven mainly by domestic demand, both from high investment outlays and strong private consumption, as well as strong export growth.

Country specific developments have also affected overall developments in the region. Economic activity in Sub-Saharan Africa has continued to grow robustly—on the back of supportive external demand conditions and strong growth in public and private investment and is expected to have a positive outlook for most of the countries in the region. In Nigeria, activity has been resilient despite poor security conditions and a decline in oil production during early part of 2014. In many economies in the region, growth has also been supported by a further easing in external financial conditions during latter half of 2014. In contrast, in South Africa, growth is being dragged down by industrial tensions and delays in fixing infrastructure gaps, including electricity constraints, with recovery expected in 2015. The Ebola outbreak is also having an acute impact on the affected African economies. Ongoing political turmoil and security issues have disrupted oil production in Libya. Structural reforms in many countries of the region have contributed to moderate inflation rate in many countries in the region. According to IMF's World Economic Outlook, Africa's average inflation rate has declined significantly to 5.7 per cent in 2013 from 8.3 per cent witnessed in 2012. It is estimated to have remained unchanged during 2014.

In December 2014, President Xi Jinping announced initiatives that aim to restructure the Eurasian economy and geo-politics through the Silk Road Economic Belt and the 21st Century Maritime Silk Road. These two routes together aim at building a comprehensive trans-Eurasian network of economic connectivity that will help sustain China's growth momentum for decades ahead and draw the countries of Eurasia into the economic and geopolitical gravitational field of China.

China today has become a net importer of energy, industrial commodities, and food so it needs to secure access to new sources. Further, it is a net exporter of high value-added goods and services, including electronic parts, consumer durables, heavy equipment, and construction and engineering services. However, there is a need for China to diversify its export markets.

China's approach to regional integration centres on economic facilitation. This means boosting trade and investment by improving connectivity between markets by, for example, building more efficient transportation linkages, providing more trade and investment finance, and multiplying human exchange opportunities. China's aim is to create transcontinental economic corridors that radiate across the Eurasian landmass (the Silk Road Economic Belt – that aims at creating an efficient, high volume land connectivity between China and Europe) and along the maritime rim of Eurasia (the 21st Century Maritime Silk Road – that aims at Chinese participation in the development of major ports on the Eurasian rim between China and the Mediterranean Sea). Thus, enhancing economic flows to and from China.

China has announced the setting up of a new US$ 40 billion infrastructure-and-trade financing mechanism called the Silk Road Fund. 65 per cent of the corpus i.e. US$ 27 billion will come from the country's foreign exchange reserves and the balance from the China Exim (15per cent), the China Development Bank (CDB) (5 per cent), China Investment Corporation (CIC), and the Government's Sovereign Wealth Fund (15 per cent). Future injections may be considered, if warranted.

The Fund is part of China's strategy to expand outward investment to enhance its global influence. The Fund can offer equity, bond and debt finance.

The Fund has domestic benefits as well. It has encouraged Chinese companies to position themselves to profit from overseas infrastructure projects, diversify their client base and expand into new markets. The Fund will help absorb some of the excess capacity affecting China's manufacturing sector by giving them business while improving infrastructure in neighbouring countries.

There are other similar initiatives taken by China. Exim China launched a China-ASEAN Fund in April 2010 in partnership with several financial institutions, such as CIC, Bank of China, IFC, Washington. CDB launched a US$ 5 billion China Africa Development Fund (CADF) in June 2007 of which about half of the corpus has been invested. Further, a China-Mexican Cooperation Fund was also announced in 2013.

Similar multilateral, regional initiatives include the Asian Infrastructure Investment Bank (AIIB) with the goal of raising US$ 100 billion of which China has committed US$ 50 billion. The Bank will target infrastructure projects mainly in the Asia Pacific Region.

China and the other BRICS nations including India have agreed to contribute a combined US$ 100 billion to set up the BRICS New Development Bank which will be headquartered in Shanghai.

China's national interests are clearly visible in these economic initiatives using the policy banks, viz. Exim China, CDB and CIC. President Xi Jinping, speaking at the APEC Summit in November 2013 said, "…….(the Fund) is not merely about building roads and bridges or connecting different places………..More importantly, it should be a three-way combination of infrastructure, institutions and people-to-people exchanges and progress in five areas including policy communications, infrastructure connectivity, trade links, capital flow and understanding among peoples."

The result is a new era of Chinese "South-South cooperation," which means that, China gives economic aid to meet China's own development needs while also serving the development needs of recipients. This "win-win" economic cooperation formula fits the two Silk Roads because countries along the routes tend to be developing countries that lack good infrastructure. The Asian Development Bank has estimated that developing Asia will need US$ 8 trillion in infrastructure development from 2010-2020 just to keep up with anticipated demand. Economic infrastructure is not a high priority among Western aid donors, and so China has found a special role to play in shaping the economic integration of Eurasia.

(Source: China's Two Silk Roads: Implications for Southeast Asia by David Arase; and Caixin Online)

Current Landscape of Indian Natural Rubber Industry

Rubber has a pivotal role in driving the global economy, with usage in a spectrum of diverse industries like automobile, aeronautics, electrical and electronics, material handling, health care, power transmission and other applications. Automotive accounts for around three-fourth of the natural rubber consumption.

Asian countries are major producers of natural rubber, with Thailand, Indonesia, Malaysia, Vietnam and India being the top producers of the product in 2012, accounting for around 80 per cent of the world production.

Demand-Supply Scenario in India

India is a net importer of natural rubber. However, exports of rubber products are promoted when there is a price differential between the international and domestic market, in order to stabilize domestic market prices. The year 2013-14 had witnessed a major slump in exports, with y-o-y decline in export value at (-) 81.9 per cent, while imports increased by 9.3 per cent in terms of value, resulting in increase in the share of imports in natural rubber consumption to 33.1 per cent in 2013-14, from 22.2 per cent in 2011-12.

Movement in Prices

The price of natural rubber depends on the supply-demand position, the price of synthetic rubber, global economic concerns, oil prices, exchange rates of major exporter currencies and weather factors. Natural rubber prices had risen sharply towards the end of 2010, on account of a rebound in demand from the recession-linked lows of 2009 and supply disruptions caused by the El Nino weather phenomenon. However, there has been a constant downward movement thereafter, mainly on account of moderating economic growth in China; slow recovery in the US and Europe and consequent weak demand for natural rubber. Increase in world stock of natural rubber; projections of a surplus situation in world rubber market; and low oil prices and resultant low prices of synthetic rubber also led to the fall. Consequent to this decline, tapping by farmers has become unviable at current price, thereby leading to a decline in production.

Demand -Supply Scenario of Natural Rubber in India

Year	Unit	Production	Consumption	Import	Export
2011 - 12	Quantity (Tonne)	9,03,700	9,64,415	2,14,433	27,145
	Value (₹ Crore)	18,801	20,065	4,248	441
2012 - 13	Quantity (Tonne)	9,13,700	9,72,705	2,17,364	30,594
	Value (₹ Crore)	16,156	17,199	3,888	469
2013 - 14	Quantity (Tonne)	8,44,000	9,81,520	3,25,190	5,398
	Value (₹ Crore)	14,012	16,295	5,025	85
2014 - 15 (Apr - Oct)	Quantity (Tonne)	3,90,000	5,92,485	2,63,683	171
	Value (₹ Crore)	5,309	8,065	3,186	2.3

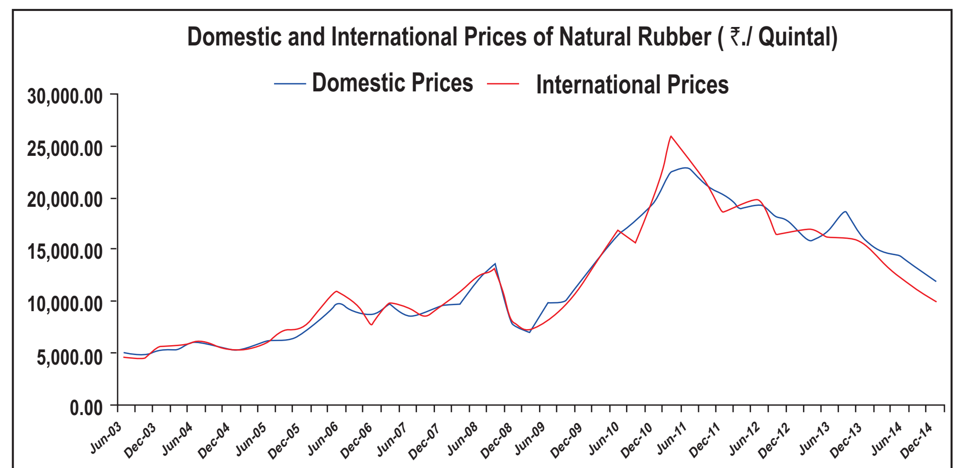
Source : Lok Sabha Unstarred Question No. 2156

The tyres and tubes industry benefitted significantly on account of softening of rubber prices. The operating expenses as percentage of sales the industry fell from 93.0 per cent in 2011-12 to 88.0 per cent in 2013-14. Raw material expenses have been a major contributor in this decline. Raw material expenses as percentage of sales declined from 63.4 per cent in 2011-12 to 55.1 per cent in 2013-14. At the same time, indigenous raw materials consumed by the industry registered y-o-y declines of (-) 9.2 per cent and (-) 3.1 per cent in 2012-13 and 2013-14, respectively, indicative of lower procurement from local suppliers.

Measures taken by the Government

Both state and central government has been responding to the woes of rubber growers. Some key measures taken in recent times are as follows :

- ➢ Import duty on dry forms of natural rubber was raised from "20 per cent or ₹ 20. per kg whichever is lower" to "20 per cent or ₹ 30 per kg whichever is lower" in December 2013.
- ➢ Government has formed an Expert Committee in June 2014 with the mandate to examine all aspects of issues relating to rubber industry including production, consumption and trade in Natural Rubber and formulate a National Rubber Policy.
- ➢ The Kerala government approved a price formula upon discussions with tyre manufacturers to help rubber farmers. The companies agreed in December, 2014 to buy from domestic farmers at 25 per cent higher price than international prices. Of this 25 per cent, 5 per cent will be reimbursed partly by refunds from the government, and partly as refund claim on VAT collected from buyers. The scheme will be on till March 31st, 2015.
- ➢ Export window has been reduced to six months from 18 months in case of Rubber Advance License import scheme, which allows duty-free import against exports.



Note : Domestic Prices are Ribbed Smoked sheet-4 Kottayam and International Prices are Ribbed Smoked Sheet-4 Thailand
Source : CMIE

Exim Bank of India (Exim Bank) has placed special emphasis on extension of Lines of Credit (LOCs) as an effective market entry mechanism with particular focus on small and medium enterprises. Exim Bank extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India, on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. Exim Bank also extends LOCs at the behest of Government of India.

Under LOCs extended at the behest of Government of India, Exim Bank reimburses 100 per cent of contract value to the Indian exporters, upfront upon the shipment of goods and at least 75 per cent of goods and services of total contract value should be sourced from India.

Exim Bank's LOCs offer a risk-free, non-recourse export financing option to Indian exporters.

Bank has now in place 189 LOCs, covering over 63 countries in Africa, Asia, Latin America, Europe and the CIS, with credit commitments of over US$ 11.5 billion, available for financing exports from India.

Exim Bank, at the behest of and with the support of Government of India, has signed three LOCs as given below during the quarter October-December, 2014:

- Two LOCs of US$ 22.5 million each to the Government of Gambia viz. for financing Electrification expansion project and for financing Replacement of Asbestos water pipes with UPVC pipes project in Gambia. With the above two LOC Agreements aggregating US$ 45 million, Exim Bank, till date, has extended five LOCs to Gambia, at the behest of the Government of India, taking the total value of LOCs extended to US$ 78.6 million. The earlier LOCs were extended to the Government of Gambia for financing Supply of tractors by Mahindra and Mahindra, Construction of National Assembly Building Complex in Gambia.
- An LOC of US$ 1 billion to the Government of Nepal, to finance Hydropower, Irrigation and Infrastructural development projects in Nepal. Exim Bank has earlier extended two LOCs aggregating to US$ 350 million to the Government of Nepal for financing Road projects, rural electrification projects, power transmission projects, hydro power projects, financing infrastructure projects such as highways, airports, bridges and irrigation projects.

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India's Project Exports: Role of Exim Bank

Export-Import Bank of India (Exim Bank) plays the role of coordinator and facilitator for the promotion of Project Exports. Project Exports are broadly classified into four categories, viz. Supply contracts on deferred payment terms, civil construction contracts, turnkey and consultancy services contracts.

Exim Bank is equipped to offer a comprehensive financing package to Indian project exporters including funded support, project related guarantee facilities and issuance of letters of credit on their behalf towards third country imports for overseas projects. The Bank's strong emphasis on increasing project exports from India has been enhanced with the introduction of the of the Buyer's Credit under GOI's National Export Insurance Account (BC-NEIA) program. BC-NEIA is a unique financing mechanism that provides a safe mode of nonrecourse financing option to Indian exporters and serves as an effective market entry tool to traditional as well as new markets in developing countries, which need deferred credit on medium or long term basis.

As on September 30, 2014, 374 project export contracts valued at ₹ 1,61,083 crore (approx. US$ 26.85 billion), supported by the Bank, were under execution, in 78 countries across Asia, Africa and CIS by 112 Indian companies. Out of these projects under execution, 210 projects valued at ₹ 27,685 crore in 47 countries are under Exim Bank's GOI-supported LOCs.

India-ASEAN services & investment FTA in force from July 2015

India's free trade agreement (FTA) in services and investments with 10-member ASEAN Grouping will come into force from July 2015, paving way for movement of professionals and further investment opportunities more freely. "The ASEAN-India Investment & Services Agreement will come into force on July 1, 2015. It has already been signed", Malaysian Minister of International Trade and Industry H E Dato' Sri Mustapa Bin Mohamed told Indian newswire agency PTI. India signed the FTA in services and investment in September last year. Malaysia is the Chair of ASEAN for 2015. India signed a free trade agreement (FTA) in goods with the bloc in 2009. The country was keen on the services deal as it did not gain much from the pact on goods due to already lower tariffs in the region. Asean -- comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam -- and India are targeting US$ 100 billion in trade by 2015.

RBI unveils norms regarding TReDs for MSMEs

RBI has released guidelines for setting up Trade Receivables System (TReDS), which will facilitate financing of trade receivables of Micro, Small and Medium Enterprises (MSMEs) from large corporates and other buyers, including government departments and PSUs through multiple financiers. RBI will accept applications for setting up TReDS till February 13, 2015. Since TReDS will not be allowed to assume any credit risk, its minimum paid up equity capital shall be ₹ 25 crore. Entities, other than the promoters, cannot have shareholding in excess of 10 per cent of the equity capital of the TReDS. To be eligible to operate as TReDS, entities and their promoters should have financial soundness and a track record of at least five years in running their businesses. Once TReDS is in place, a supplier waiting 90 to 120 days to receive payments from final goods producers will be able to discount receivables and get upfront payments in an electronically operated platform. The TReDS will facilitate the discounting of invoices and bills of exchange.

Non-cooperative borrowers to have tough time

Borrowers unwilling to repay bank loans despite the ability to do so, run the risk of being classified as non-cooperative. Aimed at clamping down on errant borrowers, this move of RBI will ensure that companies classified as non-co-operative will not get fresh funds. A non-co-operative borrower is one who deliberately stonewalls legitimate efforts of lenders to recover their dues. On an additional note, RBI has also prescribed norms for classifying / declassifying a borrower as non-cooperative and reporting information on such defaulters to the 'Central Repository of Information on Large Credits' (CRILC).

Banks allowed to recast existing project loans

To give a fillip to the infrastructure and core sectors, RBI has allowed banks to be flexible in lending to existing projects, in line with cash flows available for debt refinancing. This facility will also be available for non-performing loans. Until now, flexible structuring of project loans with option of periodic refinancing was available only to new loans for projects sanctioned after July 15, 2014. For new loans, RBI had not prescribed any ceiling or floor on the repayment period. RBI's move will benefit infrastructure and core sector companies that have projects worth a few lakh crore rupees as banks can now offer loans for an extended period. However, only term loans to projects in which the aggregate exposure of all institutional lenders exceeds ₹ 500 crore will qualify for such flexible structuring and refinancing.

Cap on foreign investments in sovereign bonds may be raised

As revealed by Dr. Raghuram Rajan, Governor, RBI, the central bank has put in place a schedule to expand the limits for foreign investment in sovereign bonds. The present limit for investment by SEBI-registered Foreign Institutional Investors, Qualified Foreign Investors, Registered Foreign Portfolio Investors and long-term investors in Government Securities is US$ 30 billion. While Dr. Rajan has not specified the new limit, the schedule for the expansion will be consistent with the country's ability to absorb capital inflows.

Factoring firms can now diversify business

With the Reserve Bank of India throwing a line to factoring companies by relaxing the principal business criteria, these companies can now diversify their business. According to the relaxed principal business criteria, factoring companies have to ensure that their financial assets in the factoring business constitute at least 50 per cent (against 75 per cent earlier) of their total assets and their income derived from factoring business is not less than 50 per cent (75 per cent) of their gross income. A factoring company (also known as a factor) is a non-banking finance company engaged in the business of acquiring receivables of business entities (sellers of goods) at a discount, thereby helping the entity become immediately liquid. The factor, in turn, recovers the dues from the buyer at the end of the credit period.

Exim Bank's push for a quantum jump in India's project exports

Exim Bank organized a “Stakeholders Seminar on Project Exports” in October 2014 in Mumbai, with the objective to develop a concrete road-map to give a quantum boost to India's Project Exports. Exim Bank has been playing the crucial role of a coordinator and facilitator for the promotion of Project Exports covering overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts out of India. Exim Bank, with its strong belief in the capabilities of Indian exporters' technical competence and capacity to control costs, has been constantly endeavouring to provide further impetus to Indian Project Exports by constantly devising innovative financing programmes and products.

Exim Bank's flagship programmes such as Lines of Credit and Buyers' Credit are designed to offer funding options to the overseas buyers in order to enable Indian project exporters to access new markets in developing countries. Exim Bank, in collaboration with the African Development Bank, is also setting up a Project Development Company (PDC) in Africa to identify and develop infrastructure projects in the region . The PDC is expected to provide specialist project development expertise to take the infrastructure project from concept to commissioning. As on September 30, 2014, 374 project export contracts valued ₹ 161,083 crore (approx. US$ 26.9 billion), supported by the Bank, were under execution, in 78 countries across Asia, Africa and CIS by 112 Indian companies. These projects have been supported by Exim Bank through mix of funded and non-funded facilities.

Seminar on "Economic Development And Inclusive Growth" held in Rajasthan

Exim Bank of India hosted the 20th Annual Meeting of the Asian Exim Banks Forum (AEBF) held in Jodhpur in November 2014. AEBF was set up in 1996 by Exim Bank of India to exchange information and share ideas in a structured manner between the major Export Credit Agencies (ECAs) in Asia. The member countries include India, Australia, China, Indonesia, Japan, Korea, Malaysia, Philippines, Thailand and Vietnam. The Asian Development Bank has a Permanent Observer status in the Forum. As a curtain raiser to the milestone 20th Annual Meeting, Exim Bank of India organized a half-day seminar on “Economic Development and Inclusive Growth,” which was presided over by the Honourable Minister of Industries, Government of Rajasthan, Shri Gajendra Singhji Khimsar. Besides being widely attended by local banks and other organisations, it was also attended by the Leaders of all the AEBF member institutions.

In the era of globalization, inclusive growth is not unique to emerging and developing economies but resonates in the advanced economies as well. In this The deliberations during the seminar highlighted the increasing impact of financial inclusion and the critical role of DFIs and export credit agencies such as Exim Banks in contributing to a nation's economic development. The honourable Minister of Industries, pointed out that financial and economic inclusion are key drivers of sustained economic growth and that growth without socio-economic inclusion would be unsustainable in the long run. He opined that it is only when the lower strata of the society, as also small and micro enterprises become part of this growth initiative, that the country could reap the full benefits of sustained economic development.

Exim Bank issues Samurai bonds at lowest-ever coupon

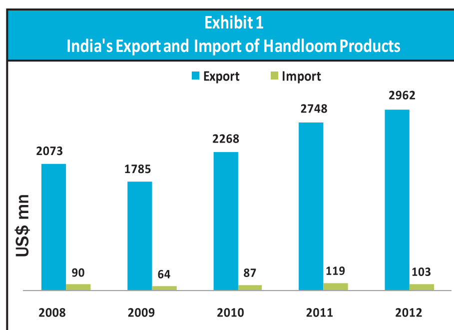
Exim Bank issued 10-year bonds in the Japanese bond market (Samurai Bonds) for JPY 20 billion. JBIC's guarantee will cover the principal and part of the interest of privately placed Samurai bonds. Daiwa Securities, Mitsubishi UFJ Morgan Stanley Securities, Mizuho Securities and SMBC Nikko Securities were the Joint Lead Arrangers to the issue. The guarantee was extended under JBIC's Guarantee and Acquisition toward Tokyo market Enhancement (GATE) facility. This transaction was a repeat issuance for Exim Bank in the Samurai bond market after its inaugural JBIC guaranteed Samurai bond in 2011. The order book was oversubscribed by 1.5 times despite the rising uncertainties in Japanese markets following the third quarter GDP data for Japan. The final issue size was JPY 20 billion and the Bond was priced at 0.97 per cent (YSO+27 bps) for 10 years. Exim Bank achieved the tightest spread and the lowest coupon, the first sub-one per cent, in the history of the GATE facility. The proceeds of the Samurai bonds will be used by Exim Bank to fund Indian project exports to Sri Lanka for financing Railway Projects in Sri Lanka. Given the low levels of yield in the Japanese market, the Japanese bond market is an attractive option for issuers from India. The renewed optimism on the economic outlook for India and also the bold quantitative easing announced by the Bank of Japan have increased the appetite for the Indian paper in the Japanese market.

Export Performance of Indian Handloom Industry

Handloom weaving is one of the largest economic activities after agriculture providing direct and indirect employment to more than 43 lakh weavers and allied workers. This sector contributes nearly 11 per cent of the cloth production in the country and also contributes to the export earnings of the country, 95 per cent of the world's hand woven fabric comes from India. The handloom sector has a unique place in our economy. The strength of the sector lies in its uniqueness, flexibility of production, openness to innovations, adaptability to the supplier's requirement and the wealth of its tradition. The adoption of modern techniques and economic liberalization, however, has made serious inroads into the handloom sector. Competition from power looms and mill sector, availability of cheaper imported fabrics, changing consumer preferences and alternative employment opportunities have threatened the vibrancy of handloom sector.

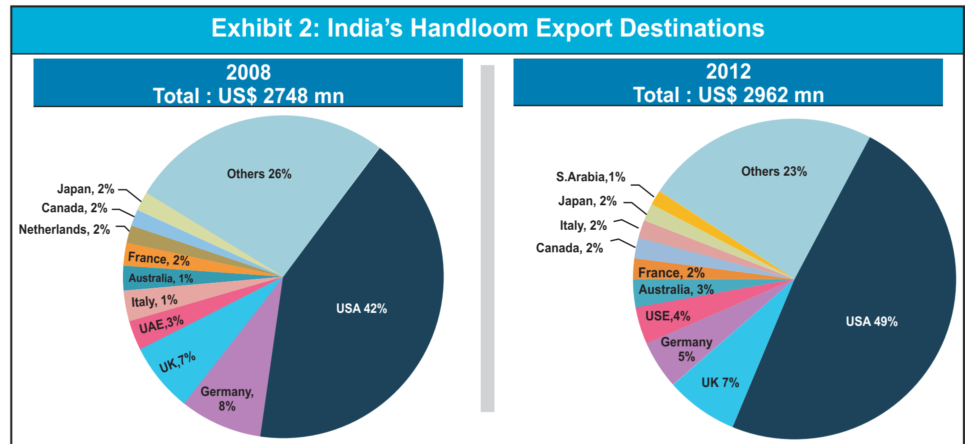
World exports of handloom products stood at US$ 21.7 billion in 2012, growing at a CAGR of 3.6 during the period 2008-2012. China and India were the largest exporters with exports totalling to US$ 7,226 million (33.4 per cent) and US$ 2,962 million (13.7 per cent) respectively (**Exhibit 1**). The other top exporters in 2012 were Turkey (12.4 per cent), Pakistan (7 per cent), Italy (4 per cent) and Germany (3.6 per cent). USA with a share of 25.4 per cent in 2012 was the largest importer of handloom products, followed by Germany (7.9 per cent), Japan (7.7 per cent), France (5.4 per cent) and UK (4.4 per cent). In 2008, the top importers were USA (21.8 per cent), Germany (6.9 per cent), France (6.3 per cent), Japan (5.5 per cent),

Exhibit 1
India's Export and Import of Handloom Products



Source : PCTAS.

Exhibit 2: India's Handloom Export Destinations



Source : PCTAS.

United Kingdom (4.3 per cent), Italy (3.7 per cent), Spain (3.5 per cent), Belgium (2.7 per cent), Netherlands (2.1 per cent) and Canada (2.1 per cent).

The handloom cloth production in India has been growing over the years. During 2013-14, handloom cloth production had grown by 2.3 per cent to reach 7116 million square meters from 6953 million square meters in 2012-13. Handloom cloth production constituted 11 per cent of the total cloth production in India. During April–October 2014-15, handloom cloth production stood at 4092 million square meters, a negative growth of 3 per cent compared to corresponding period of the previous year.

India was the second-largest exporter of handloom products in the world with a share of 14 per cent of the total world exports. India's exports of handloom products had grown at a CAGR of 9.3 per cent from US$ 2,073 million in 2008 to US$ 2,962 million in 2012.

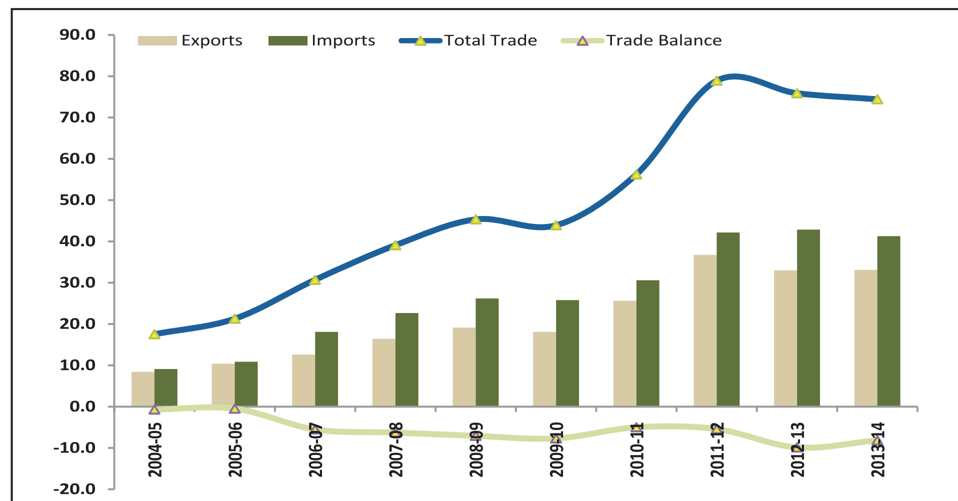
The major handloom products exported by India are toilet and kitchen linen (22.8 per cent), bedspreads of textile materials (22.7 per cent), furnishing articles, of cotton (22.3 per cent), carpets and other textile floor coverings (9.2 per cent), and floor-cloths, dish-cloths, dusters (4.2 per cent). The top ten products account for 94 per cent share of the total handloom exports by India in 2012. USA was the predominant export destination for India in 2012 accounting for a share of 49 per cent of the country's total exports, followed by UK (7 per cent), Germany (5 per cent), UAE (4 per cent) and Australia (3 per cent) (**Exhibit 2**).

The Government of India, has been following a policy of promoting and encouraging the handloom sector through cluster approach, aggressive marketing initiative and social welfare measures. Due to which the handloom sector has shown positive growth and the income level of weavers has improved. Some of the exclusive product ranges include: silk saree from Varanasi, scarf from Barabanki, home furnishing from Bijnore, shawls from Kullu, ikat sari from Sonepur and Bargarh, cotton saree from Chanderi and many other products.

The most urgent task today is devising appropriate institutional and structural support system that could help the industry realise its potential. In order to do this, major shift in the existing approach in developing the industry will be necessary. The general thrust of a government policy on handlooms has to be based on a clear recognition of such needs. Unlike certain other industries where a handful of owners control and direct the entire production process, in the handloom sector, the control over resources is not concentrated but more dispersed. This follows from the very nature of the industry, which uses only small amounts of capital while drawing on traditional skills and house-hold based labour in order to produce cloth. In the long run, the growth prospects of the handloom industry depend on market expansion, and policy formulations should address the needs of the industry that follow from such an objective.

The partnership between India and the Association of South East Asian Nations (ASEAN) (comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) has been developing at quite a fast pace. India became a sectoral dialogue partner of ASEAN in 1992. The deepening of ties between India and ASEAN is reflected in the continued buoyancy in trade figures. The ASEAN region is currently India's fourth - largest trading partner, with total trade increasing more than four - fold from US$ 17.5 billion in 2004 - 05 to US$ 74.4 billion in 2013 - 14. In 2013 (*as per latest data available*), India was the fifth largest trading partner of the ASEAN region **(Chart).**

Chart : India's trade with ASEAN (US$ mn)



Source: Ministry of Commerce and Industry (MOCI), Government of India (GOI)

India's exports to the region stood at US$ 33.1 billion during 2013 - 14, increasing sharply from US$ 8.4 billion in 2004 - 05. India's exports to ASEAN accounted 10.5 per cent of its total global exports in 2013 - 14. Some of the principal commodities in India's export basket to ASEAN during the same year include mineral fuels, mineral oils and their products, accounting for 29.3 per cent of the total exports in the year (mainly light oils and preparations), meat and edible meat offal (7.5 per cent), organic chemicals (5.4 per cent), ships, boats and floating structures (4.9 per cent), machinery and instruments (4.5 per cent), among others.

In 2013 - 14, Singapore was India's largest global export market for petroleum products; other markets in ASEAN include Indonesia (12th- largest) and Malaysia (16th- largest). Thailand was India's 5th largest market for pearls and precious stones. Malaysia (3rd- largest global market), Indonesia (5th- largest), Singapore (6th- largest) were the main markets for India's global exports of organic chemicals.

India's imports from the ASEAN region too increased sharply, by more than five - fold from US$ 7.4 billion in 2004 - 05 to US$ 41.3 billion in 2013 - 14. India's imports from the region accounted for approximately 9.2 per cent of the country's total imports during the same year. Principal imports from the ASEAN region in 2013 - 14 include mineral fuels, mineral oils and their products (mainly petroleum oils and oils obtained from bituminous minerals crude) accounting for 24.3 per cent of the total imports in the year, animal or vegetable fats and oils (17.1 per cent of the total imports), electrical goods (mainly including electrical parts for line telephony/ telegraphy) (10.7 per cent), machinery and equipments (mainly including printing machinery) (8.0 per cent), and organic chemicals (6.4 per cent), among others. Indonesia (with US$ 14.7 billion worth of imports in 2013 - 14) was India's largest import source in the ASEAN region, followed by Malaysia (US$ 9.2 billion), Singapore (US$ 6.7 billion), Thailand (US$ 5.3 billion), and Vietnam (US$ 2.6 billion).

Indonesia is currently the largest source for vegetable oils for India. Malaysia (12th - largest) is the largest supplier of petroleum crude to India in 2013 - 14 from the ASEAN region. Thailand (7th- largest), Singapore (8th-largest), and Malaysia (9th - largest) were the key global sources of machinery and instruments.

The Framework Agreement for Comprehensive Economic Cooperation (CECA), signed in 2005, laid the basis for the Free Trade Agreement (FTA) with ASEAN. The key elements of Framework Agreement on CECA cover FTA in goods, services, and investment as well as economic cooperation in identified areas. In August 2009, India signed a Free Trade Agreement (Trade - in - Goods (TiG) agreement) with the ASEAN members in Thailand, which entered into force on January 1, 2010. The ASEAN - India FTA will provide tariff liberalisation of over 90 per cent of products traded between the two regions. Tariffs on over 4,000 product lines are expected to be eliminated by 2016.

The approved investments by Indian companies in ASEAN region amounted to US$ 62.2 billion, during April 1996 to December 2014. ASEAN's share in India's total ODI accounted for 22 per cent, during the same period. Singapore forms the largest destination accounting for 94.3 per cent of the region's total. Indian companies are mainly engaged in information technology, healthcare, engineering goods, oil and gas exploration, agro - chemicals, hospitality, equipment manufacturing, etc. On the other hand, total inflows from the ASEAN region to India amounted to US$ 30.8 billion during April 2002 to November 2014, accounting for 13 per cent of India's global FDI inflows. Close to 95 per cent of inflows were from Singapore. India has signed FTA in services and investment with the ASEAN region in September 2014, paving way for movement of professionals and further opening opportunities for investments.

Marketing Advisory Services
October - December, 2014

Exim Bank has organized a Skill Development and Capacity Building Training Programme in the area of Block Printing & Dyeing. The ongoing workshop is for 200 women artisans of Anoothi, Jaipur, for a duration of six months (starting November 2014 to April 2015) at Achrol in Jaipur (Rajasthan) in association with Artisans of Fashion (AOF), an Australia based social enterprise working with number of grassroots organizations across India by partnering with NGO's, Self Help Group(SHG) and co-operatives aim to develop required skills and create sustainable outcomes by focusing on empowering women and marginalized communities who have little access to alternative sources of income. The prime objective is to work with these communities to create and sell high quality, hand-crafted products for the International markets. The partner organizations through its various awareness campaigns, roadshow, designer collaboration and retail partnerships in Australia and USA, endeavor to foster hand-crafted products from India.

Anoothi provides alternative careers in textiles to marginalised and rural women in village communities in Rajasthan. Anoothi is an all women's SHG which provides social and financial empowerment through design, craft, community-building and education. The SHG trains women artisans in making home accessories, gift items (marble candles with honey bee wax), home furnishing (bed/kitchen linen), garments(quilted jackets, scarves) & bags, jewelry (necklace, bracelets, anklets), made with recycled fabric, handmade paper, old silk & cotton, wood, metal, ceramic, semi-precious stones and silver. Highly skilled local block printers from Bagru & Sanganer, are the faculty members for this training Programme on Block Printing & Dyeing. AOF is providing product designs suitable for the skill level of women weavers which is supplemented by local block printers for making final products for the Australian and US markets. This initiative shall lead to improvement in livelihood and economic status of women weavers of Anoothi and the surrounding villages of Achrol and the newly developed products find markets.

The Training Programme would provide a significant platform to women weavers of Anoothi to learn new techniques of Block Printing & Dyeing and gain knowledge & new innovative ideas of product development using Kantha & Block Printing techniques.

The overall objective of the Training Programme is to support and promote grassroots enterprises, especially in the Handicraft & Handloom sector by providing specific interventions such as assistance in skill development, product development and export readiness.

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Eximius Centre for Learning Activities
October - December 2014

Eximius Centre for Learning (ECL) had organized two seminars. A seminar on “Export Credit and Insurance” was organised at Bhopal on November 20, 2014, in association with the Federation of Madhya Pradesh Chamber of Commerce and Industry (FMPCCI). The objective of the programme was to enhance awareness of Indian exporters.

To build awareness on the newly introduced “Niryat Bandhu Scheme” of Directorate General of Foreign Trade (DGFT) Ministry of Commerce and Industry, ECL conducted a seminar on “Energizing Young Entrepreneurs on International Trade”, in association with Federation of Indian Chamber of Commerce and Industry (FICCI) at Cochin on December 19, 2014.

Programmes in pipeline include:

Six export promotion seminars are scheduled during January - March 2015 for Indian exporters, in Bangalore, Chandigarh, Imphal, Guwahati, Coimbatore and Noida. ECL has tied up with Federation of Karnataka Chamber of Commerce and Industry (FKCCI), PHD Chamber, FICCI, and the State Government of Manipur for the upcoming seminars.

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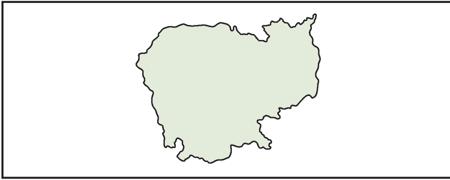
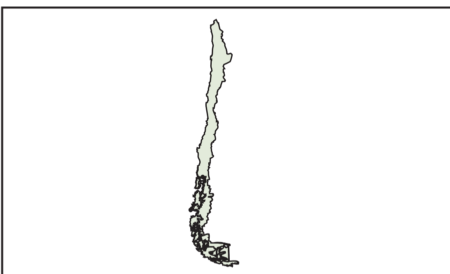
Cambodia



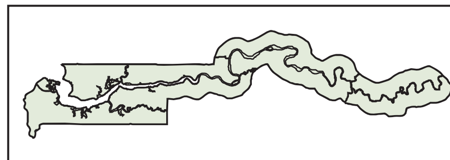
Growth is estimated to have accelerated in Cambodia during 2014, driven by stronger external demand and domestic demand. Rise in domestic demand is linked particularly to investment in infrastructure projects. The airport expansion projects of Pnom Penh and Siem Reap helped in sustaining the construction sector, as well as energy infrastructure projects. Investment was also boosted by the rapid growth of credit. The textile sector (representing 75 per cent of exports) remained strong. Activity in the textile sector was however limited by the lack of infrastructure, particularly in terms of transport and electricity distribution, as well as the demands for higher wages among textile workers. The balance of trade remained in deficit in 2014, with continuing imports of capital goods, oil and gas. In addition, the growth in tourism, the high level of international aid and inwards transfers from expatriate workers helped offsetting the increase in the repatriation of dividends by foreign owned companies, largely in the textile sector. Further, substantial foreign direct investment funded the current account deficit.

Chile:



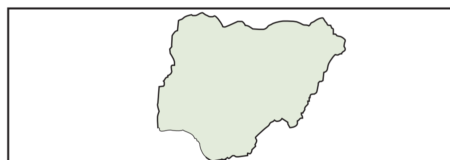
After several years of strong economic performance, Chile's investment has weakened and growth slowed markedly in 2014 due in part to a weaker copper price outlook, with the economy performing slightly below potential. At the same time, the depreciation of the peso has fed into higher inflation. Monetary policy has eased while fiscal policy has stayed broadly neutral. The government has launched an ambitious policy agenda to bolster long-term growth and reduce inequality, which include important reforms in taxation, education, productivity, and energy. The authorities tax reforms aim to create a more progressive tax structure and raise three per cent of GDP in revenue to fund greater spending on education and health, while raising public savings.

Gambia



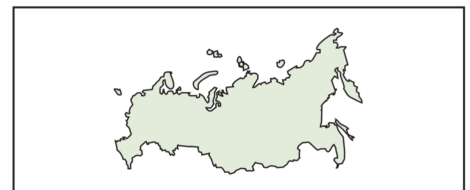
The outbreak of Ebola in Africa has caused a deep decline in tourism related activities, which forms Gambia's principal foreign currency earner. IMF has projected a decline of about 60 per cent in tourism activities, which in turn is likely to strain the country's balance of payments. Delayed rains in 2014 have also caused distress in the economy, leading to a significant decline in crop production. The consequences of past fiscal slippages have put pressure on the government budget. Government borrowings have lifted interest rates, which has increased interest payments considerably. Banks have restricted their lending to the private sector while higher debt burdens and import costs due to currency depreciation have weighed on the public enterprises. IMF has predicted a dimmed outlook for Gambia, owing to "excessive spending" by the government to a level higher-than-budgeted.

Nigeria



Nigeria is the largest economy and oil exporter in Sub - Saharan Africa. Gas (LNG) and petroleum together make up for 90 per cent of export revenues and around 70 per cent of federal government revenues. However, the country's poor infrastructure, especially in energy supply and transportation has impaired its economic development. Nigeria is keen on attracting foreign investment, but is hindered in this quest by security concerns as well as by shaky infrastructure, troubled by power cuts. The financial sector was hit hard by the financial crisis in 2008, but measures taken by the Central Bank of Nigeria, including a restructuring of the sector and the creation of a bank, have helped to restore confidence and performance in the sector.

Russia



The oil and gas sector dominates the Russian economy constituting 70 per cent of total exports and contributing 28 per cent to GDP. This makes government revenues highly susceptible to global oil price fluctuations. Russia's economy is slowing down as a result of western sanctions and a drop in oil prices. Its outlook has also deteriorated due to lower investor confidence and a strengthening of the government's control. Other impediments to growth include weak institutions, a declining labour force and a poor business environment. The conflict in east Ukraine and Russia's involvement in the matter has largely determined Russia's economic and political trends in recent months. Severe Western sanctions have been imposed on Russia's finance, defense and energy industries. In response to these sanctions Russia introduced a one year ban on imports of agricultural products, raw materials and food, originating from the west.

Euro

During the quarter the euro (EUR) weakened significantly against the US dollar in terms of London closing rates from 1.2145 to 1.1288. The Governing Council of the European Central Bank maintained the refinancing and deposit rates at 0.05 per cent and -0.20 per cent respectively. As expected, the ECB also announced an expanded Asset Purchase Program (APP) but was larger than expected. The amount committed over a 19-month period to September 2016 was € 1.14 trllion, or EUR 60 billion per month.

The euro plunged driven by the larger than expected APP announced by the ECB. Crucially though, ECB President Draghi in his statement indicated that the program could continue beyond September 2016 if price stability was still not in sight. From a monetary policy perspective, market doesn't place too much importance on the fact that only 20 per cent of potential losses will be shared. Greek government bond purchases under the APP announced by the ECB will only be allowed as long as the delayed Troika review is completed and it deems Greece to be still adhering to the terms of the bailout program. Syriza has come to power on a mandate of changing the scale of austerity agreed under the bailout program. The rhetoric from Alexis Tsipras has suggested scope for a period of calm negotiations and the market does not expect the Syriza victory in Greece to destabilize financial markets in the euro-zone.

The scale of the APP announced by the ECB was larger than the market expectation and so was the scale of EUR/US$ decline. The market is assuming a similar degree of dollar appreciation. EUR/US$ on December 31, 2014 was at 1.2110.

Swiss Franc

During the quarter the Swiss franc (CHF) surged against the euro in terms of London closing rates. Similarly, the franc surged against the US dollar. The unprecedented gain followed the decision of the Swiss National Bank (SNB) to abandon the EUR/CHF 1.2000 floor that had been established in September 2011. SNB also cut the official rate by 0.50 points to - 0.75 per cent.

SNB delivered a shock to the financial markets by removing the EUR/CHF floor at 1.2000, followed by the predictable surge in the Swiss franc. SNB gave two reasons for the change – firstly, the over-valuation that existed in 2011 when the policy was introduced had eased and secondly due to the anticipated further “pronounced divergence” in global monetary policies. This was a clear indication of the expected widening of Fed-ECB monetary policies and with that the complication of holding the EUR/CHF floor. US$/CHF was trading at around 0.8000 when the floor was implemented and hence the SNB's dollar reserves will help reduce overall losses on FX reserve holdings. SNB’s decision is clearly inconsistent with its price stability goal and a period of deeper deflation is now ahead.

The official interest rate was cut deeper into negative and further cuts may be forthcoming if the franc strengthens again. SNB has since resumed more discretionary intervention. SNB’s sight deposits increased by CHF 44 billion over the last two weeks. Assuming the euro-zone does not go into crisis, the market expects the franc to weaken gradually in the second half of the year. Market's end-2015 EUR/CHF forecast is 1.0500. US$/CHF on December 31, 2014 was at 0.9928.

Russian Ruble

During the quarter the Russian Ruble weakened against the US dollar in terms of London closing rates. The Central Bank of the Russian Federation (CBR) lowered the one-week auction rate by 2.0 points to 15.0 per cent.

The Ruble has weakened against the US dollar undermined by a further loss of confidence in the Ruble. The sharp decline in the price of crude oil and increasingly negative impact of economic sanctions on Russia remain heavy weights on the Ruble. Recent developments in Ukraine have increased the likelihood that Russia could face further sanctions potentially deepening the economic recession.

CBR has already projected that real GDP could contract by around 5 per cent in 2015 if the price of crude oil remains at around US$ 60/barrel. The weakening growth outlook and loss of CBR monetary policy flexibility prompted S&P to lower Russia's credit rating to junk status. The credit downgrade increases the likelihood that Ruble weakening capital outflows will remain elevated. The CBR estimated that capital outflows totalled US$151.5 billion in 2014. Stress in the corporate sector will also be reinforced by external debt repayments totalling around US$130 billion due in 2015.

The Russian authorities support for the ruble has weakened after the CBR's unexpected decision to partially reverse an earlier emergency rate hike. The CBR's decision to ease monetary policy reflects less concern over upside risks to inflation. However, the CBR may prove to be overly optimistic with inflation expected to remain elevated having increased by an annual rate of 11.4 per cent in December. In these circumstances, the market expects that the ruble will remain weak in the year ahead. US$/RUB on December 31, 2014 was at 58.5730.

With a relatively higher growth in merchandise exports and marginal rise in merchandise imports, India's trade deficit narrowed to US$ 73.2 billion in H1 2014-15 from US$ 83.8 billion in H1 2013-14. Lower trade deficit coupled with a marginal rise in net services receipts has resulted in lowering India's current account deficit (CAD) for April-September 2014 at US$ 17.9 billion (1.9 per cent of GDP) as against US$ 26.9 billion (3.1 per cent of GDP) in H1 2013-14.

Net inflows under the capital and financial account (excluding change in foreign exchange reserves) rose to US$ 38.5 billion in H1 2014-15 from US$ 15.8 billion in H1 2013-14. Foreign investment both direct and portfolio investment recorded net inflows in H1 2014-15. Net FII inflows was US$ 22.2 billion as against an outflow of US$ 0.1 billion in H1 2013-14, and net FDI inflows was placed at US$ 16.2 billion in H1 2014-15 as against a level of US$ 14.6 billion in April-September 2013. On overall basis, net financial/ capital inflows exceeded requirements of financing and was reflected in the build-up of foreign exchange reserves.

Lower CAD and rise in inflows under financial account resulted in an accretion to India's foreign exchange reserve to the tune of US$ 18.1 billion in H1 2014-15 as against a drawdown of US$ 10.7 billion in H1 2013-14 (**Table**). India's Balance of Payment is more or less under control as the decline in crude prices, depresses imports and keeps the trade deficit in check.

India imports almost 79 per cent of its crude oil requirements and the share of oil imports in India's import basket is nearly 35 per cent. The contraction in global crude oil prices have given relief to the domestic economy by stemming POL import growth and reducing its import bill.

The recent fall in international prices of crude oil reflects strengthening of the US dollar, increased supplies by both organisation of the petroleum exporting countries (OPEC) and non-OPEC countries and weakening demand from major developing and emerging market economies and the euro area. According to the US Energy Information Administration, September 2014, it also reflected the impact of moderation in demand due to seasonal decline in refinery runs and the seasonal increase in crude oil exports from Saudi Arabia. Though there is a drop in crude oil import bill in H1 of 2014-15 from a year-ago, it was more - than offset by a spike in other imports, partly indicating an incipient investment momentum.

On the other hand, during Q2 2014-15, CAD increased to US$ 10.1 billion (2.1 per cent of GDP) from US$ 7.8 billion (1.7 per cent of GDP) in the preceding quarter and US$ 5.2 billion (1.2 per cent of GDP) in Q2 2013-14. The increase in CAD was primarily on account of higher trade deficit contributed by both, a deceleration in export growth and increase in imports. Net services receipts improved by 3.4 per cent in Q2 2014-15 due to a pick-up in telecommunication, computer and information services. In the financial account, net inflows through foreign direct investment were stable; however, portfolio investment recorded inflows of US$ 9.8 billion as against an outflow of US$ 6.6 billion in Q2 2013-14. On a BoP basis, there was a net accretion of US$ 6.9 billion to India's foreign exchange reserves in Q2 2014-15 as against a drawdown of US$ 10.4 billion in Q2 2013-14.

Table: Major Items of India's Balance of Payments

(US$ Billion)

	Apr-Sept 2014-15^P			Apr-Sept 2013-14^P		
	Credit	Debit	Net	Credit	Debit	Net
A. Current Account	**283.2**	**301.2**	**-17.9**	**269.3**	**296.2**	**-26.9**
1. Goods	167.0	240.2	-73.2	155.2	238.9	-83.8
Of which:						
POL	33.6	82.6	-49.0	32.6	80.3	-47.7
2. Services	75.9	39.9	36.1	73.2	37.9	35.2
3. Primary Income	5.3	18.9	-13.6	5.6	16.8	-11.2
4. Secondary Income	35	2.3	32.8	35.3	2.6	32.8
B. Capital Account and Financial Account	**277.8**	**257.4**	**20.5**	**266.8**	**240.3**	**26.5**
Of which:						
Change in Reserve (Increase (-) /Decrease (+))	**0**	**18.1**	**-18.1**	**10.7**	**0**	**10.7**

Note: P: Preliminary
Source: Reserve Bank of India

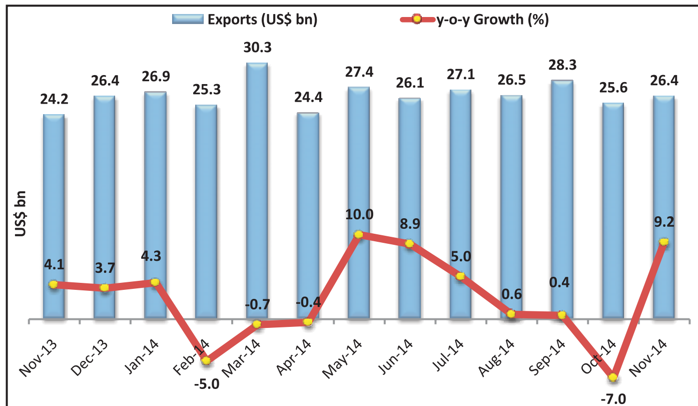
Snapshot of Indian Economy

INDICATORS	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
GDP (at current prices, US$ bn)	**1224.1**	**1365.4**	**1708.5**	**1880.3**	**1858.7**	**1877.5**	**2137.2**[f]
GDP Per capita (US$)	**1044.9**	**1146.7**	**1411.7**	**1528.7**	**1486.8**	**1472.1**	-
Real GDP Growth (%)*	**6.7**	**8.6**	**8.9**	**6.7**	**4.5**	**4.7**	**5.5 (Apr-Sep)**[e]
Agriculture & allied activities	0.1	0.8	8.6	5.0	1.4	4.7	3.5 (Apr-Sep)[e]
Industry	4.4	9.2	7.6	7.8	1.0	0.4	3.2 (Apr-Sep)[e]
Services	10.0	10.5	9.7	6.6	7.0	6.8	6.9 (Apr-Sep)[e]
Sectoral Share in GDP (%)							
Agriculture & allied activities	15.8	14.6	14.6	14.4	13.9	14.0	12.1 (Apr-Sep)[e]
Industry	28.1	28.3	27.9	28.2	27.3	26.1	26.0 (Apr-Sep)[e]
Services	56.1	57.1	57.5	57.4	58.8	59.9	61.9 (Apr-Sep)[e]
Population (mn)	**1171.5**	**1190.7**	**1210.2**	**1230.0**	**1250.2**	**1270.6**	-
Inflation rate (WPI, annual avg. %)	**8.1**	**3.8**	**9.6**	**8.9**	**7.4**	**6.0**	**1.3 (Nov '14)**
Gross Fiscal Deficit (% of GDP)	**6.0**	**6.5**	**4.8**	**5.7**	**4.8**	**4.6**	**4.1**[e]
Exchange Rate (₹/US$, avg.)	45.9	47.4	45.6	47.9	54.4	60.5	63.33(Dec 31,'14)
Exchange Rate (₹/Euro, avg.)	65.1	67.1	60.2	65.9	70.1	81.2	77.00(Dec 31,'14)
Exports (US$ bn)	**185.3**	**178.8**	**251.1**	**306.0**	**300.4**	**314.4**	**211.9 (Apr-Nov)**
% change	13.6	-3.5	40.5	21.8	-1.8	4.7	3.1^
Oil Exports (US$ bn)	**27.5**	**28.2**	**41.5**	**56.0**	**60.9**	**63.2**	**42.6 (Apr-Nov)**
% change	-3.0	2.3	47.2	34.9	8.7	3.8	1.4^
Non-oil Exports (US$ bn)	157.7	150.6	209.6	250.0	239.5	251.2	169.3 (Apr-Nov)
% change	17.1	-4.6	39.2	19.3	-4.2	4.9	4.3^
Imports (US$ bn)	**303.7**	**288.4**	**369.8**	**489.3**	**490.7**	**450.2**	**315.7 (Apr-Nov)**
% change	20.7	-5.1	28.2	32.3	0.3	-8.3	4.4^
Oil Imports (US$ bn)	**93.7**	**87.1**	**106.0**	**155.0**	**164.0**	**164.8**	**106.6 (Apr-Nov)**
% change	17.4	-7.0	21.6	46.2	5.9	0.4	-1.6^
Non-oil Imports (US$ bn)	**210.0**	**201.2**	**263.8**	**334.3**	**326.7**	**285.4**	**209.0 (Apr-Nov)**
% change	22.2	-4.2	31.1	26.7	-2.3	-12.6	7.7^
Trade Balance (US$ bn)	**-118.4**	**-109.6**	**-118.7**	**-183.3**	**-190.3**	**-135.8**	**-103.8 (Apr-Nov)**
Export/GDP (%)	**15.1**	**13.1**	**14.7**	**16.3**	**16.2**	**16.7**	-
Services Exports (US$ bn)**	**106.0**	**96.0**	**124.6**	**142.3**	**145.7**	**151.5**	**91.0 (Apr-Oct)**
*Software Exports (US$ bn)***	46.3	49.7	53.1	62.2	65.9	69.5	35.2 (Apr-Sep)
Services Imports (US$ bn)**	**52.0**	**60.0**	**80.6**	**78.2**	**80.8**	**78.5**	**49.0 (Apr-Oct)**
Services Balance (US$ bn)**	**54.0**	**36.0**	**44.0**	**64.1**	**64.9**	**73.0**	**42.0 (Apr-Oct)**
Current Account Balance (US$ bn)	**-28.7**	**-38.4**	**-47.9**	**-78.2**	**-87.8**	**-32.4**	**-17.9 (Apr-Sep)**
CAB as percentage of GDP (%)	-2.3	-2.8	-2.8	-4.2	-4.8	-1.7	-1.9 (Apr-Sep)
Forex Reserves (US$ bn)	**252.0**	**279.1**	**304.8**	**294.4**	**292.0**	**304.2**	**319.7(Dec 26,'14)**
External Debt (US$ bn)	**224.5**	**260.9**	**317.9**	**360.8**	**409.4**	**442.2**	**450.1 (Apr-Sep)**
External Debt to GDP Ratio (%)	20.3	18.2	18.2	20.5	22.0	23.4	23.2 (Apr-Jun)
Short Term Debt (US$ bn)	43.3	52.3	65.0	78.2	96.7	89.2	86.4 (Apr-Sep)
Short Term Debt / Total Debt (%)	19.2	20.1	20.4	21.7	23.6	20.2	18.9 (Apr-Sep)
Total Debt Service Ratio (%)	4.4	5.8	4.4	6.0	5.9	5.9	8.1 (Apr-Jun)
FDI (US$ bn)	**41.9**	**37.7**	**34.8**	**46.6**	**34.3**	**36.0**	**27.2 (Apr-Nov)**
GDRs/ADRs (US$ bn)	1.2	3.3	2.0	0.6	0.2	0.02	-
FIIs (net) (US$ bn)	-15.0	29.0	29.4	16.8	27.6	5.0	28.9 (Apr-Nov)
FDI Outflows (US$ bn)	**19.4**	**15.1**	**16.5**	**10.9**	**7.1**	**9.2**	**1.1 (Apr-Nov)**
MEMO ITEMS	2009	2010	2011	2012	2013	2014[f]	2015[f]
Global GDP (% change)	**0.01**	**5.4**	**4.1**	**3.4**	**3.3**	**3.3**	**3.5**
Advanced Economies	-3.4	3.1	1.7	1.2	1.3	1.8	2.4
Emerging and Developing Economies	3.1	7.5	6.2	5.1	4.7	4.4	4.3
World Merch. Trade (Vol., % change)	-11.9	14.0	6.8	2.7	2.7	3.8	5.1
World Merch. Exports (US$ trn)	**12.3**	**15.0**	**18.0**	**18.2**	**18.7**	**19.3**	**20.1**
Growth in Value of World Merch. Exports (%)	**-22.0**	**21.7**	**20.0**	**1.0**	**2.5**	**3.4**	**4.2**

Source: Economic Survey, Various issues; Union Budget, RBI Monthly Bulletin, Annual Report & Weekly Statistical Supplement; Ministry of Finance; CSO; EIU; NASSCOM; Ministry of Commerce & Industry; Institute of International Finance (IIF); WEO, IMF.

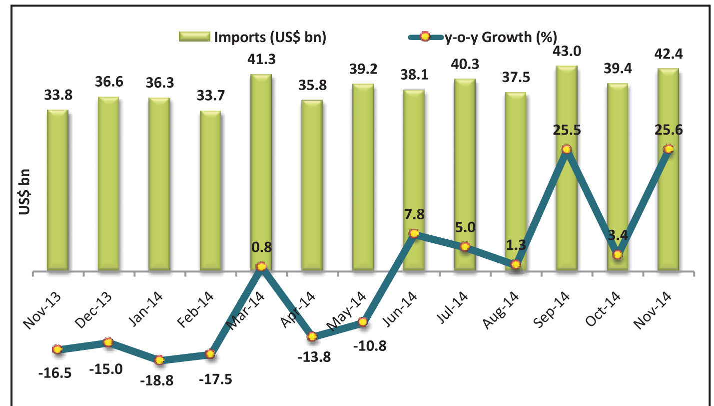
Note: p -EAC, GOI's Projections; e -estimates; f- Forecasts ; ^-% change is over corresponding period of the previous year; - Not Available; * - Budget 2014-15 estimates real GDP growth in the range of 5.4 to 5.9 per cent in 2014-15; **- Data from 2009-10 onwards is given by RBI as per new format of standard presentation of BoP statistics based on guidelines set out in IMF Balance of Payment Manual.

Chart 1: India's Exports – Monthly and Percent Change



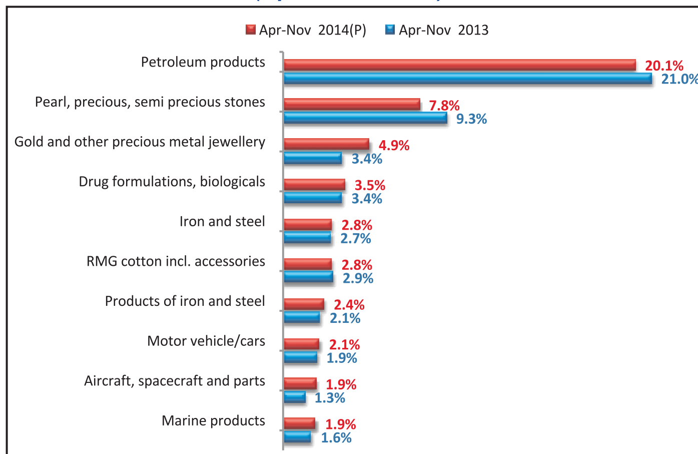
Source: MOCI

Chart 2: India's Imports – Monthly and Percent Change



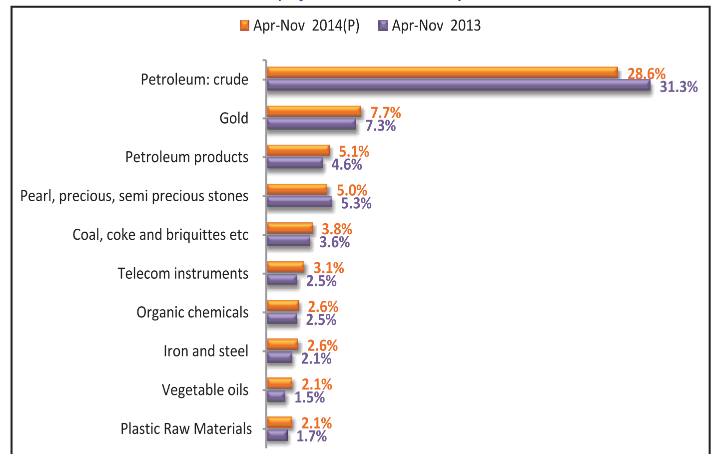
Source: MOCI

Chart 3: India's Export Composition in 2014-15 (April-November)



Source: MOCI

Chart 4: India's Import Composition in 2014-15 (April-November)



Source: MOCI

Chart 5: India's Share in World Merchandise Exports

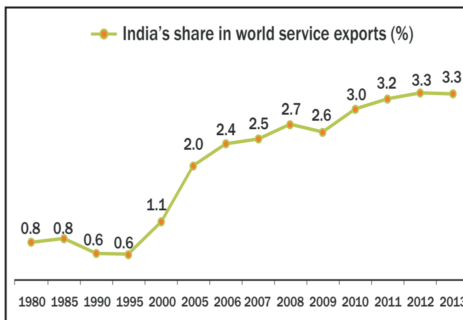
Notes:

1) China emerged as the leading global exporter in 2009, replacing Germany.

2) India is the 19th largest global exporter in 2013, up from 26th position in 2007, and 32nd position in 2000.

Source: WTO (Accessed on December 31, 2014)

Chart 6: India's Share in World Service Exports



Notes:

1) India is the 6th largest global service exporter in 2013, up from 7th position in 2012 and 9th position in 2011, 11th position in 2009, and 15th position in 2005.

Source: WTO (Accessed on December 31, 2014)

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

Note : Indian Rupees are referred in crore and lakh

1 crore : 10 million

1 lakh : 100 thousand

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Trade and Partnership Opportunities

Trade Opportunities

Nano Milk Processing Plant

The standalone container Milk processing unit with on spot milk processing capacity of 1000 L.P.H. Saves transportation, forward & backward integration cost. Capable of processing cow milk into double filtered, pasteurized, homogenized milk. Minimum set up cost is ₹90.00 lakhs.

Green Tea

North-east India based company offering Green Tea grown on the most fertile hills of Nagaland. The tea is infused with aroma flavored cinnamon and day leaves. Other products include fine orthodox Assam tea. All the products are chemical free.

Garments & Fashion Accessories

A manufacturer of 100 per cent silk garments and fashion accessories from is offering stoles and handbags with tribal embroidery. The products are handmade by using natural products and dyes.

Passenger, Commercial and Agricultural Vehicles

India manufacturer of passenger, commercial and agricultural vehicles offering the same for international market. The company has technological alliance with major German companies.

Home Furnishing

A unique tribal themed home furnishing products manufactured by using natural resources. Other products offered are Dohars, Stoles, Mink Blankets and Handicraft items like bell metal, wooden & wrought iron craft.

Rigid Packaging Tubes

An Indian manufacturer of rigid packaging products is offering tablet containers with CR cap & normal cap, dry syrup bottle with cap induction liner & measuring cups, Ribbed Jar.

Investment Opportunities

Partnership opportunities for Indian companies

An Indian dairy company is seeking for a Myanmar based importer / distributor for considering partnership for importation and distribution of milk, cream, cheese and other allied products. The captioned company is a third party contract manufacturer for some reputed overseas companies in India and manufactures products of international standards. Interested companies may submit “terms of reference” for further discussion.

Partnership Merits: Leverage the strategic location to export to Asian and South-east Asian markets and cater to huge domestic of demand Myanmar.

Interested parties may like to reach out to Marketing Advisory Services Group, contact details of which is mentioned as under.

For more details, please contact - Phone: +91-22- 2217 2600 Extn: 2737 / 2707; Fax: +91-22-2218 8268. Email: mas@eximbankindia.in