

EXIMIUS: EXPORT ADVANTAGE

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Building Infrastructure in CLMV: Opportunities for India

An integral part of ASEAN, the CLMV region – covering Cambodia, Lao PDR, Myanmar and Vietnam - represents a group of rapidly growing economies with rising consumption, favourable geo-strategic location, access to rich natural resources and biodiversity, and an industrial workforce with lowest wages among ASEAN countries.

Status of Infrastructure in CLMV Countries

CLMV countries are among the fastest growing countries not only in ASEAN, but also globally. To sustain this high growth pace, there is a need for infrastructure development in the region, both in terms of new infrastructure and upgradation of existing infrastructure.

Road and Rail Transportation

In order to maintain the growth momentum of CLMV countries, it is essential to strengthen the existing transport infrastructure facilities such as rail, roads, port and airport, which could connect domestic economy effectively and thus, improving competitiveness and reduce trade and transaction costs. Cambodia and Vietnam have witnessed a rise in the share of paved roads in the last decade, though CLMV countries still lags behind other ASEAN countries. Lao PDR has the lowest ratio of paved roads among CLMV countries, followed by Cambodia and Myanmar. Inefficiencies and an inadequate railroad network also contribute to high costs of doing business in CLMV countries.

Maritime and Air Transportation

Maritime transportation is essential for economic integration of CLMV countries. As per the UNCTAD, while Singapore ranked 1st globally out of 132 countries, in terms of median time spent in port by dry bulk carriers (0.12 days) during 2018, Myanmar ranked 129th with a median time of 9.07 days. CLMV countries also fell short of rest of ASEAN countries except Brunei in terms of international passenger traffic in 2018. At the same time, among all ASEAN countries, Lao PDR witnessed the maximum growth in international passenger traffic during the decade, indicating improvement in air transport infrastructure, along with other favourable factors in the country.

Digital Infrastructure

Among ASEAN countries, Lao PDR has the lowest mobile cellular telephone subscriptions per 100 people. Moreover, with 51.9 mobile cellular subscriptions

per 100 people, it is more than half of the subscription in Philippines, which has the second lowest subscription. CLMV countries also lag behind other ASEAN countries in terms of mobile-broadband subscriptions per 100 people, broadband internet subscriptions per 100 people and fibre internet subscriptions per 100 people. Only 23.6% of population in Myanmar and 25.5% of population in Lao PDR use internet, implying that majority of population in CLMV are without internet coverage. Development of 4G networks and access to electricity are still critical issues, especially in the CLM countries, while these countries also lag behind in terms of e-commerce and e-government.

Utility Infrastructure

While few ASEAN countries are high electricity consumers, with universal access to electricity, Myanmar and Cambodia are yet to deliver universal access. The access to electricity in these countries are limited by challenges related to distribution and transmission networks, particularly in rural areas. Only 54.8% of rural population in Myanmar currently has access to electricity. Moreover, 13% and 10.2% of total electricity supplied in Cambodia and Vietnam, respectively, is lost between sources of supply and points of distribution and in the distribution to consumers.

The percentage of population using at least basic drinking water services remain low for Cambodia, Lao PDR and Myanmar compared to other ASEAN countries, while the ratio is much lower in case of availability of improved piped water supply. There is also significant disparity between access rates in urban and rural areas. Piped sewage facility is only available for less than 1% of population in Myanmar and Vietnam, 1.1% of population in Lao PDR, while it is relatively higher at 14.3% in the case of Cambodia.

Infrastructure Financing in CLMV

According to the ADB, the annual infrastructure gap in ASEAN, including CLMV is approximately US\$ 184 billion. Due to budgetary constraints, domestic resources alone are not sufficient to meet the infrastructural funding requirements existing in these countries. In this scenario, public-private partnerships (PPPs) can be an effective financing method. There is also a great need and opportunity for private investment in infrastructure sector in CLMV. Infrastructure bonds, especially socially responsible bonds and green bonds are some of the innovative methods of financing projects in infrastructure related industries.

In order to attract increased investment in the CLMV region from private sector, the first step is to ensure that projects are bankable, commercially viable and profitable. This requires more project preparation facilities from the initial stage of project design to the completion of project. Better performance by the existing participants with an improved

regulatory environment is also necessary for CLMV countries to overcome this demand-supply gap.

India and CLMV Cooperation in Infrastructure Sector

Connectivity remains a major issue of convergence between CLMV and India, and is a priority for both region. In order to provide a boost to the 'Act East Policy' and to link to Southeast Asian markets, the Indian Government has multiple connectivity projects, through land, water, and air, along with digital connectivity projects.

Existing land connectivity projects include Kaladan Multi-Modal Transit Transport Project (KMMTTP) and India-Myanmar-Thailand (IMT) Trilateral Highway. KMMTTP is expected to contribute to the economic development of the North East states of India by allowing goods from Kolkata port to reach India's North East states more economically through Myanmar, and thereby reducing pressure on the Siliguri Corridor. In the absence of an alternate route, the development of this project not only serves the economic, commercial and strategic interests of India, but also contributes to the development of Myanmar as well, and its economic integration with India.

The IMT Trilateral Highway is a 1360 km long flagship land connectivity project, connecting India, Myanmar and Thailand through Moreh (India), Bagan (Myanmar) and Mae Sot (Thailand), respectively. India is undertaking construction of two sections of the Trilateral Highway in Myanmar namely, 120.74 km Kalewa-Yagyi road section; and 69 bridges along with the approach road on the 149.70 km Tamu-Kyigone-Kalewa (TKK) road section.

In addition to physical connectivity, digital connectivity is equally important to improve India-CLMV trade and investment relations, especially in the background of current COVID-19 pandemic. In order to improve communication services, Myanmar has set up cross-border fibre optic networks with several countries including India, providing end-to end-connectivity solutions in the country.

India has announced over US\$ 1 billion Lines of Credit (LOCs) to ASEAN countries in 2015 to promote projects that support physical and digital connectivity. A grant of US\$ 40 million was also offered to CLMV countries to kick start digital connectivity projects in the sub-region. A Project Development Fund (PDF) with a corpus of US\$ 77 million is created to develop manufacturing hubs in CLMV countries, which can be utilized to strengthen digital connectivity between India and ASEAN. India is in discussions with Myanmar to establish a High Capacity High Voltage Grid Interconnection between the Indian power grid and the Myanmar grid. India is also planning to set up Digital Village Concept in CLMV countries, which involves provision of internet and mobile services using sustainable technologies and renewable energy sources.

India and CLMV: New Arenas of Cooperation in Infrastructure

Due to various events in the recent times, including the ongoing pandemic, US-China trade issues, global recession and associated uncertainties, several investments from China and other countries are shifting abroad, mostly to other Asian economies. Both CLMV countries and India have been identified as attractive alternative destinations for these investments. To leverage on these opportunities, India and CLMV countries need to upgrade their existing infrastructure especially connectivity infrastructure and logistics services, along with skill upgradation of its citizens.

Cooperation in Energy Sector and Water Management

India's experience in renewable energy sector can be of immense benefit to CLMV countries in their efforts towards sustainable development. The governments of CLMV countries have adopted pro-renewable stance by issuing a number of investment incentives. The huge energy demand in CLMV countries and existing demand and supply gap offer great opportunities for Indian investors. Similarly, India and CLMV countries could cooperate in water resource development and water management to ensure universal supply of clean drinking water. This cooperation could cover areas such as water supply; irrigation; storm water management, floods management, water pollution management, and sanitation management.

Cooperation in E-Commerce and Digital Connectivity

In the era of Industry 4.0, technological knowledge and digital skills are vital for unlocking the full potential of CLMV countries. With the large number of internet users both in India and CLMV, there exists huge opportunity for Indian investment in IT and ITeS in areas such as e-commerce,

e-learning, business process outsourcing, tele-medicine, financial services, telecommunications, consultancies and media, and entertainment services. CLMV countries and India could also collaborate in strengthening digital connectivity by investing in digital infrastructure, especially internet coverage and broadband connectivity.

Cooperation in Physical Connectivity Network Development

While India has made considerable progress in implementing IMT Trilateral Highway and KMMTTP, issues related to increasing the maritime and air connectivity between CLMV and India and transforming the corridors of connectivity into economic corridors are under discussion. The problems associated with existing projects need to be solved on an urgent basis. IMT Trilateral Highway construction and KMMTTP, earlier expected to be completed by 2020-21, are expecting some delays due to the current pandemic, which once completed will enhance connectivity between India and the region. A possible extension of IMT Trilateral Highway to other CLMV countries could also be beneficial for both regions. A consensus on finalizing the proposed protocol of the India-Myanmar-Thailand Motor Vehicle Agreement has been reached, which will have a critical role in realizing seamless movement of passenger, personal and cargo vehicles along roads linking India, Myanmar and Thailand.

Promoting integration and collaboration among India and CLMV countries is essential for successful implementation of various projects between the countries. Effective utilization of project development fund signed between India and CLMV countries could further facilitate Indian investments in the region.

Release of India Exim Bank's Publication during the 6th India-CLMV Business Conclave

Confederation of Indian Industries (CII), in collaboration with Ministry of Commerce & Industry, Government of India and Export-Import Bank of India, organized the 6th edition of the India-CLMV Business Conclave 2020 during December 03-04, 2020. The Conclave was held on a virtual platform for the first time on account of the COVID-19 pandemic. The Conclave has seen the participation of eminent dignitaries from across CLMV and India, who have actively built bridges to strengthen the partnership between the two regions. The dignitaries spoke about the long-standing India-CLMV partnership and need for further cooperation in various sectors of their respective countries.

During the inaugural session of the Conclave, India Exim Bank's Study titled 'Building Infrastructure: Opportunities for India' was released in the presence of Shri Mr. V Muraleedharan, Hon'ble Minister of State for External Affairs, Government of India; Dr. Guru Prasad Mohapatra, Secretary, Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India; H. E. Mr. Chhuon Dara, Secretary of State, Ministry of Commerce, Kingdom of Cambodia; H. E. Mr. Cao Quoc Hung, Deputy Minister of Industry and Trade, Vietnam; H. E. Ms. Khemmani Pholsena, Minister of Industry and Commerce, Lao PDR; H. E. Dr. Than Myint, Minister of Commerce, Myanmar, Mr. Uday Kotak, President, Confederation of Indian Industry, and Managing Director, Kotak Mahindra Bank, and Mr. Chandrajit Banerjee, Director General, Confederation of Indian Industry. ■

Achieving Self-Reliance in Select Manufacturing Sectors

Manufacturing plays a key role in economic growth and development. A weak manufacturing sector often translates into high import dependence and large trade deficit. The recent performance of the manufacturing sector in India is indicative of an underlying inertia, with the share of manufacturing in India's gross value added declining to 15.1% in 2019-20, as compared to 18.4% in 2010-11, despite the strong and growing private consumption demand in the country. This contraction in manufacturing is despite the strong growth in private consumption in the country, which registered an annual average growth rate of 12.7% during 2011-12 to 2019-20.

The weakness in the domestic manufacturing sector has translated into greater dependence on imports to meet the growing domestic demand over the years. Analysis of India's imports by end-use (capital, intermediate, and consumer goods) indicates that nearly 79% of the imports by India in 2019 were intermediate goods, signifying the dependence of India's manufacturing sector on imported intermediates. The high import intensity in the manufacturing sector also translates into a higher level of foreign value-added content in India's manufacturing exports (27.3%). Consequently, import intensity of exports is particularly high in case of basic metals, fabricated metal products, computer, electronics and optical products, electrical equipment, and machinery and equipment.

As per a recent study by India Exim Bank, titled "Self-Reliant India: Approach and Strategic Sectors to Focus", strengthening domestic production capabilities in key industries including electronics, defence equipment, machinery, chemicals and allied sectors, pharmaceuticals, and select agricultural products, could help significantly reduce India's import dependence in the manufacturing sector. Additionally, there is also a need to focus on firming up capacities in sectors such as auto-components, and iron and steel where though there is overall trade surplus for India, but in some sub-categories, there is excessive import dependence, particularly on China. Further, India need to focus on securing strategic minerals such as rare earth elements, as these are important for India for entering high-tech manufacturing. These sectors account for more than US\$ 186 billion of imports by India, with a share of nearly 39% in overall imports and 50% in the non-oil imports by India.

In this regard, sector-specific strategies are one of the important facets of the mosaic of elements which would

influence the manufacturing landscape in India. These strategies depend on the specific needs and issues faced by each of the sectors. For instance, in sectors like agriculture and rare earth, there is a greater need of enabling collaborative arrangements and encourage outward investments into partner countries for meeting domestic requirements, while in technology-intensive sectors the strategies are focused on creating domestic capacities for reducing import dependence. Some of the other sectoral strategies include, among others, specific interventions for encouraging innovation-led manufacturing, addressing deficiencies in tax and duty structures, encouraging joint ventures, and revisiting government regulations and programmes.

Additionally, achieving self-reliance would require certain cross-cutting strategies which can incentivize indigenization across the entire manufacturing sector. Some of these strategies include:

- Attracting Foreign Investments:** While the Government has introduced several policies to attract and encourage investments to boost the manufacturing and exports, it is important to foster an investment ecosystem whereby global lead firms are incentivized to invest and upscale their operations in India. This would entail a focussed approach involving sector-specific investment promotion strategies, which are also WTO compatible. Sectors such as renewable energy, food and beverages, plastic, pharmaceuticals, and biotechnology have been identified for targeting greater investments through appropriate incentives, which could include production and capital investment incentives, R&D incentives, tax exemptions, interest subvention on capital investments, among others.
- Leveraging Public Procurement:** Public procurement accounts for around 20-30% of India's GDP, making the Government an important buyer for the manufacturing companies. India needs to focus on quality in its procurement guidelines, taking cues from the "price-quality ratio" put in place by the EU. The Government may also consider making the procurement processes more favourable to MSMEs. In this regard, the Government could consider unbundling large procurement contracts into several smaller ones. There is also a need to introduce a separate law for public procurement, as the absence of a central procurement legislation leads to ambiguity and procedural delays.

- **Role of States:** It may also be noted that the federal structure in India empowers the states to design their own investment policies and sector-specific incentives to attract investments and promote industrial growth. Therefore, it is essential for the State Governments to actively engage in improving the 'ease of doing business' in the states along with designing a sound incentive structure for enhancing industrial development.
- **Recalibrating FTAs:** Domestic manufacturing faces stiff competition from imports under some of the existing FTAs. The Government may explore the possibility of having a 'graduation clause' for the developing country FTA partners, a 'sunset clause' on some concessions, and a 'trigger mechanism' in case the imports surge from a country for a given product.
- **Promoting innovation and R&D:** It could be a key game-changer for India to attain self-reliance in manufacturing. Fund allocation for incentivising R&D could be increased, along with introduction of other suitable policy interventions to promote R&D, such as reinstating greater income tax deduction on expenditure incurred on R&D. The Government could also consider providing dual tax credit allowances system that rewards both incremental expenses in R&D, in addition to the level of spending in R&D, as provided by countries such as Canada. The Government could also consider allowing the tax exemption on R&D under Section 35 (2AB), in addition to the lower corporate tax rate of 22%, in order to incentivize the domestic companies to invest in R&D.
- **Capacity Building of Industrial Clusters:** To ensure continued progress across existing industrial clusters in the country, it is essential to develop a mechanism for assessing the performance of these clusters, review the current status of existing clusters and identify sectors/subsectors for developing newer clusters. This would require state-level support and collaboration, as majority of these clusters are developed through state-level initiatives. The Central Government could incentivize the states to assess the clusters, through financial support under the Market Access Initiative Scheme. Upon assessment of the clusters, relevant capacity building activities can be undertaken. State Governments could also avail financial support for capacity building activities under the Micro & Small Enterprises - Cluster Development Programme.
- **Improving Ease of Doing Business:** India has undertaken major reforms across various areas of doing business,

which have improved the investment climate in the country. However, the country still lags in areas such as enforcing contracts and registering property. Simplifying property registration and acquisition of land will be important for further improving the business environment in the country. There is also a need to overhaul the judicial processes for commercial disputes in the country. Leveraging technology will be an important step towards this, particularly at lower rungs of the judiciary. There is also a need to expand the arbitration and mediation centres in the country and enhance the judicial capacity through specialized commercial courts, complemented by a conscious effort by stakeholders to reorient the way alternate dispute resolution mechanisms are perceived.

- **Skill Development:** The Government and the leading organizations could invest in creating sector-specific, specialized Centres of Excellence in academic institutions to inculcate the research mind-set towards high technology sectors. The National Skill Development Corporation and the State- Level Skill Development Councils would have a major role to play in implementing this strategy. Further, a fund could be created separately to provide focussed trainings to popularize and demystify Industry 4.0 technologies in higher and vocational educational institutions.

Webinar on Strategies for Self Reliant India



Release of Working Paper on 'Self-Reliant India: Approach and Strategic Sectors to Focus' by Shri K Rajaraman, Additional Secretary, Department of Economic Affairs, Ministry of Finance on September 16, 2020. ■

Renewable Energy Sector in India

Overview

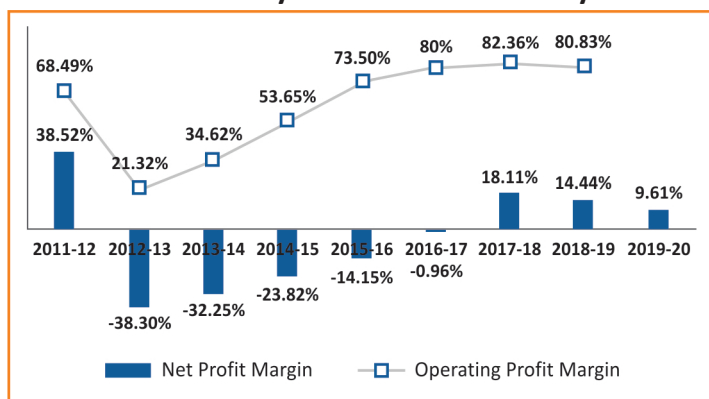
In India, in the recent years, renewable energy has been playing an increasingly important role in the augmentation of grid power, providing access to energy, aiding reduced consumption of fossil fuels, and helping India pursue its low carbon development path. Renewable energy is the second largest source of energy, the largest being thermal energy.

India's current installed capacity for renewable energy has grown from 3.9 GW in 2003-04 to about 89.2 GW in September, 2020. As on September 30, 2020, of the total installed capacity of 89.2 GW, solar and wind energies comprised 36.1 GW and 38.1 GW, respectively. Biomass and small hydro power constituted 10.1 GW and 4.7 GW, respectively. With 15.3 GW, the state of Karnataka was the highest contributor to the installed capacity under renewable power, in the country, followed by Tamil Nadu at 14.7 GW and Gujarat at 11.3 GW.

As per the industry estimates, India has a potential in wind energy of more than 300 GW at a hub height of 100 metre; potential to generate solar power of around 750 GW, assuming 3% of wasteland is made available; potential for small hydro power of around 20 GW, and bio-energy potential of around 25 GW.

India has overtaken Japan, and have become the nation with the fifth largest hydropower production capacity in the world with a total installed base at over 50 GW, and is only behind Canada, US, Brazil and China according to International Hydropower Association (IHA). Renewable electricity industry witnessed a dip in its profitability in the financial year ended March 2020. During 2019-20, the industry's net profit margin contracted by a sharp 4.8% points to 9.6%. This was the second consecutive year of contraction in profit margins.

Profitability: Renewable Electricity



Source: CMIE Economic Outlook

FDI

Foreign Direct Investment (FDI) up to 100% is permitted under the automatic route for renewable energy generation and distribution projects subject to provisions of The Electricity Act, 2003. During April 2009 to August 2020, FDI received in the renewable energy sector for total 123 projects aggregated to US\$ 38.59 billion, which equals to an average of US\$ 313.8 million per project. In terms of countries, the highest investment was received from the United States at US\$ 8.1 billion through 31 projects, followed by China at US\$ 7.7 billion through 11 projects and the UK at US\$ 4.4 billion through 8 projects.

Impact of COVID and Other Challenges

The tariffs in the wind energy sector had witnessed a marginal increase in the previous year from ₹2.6/unit in FY18 to ₹2.8/units in FY20. The highly concentrated capacities of wind energy in a few states, leads to congested infrastructure, which is set to put negative impact on the sector as per CRISIL research. The weak credit profiles and payment track record of state distribution companies, import dependence of modules on China and grid-balancing costs with increasing proportion remained the key areas of risk for the sector. As per CRISIL Research, the payment delays from state distributions companies continue to be a major concern. The over-dues by state distribution companies (bills unpaid for more than 60 days) reached ₹10,500 crore by end FY20. Increasing exposure to reliable central counterparties like NTPC, SECI and PTC to 29% by March 2022, in the overall private capacities, is a silver lining for the renewable energy sector.

COVID 19 pandemic has considerably impacted the solar power sector, which is observed in decreased investment in the Indian solar industry. The decline was primarily witnessed due to slowdown in solar installations during the first quarter and a lack of new investments into manufacturing units. The demand for the power sector witnessed a decline during the lockdown phase and this decline in demand coupled with reduced collection and slow recovery is forecast to adversely impact already stressed distribution companies. The regulatory environment remained conducive, which is a key aspect for relative cash flow stability amid COVID pandemic. ■

Addressing Domestic Policy Constraints for Exports in Select Sectors

India Exim Bank has recently undertaken a Study titled 'Domestic Constraints for Exports in Select Sectors', which analyses the current domestic policy constraints faced by the Indian exporters in select sectors such as, gems and jewellery, auto and auto-components, electronics (with focus on mobile phones), textiles and clothing, and pharmaceuticals. The Study was released by Shri Piyush Goyal, Hon'ble Minister of Commerce & Industry, and Railways, Govt. of India during an interactive webinar organized by India Exim Bank on the theme 'Strategies for Alleviating Policy Constraints for Exports in Select Sectors' on October 3, 2020.

Webinar on Strategies for Alleviating Policy Constraints for Exports in Select Sectors



The poster features the following speakers and their roles:

- SHRI PIYUSH GOYAL**, Hon'ble Minister of Commerce & Industry, and Railways, Government of India
- DR. HARSHA VARDHANA SINGH**, Former Deputy Director General, World Trade Organization
- MR. RAJEEV KHER**, Distinguished Fellow, RIS and Former Secretary, Department of Commerce
- DR. JAVANT DASGUPTA**, Former Ambassador of India to the WTO
- DR. VEENA JHA**, Former Head, UNCTAD India
- MR. T. S. VISHWANATH**, Principal Advisor, API-SLG Law Offices
- MR. DAVID RASQUINHA**, Managing Director, India Exim Bank

The poster also includes the India Exim Bank logo and the title of the study: **DOMESTIC POLICY CONSTRAINTS FOR EXPORTS IN SELECT SECTORS - MAIN REPORT**. The background features a stylized graphic of a gear with icons representing different sectors like gems, electronics, and textiles.

Release of Study on 'Domestic Policy Constraints for Exports in Select Sectors' by Shri Piyush Goyal, Hon'ble Minister of Commerce & Industry, & Railways, during an interactive webinar organized on October 3, 2020.

According to the Study, while the Government of India has been working to identify policies to promote exports and build a better operational environment, there is need for greater focus on monitoring and addressing glitches which prevent the successful implementation of these policies. Stressing on the common areas of concern for the exporters across various sectors, the Study suggests that there is need for direct government intervention to reduce costs at ports; attractive export incentives, particularly in light of the imminent phase out of Merchandise Exports from India Scheme (MEIS); addressing procedural delays in approvals and refunds, as well as custom clearances by the Government; expediting GST refunds and duty drawback refunds to improve the manufacturing landscape, among others. The Study finds that an immediate refund of GST could increase the overall GDP by 2%, exports by 7%,

aggregate imports by 6%, and overall employment by nearly 4%.

The Study also provides certain specific priority areas to focus for each of the identified sector, which are low hanging fruits for improving operational efficiency of exporters. Some of these sector-specific policy strategies are given as under:

Textiles and Apparel Sector

- In the textiles sector, importers pay duty on CIF (Cost, insurance, and freight) value of material, which also includes ocean freight. Thereafter, the importer again pays GST under Reverse Charge Mechanism (RCM) on ocean freight and deposits the tax with the Government. Thus, there is double taxation on Ocean Freight, which may be exempted from payment of GST under RCM. In addition, a uniform GST may be levied across the entire textile value chain.
- There is a need to continue Amended Technology Upgradation Fund Scheme (ATUFS) as also increase the allocation under the Scheme. There is also a need to consider including spinning segment in the ATUFS dispensation. In order to provide full benefits to the industry, ATUFS needs to be modified to: (a) raise the limits of Capital Investment Subsidy (CIS) for a single unit, (b) raise the percentage of CIS per unit, and (c) expedite the scrutiny of applications and inspection of installed machinery, which currently takes an inordinately long time. In order to facilitate modernization of the industry in the absence of the EPCG scheme, the import tariffs of those machines, which are eligible for CIS under ATUFS, should be brought down to zero.
- The Rebate of State and Central Levies and Taxes (ROSCTL) scheme, which was introduced w.e.f. March 7, 2019, ostensibly as a replacement for MEIS, did not include either yarn or fabrics in its purview. To compensate for the unrebated state and central duties and taxes that these products suffer, the Study suggests that the benefits under the new Remission of Duties or Taxes on Export Products (RODTEP) scheme should be made available for both yarn and fabric exports.
- To encourage achievement of global scales, artificial distinctions between SMEs and large units need to be done away with, especially in terms of power tariff subsidies, labour laws, inspections etc. Also, special incentives need to be provided for consolidation of weaving, processing, made-ups and garment units for achievement of scales.

Gems and Jewellery

- The persistence of lab-grown diamond has adversely affected the Indian diamond industry. To that end, the Government could consider backing the industry certificates of authenticity for natural diamonds, in order to help the industry in obtaining price premiums.
- Currently, Indian Banks refrain from giving guarantee support for the import of rough diamonds, resulting in increasing reliance of exporters on supplier's credit. To ease the purchase of raw materials, the Government could consider assisting the Industry association in creating a fund which could ease the access to credit. Further, there is a need to ease the overall bank loan conditions for the sector.

Automobiles and Auto Components

- The automotive industry in the country is currently among the highest taxpayers. GST rates for Internal Combustion Engines (ICE) based vehicles in India are currently at the highest GST rate of 28%, in addition to which, a compensation cess in range of 1-22% is also levied. This makes vehicles the highest taxed manufactured product in India. In order to spur the industry forward, there is a need to bring the current GST rates down.
- Auto component players are of the view that frequent regulatory and technological changes require enhanced spend on R&D in the following key areas: a) Emission; b) Safety; c) Industry 4.0; d) Electric Mobility e) Increasing the intervention of electronics in vehicles. Therefore, there is a need for incentives to upgrade technology in the industry. Further, there is a need for the government to consider setting up specific technology upgradation fund targeting upcoming technological changes (like electrification of power trains). These funds could provide support in the form of soft loans, tax incentives etc.
- The cost of some of the crucial raw materials, such as steel, is very high in India, which negatively impacts the industry. To ease the cost pressure, the Government could consider reducing custom duties on inputs such as HR/CR steel as well as alloy steels.
- There is a need to target a set of markets for proposing trade agreements and seek reciprocal tariff reductions, particularly in geographies like Africa, Latin America and Middle East, among others, in order to further boost the market for Indian automobiles.

Electronics with a Focus on Mobiles

- In order to encourage investments in electronics manufacturing, from both domestic and foreign firms, the following important areas of support need to be considered by the government:
 - o Introducing financial support/incentives schemes;

- o Avoiding changes in customs notifications with retrospective effects;
- o Removing ambiguity in taxation;
- o Examining items on which GST is not refunded even though the activities are important for exports;
- o Creating a real single window for the multiple approvals; and
- o Assessing the practicality of implementing the notified regulatory requirements, such as meeting environmental conditions, e-waste management etc.
- The Study finds that domestic electronics firms require financial support for working capital (interest subvention), credit guarantee, support for training of workforce, R&D and design, and the establishment of supply chains/ clusters, in addition to ease in access to loans. Additionally, creation of a national design ecosystem for mobile firms, and revamping the electronics manufacturing clusters scheme could also be considered to improve domestic capacity and content.
- An important feature of GVCs is the need for quick turnaround and the significance of inventory planning and operational costs (working capital). In this regard, a special focus must be given to avoid policies or actions that hamper inventory planning and/or raise the cost of working capital. Further, facilitating GVCs would also require co-ordination amongst Ministries/Departments. In this context, a high-level co-ordination committee could be set up to facilitate GVCs.

Pharmaceuticals

- The pharmaceutical sector needs to invest increasingly in R&D, and therefore, requires corresponding supportive policies for enabling ease of doing business, trade facilitation, human resource development, institutional linkages, and taxation.
- The Bio-Pharmaceutical sub-sector is a promising avenue for the future, and India has the capacity to outshine many of its competitors in this sub-sector. To that end, the study also recommends creating of a National Plan for Biopharmaceuticals.
- On the governance side, the sector is severely impacted by the presence of multiple agencies and departments making its forward movement complex and slow. Further, price control has proved to be inhibitive in the sector's growth and requires a review. In this regard, regulatory facilitation through inter-ministerial mechanisms could be considered for the sector.
- There is a need to deal with entry barriers in major markets through institutional mechanisms such as FTAs. Besides, there is also a need to elevate India's product standards to the highest levels in addition to pursuing regulatory coherence/harmonisation at the global level, in order to penetrate and compete in regulated markets. ■

Rare Earth Elements

The rare earth elements (REEs) are a set of 17 metallic elements. These include the 15 lanthanides on the periodic table plus scandium and yttrium. The rare earth elements are all metals, and as a result, they are often termed as the “rare earth metals”. However, these metals are very difficult to mine because it is unusual to find them in concentrations high enough for economical extraction.

Availability and securing such rare goods are of paramount importance for the long-term security of the country. It is pertinent to note that manufacturing of products across industries such as defence, aerospace, electronics, electrical equipment, including renewable energy, is highly dependent on the REEs.

According to the United States Geological Survey (USGS), the total world reserves of the REEs were estimated to be around 120 MT in 2018. Out of the 120 MT, China alone accounted for 37% of the global reserves and is followed by Brazil and Vietnam at 18% each.

Global Reserves of Rare Earth		
Country	Global reserves of rare earth (in '000 tonnes)	Share in world reserves (%)
China	44,000	36.7%
Brazil	22,000	18.3%
Vietnam	22,000	18.3%
Russia	12,000	10.0%
India	6,900	5.8%
Australia	3,300	2.8%
Greenland	1,500	1.3%
USA	1,400	1.2%
Tanzania	890	0.7%
Canada	830	0.7%
South Africa	790	0.7%
Other countries	4,080	3.7%
World total (rounded)	1,20,000	100%

Source: USGS; India Exim Bank Research

The total global production of rare earth was recorded at 170,000 tons in 2018 and has come a long way in the last two decades when the production stood at 64,000 tons in 1994 – exhibiting an average annual growth rate of 40.5%. The share of China in global production of REEs has increased from 47.4% in 1994 to as high as 97.7% in 2010 before falling back to 70.6% in 2018.

The global exports of REEs were registered at US\$ 1,584.2 million in 2019, up from US\$ 635.8 million in 2009, recording an AAGR of 25.1%, during this period. The top exporters in 2019 were China (28%); Malaysia (16%); Japan (14%); Vietnam (10%); and Myanmar (9%).

With respect to India's trade in REEs, India's exports of REEs were recorded at US\$ 23.5 million in 2019, up from US\$ 0.1 million in 2009. During the same period, the imports increased from US\$ 6.8 million to US\$ 18.3 million. Further, while India was registering trade deficits consistently during the last few years, the country registered a trade surplus during 2017 (US\$ 4.4 million), 2018 (US\$ 2.1 million), and 2019 (US\$ 5.2 million).

India's exports of the rare earth elements have been quite erratic, both with respect to their value as well as the export destinations. In terms of consistency, Japan has been one of the major export destinations for India. Japan's share in India's total exports of REEs in the last few years has mostly been in the double digits. In 2019, Vietnam was the largest exporting destination for India with a share of 32%, followed by Japan at 28%.

India has been making efforts to domestically produce and manufacture products and make India more self-reliant. Such an approach gives the country a valid reason to increasingly looking at furthering the exploration securing REE assets.

REEs are integrated into multiple industries that contribute to a nation's economy and security. Some of these elements are considered as strategic minerals because of their use in defence, energy, and other strategic sectors. The usage of rare earths in the manufacturing sector is growing, as also the growth in demand from the existing end-user sectors. Thus, it is important to develop a national strategy about application, consumption, exploration of REEs in the domestic economy, as also its trade and mineral cooperation in the international arena.

It should also be noted that India has the fifth largest reserves of rare earth in the world. However, Indian companies are not investing in exploration activities domestically. Though, at present, the demand is catered through imports, especially from China, there could be restrictions on export of rare earth, given the current circumstances. Thus, it is very essential to look at investments in the sector strategically. ■

The Political Origin and Firm-Level Consequences of Bank Proliferation in China

Export-Import Bank of India (India Exim Bank) instituted the BRICS Economic Research Annual Award in 2016. The objective of the Award is to promote advanced doctoral research in international economics, trade, development and related financing, by nationals of any of the five member nations of BRICS, from any University/ educational institution globally. This study is based on the doctoral dissertation titled “Building Markets within Authoritarian Institutions: The Political Economy of Banking Development in China” selected as the award winning entry for the India Exim Bank BRICS Economic Research Annual Award (BRICS Award) 2020, written by Dr. Adam Yao Liu, currently Assistant Professor at the Lee Kuan Yew School of Public Policy, National University of Singapore, Singapore. Dr. Liu received his doctoral degree in 2018 from the Stanford University, USA.

Despite their crucial role in economic development, financial systems remain small in most developing countries. Worse, scarce credit often ends up in the hands of powerful elites rather than entrepreneurial and productive individuals, which impedes growth. How can countries promote financial development? A standard solution often advocated by social scientists is limited government: there must, they say, be a set of strong political institutions—e.g., a separation of political power, an independent judiciary, and popular elections—to allow for free market entry and prevent resource capture by elites. Theoretically sound, limited government is often infeasible in practice. No government wants to limit its own power. Yet, without a limited government, the expectation of expropriation stifles the market. Herein lies a fundamental political challenge for economic development.

Post-Mao China, although still under one-party authoritarian rule, built the world's largest banking system, characterized by intense competition. The number of commercial banks grew exponentially in the reform era, and for some years, private firms have become the major recipients of bank loans and credit. What explains this development without a limited government? The answer argued in this study is ‘organizational spinoff’. In lieu of a full-fledged market opening, Beijing opened the banking market to local governments—much like a firm spinning off subsidiaries to increase internal competition and overall return to the whole firm. While the new local state banks (LSBs) are distinct profit-maximizing players, their organizational structure and

institutional missions are modelled explicitly after those owned by the central state. This particular development path made private financiers irrelevant in the market formation stage while also eliminating the state's concern over losing financial control to regime outsiders. Over time, private and foreign players entered the market subsequently but only as shareholders of the state-created spinoffs, because the risk of expropriation had been mitigated by intensified market competition.

In this study, it is posited that organizational spinoff allowed the Chinese state to simultaneously capture gains from increasing competition in the banking market and maintain political control over the market. In contrast to conventional wisdom, the study shows in particular that organizational spinoff has been conducive to private firm financing. To test this argument, both ethnographic and statistical methods have been used in this study. Key ideas and hypotheses advanced in the project are all based on interviews for which fieldwork was conducted in six provinces in a total of 22 months. During fieldwork, a unique spatial dataset that contains the universe of Chinese banks, credit unions and their branches established since the mid-1990s (N=223,444) was compiled. Then the data was either merged or used jointly with one large-scale industry dataset (N=675,657), six nationally representative surveys of private firms covering the period 2000–2012, one original survey of firm managers, and one original survey experiment involving bankers.

This project makes a number of contributions to the study of political economy and contemporary Chinese politics. Substantively, it contributes to our understanding of how contract-intensive markets emerge, grow and function in the absence of strong political institutions that clearly and credibly demarcate and protect boundaries between the government and the market. Analytically, this research highlights the limits of modeling autocracies as unitary actors—e.g., “revenue-maximizing autocrats” or “stationary bandits”—and shows the utility of an organizational approach for studying autocracies and institutional changes within them. Methodologically, this work introduces the use of spatial and experimental approaches to the study of the political economy of finance. And finally, this research also makes the first attempt to systematically trace the evolution of China's formal banking system, the complexity of which has hitherto been masked by the simple term “state-owned,” thereby enriching existing scholarship on policy making and central–local politics in post-reform China. ■

India Exim Bank's Lines of Credit

India 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 Lines of Credit extended with the support of Government of India, India Exim Bank reimburses 100% of contract value to the Indian exporters, upfront upon the shipment of goods and 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 as on December 14, 2020 has 266 Lines of Credit, covering over 62 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US\$ 26.59 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.

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

- i. A LOC of US\$ 20.506 million was extended to the Government of the Republic of Guinea, for the purpose of financing 'construction and up-gradation of regional hospitals in Kankan and Nzerekore' project. With the signing of the above LOC, India Exim Bank, till date, has

extended 4 Lines of Credit to the Government of the Republic of Guinea, with the support of the Government of India, taking the total value of LOCs extended to US\$ 245.73 million. Projects covered under the LOCs extended to the Government of the Republic of Guinea includes strengthening of health system, solar projects, and for strengthening the drinking water supply of Grand Conarky-Horizon 2040.

- ii. A LOC of US\$ 400 million was extended to the Government of the Republic of Maldives, for the purpose of financing Greater Male Connectivity Project. With the signing of the above LOC, India Exim Bank, till date, has extended 3 Lines of Credit to the Government of the Republic of Maldives, with the support of the Government of India, taking the total value of LOCs extended to US\$ 1,240 million. Projects covered under the LOCs extended to the Government of the Republic of Guinea includes construction of 485 housing units and road development project, and development projects.

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Success Story

Electrification Expansion Project under LOC to the Government of Gambia

The Bank extended a LOC of US\$ 22.50 million to the Government of Gambia for Electrification Expansion Project. The scope of work includes complete EPC for the electricity expansion work project in Greater Banjul area in the Gambia. The major component works include:

- ❖ Construction of New 33/11kV Indoor Primary Sub-station at Jabang;
- ❖ Construction of New 33/11kV Indoor Primary Sub-station at Brikama;
- ❖ Construction/ Extension of 33kV Overhead Distribution system;
- ❖ Construction/ Extension of 11kV Overhead Distribution system;
- ❖ Construction of New 33/0.4 & 11/0.4kV Secondary Substation; and
- ❖ Construction of New LV Overhead Distribution system ■



The Quarter That Was

India Exim Bank Explores Opportunities to Strengthen India-GCC Relations through Closer Collaboration and Identification of Newer Avenues

India Exim Bank released its Study titled 'Enhancing India's Bilateral Relations with the GCC Countries: Trends in Trade, Migration and Remittances' in the presence of H.E. Mr. Munu Mahawar, Ambassador of India to Oman; H.E. Dr. Deepak Mittal, Ambassador of India to Qatar; H.E. Mr. Piyush Srivastava, Ambassador of India to Bahrain; and senior officials from the Embassy of India in Kuwait, Larsen & Toubro Limited and Afcons Infrastructure Limited, during a webinar titled 'Enhancing India-GCC Relations: Prospects in Project Exports and Beyond'. The Study analyses the two distinct areas of cooperation in India-Gulf economic relationship, viz. bilateral trade and migration from India, resulting in a large expatriate community in the Gulf.

Shri N. Ramesh Takes Charge as DMD of India Exim Bank

Shri N. Ramesh took charge as Deputy Managing Director of the India Exim Bank. He is an officer of Indian Telecom Service from 1999 Batch. Prior to his appointment at the Bank, he served as Executive Director in National Agricultural Cooperative Marketing Federation of India Ltd. He served as Director in Department of Commerce, GoI from 2016 to 2019, where he oversaw Agriculture, Export Inspection, Biotechnology, and Plantations Divisions. Shri N. Ramesh worked as Director (Marketing) at Marine Products Export Development Authority, Ministry of Commerce and Industry from 2010-2016. He has worked in the Department of Telecom in enforcement of licensing conditions and regulations, on all the telecom service providers and the BPO industry. He has also worked with BSNL on development of mobile network and infrastructure.

India Exim Bank Estimates Suggest an Immediate Need for 5 Indian Hospitals across Africa to Build Regional Healthcare Hubs

Healthcare systems across the world are under severe stress with the outbreak of COVID-19. Estimates suggest that Africa's health financing gap is as high as US\$ 66 billion per annum, indicating that the conventional source of financing healthcare, viz. government financing and donor funding are inadequate. A more holistic approach is thus required to transform the risks of demographic and disease burdens into a demographic dividend. These suggestions were discussed at a webinar on 'India-Africa Dialogue: Prospects in Healthcare'. The webinar was attended by several dignitaries including Mr. Gulshan Ramrekha, Deputy Permanent Secretary, Ministry of Health and Wellness,

who read the message of His Excellency, Dr. Kailesh Kumar Jagutpal, Hon'ble Minister of Health and Wellness, the Republic of Mauritius'. Shri. Rahul Chhabra, Secretary (ER), Ministry of External Affairs, GoI was the Chief Guest at this event. The session focusing on the regional hubs in Africa had dignitaries like H.E. Mr. Mohammed Maliki, Ambassador of the Kingdom of Morocco to India; H.E. Mr. Gilbert Shimane Mangole, High Commissioner of the Republic of Botswana; Mr. G.V. Srinivas, Ambassador of India to Senegal (concurrently accredited to The Gambia, Guinea Bissau and Cabo Verde); and Mr. A. Ajay Kumar, High Commissioner of India to Uganda (concurrently accredited to Burundi). The experience sharing session by the Indian private sector that is instrumental in shaping India's developmental role in this direction, included Dr. Devi Prasad Shetty, Chairman, Narayana Health; Mr. K B George, Chairman and Managing Director, HLL Lifecare Ltd.; Dr. K. Hari Prasad, President of Hospital Division, Apollo Hospitals; and Mr. V. Sukumar Hebbar, Vice President & Head, L&T Construction, Larsen & Toubro Ltd.

India Exim Bank and Bank of Africa BMCE Group Sign MoU Aiming to Increase Trade and Investment

Recognising the importance of economic relations between India and Morocco and the need to further promote bilateral trade and investments, India Exim Bank signed a Memorandum of Understanding (MoU) with the Bank of Africa BMCE Group. The MoU was announced during the India-Morocco Business Forum, jointly organised by both the institutions. Senior representatives from the institutions were joined by H.E. Mr. Mohammed Maliki, Ambassador of the Kingdom of Morocco to India and Mr. G.K. Pant, Chargé d'affaires, Embassy of India in Morocco, at the Forum, which was organized on a virtual platform.

India Exim Bank Forecasts India's Non-Oil Exports for the Third Quarter of FY2021 to Amount to US\$ 68.3 billion, witnessing a Marginal Positive Annual Growth

India Exim Bank forecasts India's non-oil exports for the third quarter of FY2021 to amount to US\$ 68.3 billion, witnessing a marginal positive growth of 0.3%, over the corresponding quarter of the previous year, after three consecutive quarters of contraction. On the other hand, total merchandise exports are forecast to continue to witness a moderation to US\$ 77.6 billion in the third quarter of 2020-21, as compared to US\$ 79 billion in the corresponding quarter of the previous year, on the back of one of the steepest and continued contractions in India's oil exports, witnessed since March 2020. The forecasts are based on India Exim Bank's Export Leading Index Model. ■

Country Scan

Morocco



Morocco's real GDP is expected to contract by 6.9% in 2020, as a result of a near total shutdown of the tourism sector and a worsening of economic sentiment owing to the pandemic. In 2021, the real GDP growth is expected to recover by 3.8%, in line with a recovering global economy and improving trade. The agriculture sector, which accounts for about 15% of GDP and provides more than 30% of jobs, suffered a drought-induced contraction in 2020. Industrial output also contracted in 2020 as automotive sector exports stalled, especially to Europe as a result of the pandemic. The consumer price inflation is expected to increase by 0.7% in 2020 from 0.2% in 2019, due to food prices and recovering domestic demand. After an estimated contraction in export earnings in 2020 due to plummeting international demand, Morocco's export growth is expected to resume as external demand picks up in 2021. This will be driven by a rise in output from higher-value export-oriented manufacturing (especially the automotive and aeronautics industries). The current account deficit is therefore, expected to narrow down to 5.7% in 2021 from 7.2% in 2020.

Guyana



With discovery of oil the commercial oil production is set to begin in 2020 and the real GDP of Guyana is expected to grow by 24% in 2020, and 10% in 2021. The discovery of additional offshore oil reserves, would further boost investment in the hydrocarbons sector, and in supportive infrastructure. However, the pace of investments is expected to be slower than earlier anticipated because of the pandemic. Non-oil growth will also be supported by a recovery in the sugar industry and new capacity in bauxite and gold mining. Consumer price inflation is expected to moderate, from an estimated average of 2.1% in 2019 to 0.7% in 2020, owing to coronavirus-related effects on demand and weaker international commodities prices. The Guyanese dollar is expected to remain stable at G\$ 208.5: US\$ 1 during 2020-23. The oil boom is expected to have a transformative impact on the external sector, causing the trade balance to move from a structural deficit to a surplus in the coming years. The overall current-account deficit is expected to widen to 18.2% of GDP in 2020, before narrowing to 2.8% of GDP in 2021, and the current account is expected to record a surplus to the tune of 6.7% of GDP in 2022.

Cameroon



The economy of Cameroon is expected to contract by 2.9% in 2020 on the back of COVID-19 induced global recession. The crash in commodity prices, especially crude oil, has impacted the economy negatively. Decline in fixed investment and export volumes has led to a contraction in private consumption. The average annual inflation is expected to edge up to 2.9% in 2020, compared to 2.5% in 2019, as regional disturbances disrupts food production which has led to an increase in food prices. The currency of Cameroon is CFA franc which is pegged to the euro at a fixed rate of CFAfr 655.96 : € 1. The CFA franc is expected to appreciate from CFAfr 586.0 : US\$1 in 2019 to CFAfr 576.3:US\$1 in 2021, as the euro is expected to appreciate slightly against the dollar again in 2021. The current account deficit is likely to widen from an estimated 4.4% of GDP in 2019 to 7.5% of GDP in 2020, before gradually narrowing to 3.9% of GDP in 2024, in line with the contracting trade deficit. The economic activity is expected to recover to 2.5% in 2021, assuming that the pandemic is contained, global economy strengthens, and oil prices rise.

Maldives



The tourism sector accounts for almost one-quarter of the Maldives' GDP, making it one of the main drivers of economic growth in the country. China is the largest source of visitors, accounting for almost one-fifth of total tourist arrivals in 2019. Given the dominant role of tourism in Maldives, economic growth in 2021-22 will be closely tied to improvements in international travel and tourism expenditure. Following an estimated contraction of 29.5% in 2020 and after growing by 6.9% in 2019, Maldives' economy is expected to undergo a partial recovery by 21% in 2021, on account of continued construction undertakings and a gradual revival in economic activity, aided by modest increases in tourist arrivals. Suspension of tourism, depressed economic activity, price controls on essential food items, and additional subsidies on utility bills contributed to a deflationary environment in 2020. Consumer price inflation on average is estimated to decrease to -1.7% in 2020 as compared to 0.2% in 2019. Contraction in fisheries exports and tourism earnings is expected to contribute to widening of the current-account deficit from 25.9% in 2019 to an estimated 27.9% of GDP in 2020. ■

Currency Currents

Saudi Arabian Riyal



Saudi Arabia has been prioritising fiscal policies designed to ensure its currency peg's stability over non-oil economic growth in the background of low crude prices, according to Goldman Sachs Group Inc. Maintaining the riyal peg at current levels remains a key policy priority for the Saudi authorities. In a low oil price environment, however, this means that fiscal policy will have to tighten, keeping the budget deficit in check in order to ensure that external balances remain consistent with peg stability. Saudi Arabia tethers its currency to the dollar and tends to move in lockstep with the U.S. Federal Reserve. Although, pressure intensified earlier this year with the collapse in crude prices, 12-month dollar-forwards for the Saudi riyal have since stabilized.

The country's sovereign wealth fund is not yet fully financially independent of the government, requiring capital injections from government reserves in order to execute its investment plans. Higher oil prices would improve the outlook by allowing the government to increase spending without compromising external balances. The Saudi Arabian currency has remained range bound between 3.7489 and 3.7518 against the dollar, close to the zone it has inhabited since well before the coronavirus outbreak and diverged only briefly during the turmoil of March 2020 to early June 2020. The pair closed at 3.7516 on Dec 21, 2020.

Indonesian Rupiah



The ripple effects of COVID-19 are reversing two decades of steady economic growth. It is also causing considerable delays in plans to overhaul Indonesia's education system as well as major infrastructure projects including the US\$ 33 billion relocation of the capital from Jakarta to the Island of Borneo. It is making the country's push to escape the middle-income trap - the phenomenon of previously fast growing economies stagnating at middle-income levels and failing to join the ranks of high-income countries and become one of the world's top five economies by 2045, even more herculean.

As per the Central Statistics Agency, or BPS, the pandemic has pushed 2.67 million Indonesians into unemployment as of August, inflating the jobless rate to 7.1% or 9.8 million people. That is a spike from 5.23% a year earlier and the first time Indonesia's jobless rate has exceeded 7% since 2011.

During the year, USD IDR has seen levels of 16,620 (Mar 23, 2020) to 13,810 (on Jun 08, 2020). Of late, though the

volatility in the currency pair seems to have subsided largely. The pair closed at 14,100 IDR to a dollar on Dec 21, 2020.

Singapore Dollar



Singapore's economic recovery is expected to continue and accelerate in the months ahead, on expectations for more promising development in coronavirus vaccine trials. The Straits Times reported that the city-state could have a COVID-19 vaccine, co-developed by US and local researchers by early next year and the first shipments are expected in the first quarter of 2021.

Despite breaking the rather crucial support near 1.3445 in early November (2019 low of 1.3444 and Jan 2020 low of 1.3445), the decline in USD SGD has been relatively muted. While the bias for the first quarter of 2021 is clearly on the downside, the pace of any decline is likely to be slow and the next long-term support at 1.3008 (low in 2018) is unlikely to come into the picture. There is a support at 1.3300 followed by a stronger level at 1.3200.

On the upside, the declining trend-line and 55-week exponential moving average (at 1.3630 and 1.3730 respectively) are acting as a solid resistance zone and only an unlikely break of this zone would indicate that the current weakness has run its course. It is also worth noting that both of these levels are moving lower over time. The USD SGD hit a low of 1.3244 on Dec 17, 2020 and has recovered since to close at 1.3323 on Dec 21, 2020.

Vietnamese Dong



The United States Treasury on Dec 16, 2020 accused Switzerland and Vietnam of manipulating their currencies, partly to gain a trade advantage over American exports. In the semi-annual foreign exchange report, US Treasury found the two countries were intervening in currency markets to affect balance of payments, and in the case of Vietnam, also aiming at gaining unfair competitive advantage in international trade. US Treasury said the most recent IMF assessment indicated the Vietnamese dong was 8.4% undervalued on a real effective basis in 2018, and has been virtually flat against the US dollar since then. The report called on Vietnam to "reduce its currency intervention and allow for movement in the exchange rate." In addition, the country "should level the playing field for American workers and firms by diligently dismantling the barriers to the US companies and the US exports."

The currency pair closed at 23,120 on Dec 21, 2020; near the year low at 23,115 on Dec 17, 2020. It saw a high of 23,580 on Mar 24, 2020. ■

Exim Mitra

Information on Export Promotion Council for Coconuts

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 other than those made from coconut husk and fibre. A Registration cum Membership Certificate from the Coconut Development Board is required for exporters of coconut to avail the various benefits under the Foreign Trade Policy and duty neutralization schemes of the Department of Revenue.

Information on Export Credit Guarantee Corporation of India (ECGC)

ECGC Ltd. (formerly Export Credit Guarantee Corporation of India) was set up in 1957 with the objective of promoting exports from the country by providing credit risk insurance and related services for exports. It functions under the administrative control of Ministry of Commerce and Industry, and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, insurance and exporting community. Over the years, it has designed different export credit risk insurance products to suit the requirements of Indian exporters and commercial banks extending export credit. It also provides guidance in export-related activities. ECGC broadly:

- Makes available information on risks in different countries through credit ratings.
- Makes it easy to obtain export finance from banks/ financial institutions.
- Assists exporters in recovering bad debts.
- Provides information on credit-worthiness of overseas buyers.

Information on Certificate of Origin

Certificate of Origin is an instrument which establishes evidence on origin of goods imported into any country. These certificates are essential for exporters to prove where their goods come from and therefore stake their claim to whatever benefits goods of Indian origin may be eligible for in the destination of exports.

A Certificate of Origin must be signed by the exporter with a permanent indemnity bond on a non-judicial stamp paper of Rs 10, duly notarised. The certificate must also be signed and stamped by the Chamber of Commerce or any other authority with such qualification. It is the most commonly used document to prove the origin of goods.

Information on Laying Out of Incoterms Rules

Incoterms 2020 splits the 11 Rules into two sections – 7 for any mode or modes of transport and 4 for transport by sea and inland waterways. The heading of each Rule is a three-letter acronym followed by its name and the correct way to use it i.e. by stating the acronym followed by the relevant location. Here are the 11 headings of the Rules.

Rules for any mode or modes of transportation

1. Ex-W - Ex-Works (state named place of delivery)
2. FCA – Free Carrier (state named place of delivery)
3. CPT – Carriage Paid To (state named place of destination)
4. CIP – Carriage Insurance Paid (state named place of destination)
5. DAP – Delivered at Place (state named place of destination)
6. DPU – Delivery at Place Unloaded (state named place of destination)
7. DDP – Delivery Duty Paid (state named place of destination)

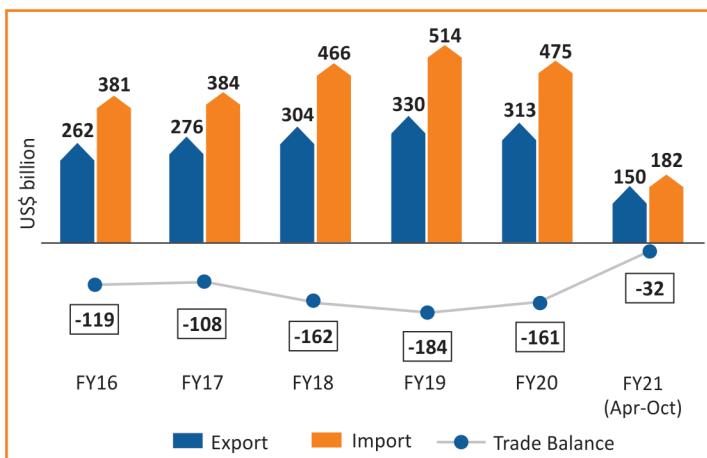
Rules for Sea and Inland Waterway Transport

8. FAS – Free Alongside Ship (state named port of loading)
9. FOB – Free of Board (state named port of loading)
10. CFR – Cost and Freight (state named port of destination)
11. CIF – Cost Insurance and Freight (state named port of destination)

Each Rule gives a comprehensive diagram, in blue (indicating obligations of the seller), gold (indicating obligations of the buyer) and in some Rules, green (indicating shared obligations). The idea is to give the reader an overview of each Rule and therefore, quite naturally, the diagrams do not form part of the actual text of the Rules. ■

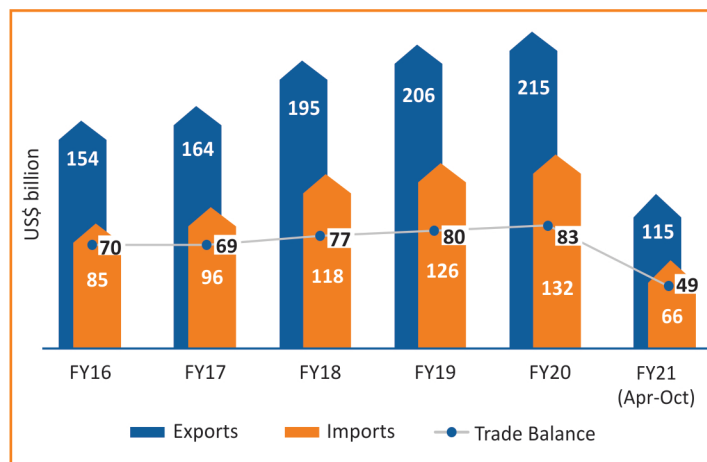
Snippets on Indian Economy

Merchandise Trade



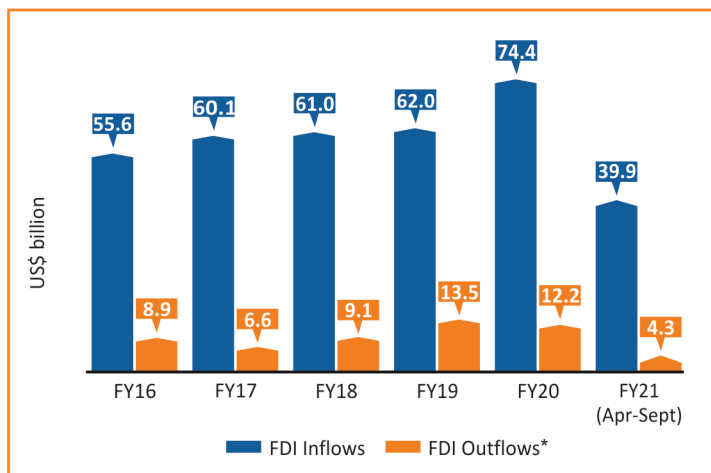
Source: Ministry of Commerce and Industry

Services Trade



Source: RBI

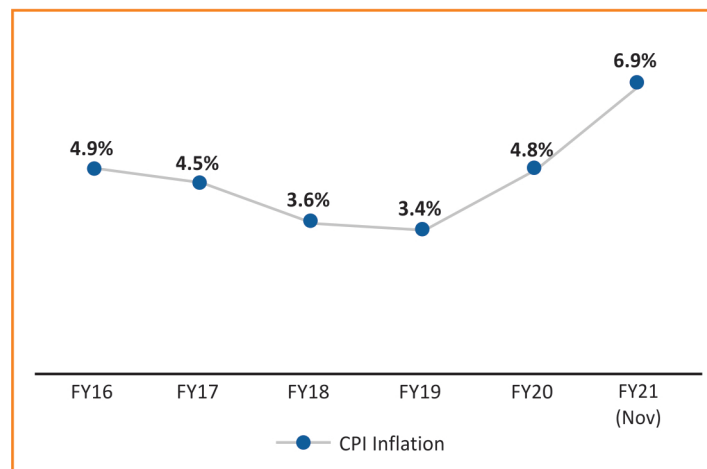
Foreign Direct Investment Flows



Note: * - FDI Outflows include equity, loans and guarantees invoked;

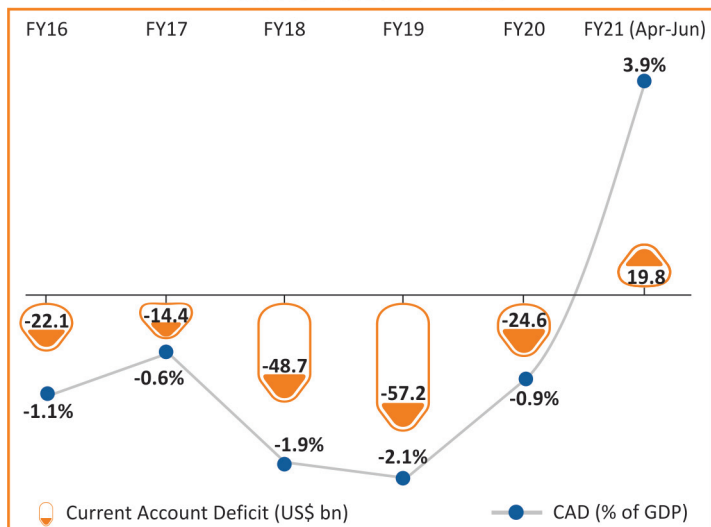
Source: RBI and MOF

Consumer Price Inflation



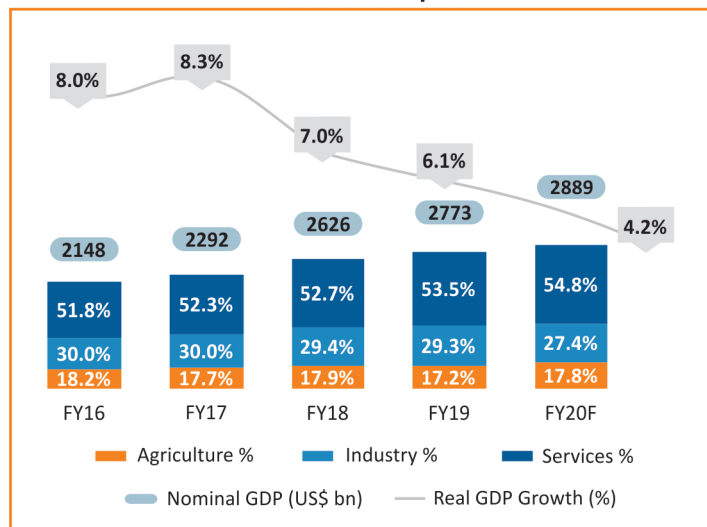
Source: Ministry of Statistics and Programme Implementation

Current Account Deficit



Source: RBI

Sectoral Output



Note: F – Forecast

Source: IIF & MOSPI