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World Economic Outlook: October Update

The recovery in global economy continued after getting hit severely with the coronavirus pandemic, however the momentum has weakened by the highly transmissible recent covid variants. Pandemic outbreaks in critical links of global supply chains have resulted in longer-than-expected supply disruptions, further feeding inflation in many countries. Overall, risks to economic prospects have increased, and policy trade-offs have become more complex.

The International Monetary Fund, World Economic Forecast of October 2021 revised the global GDP growth forecast marginally down from 6% in July 2021 to 5.9% in the October forecast. The downward revision for 2021 resulted from a downgrade for advanced economies in part due to supply disruptions and for low-income developing countries, largely due to worsening pandemic dynamics. The downturn is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. The forecast predicts almost 5% growth in 2022 followed with annual growth above 3% in 2023 through 2026. However, uncertainty around inflation pressure and the pandemic situation are considered major risks for global growth.

The growth is to be characterized by vaccine rollout, policy support, and continued supportive financial conditions. The growth prospects for advanced economies have been revised down by 0.4% as compared to the July forecast reflecting supply chain disruptions, shortage of key inputs and widespread infection. The forecast for the emerging market and developing economies is marked up slightly compared to the July 2021 WEO update, reflecting upgrades across most regions. The growth forecast for the low-income developing country group is marked down by 0.6% point relative to July, with the continuing slow rollout of vaccines as the main factor weighing on the recovery. The report identifies that there exists an economic divergence across countries, the aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022 and exceed it by 0.9% in 2024. By contrast, aggregate output for the emerging market and developing economy group (excluding China) is expected to remain 5.5% below the pre-pandemic forecast in 2024, resulting in a larger setback to improvements in their living standards.

These economic divergences stem from large inequalities in vaccine access and in policy support. While almost 60% of the population in advanced economies are fully vaccinated and some are now receiving booster shots, about 96% of the population in low-income countries remain unvaccinated. Emerging and developing economies, faced with tighter financing conditions and a greater risk of de-anchoring inflation expectations, are withdrawing policy support more quickly despite larger shortfalls in output.

Sizable fiscal support continues in advanced economies, while many emerging market economies are reducing policy support this year as policy space shrinks with the duration of the pandemic. Major advanced economy central banks are assumed to leave policy rates unchanged through late 2022 though, in some cases, asset purchases are expected to be scaled back before then a process already underway, for example, in Australia and Canada. Meanwhile, some emerging market central banks-including in Brazil, Chile, Mexico, and Russia-have shifted to a less accommodative stance.

Supply change disruptions have led to various challenges, on the one hand there is has been shortage of key inputs due to which manufacturing activities have declined in various countries. On the other hand, these supply shortages, alongside the release of pent-up demand and the rebound in commodity prices, have caused consumer price inflation to increase rapidly. As far as global trade is concerned despite temporary disruptions, trade volumes are expected to grow almost 10% in 2021, moderating to about 7% in 2022 in line with the projected broader global recovery. Trade growth is projected to moderate to about 3.5% over the medium term. The overall trade recovery masks a subdued outlook for tourism-dependent economies and cross-border services more generally.

Recent advancements have made it clear that we are all in this together and the pandemic is not over anywhere until it is over everywhere. The IMF forecasts that if Covid-19 were to have a prolonged impact into the medium term, it could reduce global GDP by a cumulative US$ 5.3 trillion over the next five years relative to the current projection.

According to IMF, accelerating of the vaccination of the world population remains the top policy priority along with continued push for widespread testing and therapeutics. This will help save millions of lives and prevent emergence of new strains. It is important to ensure that financially constrained countries can continue essential spending while meeting other obligations. The global community should also resolve trade tensions and reverse the trade restrictions imposed in the last few years and thus strengthen the rules based multilateral trading system. Efforts should be made towards completing the agreement on a global minimum corporate tax that will prevent the race to the bottom and help enhance finances to fund the critical public investments.

At country levels, the policy mix should be based upon the local pandemic and economic conditions thus aiming to promote maximum sustainable employment. At fiscal level, the level of support depends on the stage of pandemic. Healthcare related spending remains the priority for any economy. With the limited fiscal space in some countries, the support needs to be increasingly targeted towards the worst affected and provide retraining and support for reallocation. After this, emphasis should shift towards measures to secure the sustained recovery and invest in the longer-term structural goals. Initiatives should be directed towards medium term framework with credible revenue and expenditure measures ensuring debt sustainability.

On monetary policy side, central banks generally look through transitory inflation pressures and should avoid tightening until there is more clarity on underlying price dynamics. The IMF suggests that authorities should act quickly if the recovery strengthens faster than expected or risks of rising inflation expectations become tangible. In case where inflation is rising amid still-subdued employment rates and risks of de-anchoring inflation expectations are becoming concrete, monetary policy may need to be tightened to get ahead of price pressures, even if that delays the employment recovery. By contrast, monetary policy can remain accommodative where inflation pressures are contained, inflation expectations are still below the central bank target, and labour market slack remains.

Lastly, the IMF stresses on the challenges of the post-pandemic economy, i.e. reversing the pandemic-induced setback to human capital accumulation, facilitating new growth opportunities related to green technology and digitalization, reducing inequality, and ensuring sustainable public finances for long term growth. ■

Anti-Dumping Duties: India and Beyond

WTO defines 'dumping' as an action wherein a company exports a product at a price lower than the product's 'normal value' in its own home market. WTO's Anti-Dumping Agreement allows countries to act in a way that would normally break the GATT principles of binding a tariff and not discriminating between trading partners. Anti-Dumping Agreement sets the guidelines on how governments, not firms, can or cannot react to dumping, by disciplining anti-dumping actions. The agreement allows governments to act against dumping where there is genuine (or material) injury to the competing domestic industry.

Globally, according to the WTO, highest anti-dumping initiations were done for base metals and articles in the last five years, followed by chemicals, plastics, and textiles. Amongst the sectors where anti-dumping initiations were nil include animal and vegetable oils; hides, skins and articles; footwear; and precious stones and metals. This indicates that most trade remedy measures with regards dumping have been imposed on products for industrial use.

There are different ways of calculating whether a particular product is being dumped heavily or only lightly. The agreement provides three methods to calculate a product's 'normal value'.

- The primary approach of computing is based on the price in the exporter's domestic market.
- In cases when this approach can't be used, the other two alternatives include - the price charged by the exporter in another country, or a calculation based on the combination of the exporter's production costs, other expenses and normal profit margins.

The agreement also specifies how a fair comparison can be made between the export price and what would be a normal price.

Indian Scenario

In India, anti-dumping and anti-subsidies and countervailing measures are administered by the Directorate General of Anti-dumping and Allied Duties (DGAD) functioning in the Department of Commerce in the Ministry of Commerce and Industry (MOCI) and the same is headed by the Designated Authority. The Designated Authority's function, however, is only to conduct the anti-dumping/anti subsidy and countervailing duty investigation and make recommendation to the Government for imposition of anti-dumping or anti subsidy measures. Such duty is finally imposed/ levied by a Notification of the Ministry of Finance. Thus, while the Department of Commerce recommends the Anti-dumping duty, it is the Ministry of Finance, which levies such duty. As on June 2021, India had the second highest anti-dumping measures (313) in force, next to the USA. It may be noted that revoking or reducing the anti-dumping duty across select sectors will be a critical factor propelling India's export growth towards the envisaged goal of US$ 400 billion in 2021-22 as well as following years. If the anti-dumping duty on imports of raw materials is revoked, then it will enables import of raw material at competitive prices, this will benefits downstream industries as the cost of raw material reduces, reduced import prices of raw material get translated to reduced export prices for exports by downstream industries, thus ensuring greater opportunity to benefit from GVC integration.

A valid case-in-point, in this regard, is the removal of anti-dumping duty on viscose staple fibre:

- India has been amongst the top ten importers of viscose staple fibre (HS 550410), with imports growing at an AAGR of 7.1% during 2011-20, compared to the negative AAGR of (-) 2.5% recorded for world imports during the same time.
- Removal of anti-dumping duty on viscose staple fibre is likely to enable India's downstream apparel firms to procure the fibre at internationally competitive prices and increase the export viscose-based products.
- Further, this may lead to increase in India's export of value-added apparel products, thereby strengthening its position in global value chains.

Alternatives to Anti-Dumping Duty

While the core objective of anti-dumping duties is to provide recourse to domestic manufacturers and exporters from the material damage that foreign firms may cause by supplying goods at predatory prices, the premise for imposition of such duties is not devoid of loopholes. For instance, a domestic firm that wishes to keep its prices high can file an antidumping petition against foreign firms in order to pressure the firms into setting prices that match those of domestic firms. In such cases, the domestic industry is essentially forcing the foreign firms to collude with it in keeping the prices of goods high.

- To oversee and resolve such price differences that may lead to manipulative and collusive behaviour amongst domestic and foreign firms, a redressal forum could be setup under the aegis of Competition Commission of India.
- For trade with countries that are co-signatories to existing trade agreements, a clause to prevent dumping may be introduced.
- The standard for establishing injury is stricter under a safeguard action than under antidumping regulations. Although the domestic industry does not have to show that foreign firms are pricing their goods unfairly, it does have to demonstrate that it has sustained serious injury from an increase in imports. This requirement raises the bar for obtaining government assistance considerably and discourages trivial or unscrupulous allegations of harm. ■

Augmenting Infrastructure Facilities to Boost Exports

Infrastructure plays a key role in facilitating trade. There is strong evidence that countries with better infrastructure, such as Hong Kong and Singapore, tend to do well in international trade and punch above their weight, while countries with weak infrastructure, like Bhutan and Pakistan have a relatively underdeveloped external sector. Infrastructure matters to trade mainly because it decreases the cost of trade and ensures ease of doing business in economies. Lower trade costs improve price competitiveness of exports, raise the potential for exports, accelerate regional and intra-regional trade, and decrease trade deficit.

India has the world's second longest road network of 5.9 million km, but the national highway network accounts for less than 2.7% of the total road network and carries nearly 40% of the road traffic[1]. Moreover, as on March 31, 2018, more than half of the roads in country were not paved and nearly 77.9% of the highways had just two or less than two lanes[2]. India also has one of the largest rail networks in the world, spread over 1.2 lakh kilometres. However, the average speed of freight trains in India is 24-25 kmph, compared to 38-40 kmph for those in the USA and China[3]. Ports, which carry 90% of India's trade volumes, are also in dire need for modernization. The median turnaround time at Indian ports was 2.59 days in 2019-20, much above the global average of 0.97 days[4]. The infrastructural deficiencies and logistical inefficiencies add huge burden to the Indian economy and affect international trade.

Role of States in Infrastructure Development

States have enormous stake in undertaking initiatives for bridging the gaps in infrastructure. A state with adequate and high-quality physical infrastructure such as reliable supply of power, extensive multimodal transportation and logistics infrastructure, and telecommunication networks etc., engenders a reduction in trade costs and production cost, thereby attracting more businesses and incentivizing export-related activities in the state. States can enhance their export competitiveness by plugging in the existing gaps in trade enabling infrastructure. The infrastructure requirement vary in accordance with the unique characteristics of the state, for instance, coastal states require focus on developing their ports, as well as strengthening their road and rail network to facilitate movement of cargo from production site to the ports, while landlocked states require more investments in ICDs/ CFS.

Transport Connectivity

The Export Preparedness Index (EPI) of the Niti Aayog identifies core areas for export promotion at the state/UT level, of which transport infrastructure is one of the sub-pillars, in which Gujarat, Maharashtra, Tamil Nadu and Delhi have emerged as the top-performing states/UTs. The common factor across these states/UTs is that all of them have well-established air-cargo facilities, multimodal logistic hubs, as well as inland container depots. This enables smooth transport of goods, and also attracts investments in these states/UTs. The hilly states have performed poorly in this category. Barring Uttarakhand and Himachal Pradesh, the other Himalayan states (Tripura, Meghalaya, Mizoram, Nagaland, Arunachal Pradesh, Sikkim, Manipur) lack freight management, multi-modal hubs, as well as inland container depots.

It may be noted that the national single window interface system envisaged by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry - the first phase of which includes participation from 17 ministries/departments and 14 states, can revolutionize the system for approvals and clearances. The system should integrate various aspects of exports, so that both internal and external trade and investment environment is bolstered. States also need to enhance the utilization of the support provided under the central government's Trade Infrastructure for Export Scheme (TIES) for developing and strengthening essential export infrastructure. The states and UTs which have not availed support under the TIES account for more than one-third of India's merchandise exports. Clearly, there is need for states/UTs to avail greater support under the TIES for augmenting their trade enabling infrastructure.

SPS-Related Infrastructure

Existence of adequate research institutes and NABL accredited laboratories would play a vital role in enhancing the quality of products in line with international standards[5]. Need for testing and certification infrastructure is especially crucial for promoting agricultural exports from the country,

[1]CII and Arthur D Little (2020), Reimagining India's supply chain: A bold vision for 2030,
[2]Basic Road Statistics 2017-18, Ministry of Road Transport and Highways,
[3]CII and Arthur D Little (2020), Reimagining India's supply chain: A bold vision for 2030,
[4]Economic Survey 2020-21.
[5]Export Preparedness Index, NITI Aayog

which face disproportionately higher non-tariff barriers in regulated markets. However, there is significant disparity in the number of NABL accredited laboratories across the states. Inspection agencies which are accredited by the National Accreditation Board for Certification Bodies (NABCB) are also available in only 14 states/UTs.

Many of the states/UTs which do not have adequate testing and certification facilities have significant potential for trade in SPS-facing commodities. The north-eastern region, for example, has good agroclimatic conditions, and products such as spices, organic or inorganic products, ginger, and pepper can be grown and easily exported from the region, but lack of adequate testing and certification laboratories creates trade inefficiencies and barriers. At present, many of the agri products from the North-East are sent to Kolkata for testing, which is time-consuming and costly. There is clearly a need to set up more NABL-accredited food laboratories in the North-Eastern region of the country[6].

Storage Capacity

Adequate warehousing and cold storage capacity would also be important for promotion of exports. The distribution of cold storages is highly uneven, with nearly 71.6% of the cold storage capacity located in Uttar Pradesh, West Bengal, Gujarat and Punjab, as on August 31, 2020. The number of cold storage projects implemented (or under implementation) in several states and UTs such as Jharkhand, Telangana and Chhattisgarh, among others, under the central government sponsored scheme viz. the Pradhan Mantri Kisan Sampada Yojana, is also very low[7].

States needs to be more proactive in utilizing the available support facilities for development of trade enabling infrastructure. States should also provide assistance to exporters in leveraging the recently announced special fund worth ₹ 1 lakh crore to develop agricultural facilities, including better warehousing and modern cold storage chains. Cold storage at the ports would also be important to reduce product wastage. Currently, the contribution of port facilities to cold storage is 2%[8]. Some airports are ramping up the on-site cold storage facilities. In the recent past, airports like Delhi, Mumbai, Hyderabad and Bangalore have augmented the cold storage facility significantly, but the capacity remains inadequate at smaller airports.

Information Dissemination Infrastructure

There is also a need for other soft infrastructure at the state level, such as an online portal and trade guide to disseminate important information about various quality requirements and standards required for exports. Many export destinations prescribe product specifications which need to be adhered to, and it is the responsibility of exporters to ensure that these standards are met. Dissemination of information pertaining to the standards and regulations in key export markets, and handholding MSMEs in adhering to these requirements should form a key tenet of the export strategy of states/UTs. States/UTs should also provide support to firms in getting their products tested and/ or certified for export purposes. According to the report on the Export Preparedness Index, only 10 states have developed trade guides, and only 15 had an online portal for their exporters.

Industrial Clusters for Promoting Exports

States also need to develop efficient industrial clusters for facilitating better integration into global value chains. States need to develop a mechanism for assessing the performance of already existing clusters, in order to review the current status of existing clusters and undertake capacity building exercise. Such an assessment must cover aspects pertaining to prevailing infrastructure bottlenecks, as well as challenges in technological upgradation, access to skilled human resources, environmental sustainability, etc. The central government could incentivize such cluster assessments by the states through financial support.

Policy for Logistics and Warehousing

Emphasis needs to be laid on getting state policy frameworks for logistics and warehousing up and running at the earliest. As on May 2020, eight states/UTs in the country had an independent logistics and warehousing policy. Centre may list an indicative set of policy inclusions or parameters to not only guide states/UTs on policy formulation but also to help universalize the broad contents of different policies. This will also expedite the process of state-level policy formulation for logistics and warehousing.

R&D Infrastructure

Research institutes and NABL accredited laboratories would also play a vital role in boosting value-added exports. Currently, government support to incentivize R&D is almost entirely borne by the central government, while participation of state governments to enhance R&D spending remains limited. Thus, there is a need for greater investments from state governments in local R&D institutes. States should also encourage greater research orientation of firms through an appropriate incentive framework. ■

[6] ibid
[7] Ministry of Food Processing Industries, Government of India
[8] Cold Chain report 2021, Logistics Insider

Misreporting Trade Statistics and Unrecorded Capital Flows: Estimates, Causes and Remedies*

The trade statistics, as reported in India, generally show significant discrepancies in relation to the trade statistics reported by its trading partners beyond officially recorded transport and other transaction costs. This point was first raised in a paper by Marjit, Dasgupta and Mitra (2000) in the Indian context, pointing out that post-reform depreciation of rupee might have initially increased reporting of export earnings as black-market premium came down, rather than reflecting a significant rise in the actual volume of exports. Hence, official statistics needs to be corrected. A substantial literature has continued to follow, but unfortunately much less in India by the Indian scholars and much more globally, mainly in the context of China.

Such misreporting of trade transactions is a plausible reflection of unrecorded or informal capital flows. However, there may also exist other channels of such capital flows independent of the trade channel. Unfortunately, even world organizations such as the International Monetary Fund (IMF), World Bank, United Nations Conference on Trade and Development (UNCTAD) etc. do not provide mirror data on capital flows over a long time series. Assumed good governance in the developed world and relative inadequacy of such in India, though substantiated by well recognized data set on good governance, may not fully explain the origin of these unrecorded flows.

At the aggregate level the idea that unrecorded capital flows in or out of country is not only influenced by the traded sector but also various channels through which currency is converted and transacted globally. The entire literature on mirror data analysis so far puts sole emphasis on the traded sector transactions since export-import mirror data are available over a long time series. But this misses a critical aspect which is related to the non-traded sector in any economy. Booming non-traded sector can both pull and push capital flows through illegal channels. Sometimes, the trade account transactions to track the unrecorded flows should not be over emphasized.

Micro assessment of the situation was done through physical survey of traders and stake holders. The ground level survey was conducted by interviewing the traders involved in Leather, Toy, Petrochemical, various Micro, Small and Medium Enterprises (MSMEs), Handicrafts, Textile, Cosmetics, Copper and Agri industries.

According to the interviewees, the general reason behind the data-mismatch/ under-reporting was that the corrupt businessmen, might over-invoice or under-invoice exports and imports by bribing the customs officials to get tax saving, attain government incentives, act as hawala agents and/or to avoid custom duties. They are of the view that the import duties and the other banking charges are the main and sometimes sole reason behind these kinds of activities. This can be illustrated with the help of an example, if Mr. A imports car engines of a reputed car company and a particular brand of car. The company official price tag is US$ 5000. Duty is 50% approx. Now A makes a local invoice of US$ 2000 and submit that to the Mumbai customs to pay the duty and clear his engine. The officer may agree to clear it by accepting some bribe. But since his document is posted online it will be visible to other officers in various locations. Officers also known as Appraisers, who know about the car company, that engine and its correct price, will put in a remark and hence his document will get stuck for mis-declaration. The Appraiser will put the correct price and accordingly Mr. A will be charged duty on that price if he wants to clear his engine.

According to some interviewees the reason behind misreporting could be invisible export/import, third country export/import or fake or filler export/import. Malpractices can happen when containers were never declared and thus it becomes the case of invisible export or import. In these cases, no invoices are presented at the customs office, only the officer concerned and the security at the gate of the port is bribed and so when the undeclared container comes in the customs officer clears that without letting anyone know. This practice is extremely dangerous and can cause harm to a country because anything from drugs to gold to illegal arms can enter the country by this route. However, this kind of malpractice is getting exceedingly difficult to pull off as containers are always barcoded during shipment and every container can be tracked real time from the beginning. Money changes hands though hawala in this sort of cases.

When the interviewees were asked about the reasons behind misreporting, the main issues that they came up with were regulations, tax reasons, delay etc. Once an exporter/importer orders something from abroad it generally takes two to three months for the seller to ship the goods/consignment. There might be some mishaps like the

*This article is based on a study undertaken by Prof. Sugata Marjit supported by India Exim Bank.

covid scenario now which forces the government to restrict export/import of certain goods. Importer/ exporter may be unaware of this during the time of ordering. This may lead to cases where the businesses try to manipulate a way to change the HS codes which is banned from export/import to some other code which is unrestricted and thus will have a different duty.

The interviewees when asked about the possibility that whether it is possible that a part of export earnings is parked in the foreign country for financing imported inputs later, the unanimous answer was that it is very much possible, but that is mostly for the short term. In the short term (one year) this action is legal, where the current provision of one year is enough, and government should not increase that. This thing can also happen in the tax havens. In those countries it is extremely easy to open a bank account and if a person has a lot of money, he can open an account and/or might take even take citizenship there or put someone from his family in the tax havens. The interviewees unanimously said that the illegal money is always channeled abroad through trade misreporting. The interviewee elaborated that in brass and copper items government gave a duty drawback incentive of say 10% of invoice value, so the exporter will show the more weight and increase the value accordingly which in turn will get them more government incentive. However, here a collusion between the exporter and the custom officer is required who checks the weight of the goods. The trader also has a collusion with the buyer/seller in the foreign country so that they can send the inflated invoice amount, which has to be remitted through the bank. How he is reimbursed back the inflated amount is another story. This can be done through hawala.

Apart from the conventional channels of misreporting export and import there are ways in which people illegally export and import goods which is not good for our country. This also generates a huge amount of black money and results in outflow of a high amount. Smuggling of Gold, Drugs and Arms are the main illegal trade channels in India now. Importers might want to reduce the value to avoid custom duty or lower lending cost. Exporters want maximum value and importers want minimum value. This leads to manipulation of documents at importer's end. They may also resort to other channels to manipulate and reduce duties. Say, something is made from plywood so they will check in importing country which plywood item has lowest duty structure and manipulate accordingly.

There is another type of trade practice which is done a lot with the money being unaccounted for and becomes a black money. In this case an exporter makes small shipments through courier or post parcel service, and this is shown as free samples. No export shipment documents are processed in these cases as they are not categorized as export. An invoice is presented to the customs by the courier agent and the invoice says that the goods are only samples and are of no commercial value. The recipients, however, sell the goods and arrange to make the payment through hawala. The value of these operations goes into lakhs. Excessively big volumes are done through this and again it's difficult to get proper data because so many samples go out of our country regularly in which there are many genuine samples.

The core of the idea and the findings point out that it is crucial that the governments must undertake bilateral initiatives to maintain official Mirror Data at both ends of transactions to monitor the trends in unrecorded capital flows which might generate in both traded and non-traded segments. This will not only help better revenue projections but also provide better information about National Income data.

The study pinpoints the perceptions and experiences of actual traders regarding policy loopholes provides a guideline to the regulatory authorities. Generally speaking, going by the information provided by the traders of big cities, except Chennai, the extent of misreporting is roughly about 5% to 10% of total trade which corroborates the aggregate evidence. The case of Chennai is an interesting deviation. Either it is a pure regional variation of reality, or it is more of a truth telling problem. As our record shows India-Singapore trade does show breakaway trend from other countries which needs to be seriously investigated.

Second, the study shows that it is export misreporting which causes import misreporting. One could explain this as a financing issue of imports and also as unrecorded foreign investment by Indians. Thus, a clear guideline is required to trace the gap in the export front. Variations in relative interest rates and expected depreciations of currency will affect such incentives.

Third, Balance of Trade or Balance of Payment measurement is a critical issue and so is the true contribution of the external sector to the GDP. This is a similar problem as accounting for the contribution of informal sector in national income.

Lastly, it will confer great benefits if the Govt. cares to develop a "Mirror Data Base" through bilateral channels at least with the major trading partners. This will help in forecasting trade and macro figures. Unfortunately, this is not the case in most of the countries. But that seems to be critical in tracking "Unrecorded" capital flows. ■

Global Semiconductor Shortage

Semiconductors are physical substances designed to manage and control the flow of current in electronic devices and equipment. They are commonly used in the development of electronic chips, computing components and devices, enabling advances in communications, computing, healthcare, military systems, transportation, clean energy, and various other applications. They are made from pure elements, typically silicon or germanium, or compounds such as gallium arsenide. Semiconductors are complex products to design and manufacture and have a highly specialized global value chain.

Based on specialization, semiconductor companies can be either Integrated Device Manufacturers (IDMs), Fabless Suppliers or Pureplay foundries. IDMs design as well as sell integrated circuit products, Fabless suppliers specialize in designing the chips and outsource the fabrication, and Foundries specialize in fabrication or manufacturing of Integrated Circuits.

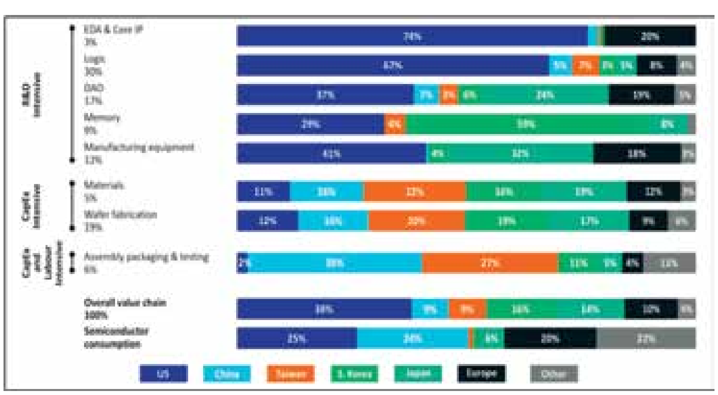
Global Market: Semiconductors

The US leads in the most R&D-intensive activities i.e., EDA and core IP, chip design and manufacturing equipment while East Asian countries, namely, Japan, South Korea and Taiwan have a competitive edge in manufacturing activities, with 75% of the world's total manufacturing capacity concentrated in the region.

Notably, Taiwan Semiconductor Manufacturing Corporation (TSMC) is the world's largest contract chipmaker, holding 56% of the foundry business of manufacturing chips (Chart 1). East Asia, particularly Japan, is also the major supplier of key materials. As regards, assembly, packaging and testing services, China is the global leader.

In the overall semiconductor market, in 2020, Intel was the global leader with a market share of 15.6%, followed by Samsung Electronics (12.4%), SK Hynix (5.5%) and Micro Technology (4.7%). Further, in 2020, the demand for semiconductors was the highest in computers segment (32%), followed by communications (31%), industrial use (12%) and consumer use (12%).

Chart 1: Semiconductor Industry Value Added by Activity and Region, 2019 (%)



Source: Adapted from Semiconductor Industry Association

Trade in Semiconductors

Semiconductors are the world's fourth-most-traded product after crude oil, refined oil, and cars. In 2020, the global exports of semiconductors equalled US$ 783.9 billion, recording an AAGR of 7.5% during 2011 to 2020.

Hong Kong, a warehousing hub for semiconductors and manufacturers was the largest exporter of semiconductors in 2020. Until recently, it enjoyed preferential treatment by the US under the special status accorded to it. The other top exporters in 2020 were Taiwan, China, Singapore, and South Korea, which are the assembly and manufacturing hubs. China's gigantic electronics industry makes it the world's largest importer of semiconductors, followed by Hong Kong, Singapore, Taiwan, and South Korea (Table 1).

Table 1: Top Exporters and Importers in Semiconductor

Exports				Imports			
Rank	Country	Value (US$ billion)	Share in World Exports	Rank	Country	Value (US$ billion)	Share in World Imports
1	Hong Kong	153.9	20%	1	China	350.8	37%
2	Taiwan	122.9	16%	2	Hong Kong	168.9	18%
3	China	117.1	15%	3	Singapore	71.7	8%
4	Singapore	86.3	11%	4	Taiwan	62.6	7%
5	South Korea	82.9	11%	5	South Korea	40.3	4%
6	Malaysia	49.3	6%	6	Vietnam	39.1	4%
7	USA	44.2	6%	7	Malaysia	33.4	4%
8	Japan	28.9	4%	8	USA	31.9	3%
9	Philippines	20.2	3%	9	Japan	18.8	2%
10	Vietnam	14.0	2%	10	Mexico	18.7	2%
31	**India**	**0.3**	**0%**	**15**	**India**	**8.4**	**1%**

Source: ITC Trade Map; India Exim Bank Research

Shortage of Semiconductors

In the recent times, the world has witnessed shortage of semiconductors which have applications across industries such as electronics, automobiles, among others. There are various factors which have played a role in this shortage. The root of the shortage can be traced to the the beginning of Covid-19 pandemic. As a result of this, lockdowns were imposed across the globe which forced shut crucial chip making facilities. While supply got halted, demand for all kinds of chip-heavy gadgets rose unexpectedly. It may be noted that manufacturing a chip can take more than three months, therefore the supply could not be increased at a short notice.

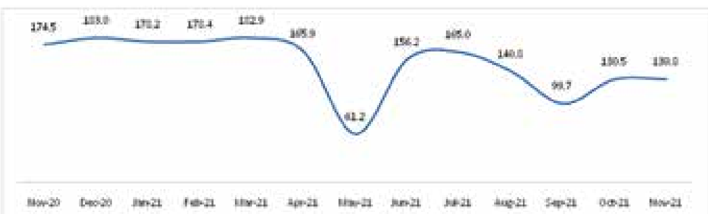
Further, export control measures imposed by the US, in 2019 and 2020, have prevented Chinese chipmakers such as Huawei and Semiconductor Manufacturing International Corporation, as well as global foundries that cooperate with Chinese firms, from accessing US-made semiconductor production equipment and software. In this scenario, automobile makers have been hit the hardest because of their just-in-time delivery model and increased supply of semiconductors to electronics market. Building capacity, meanwhile, can take years, with chip factories costing US$ 10 billion to US$ 15 billion to construct. The supply constraints could, therefore, possibly continue into 2023.

Impact on India's Automobile Industry

The global shortage of semiconductors has started to take a toll on Indian automobile manufacturers. Shortage of electronic components has resulted in 4.5-5 lakh pending bookings in the auto industry. Market leader Maruti Suzuki cut its production by 60% in September 2021. Similarly, Mahindra and Mahindra cut its output by 20-25% in September and observed seven no production days during the month. Other companies, such as Nissan, Hyundai and MG Motor have also cut production.

It may be noted that the Electric Vehicle segment has also taken a hit, with Tata Motors reporting a waiting period of 6 months for its EV models. According to Crisil Ratings, the global shortage of semiconductors will moderate India's growth in passenger vehicle sales to 11-13% this financial year, around 4-6% lower than what could have been without the scarcity.

Chart 2: India's Sales of Passenger Cars (in thousand units)



Source: ITC Trade Map; India Exim Bank Research

Semiconductor Market in India

India's forte lies in the chip design area of microprocessors, memory subsystems, and analog chip design. As a result, due to absence of manufacturing activities in the country, presently the country's entire semiconductor demand is met through imports. Some challenges which the industry hence faces include:

- ***Zero basic customs duty on imports of semiconductors:*** With zero basic customs duty due to semiconductors having been a part of Information Technology Agreement (ITA-1), incentive to manufacture semiconductors domestically is low.
- ***Cost of capital for setting competitive global scale capacities is exorbitant:*** It is not financially feasible for domestic manufacturers to set up a chip factory due to the high cost of capital in India, given that a large investment is required.
- ***Supporting infrastructure such as reliable supply of power and water is currently inadequate:*** A semiconductor chip factory requires consistent supply of power and water. If this gets impacted, the cost to produce the same goes up.
- ***Logistics costs are high:*** While India has shown significant improvements in Logistics Performance Index in the recent years, it is still behind many countries and ranks above 40.

Way Ahead: Opportunities for Indian Semiconductor Industry

The semiconductor shortage has revealed countries' overdependence on few countries, particularly Taiwan for manufacturing of semiconductors. In order to tackle the crisis, many countries have announced plans to expand domestic production of semiconductors. The U.S., for example, has allocated US$ 50 billion for semiconductor production and research in its infrastructure investment package.

India too is gearing up for establishing the first semiconductor manufacturing unit in the country by June-July 2022. India also has in place Scheme for Promotion of Manufacturing Components and Semiconductors (SPECS). The scheme aims at positioning India as a global hub for Electronics System Design and Manufacturing (ESDM) by encouraging and driving capabilities in the country for developing core components. Recently, in December 2021, the Union cabinet approved a ₹ 76,000 crore policy boost for semiconductor and display manufacturing ecosystem in the country. The scheme for setting up of semiconductor fabs and display fabs in India will extend fiscal support of up to 50% of project cost to eligible applicants.

With respect to providing capital support, the government is making efforts to coordinate with top semiconductor manufacturers such as Taiwan Semiconductor Manufacturing Company, Intel, and AMD. Few domestic players such as the Tata Group are also looking to kickstart semiconductor manufacturing.

India has in the past tried to incentivise manufacturers to set up plants, but the response has been lukewarm. For the investments to come, it is imperative that adequate supporting infrastructure such as reliable power supply, abundant water supply and seamless logistics be put in place and lucrative incentives are doled out. ■

Aerospace Industry

Indian Aerospace: An Introduction

Indian aerospace industry consists of the defence[1] and the civil aviation segments and contributes to about 1% of the total global aerospace industry[2]. Additionally, it is expected that the Aerospace and Defence (A&D) market in India to reach around US$ 70 billion by 2030 as the momentum is expected to further pick up with improving infrastructure and government thrust. Some of important sub-segments of this industry are:

- ***Aviation Aircraft:*** The increased interest in developing regional connectivity, tourism, and emergency medical evacuation, is opening opportunities.
- ***Maintenance Repair and Overhaul (MRO):*** With growing fleet, more maintenance will be required. Currently, most MRO business is outside India.
- ***Navigation and Air Traffic Management Systems:*** With the launch of the GPS Aided GEO Augmented Navigation (GAGAN) system, India became the fourth country in the world to implement satellite-based navigation systems

Widening the Aerospace Industry in India

Hindustan Aeronautics Limited (HAL) has been the leading player in aircraft manufacturing industry; however, in recent times the space has been opened up to others. In September 2021, Ministry of Defence, GoI inked a nearly ₹ 20,000 crore contract with Airbus Defence and Space to procure 56 C-295 medium transport aircraft which will replace Avro-748 planes of the Indian Air Force. This is a joint project between Airbus Defence and Tata Advanced Systems. Under the deal, 16 aircraft will be delivered in a flyaway condition by the Airbus Defence and Space within 48 months of signing the contract. The remaining 40 planes will be manufactured in India by a consortium of the Airbus Defence and Space, and Tata Advanced Systems Limited (TASL) within 10 years of signing the contract. It is important to note that this is the first project of its kind in which a military aircraft will be manufactured in India by a private company.

Additionally, given that there is a growing need to promote research and development in the aerospace technology, recently, IIT Kanpur and Indian Air Force have signed an MOU to build robust technologies both in the academic and research front in the domain of aerospace technology.

Further, the Defence Acquisition Procedure (DAP) 2020 has been established in 2020 as a potential catalyst for the Atmanirbhar Bharat Abhiyaan, in defence manufacturing. With FDI in defence manufacturing permitted up to 100% (up to 74% under Automatic route and beyond 74% under Approval route), there is an opportunity for the domestic industry to increase production in the sector.

[1]Only the aircraft segment of the defence industry has been covered
[2]ASSOCHAM (2019)

Opportunities in Civil Aviation and MRO

Civil Aviation

About 700 aircrafts are currently operated by Indian scheduled airlines. Indian civil aviation is dominated by low-cost carriers (LCCs) including IndiGo, SpiceJet, GoFirst, and AirAsia India, with the majority of them operating a fleet of Airbus' narrowbody planes. From the third largest domestic aviation market, India is expected to become the third largest market for both domestic and international traffic by the year FY25. From 2015-16 to 2019-20, passenger traffic in India increased at an AAGR of 11% while freight traffic increased at an AAGR of 6%.

MRO Services

India is becoming a regional player in MRO and has provided services to neighbouring countries such as Bhutan, China, Malaysia, Vietnam etc. The global market of MRO is worth US$ 80 billion in which India's share is about 2.5%. Currently annual import of MRO services by Indian airlines is around Rs 9,700 crore, sourced from countries like France, Germany, Jordan, Malaysia etc. With growing aviation infrastructure, Indian MRO industry is expected to grow significantly. Indian airline companies spend over 12–15% of their revenues on maintenance, which is the second highest cost component after fuel. The size of Indian aviation MRO is projected to register an AAGR of 7.1%, growing from US$ 2 billion in 2019 to US$ 4 billion in 2029. The world MRO market is expected to grow at a lower CAGR of 3.5%, during the same period.

Indian Aerospace Industry to Grow Faster than World

As per Oxford Economics, during 2015-19, the global aerospace manufacturing grew by almost 3%, while India's aerospace manufacturing registered a growth of 10.7%. After 2020 being impacted by the pandemic, it is forecasted that in 2021, the global recovery in aerospace manufacturing will be stronger, and the recovery for India will be even stronger.

It may be noted that India is already a large commercial and defence aircraft market. With rising passenger traffic and increasing military and defence expenditures, the demand for aircrafts and its supply chain is increasing.

Further, the industry is at an important junction, especially with the recent taxation change for the MRO services, which is expected to make India, a hub for the MRO services.

Overall, with India having a significant and an increasing defence budget along with business-friendly policies such as 100% FDI through approval route in manufacture of aerospace parts and components, India could see an impressive growth in the aerospace manufacturing space, in the coming years.

Exim Bazaar

Handicrafts and handlooms, being endowed with a rich set of values and beliefs are a unique manifestation of the roots, culture, and identity of the people, and of perhaps the richest creative traditions of any country. Craftsmen or artisans are the backbone of the non-farm rural Indian economy. Handicrafts is a labor-intensive sector with high potential of employment.

India Exim Bank through its Grassroots Initiatives for Development (GRID) programme endeavours supporting social enterprises, MSMEs, NGOs, Trusts, Societies and Cooperatives in their globalisation efforts. The programme seeks to address the livelihood needs of the underprivileged sections of the society, while creating new market/ business opportunities for enterprises working with traditional artisans / rural entrepreneurs of the country. The objective of GRID is to help producer groups / clusters / small enterprises across the country realise remunerative return on their produce, essentially by facilitating exports from these units. GRID endeavours to do so by helping grassroots enterprises/ MSMEs at different stages of product development / business cycle. This encompasses capacity building, training, export capability creation, expansion / diversification of the customer base, and addressing issues that inhibit their foray into exports.

The Bank, through its Marketing Advisory Services (MAS), plays a promotional role to create and enhance export capabilities and seeks to help Indian firms in their globalisation efforts by proactively identifying overseas distributor(s) / buyer(s) / partner(s) for their products and services.

GRIDMAS initiatives include, inter-alia, exhibiting the craft products at leading trade fairs and exhibitions namely Export Promotion Council for Handicraft's (EPCH) Home Expo, Kalaghoda Art Festival, Surajkund International Craft Mela and Traditional and Folk-Art Exhibitions in major cities. Such participation in exhibitions, crafts and trade fairs has enabled grassroot artisans/ enterprises to reach out to new customers, generate spot sales, build their brand, and secure domestic corporate as well as export orders.

Inaugural Ceremony of Exim Bazaar 2021, featuring Chief Guest, India Exim Bank MD, DMD, Senior Executives and Exim Bazaar Artisans at WTC, Mumbai

To further strengthen the Bank's GRIDMAS outreach, the Bank launched a new initiative titled 'Exim Bazaar', as a pilot in 2017 which is an exclusive marketing platform for the artisans hitherto supported by India Exim Bank. 'Exim Bazaar' is an attempt on the part of the Bank aimed at reviving the traditional arts and crafts of India and has been one of the most prominent, attractive, and successful craft exhibitions initiated by Exim Bank under the GRIDMAS program.

Since its inception in 2017, seven editions of Exim Bazaar' has been organised and has gained considerable prominence, having found favour with both the local population and artisans alike. Many more talented artisans including those already associated with the Bank, and other upcoming artisans, have expressed their interest to participate in the event.

The Bank organised its 8th edition Exim Bazaar during December 18-21, 2021 at Mumbai. Governor of Maharashtra, Mr. Bhagat Singh Koshyari, along with India Exim Bank's Managing Director Ms. Harsha Bangari and Deputy Managing Director Mr. N. Ramesh inaugurated the 8th Edition of 'Exim Bazaar' at World Trade Center, Mumbai

Art forms such as Bihar's Madhubani paintings, Andhra Pradesh's Leather puppetry, Maharashtra's Warli paintings, Rajasthan's Pichwai and Phad paintings, Sanjhi art, Punjab's Phulkari embroidery, West Bengal's Pattachitra, Uttar Pradesh's Banarasi silk fabrics, Madhya Pradesh's Gond paintings and Chanderi weaving, Odisha's Dokra art, Gujarat's Ajarakh textile among others were displayed and were available for sale in the exhibition. More than 75 artisans, grassroot enterprises from 20 states participated in Exim Bazaar Mumbai 2021.

Under GRID and MAS programmes, the Bank is also supporting the Government of India's One District One Product initiative, by identifying products with export potential from various districts of India such as Shahi Litchi from Muzaffarour (Bihar), Saffron from Kashmir and Sports Goods from Jalandhar (Punjab) among others.

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. LOCs have helped to create the requisite political goodwill for India in the beneficiary countries besides promoting India's political, strategic and commercial interests. LOCs help project India's growing economic strength as well as its willingness to contribute to infrastructure development and capacity building in the recipient developing countries. LOCs also, help to export goods and services required in the markets of the recipient country, in which India does not have a presence. The Indian exporters can obtain payment of eligible value from India Exim Bank, without recourse to them, against negotiation of shipping documents/provision of services. Indian exporters realise full payment on shipment of goods, through India Exim Bank, without being exposed to risk on the buyer or the buyer's country.

The LOCs are extended to sovereign governments or their nominated agencies, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Bank as on December 20, 2021, has 276 Lines of Credit, covering over 62 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US$ 27.35 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 one LOC as given below during the period October-December 2021:

i) A LOC of US$ 7.29 million was extended to the Government of Guyana, for the purpose of 'Procuring and Installing Solar Home Lighting Systems for 30,000 homes in the Hinterland Communities in Guyana'. With the signing of the above LOC, India Exim Bank, till date, has extended 9 Lines of Credit to the Government of Guyana, with the support of the Government of India, taking the total value of LOCs extended to US$ 117.17 million. Projects covered under the LOCs extended to the Government of the Guyana, includes traffic signaling system project, construction of a cricket stadium for World Cup 2007 in Georgetown, Guyana, fixed and movable irrigation pumps, multi-specialty hospital, East Bank-East Coast Road linkage project, procurement of ocean passenger-cargo vessel, supply of high capacity fixed and mobile drainage pumps and associated structures in Georgetown, Guyana, up-gradation of three primary health centres, procuring and installing solar home lighting systems for 30,000 homes in the hinterland communities in Guyana. Out of the above, some projects are currently under implementation at various stages.

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Success Story

India Exim Bank's Government of India supported Line of Credit of US$ 15 million to the Government of the Republic of Kenya

India Exim Bank has extended a GoI-supported LOC of US$ 15 million to the Government of Kenya for Development of Small and Medium Enterprises in Kenya. The Credit Agreement was signed on July 11, 2016.

Project 1: Supply, Installation and Commissioning of Boiler

Contract was signed between M/s. Balkrishna Boilers Pvt. Ltd. and included under the LOC on June 02, 2020.

The scope of the project includes supply, installation and commissioning of Boiler (Vertical FBC Three Pass Thermic Fluid Heater – VTF Series), bag filter (64 bags) complete with accessories and support strcture and internal ducting including flue gas and hot air ducting.

The total cost of the Project- US$ 49,027.5

Project was successfully completed on October 13, 2021.

Project 2: Supply, Erection and Commissioning of Finishing Machine for Textiles

Contract was signed between M/s. Yamuna Machine Works Ltd. and included under the LOC on May 18, 2020.

The scope of the project includes supply, erection and commissioning of finishing machine for textiles (coating line/stenter having 2200 mm working width) including; fabric feeding with high entry, two bowl padder, automatic bow and weft straightener, coating head, six chamber stenter, pin and clip type, crush calendar horizontal type, two cooling cylinders, plaiting and big batching arrangement along with electrical control panel, dryer, vario flow air system, radiators, dual filters, cooling and delivery systems, cables and cable trays, oil line valves, PLC with touch screen and necessary spares for the machine.

The total cost of the Project - US$ 352,100.0

Project was successfully completed on August 20, 2021.

The Quarter That Was

India Exim Bank Rings the Bell with AFRINEX for Listing of US$ 1 Billion 10-Year Bond

Export-Import Bank of India (India Exim Bank) listed its US$ 1 billion 10-year bond on AFRINEX at a virtual listing, during the Launching Ceremony of AFRINEX on October 25, 2021. Hon'ble Mr. Pravind Kumar Jugnauth, Prime Minister of the Republic of Mauritius, Her Excellency Mrs. K. Nandini Singla, High Commissioner of India to Mauritius, and Ms. Harsha Bangari, Managing Director, Export-Import Bank of India, rang the digital bell on AFRINEX, thus, celebrating the launch of AFRINEX with its inaugural listing of India Exim Bank's US$ 1 billion 10-year Bond.

India Exim Bank Targets Financing of US$ 7 billion of Project Exports

With the recent announcement of the corpus infusion of ₹ 1,650 crore by the Government of India in the National Export Insurance Account (NEIA) to boost project exports, India Exim Bank targets to achieve financing of US$ 7 billion of project exports over the next five years. The NEIA Trust, set up by the Ministry of Commerce and Industry, Government of India (GoI), in March 2006, provides export credit insurance cover for promoting medium and long-term project exports from India. The corpus infusion will enhance the project export possibility having cover by NEIA by about ₹ 33,000 crore over next five years (equivalent to US$ 4.5 billion). The capital infusion will help tap huge potential of project exports in focus markets. The Bank has currently supported 31 projects valued at US$ 2.74 billion in 14 countries under the Buyer's Credit under NEIA programme.

India Exim Bank recently organised an interactive session on 'Enhancing Global Opportunities for the Project Exporters' in Mumbai to discuss the opportunities and challenges with the Indian project exporters for harnessing the benefits of the corpus infusion by the GoI.

India Exim Bank Explores Opportunities to Strengthen Regional Value Chains between India and ASEAN

As a run up to the 18th ASEAN-India Summit 2021, India Exim Bank organized a webinar on "Deepening India-ASEAN Relations: Exploring New Avenues for Engagements", jointly with the ASEAN-India Centre (AIC) at Research and Information System for Developing Countries (RIS), and the ASEAN India Business Council (AIBC) on October 18, 2021. The Chief Guest of the event, Ms. Riva Ganguly Das, Secretary (East), Ministry of External Affairs, Government of India, reiterated the need to augment a diversified and resilient supply chain between India and ASEAN. Ms. Das also pointed out the critical role of digital infrastructure, cooperation in health and pharma sector, sustainable development, and enhanced connectivity, in addition to boosting trade and investment to strengthen India-ASEAN relations.

During the Webinar, Ms. Riva Ganguly Das also released India Exim Bank's publication titled "Building Value Chain: Opportunities for India and ASEAN", in the presence of Ms. Harsha Bangari, Managing Director, India Exim Bank; Dato' Ramesh Kodammal, Co-Chair, AIBC and Prof. Sachin Chaturvedi, Director General, RIS.

India Exim Bank Explores Opportunities to Strengthen India-Japan Relations beyond Trade and Investment, through Closer Collaboration

India Exim Bank's study titled "Prospects for Enhancing India Japan Trade Relations" was released at the hands of Shri. Dammu Ravi, Secretary (Economic Relations), Ministry of External Affairs, GoI; in the virtual presence of H.E. Mr. Sanjay Kumar Verma, Ambassador of India to Japan, Mr. Shingo Miyamoto, Minister (Economic and Development), Embassy of Japan in India, Ms. Harsha Bangari, Managing Director, India Exim Bank and Mr. N. Ramesh, Deputy Managing Director, India Exim Bank during a webinar titled "India-Japan Economic Partnership: Trade and Beyond" on October 08, 2021, hosted by India Exim Bank.

The study notes that over the past decade, India's total trade with Japan has increased from US$ 10 billion to almost US$ 18 billion, with exports valued at US$ 5 billion and imports US$ 13 billion in 2019. However, despite having a Comprehensive Economic Partnership Agreement (CEPA) with Japan, India has been running a persistent trade deficit with Japan, which has more than doubled during the decade, to almost US$ 8 billion in 2019. The Study, through the trade complementarity analysis, recommends suitable product categories in which India has a latent advantage in exports. The study suggests that there is significant potential for India's exports in categories such as mineral fuels and oils, electrical machinery and equipment, machinery and mechanical appliances, optical, photographic equipment, pharmaceutical products, articles of apparel and clothing, etc.

Transition towards a Stable Trade Policy Regime is a Gamechanger for Agri Exports from India: India Exim Bank Study

Agriculture policies in India have been focusing on raising farm output to achieve self-sufficiency, reduce import dependency and ensure food security. Driven by these primary objectives, there has been a tendency to utilize trade policy as an instrument to attain short term goals of price stabilization in India. According to a recent Study by India Exim Bank, recently there has been a shift in the Government of India's stance from the one characterized by intermittent restrictions to the one committed towards maintaining a stable trade policy regime to help India emerge as a reliable supplier.

India Exim Bank's study titled "Promoting Agriculture Exports from India" was released during a webinar titled "Agriculture Exports from India: Prospects and Opportunities" on November 12, 2021, hosted by India Exim Bank as part of the Azadi ka Amrit Mahotsav initiative to commemorate 75 years of Independence. The webinar had speakers from India Exim Bank, Ministry of Commerce and Industry, Government of India, Agricultural and Processed Food Products Export Development Authority (APEDA), experts from academia and representatives from agri-businesses. ■

Country Scan

D. R. Congo

The economy of D. R. Congo is expected to expand by 4.8% in 2021 and 5.3% in 2022. The prospects for the country have been sharply boosted by the launch of the Kamoa-Kakula copper mine in mid-2021 and its ongoing phased expansion, which is attracting investments. As a result of currency depreciation and increasing food prices, inflation had increased to 11.1% in 2020. The average prices are likely to moderate to around 9.2% in 2022. The franc is expected to depreciate at a slower pace in the near term, moving from an estimated FC 1,991.2 : US$ 1 at end-2021 to FC 2,093.2 : US$ 1 at end-2022. After narrowing to an estimated 2.2% of GDP in 2021, the current-account deficit is expected to shrink further, to 1.6% of GDP in 2022 and 1.4% of GDP in 2023, on the back of a rising trade surplus and falling services deficit. Strong growth in export earnings from minerals (reflecting both capacity gains and rising prices) is expected to out pace the rise in capital imports for planned mine expansions and other infrastructure investments, resulting in a widening trade surplus over 2022-23.

China

Real GDP growth of is expected to grow at 7.9% in 2021, up from 2.3% in 2020. Investment is likely to be boosted by property, particularly in larger cities, and a recovery in private investment, supported by firmer domestic and external demand for manufactured goods. Government consumption is projected remain strong on the back of higher expenditure on public services and healthcare. Consumer price inflation is expected to moderate in 2021 to 0.9% in 2021, reflecting a recovery in pork supply, which is likely to pull food prices down. However, beyond food prices, inflationary pressures are likely to be apparent as consumer demand strengthens, as fuel costs rise in line with global oil prices, and as inclement weather inflicts temporary shocks to food supply. The resumption of export production elsewhere, as other markets gain control over Covid-19, is expected to erode the renminbi's value. The currency is expected to average Rmb 6.45 : US$ 1 in 2021 and Rmb 6.57 : US$ 1 in 2021. External trade is expected to strengthen in 2021, underpinned by a return to global GDP growth. The current-account surplus is expected to average the equivalent of 2.4% of GDP in 2021 and 2.3% in 2022.

Seychelles

In 2021 real GDP of Seychelles is expected to grow by 4.2%, in line with a recovering global economy and improving trade (mainly for exports of canned tuna). However, this will reflect base effects, after undergoing a contraction of 10.7% in 2020 owing to a near shutdown of tourism. Construction sector activity is expected to support some economic expansion, in line with large infrastructure and climate change-related projects (in the fisheries and agricultural sector) that are likely to begin in late 2021. After averaging an estimated 1.2% in 2020, inflation is expected to rise to 7.8% in 2021 due to a depreciating currency in the first quarter of 2021 and rising global oil and food prices, with food accounting for about 25% of Seychelles' total imports. The rupee is expected to appreciate in 2021 to SRs 17 : US$ 1 as export earnings recover, from SRs 17.6 : US$ 1 in 2020. The current-account deficit is expected to narrow from 27.7% of GDP in 2020 to 24.9% of GDP in 2021 as the services surplus recovers, driven by a gradual resumption of the tourism sector and by accelerating growth in Europe, the country's major tourist market.

Tajikistan

Tajikistan's real GDP is expected to grow by an estimated 5% in 2021 as compared to a growth of 4.5% in 2020. The growth is likely to be driven by robust export growth, and relatively strong private consumption and fixed investment growth. The government has refrained from imposing stringent coronavirus measures in order to preserve the economy. The consumer price inflation is expected to remain elevated and to average 9.2% in 2021, increasing from 8.6% in 2020, owing to increases in food prices resulting from supply shortages. The central bank operates a regulated 'floating' exchange-rate regime that resembles a crawling peg. The Somoni is expected to depreciate to an average of S 11.32 : US$ 1 in 2021 as compared to S 10.32 : US$ 1. The current account generally records large trade deficits, which are offset to some extent by net inflows on the primary and secondary income accounts. The current account is expected to register a deficit of 2.5% of GDP in 2021 after registering a surplus of 4.1% in 2020 owing to reduced trade deficit.

Currency Currents

Japanese Yen

¥ The U.S. dollar (US$) surged past a key level of 115 against the Japanese Yen (JPY) for the first time since January 2017, as expectations for higher U.S. interest rates propped up the greenback coupled with Japan's subdued economic outlook. JPY has weakened by more than 10% this year, making it the worst performing currency amongst G-10 countries.

A weaker yen adds to imported inflation which has impacted households as well as corporates in addition to the supply chain bottlenecks along with the prevailing high commodity prices which has impacted the economy in the background of Covid-19. The negative impacts of a weak yen may be larger than before given the penetration ratio of imports is on the rise. Exports now make up roughly 15% of Japan's economy as of 2020. The pair has been trading in the range of 110.81 and 115.51 during the period October 01 to December 10, 2021.

The closing rate of US$/JPY as on December 16, 2021, stood at 113.70

Ethiopian Birr

Br Prior to 1993, the official exchange rate of the Ethiopian Birr (ETB) was pegged to the US$, which was then replaced with a 'managed floating' exchange rate regime which was essentially expected to allow the central bank to intervene to manage volatility in exchange rates.

Despite a steadily depreciating currency, the Birr has been devalued by the Government on several occasions since the introduction of the managed float to shore up its forex reserves. The government is also attempting to streamline the foreign exchange market, where the difference between the official exchange rate and the parallel market has widened this year for various reasons including the war in the north. In addition to the above, Ethiopia is also grappling with high inflation rates at 34.8% YoY for the month of October 2021.

The closing rate of US$/ETB as on December 16, 2021, stood at 48.5513

Sri Lankan Rupee

SLRs Sri Lanka's government declared an economic emergency in the last week of August this year amid rising food prices, a depreciating currency, and rapidly depleting forex reserves. The tourism industry, which represents over 10% of the country's Gross Domestic Product and brings in foreign exchange, has been hit hard by the coronavirus pandemic. As a result, forex reserves have dropped from over US$ 7.5 billion in 2019 to around US$ 2.7 billion in September this year. The fast-depreciating exchange rate for Sri Lanka has also accentuated the pace of depletion of forex reserves. It must be noted that the country depends heavily on imports to meet even its basic food supplies which in turn has impacted food inflation. Moreover, the Central Bank, in September 2021, banned forward contracts and spot trading of rupee at a rate above 200 rupees to U.S. dollar thereby further impacting market activity. The value of the Sri Lankan rupee has depreciated by around 9% so far this year.

Sri Lanka, which faces US$ 1.5 billion of debt maturities next year, is looking for a revival in its covid-hit tourism industry with the reopening of the country after extended lockdowns. The economy is expecting increased remittances as more Sri Lankans head overseas to seek employment and is offering incentives for migrant workers who remit funds through official channels to crack down on illegal transfers and replenish depleted foreign exchange reserves.

The closing rate of US$ against LKR as on December 16, 2021 stood at 201.00

Chinese Yuan Renminbi

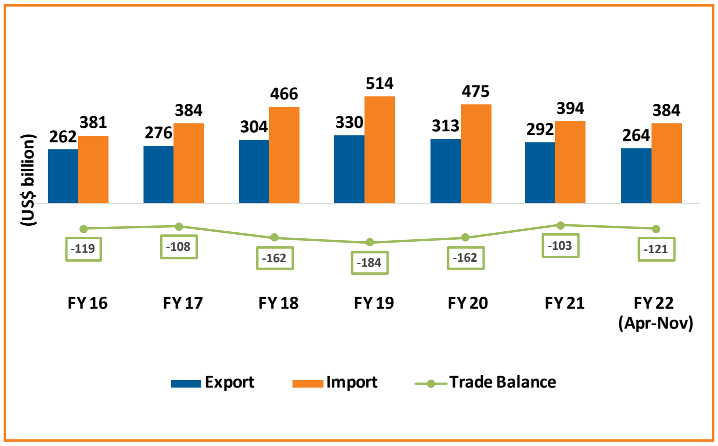
Rmb CNH is Renminbi that is traded outside of mainland China, mainly in Hong Kong. CNH crossed this year's peak and the psychologically critical 6.35 per dollar on December 08, 2021 to hit the firmest level since May 2018, with analysts and economists attributing the strength to robust exports, a record trade surplus and ample dollar liquidity onshore. The recent easing measures by the PBOC spurred risk-on sentiment onshore and could have contributed to this down-move in the US$/CNH.

The greenback is getting a boost from bets for quicker policy tightening in the U.S., following the renomination of Jerome Powell as the Federal Reserve chair. However, strong Chinese export growth this year has helped propel the Yuan in 2021 despite serious concerns in the domestic property sector and a firmer U.S. dollar.

The closing rate of US$ against CNH as on December 16, 2021 stood at 6.3797

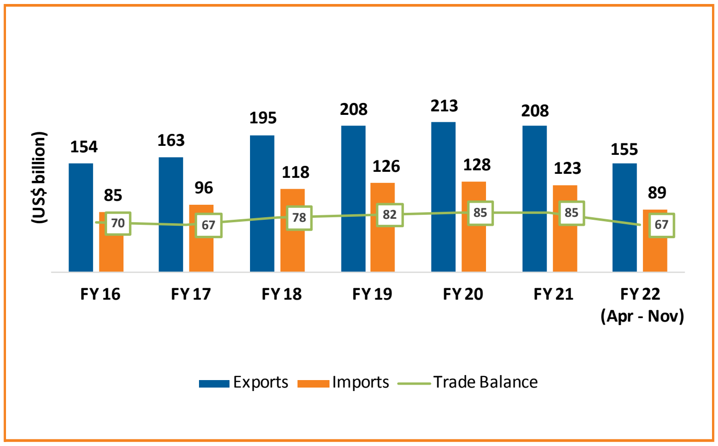
Snippets on Indian Economy

Merchandise Trade



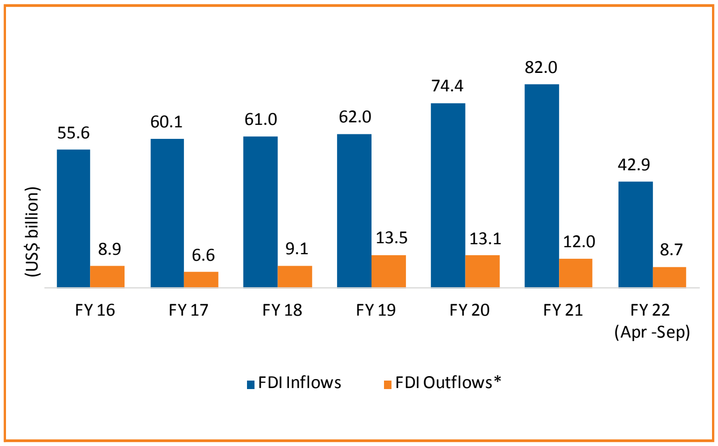
Source: Ministry of Commerce and Industry, GoI

Services Trade



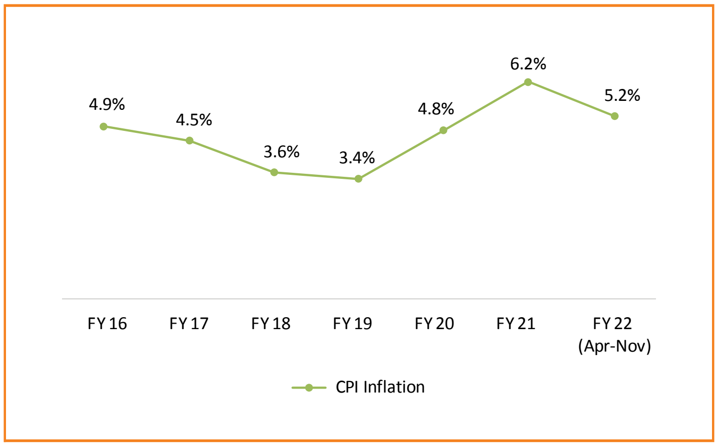
Source: Ministry of Commerce and Industry, GoI

Foreign Direct Investment Flows



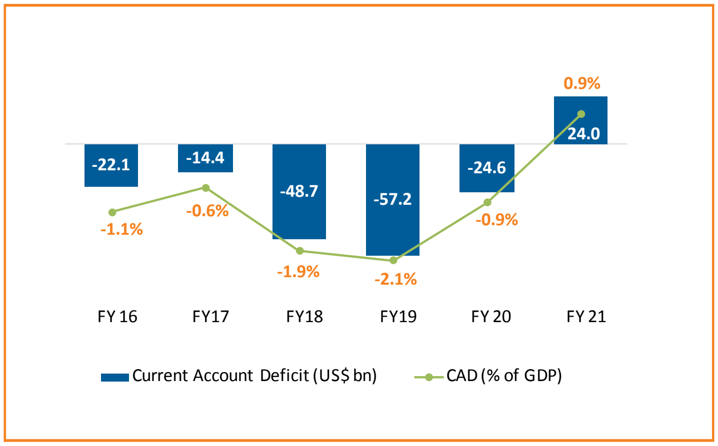
*Note: * - FDI Outflows include equity, loans and guarantees invoked.*
Source: RBI and Ministry of Finance, GoI

Consumer Price Inflation



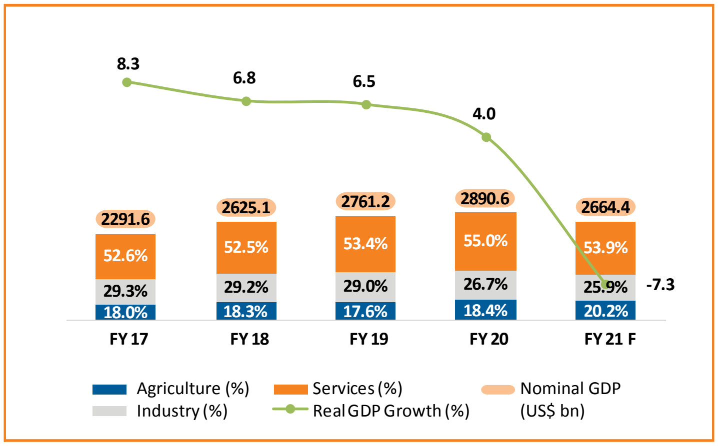
Source: Ministry of Statistics and Programme Implementation, GoI

Current Account Deficit



Source: RBI

Sectoral Output



Note: F - Forecast
Source: Institute of International Finance and MOSPI, GoI