

EXIMIUS: EXPORT ADVANTAGE

In this Issue

- **Reinvigorating India's Economic Engagements with Southern Africa**
- **Enhancing India-CARIFORUM Economic Relations and Prospects for Cooperation**
- **Strengthening Exports from Karnataka**
- **Inverted Duty Structure and Effective Rate of Protection: Theoretical and Empirical Analyses**
- **India's Software Services Exports: An Update**

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Reinvigorating India's Economic Engagements with Southern Africa

The Southern African Development Community (SADC) has been in existence since 1980 and currently has 16 member countries namely Angola, Botswana, Comoros, DR Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe. The SADC countries are an integral part of Africa, comprising 35.4% of Africa's total land area, 28.4% of Africa's GDP, and 28.2% of Africa's population. Among the major regional trading blocs in Africa, SADC is the second largest contributor in terms of nominal GDP to the African region in 2021, after COMESA.

India's Trade with SADC Countries

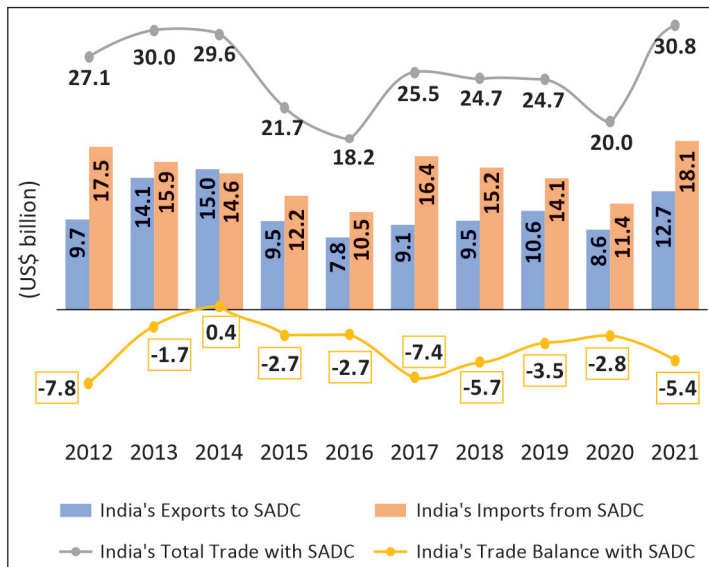
Towards developing extensive economic and strategic relations with SADC member countries, the Government of India signed the Memorandum of Understanding (MOU) on economic cooperation with SADC on October 14, 1997. With the increasing diversification of India's global trade towards other developing countries, SADC has emerged as important partner for India, both as an export destination and an import source.

During the last ten years, India's total trade with SADC countries has increased from US\$ 27.1 billion in 2012 to US\$ 30.8 billion in 2021. While India's total exports to SADC has risen moderately from US\$ 9.7 billion in 2012 to US\$ 12.7 billion in 2021, India's total imports from SADC increased from US\$ 17.5 billion in 2012 to US\$ 18.1 billion in 2021. India accounted for 7.2% of SADC's global imports in 2021 and 8.2% of SADC's global exports in 2021. India's trade balance with SADC has been in favour of SADC, with India's trade deficit with SADC recording US\$ 5.4 billion in 2021.

Mineral fuels and pharmaceutical products dominated India's export basket to SADC, together accounting for 38.2% of India's total exports to SADC in 2021. Other major items of India's exports to SADC include vehicles other than railway or tramway, ships, boats, and floating structures, machinery and mechanical appliances, cereals, and electrical and electronic equipment. South Africa is India's largest export destination in SADC, accounting for around 47.2% of India's total exports to the region in 2021, followed by Mozambique, Tanzania, and Mauritius. India accounted for 3.4% of South

Africa's global imports and lower in case of Tanzania and Mozambique (1% each). Despite signing a Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with Mauritius, India accounted for 5.9% of India's exports to the SADC and just 0.4% of Mauritius' global imports in 2021. China was the leading supplier to SADC, accounting for as much as 18.4% of SADC's total imports in 2021.

Chart 1: India's Merchandise Trade with SADC



Source: ITC Trademap, derived from UN Comtrade; and India Exim Bank Research

India's imports from SADC were largely dominated by pearls, precious stones, and metals, followed by mineral fuels, oils and its products, together accounting for 72% of imports from the region in 2021. Copper and articles are the third-largest items in India's import basket from the region. South Africa was India's largest import source in SADC in 2021, followed by Angola, Tanzania, Mozambique, and Botswana, these five countries accounted for 95.6% of India's total imports from SADC.

India's Investments in SADC

According to data from the Ministry of Finance and the Reserve Bank of India (RBI), India's approved cumulative investments in the SADC region during April 1996 to August 2022 amounted to US\$ 69.9 billion. India's investments in the SADC region accounted for nearly 94.2% of Indian investments in Africa during April 1996 to August 2022. Mauritius, Mozambique, and South Africa were the top destinations of India's investments in the region. According to the fDi Markets database, India was the seventh largest investor in the SADC region during 2012- 2021, with major investments in the region in coal, oil, and gas, followed by

metals, communications, renewable energy, transportation & warehousing, chemicals, and automotive OEMs.

Strategies to Enhance India's Engagements with SADC

India and SADC share strong and deep ties of cooperation. India's engagement with SADC has been, in many areas, private sector driven resulting in greater integration with the domestic market. As new trade and investment partnerships forming across the world, India and Southern African countries can forge mutually useful collaborations in the following areas.

Developing Manufacturing Value Chains

SADC value chain participation is mainly upstream - the export of primary commodities, minerals, tobacco, sugar, and beef - with limited local value addition. SADC has identified potential projects in the minerals sector (copper, mining inputs, batteries/energy storage), pharmaceuticals (ARVs, anti-malaria medicines, malaria rapid test kits, malaria bed nets, latex consumables) and agro-processing projects. Additionally, sectors such as textiles and clothing, cosmetics and essential oils as well as leather and leather products, meat and meat products, and fruits and vegetables offer extensive opportunities for the development of regional value chains across SADC. Increased FDI in the manufacturing sector by Indian companies could catalyze the development of value chains by providing foreign capital and technical know-how.

Strategic Alliance for Sourcing Critical Minerals for EV Value Chain

India is one of the largest Electric Vehicle (EV) markets in Asia after China. However, India lags behind in terms of EV adoption, due to price difference compared to traditional Internal Combustion Engines (ICE) vehicles and dearth of charging infrastructure. Demand for minerals such as lithium, cobalt, copper, and nickel are expected to increase with change in component requirements of EV and various electronic and battery related items. Southern Africa region is richly endowed in lithium, graphite, cobalt, nickel, copper, and rare earth minerals. India could play a significant role in the African mining value chain to optimize benefits from the demand for battery and electric value chain. Indian state-run companies can form joint ventures to secure critical mineral assets such as lithium and cobalt that could fuel India's plan for mass adoption of electric vehicles by 2030. Strategic investment funds or import credit lines could be set up with respective countries to ensure India's import requirements for critical minerals.

Leveraging Southern Africa's Minerals for Energy Transition for India and SADC Countries

The world's Rare Earth Elements (REE) market is largely controlled by China. Africa has the potential mineral resource to compete in the global arena. Countries like South Africa, Madagascar, Malawi, Namibia, Mozambique, Tanzania, and Zambia have significant quantities of neodymium, praseodymium, and dysprosium. While relatively abundant, these elements are less minable than common ores. However, the development of mineral resources must be supported by business models that enable maximum benefit to the country or region. The major REE consumers like the US, the EU, Canada, Australia, Japan, and South Korea are exploring options to develop alternative REE supply chains. This presents African countries with the opportunity to develop their own REE value chains. Development finance institutions from India and Africa could work closely with Southern African country governments to understand the needs of these commercial REE development attempts and support the companies to develop the value chain from end to end.

Increasing Circularity in Southern Africa's Mining Sector

The mining industry remains highly energy intensive due to exploration activities and also consumes a lot of water. Indian mining companies have been increasingly using technology for the automation of processes and have started integrating technologies across the value chain to reduce waste, increase resource efficiency, and improve productivity while promoting the harnessing of renewable energy sources. Indian companies investing in African mines could also help using water saving technologies or renewable energy solutions, thereby contributing to the economy.

Increasing Role of Development Finance Institutions in Infrastructure Investment

SADC member countries include large economies, small, isolated economies and island states, and a mix of low and middle-income economies. Regional infrastructure development creates a larger market and greater economic opportunities. The development of infrastructure is critical for promoting and sustaining regional economic development, trade, and investment, and contributes to poverty eradication and improved social conditions. The current African public debt scenario, widening infrastructure gap and limited fiscal space, due to COVID-19 pandemic, among other factors, build

a strong case for development finance institutions to scale up their support for public private partnerships, and to crowd in more private sector investment in both economic and social infrastructure.

Access to Trade Finance in Southern Africa

Trade finance is a critical element for cross border trade, and in many cases the movement of goods across borders, particularly in emerging markets, cannot occur without it. According to the estimates from the AfDB and Afreximbank, the trade finance gap in Africa was US\$ 81.8 billion in 2019 and has averaged US\$ 91 billion over the past decade. This is evident from the fact that 40% of Africa's trade remains bank intermediated as compared to 80% globally. Challenges with confirming banks remain major constraints for domestic banks engaged in trade finance in Africa. In order to fill this gap in trade finance, development finance institutions could develop financial instruments like risk participation and transaction guarantee agreements to support non-traditional confirming banks from emerging markets, including Africa.

Maritime and Defence Cooperation

According to the SIPRI¹ International Arms Transfer Database, India was the 23rd largest defence exporter during 2017 to 2021. Within Africa, Mauritius accounted for 6.6% of India's arms exports during 2017-2021, followed by Mozambique (5%) and Seychelles (2.3%). Increased cooperation in areas of aerospace, defence, maritime equipment and vessels can ensure security and enhance technological capacity of Africa and at the same time accelerate India's defence export target of achieving US\$ 5 billion by 2025. India and African countries are important stakeholders in ensuring a safe and secure maritime environment, especially in the Indian Ocean Region. Among the Indian Ocean littoral countries (IOLC), 9 are in Africa. These include Comoros, Kenya, Madagascar, Mauritius, Mozambique, Seychelles, Somalia, South Africa, and Tanzania. India has emerged as a leading defence exporter in recent years and could fulfill Africa's maritime, aerospace and defence requirements. India has already exported offshore patrol vessels, helicopters, and military buses to a few countries of Africa. Going forward indigenously developed new age technologies including unmanned underwater systems and unmanned aerial systems could also be exported to Africa. Cyber security also remains another potential area for cooperation. ■

¹ Stockholm International Peace Research Institute

Enhancing India-CARIFORUM Economic Relations and Prospects for Cooperation

The Caribbean Forum, which consists of 15 states namely: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Haiti, Grenada, Guyana, Jamaica, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago, has a total GDP of US\$ 160.2 billion, with a population of 29.1 million¹, in 2020. Apart from rich endowments of minerals and commodities, the countries in this region are endowed with scenic beauty, including excellent beaches ample sunshine, and are thus, big tourist attractions.

International Trade of CARIFORUM Countries

The Caribbean Forum economies are characterized by high openness to trade as it is virtually impossible for small island economies to produce everything on their own, thus, they are more reliant on trade. The importance of trade for the region is reflected by the fact that economies have formed multiple trading blocs aimed at removing trade barriers, such as tariffs and quotas, among the member-states. The Caribbean Community and Common Market (CARICOM) and the Organization of Eastern Caribbean States (OECS) are the two most popular trade alliances in the region. Additionally, many islands have established preferential trade agreements with UK, Canada and members of the European Union. These trade agreements help in exposing economies in the CARIFORUM to wider markets.

The total trade of CARIFORUM countries has grown by more than three-fold since the turn of century. Total trade in merchandise goods peaked at US\$ 94.7 billion in 2019, before the COVID-19 pandemic shook the world and international trade collapsed as countries locked down borders to contain the spread of the coronavirus. Even then, exports have shown greater resilience compared to imports, which has meant that trade deficit has declined.

India's Trade with CARIFORUM Countries

India and the Caribbean countries have maintained historic and warm ties. India's relations to the Caribbean can be traced back to at least the 19th century, when Indian indentured labour arrived at the shores of the Caribbean countries to work on the sugar plantations. Presently, the Indo-Caribbeans comprise one of the largest ethnic group in many countries in the CARIFORUM.²

In 2001, India and CARIFORUM countries traded goods worth US\$ 52.4 million between them. India's exports amounted to US\$ 49.9 million, with pharmaceutical products having the largest share and India's imports from CARIFORUM countries amounted to US\$ 2.5 million only. India's total trade with CARIFORUM breached the US\$ 1 billion mark in 2009. Exports accounted for US\$ 847.7 million and imports US\$ 204 million in the same year. Total trade grew and peaked at around US\$ 3 billion in 2011, as both India's exports and imports increased with the region. However, a drop in India's exports of refined petroleum products since 2013, has led to a moderation in the trade between India and the CARIFORUM countries. In 2019, the total trade stood at US\$ 1.2 billion. Post 2013, India's imports from the region have grown as India has started importing gold (majorly from Dominican Republic). India had a trade surplus with the region, which turned into a deficit in 2014. The trade deficit peaked at US\$ 618.9 million in 2016. The trade gap has narrowed since then and in 2020, India has posted a marginal trade surplus with the region.

FDI Inflows in CARIFORUM

Caribbean governments generally employ a myriad of preferential tax measures or fiscal policy tools to achieve specific socio-economic and in some cases environmental objectives. These tools incentivize savings and investment into local economies in the region, promote specific industries, discourage or promote the consumption or production of specific goods and services, support business growth and development, job creation and the protection of the environment, among others. The implementation of these incentives may lead to a reduction in government revenue streams from taxes, but their use is supported throughout the region due to the perceived benefits that far outweigh the costs. The Caribbean is known globally for its significant generosity in tax benefits, particularly to new investors as the region seeks to compensate for the perceived competitive disadvantages related to geographical size, market size, relatively low internal demand and significant competition from neighbouring territories.

In 2020, the FDI inflows to the region took hit because of collapse in tourism led by the Covid-19 pandemic and a staggering fall in international commodity prices. Thus, both the service dependent and the commodity dependent economies have taken hits in terms of investment inflows. FDI inflows are expected to recover to the pre-crisis level only by 2023.

¹ IMF WEO

² Guyana, Trinidad and Tobago, Suriname

Indian Investments in CARIFORUM

India's investments in the CARIFORUM countries during the period April 1996 to March 2021 stood at US\$ 279 million, which is a little less than one percent of India's total outwards foreign investments. Cumulative investments during April 1996 to March 2011 stood at US\$ 28.3 million. Post 2011, investments peaked during financial year 2012-13 at US\$ 55 million. Indian investments have remained on the lower side only, barring a couple of years viz 2014-15, when investments amounted to US\$ 39.1 million and 2018-19 when investments amounted to US\$ 43.1 million.

Investment Opportunities in the Caribbean

The CARICOM Secretariat's 2015-2019 Strategic Plan highlights the priority sectors for investment in the Caribbean. Many of the sectors identified in the Secretariat's Strategy also form a part of the priority sectors identified by 23 member countries of the Caribbean Association of Investment Promotion Agencies (CAIPA) in their 2016 Regional Investment Promotion Strategy highlights the priority sectors viz Creative Industries, Service Industries, Manufacturing, Resort and Hotel Development, Agriculture, ICT and Business Process Outsourcing, Logistics and Transportation, and Renewable Energy etc.

For India, the Caribbean serves as an ideal location since its located near the Americas. The US, Canada, UK and Europe are highly accessible from many Caribbean countries. The Caribbean has garnered critical acclaim as a Mecca for tourism with its abundant natural resources.

Way Forward

While ethnic connections and common colonial history had laid the foundations for bilateral relations, there are conscious efforts on both sides to have frequent interactions right up to the highest levels and enhance engagement for mutual benefits.

Enhancing Trade between India and CARIFORUM

India and the CARIFORUM countries can reap mutual benefits by partnering with one another. Trade between India and CARIFORUM countries has increased from US\$ 52.4 million in 2001 to around US\$ 1.2 billion in 2019. However, India's share in CARIFORUM's global imports stood at mere 1.2% in 2020. India has potential to expand exports in product categories such as mineral fuels and oils, electronics, transport vehicles, cereals, optical instruments, meat and edible meat offal, and animal or vegetable fats and oils etc.

Expanding Trade Agreements

In the Latin American and Caribbean (LAC) region, India presently has Preferential Trade Agreements (PTA) with Chile

and MERCOSUR and negotiations over a Free Trade Agreement (FTA) are ongoing between India and Peru. However, India does not have a PTA or FTA with any CARIFORUM country. India has signed a trade agreement with Trinidad & Tobago (signed in 1997), which accords most favored nation status to each other. The CARIFORUM countries have numerous trade agreements with major trade blocs of the world. For the Indian corporates the CARIFORUM region could, therefore, also act as a gateway to the world, besides the potential existing in the CARIFORUM region itself.

Transportation and Logistics Costs

One of the major impediments to trade between India and the CARIFORUM countries is trade logistics and transportation costs. Efforts should be made to reduce transaction and transport costs, streamline trade logistics, in order to realise the trade potential between the regions.

People to People Exchanges, Tourism, and Media Exchanges

Even though the relations between the two regions date back to at least 19th century, and with a significant presence of ethnic Indians in the CARIFORUM countries, challenges to greater economic integration stem from differences in business and trade culture, as well as from the geographic distance and concomitant problems of connectivity. Therefore, the importance of people to people exchanges, tourism, and media exchanges can't be ignored.

Increased Industry Engagements

In order to increase awareness of the regions on both sides, business conclaves like the India-LAC conclave and other industry association engagements, endeavour to provide a platform for increased interaction among industry, academicians, policy makers, and government representatives with a view to benefiting the entrepreneurs, investors and business community.

Enhancing Engagement through New Embassies

Limited physical presence of Indian missions in the LAC region is another challenge to enhancing relations between India and LAC. India has only 14 embassies in LAC, while on the other hand, LAC is represented by 21 embassies in India. With increased physical presence, an impetus to the growth story can be reasonably foreseen. The missions are expected to help in providing market access for Indian companies and the export of goods and services. These missions are also likely to help in further enhancing people to people contacts and help in bolstering political outreach. ■

Strengthening Exports from Karnataka

In the last three decades, Karnataka has been on the forefront of India's economic growth with the State Capital emerging as the Silicon Valley of India. At 8.4% share, in FY 21, Karnataka was the fourth highest contributor to India's GDP of ₹ 11.4 trillion, after Maharashtra (13.9%), Gujarat (9.21%), and Tamil Nadu (9.19%). The per capita GSDP of Karnataka stands at ₹ 1.71 lakh, much above India's average of ₹ 1 lakh. Karnataka has emerged as a technology, services, and knowledge hub of the country drawing a niche for itself. This largely gets explained by the plethora of job opportunities in the State, leading to migration of labour from across the country to Karnataka. However, the state's growth has largely been driven by the IT sector based in Bengaluru.

Export Performance

The merchandise exports from Karnataka were recorded at almost US\$ 26 billion in FY 22, up from US\$ 18 billion in FY 18. The state recorded a growth of over 70% in the exports in FY 22 and had a share of 6.1% in India's merchandise exports, being the fourth largest exporter. Over 15% of state's exports in FY 22 were through petroleum products, followed by iron and steel at almost 11%, and telecom instruments at 6.5%.

However, it is the services sector where Karnataka has been an undisputed leader. The services exports from Karnataka were recorded at an over US\$ 100 billion in FY 22 and had a share of 41% in India's services exports. The services exports from Karnataka are majorly dominated by the IT services with exports amounting to around US\$ 65 billion. Karnataka has a vision to reach US\$ 150 billion IT exports by FY 26.

Strengthening the Export Infrastructure

A well-developed and resilient export infrastructure in the State, by improving regional connectivity helps in significant reduction in logistics costs to facilitate exports. Apart from making the State's own exports more competitive in the international markets, development of export infrastructure

can play a crucial role in re-routing the foreign trade flows of neighbouring states via Karnataka.

Karnataka has a maritime coastline of 155 nautical miles (300 kilometres), with twelve minor ports and one major port. While the share of the major port (NMPT) in cargo handled by India's major ports was 5.5% in FY 22, the share of minor ports was just 0.1%, owing to inadequate infrastructure and limited capacity.

The state of the non-major ports, with the exception of Karwar, is not very encouraging, given the fact that they not only lack the required infrastructure and warehousing facilities, but also pose a huge connectivity challenge, which in turn is passed on to the exporters with a significantly higher logistics cost. Therefore, majority of the Karnataka's cargo is being exported/imported by the ports of neighbouring states.

Further, it is important to note that in terms of Inland Container Depots (ICDs), Karnataka lags behind its peers. Out of 87 ICDs in India, only two are in Karnataka, compared to nine in Maharashtra, nine in Gujarat, and eleven in Tamil Nadu. Put overall, the merchandise exports from Karnataka could see a new growth with the development of more ICDs.

Additionally, the state of Karnataka, in coordination with the Central Government, could expand the coverage of the Smart City Mission and increase the number of statutory towns in smart cities as a percentage of total in the State. By increasing the access to potential markets for businesses, this is likely to attract investments across Karnataka. It may be noted that the development of smart cities can be instrumental in boosting investments and thereby, exports from the State, through a hub and spoke model. Each smart city could act as an urbanized hub and encourage the growth in the neighbouring satellite towns, the way Delhi being the hub has exemplified the urban growth through its spokes - the NCR towns of Noida, Greater Noida, Ghaziabad, and Gurgaon.

Strategies to Enhance Exports from the State

First and foremost, emphasis should be laid on de-crowding Bengaluru and focusing on urban city planning. Bengaluru's initial growth was spearheaded primarily by heavy investment from the Central Government in the public sector, which resulted in a concentration of technical and scientific skills. Currently, the city contributes to over 85% of the State's economy and accounts for about 98% of the State's software exports. The Government of Karnataka, in multiple instances, has acknowledged that the city of Bengaluru requires restrictions to be imposed on further activities, besides incentivizing industries to shift to tier-II cities.

While shifting industries away from Bengaluru, especially manufacturing, to the State's tier-II cities the first step to achieve the aforementioned goal, doing so will require extensive and streamlined marketing activity to be undertaken by the State Government and its institutions. De-crowding of Bengaluru on a macro level could be planned on the basis of the State's 'Beyond Bengaluru' initiative, as envisioned in the IT Policy 2020-25, however, the scope of the same needs to be expanded beyond the IT sector. Additionally, ten year tax holidays or concessions could be explored for businesses setting up bases in the locations identified by the state government.

As far as export preparedness of the state is concerned, Karnataka ranked third under the export preparedness index 2021 of Niti Aayog. However, a deeper analysis reveals that under the 'export ecosystem pillar', Karnataka is ranked fourth with a score of 52.68, after Gujarat (85.21), Maharashtra (81.27), and Uttar Pradesh (55.48). The ranking takes even a further hit in the 'export performance pillar' where Karnataka is ranked thirteenth. In fact, it is noted that if the export growth for FY 22 is not considered, Karnataka's merchandise exports have fallen each year from FY 18 to FY 21. Karnataka scores lower compared to national average on parameters such as infrastructure, access to finance, export infrastructure, R&D infrastructure, export diversification etc. and the state needs to address these areas.

Further, making Karnataka a FinTech hub could significantly alter the lending scenario and thereby the ease of doing business for the MSMEs in the State. It is important to note that fintech companies operating in trade finance typically

focus on cost-reduction initiatives such as digitization and automation, including blockchain and alternative lending options (for example, peer-to-peer lending). Against the backdrop of SMEs struggling to obtain conventional sources of financing, emerging financial technological innovations need to step up to bridge the funding gap. In this regard, digital lending by fintech players can significantly benefit MSMEs in Karnataka to gain access to quick capital. Apart from P2P lending, amongst the key offerings by the FinTech firms that can bolster the growth of Karnataka's MSMEs include point-of-sale transaction-based lending, bank and fintech partnership models, invoice discounting exchanges, marketplaces, and captive models.

By developing an effective strategy for coordinating and promoting exports, Karnataka has an opportunity to reinvigorate an important section of the State's economy and improve the competitiveness of state businesses. The inherent advantage that Karnataka has across the sectors like semiconductors, electronics, and textiles, makes Karnataka an ideal destination to integrate into GVCs. Not only will that enable manufacturers to specialize across select stages of production, but also would position the state in crucial coordinates on the global trade map. It is to be noted that as the value chains improve, it enhances efficiencies, intra competition and promotes development creating a stronger economy, and subsequently better for those businesses function within the chain.

Way Forward

Karnataka has a huge potential to grow and contribute significantly to India's growth story. According to India Exim Bank, given the State's current export scenario, there exists a potential for the exports (merchandise and services combined) to reach US\$ 185 billion by 2024-25.

While the State is endowed with quality manpower and confluence of people from across the country to pursue their studies, the availability of services infrastructure further adds to existing manufacturing prowess of the State. The State is also experiencing significant growth in start-ups and fintech solutions, which enable the State to become a powerhouse replicating leading regions and States, like California in the USA. Karnataka is likely to remain on the forefront of India's exports, both in goods and services. ■

Inverted Duty Structure and Effective Rate of Protection: Theoretical and Empirical Analyses

Export-Import Bank of India (India Exim Bank) instituted the International Economic Research Annual (IERA) Award in 1989. The objective of the award is to promote research in international economics, trade, development and related financing, by Indian nationals at universities and academic institutions in India and abroad. The study titled 'Inverted Duty Structure and Effective Rate of Protection: Theoretical and Empirical Analyses' is based on the IERA Award 2021 winning thesis by Dr. Kanika Pathania, who received doctorate from Delhi School of Economics, University of Delhi, New Delhi in 2021.

Recently, various sections of Indian industry have been expressing concerns about the impact of an 'inverted duty structure' (hereafter IDS). IDS is a situation in which the tariffs on the import of raw materials/intermediate inputs for a product exceed the tariffs imposed on the import of the final product. The typical complaint raised by Indian industrialists is that customs duties on the import of some products, have fallen below the duties on the intermediate inputs required for their production. This has squeezed the profitability of the downstream producers by keeping their input costs high while exposing them to more intense foreign competition for their outputs. In the past few years, in every budget speech, the country's Finance Minister has also been taking note of some cases of IDS, however, the issue still persists.

The traditional trade theory explains that when countries start integrating at different levels of production, then one should consider looking at what is referred to as the effective rate of protection (i.e., ERP). The concept of ERP, due to Corden (1971) and Balassa (1965), shows how protection of downstream industries can be eroded or even reversed by tariff inversion (IDS). If ERP for an industry remains positive despite IDS, then the latter may not affect that industry too adversely, because the tariff structure is still giving it protection. But it is a different matter if ERP for a sector is negative due to IDS. Thus, it is important to establish a link between the two.

Against this backdrop, it is pertinent to study whether there exists any rationale for the existence of inverted duty structure under imperfectly competitive market environment? In other words, are there any specific conditions which make tariff rates supporting IDS as an optimal policy solution while maximizing a country's social welfare? If yes, do these conditions hold only

if the industries under consideration are positively protected (i.e., when $ERP > 0$)? Or, does IDS always imply negative ERP?

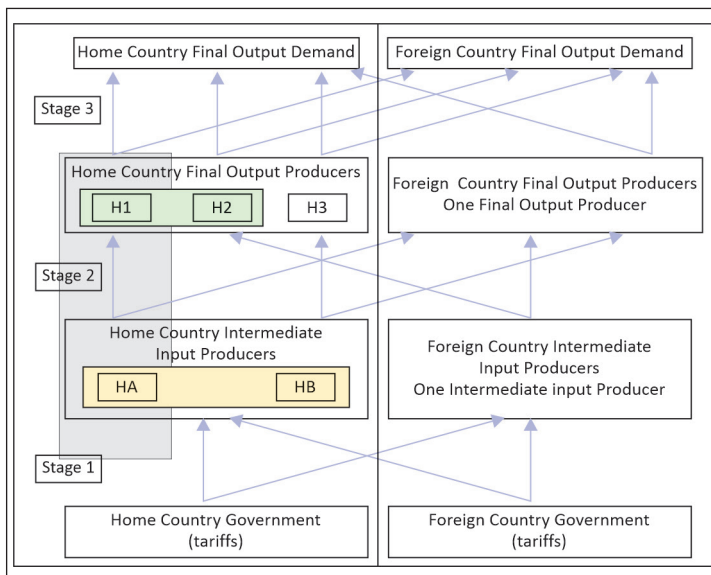
The study outlines a theoretical model with two countries (home and foreign) and two vertically related goods (a final good and an intermediate input), where the domestic government and firms interact in a three-stage game. The game structure closely follows the work done by Ishikawa and Spencer (1999) and others. The purpose is to examine the determinants of tariff structure in an open economy, while specifically trying to derive the conditions under which IDS turns out to be an optimal policy for a country's government. Thus, in the first stage, the government of an economy decides on the optimal tariff policies. In the second stage, the home and foreign intermediate input producing firms play in quantities and hence, given their demand functions, equilibrium input prices are determined in the markets. In the last stage, the final output producers decide on the quantities of output to be produced and sold in different markets. Thus, the game structure enables to understand how tariff rates play a crucially important role in influencing decision making of different economic agents of a country.

Depending upon various parametric configurations, this study shows that there do exist such optimal rates of input and output tariffs that could lead to IDS in an economy, and negative ERP as well. However, this does not imply that IDS always coincides with negative ERP. In fact, the results suggest that ERP for an industry may remain positive despite IDS, meaning thereby the latter may not adversely affect that industry because the tariff structure is still giving it protection. Nonetheless, it cannot be ignored that under certain conditions, IDS does coincide with negative ERP, and it is important to assess those parametric configurations carefully. Further, the study shows that apart from a country's tariff structure, asymmetric wages and market

sizes between the trading partners, also assume a critical role in determining the conditions leading to negative effective protection.

In the globalised world today, the very nature of competition policies and the associated benefits and costs, cannot be studied without considering their impact on a country's tariff policies. The study further builds on how various types of domestic mergers impact a country's tariff structure. In particular, it analyses how different forms of integration (merger), whether horizontal or vertical, affect optimal input and output tariffs, and hence, the existence of inverted duty structure and its association with negative ERP. It again employs a two-country model, but with more intermediate input and final goods producers in the home country. The schematic diagram is represented in Figure 1.

Figure 1: Diagrammatic Representation of the Model Structure, Three Stages of Decision, and Possible Merger Scenarios



Source: Drawn by author

The benchmark scenario ('Pre-Integration Case') is the one in which no pair of firms in either of the two countries is integrated. Next, the case of vertical integration was considered where one of the final output producers in home country, vertically integrates with a home country intermediate input producing firm (as highlighted by the grey coloured solid block in Figure 1). Thereafter, the two different cases of horizontal integration were analysed, starting with the horizontal integration between the two final output producers in the home country (as highlighted by the green coloured solid block in Figure 1). Next is the case of horizontal integration that takes place between two intermediate input producers in the home country

(as represented by the yellow-coloured solid block in Figure 1). The policy outcomes of all four cases were compared to assess how different forms of merger affect the tariff decision in general, and the link between IDS and negative ERP specifically.

The analysis is suggestive of various important policy considerations. First of all, the case of vertical integration between one of the final output producers and an intermediate input producer within the home economy represents a win-win scenario as it leads to an increase in both social welfare and profit of integrated firms. Further, in such type of integration, IDS always turns out to be an optimal policy. Unlike in the pre-integration case, duty inversion turns out to be a necessary but not sufficient condition for the existence of negative ERP. In the second case of horizontal integration at the intermediate input stage, the profits of the integrated producers rise, social welfare decreases, vis-à-vis the pre-integration scenario. Moreover, horizontal integration at the intermediate input stage also leads to the existence of inverted duty structure (as an optimal tariff policy), and this duty inversion is necessary but not sufficient to ensure the existence of negative ERP. Thus, in line with the first assessment, the second part of this study makes all the more imperative for the policy makers to consider (a). the necessity of deriving ERP instead of just focusing on the cases of IDS, and (b). the interactions between trade and competition related policies before relooking or reformulating their tariff related policies to address the concerns raised by different Indian industrialists.

To verify some of the theoretical assertions, this study also offers a set of new estimates of ERP for 24 sectors of the Indian economy for the period 2000-2014. These estimations suggest many instances of IDS in various Indian industries, but none of them results in negative ERP.

In a nutshell, the results of the study suggest that in line with the concerns raised by various Indian industrialists, duty inversion does exist in various sectors as suggested by the data. However, the question is – should governments be really concerned about IDS? The theoretical assertions clearly suggest that under certain conditions, IDS turns out to be an optimal policy for the government of an economy. This implies that such types of tariff structures are (at times) required to maximize a country's social welfare. But, how does that impact the industries under consideration? IDS is harmful if it leads to negative protection. And the present study shows, both theoretically and empirically, that existence of IDS does not necessarily imply that ERP is negative. Therefore, governments as well as industries should really be concerned about ERP, and not IDS in specific sectors. ■

India's Software Services Exports: An Update

Background

The Indian IT and ITeS industry has witnessed remarkable growth over the past decades. India is now considered a hub for cost-effective and highly reliable tech solutions in the global arena. The IT and ITeS industry in India has also created large scale employment and generated significant export revenues. In recent years, new-age technologies like cloud computing, analytics, blockchain, robotics, Internet of Things, machine learning, etc. are driving the growth in the sector, and opening up a gamut of opportunities for Indian IT firms in the global market.

India's Exports of Software Services

According to the RBI Survey on Computer Software and Information Technology Enabled Services Exports 2021-22, India's total exports of software services stood at US\$ 171.9 billion in 2021-22, accounting for nearly 67.5% of India's total services exports in 2021-22. India's software exports have witnessed a steady growth in the recent years, recording a CAGR of 7.0% during 2017-18 to 2021-22, to reach US\$ 171.9 in 2021-22, up from US\$ 131.2 billion in 2017-18. In 2021-22, India's software exports registered a y-o-y growth rate of 15.9%, which is highest y-o-y increase witnessed over the recent years.

As regards the modes of supply of software services, the share of cross-border supply (Mode 1) in India's exports of software services was the largest at 80.9% in 2021-22, followed by supply through movement of natural persons (Mode 4), with a share of 10.2%, and commercial presence (share of 8.8%). It is noteworthy that with increase in digitisation, the share of cross-border (Mode 1) supply of software services has steadily increased over the recent years, while the share of supply through commercial presence has nearly halved. In 2017-18, the share of India's software services exports through Mode 1 stood at 69.5%, which has increased to 80.9% in 2021-22. On the other hand, the share of Mode 3 stood at 17.4% in 2017-18, which has fallen to 8.8% in 2021-22. Meanwhile, the share of Mode 4 exports has also declined during 2017-18 to 2021-22, from 13% in the former period to 10.2% in the latter.

Composition and Direction of Software Exports from India

The growth in software exports is mainly driven by exports of computer services, particularly IT services. The IT services segment contributed to nearly 64.9% of the total exports

of software services¹ in 2021-22. Exports from the segment are mainly driven by growth in software testing and hosted application services, among others. Other major segments of software services exports include BPO services, which accounted for share of 27% in India's total software services in 2021-22, followed by engineering related IT-enabled services (share of 5.2%), and software product development services (2.9%). Within the BPO services exports, emerging areas of growth include analytics, Robotic Process Automation (RPA), chat-bots, etc. Meanwhile, the engineering services segment growth is mainly led by demand for AECS - Autonomous, Electrification, Connectivity and Shared mobility related services.

The USA and Canada are the top markets for India's software services exports, jointly accounting for a share of 55.5% in the total exports of software services² from India in 2021-22, followed by the UK (share of 14.9%), the EU (16.1%), Australia and New Zealand (2.9%), among others. For software exports provided by foreign affiliates (Mode 3), the USA was again the major destination, accounting for a share of 42.5% in the total exports of software services from India through Mode 3 in 2021-22, followed by the UK (share of 23.5%), Germany (5.8%), Canada (5.6%), Singapore (4.5%), and the Netherlands (4.3%), among others.

Near-term Outlook

According to CARE Edge Research, the increasing demand for software and data-driven technology solutions globally and the resultant rise in spending on digital transformation initiatives are expected to bode well for the IT sector in India. Cloud computing, artificial intelligence, cybersecurity, data analytics and IoT, among others, are expected to be the growth drivers for the sector, going forward. However, uncertainties arising from the global macro-economic slowdown, particularly in key markets such as the USA, the UK and the EU, and currency volatility may lead to postponing of some of the corporate spending on technology solutions. These may impact the margins and profitability of the industry in the near term. Nevertheless, in the medium term, the global spendings on digital transformation of businesses are likely to regain traction, and will positively impact the Indian IT sector. The revenues of IT sector from domestic market are likely to remain strong, supported by various government initiatives such as digital India, start-up India, smart cities and digital payments. ■

¹ Excluding Mode 3 exports i.e., business by Foreign Affiliates of Indian Companies

² Excluding Mode 3 exports i.e., business by Foreign Affiliates of Indian Companies

India Exim Bank Lines of Credit

India Exim Bank extends Lines of Credits (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India on deferred credit terms. LOCs are thus an effective instrument for promoting and facilitating India's exports of projects, goods and services. The Bank as on December 22, 2022, has 275 LOC, covering over 62 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US\$ 28.1 billion, available for financing exports from India.

India Exim Bank, with the support of Government of India, has signed two LOCs as given below during the period October-December 2022:

A LOC of US\$ 100 million was extended to the Government of Maldives, for the purpose of 'Financing of new developmental projects in the borrower's country and to meet spill over costs of developmental projects in the borrower's country, already included under LOC extended to the Borrower by India Exim Bank'. With the signing of the above LOC, India Exim Bank, till date, has extended 6 LOC to the Government of Maldives, with the support of the Government of India, taking the total value of LOCs extended to US\$ 1,430 million. Projects covered under the LOCs extended to the Government of the Maldives, includes construction of 485 housing units and road development, development projects, Greater Male connectivity – (Male' to Thilafushi Link) project, development of sports infrastructure, defence projects, financing of new developmental projects in the borrower's country and to meet spill over costs of developmental projects in the borrower's country. Out of the above, one project 'for Construction

of 500 housing units and road development Project' of US\$ 14.4 million is completed and other projects are currently under implementation at various stages.

A LOC of US\$ 300 million was extended to the Government of Mauritius, for the purpose of 'Implementation of Mauritius Metro Express Project Phase-IV from Reduit to St. Pierre and Cote d'Or Region'. With the signing of the above LOC, India Exim Bank, till date, has extended 7 LOC to the Government of Mauritius, with the support of the Government of India, taking the total value of LOCs extended to US\$ 1,029.8 million. Projects covered under the LOCs extended to the Government of the Mauritius, includes offshore patrol vessel from M/s Garden Reach Shipbuilders & Engineers Ltd, purchase, upgradation, servicing and maintenance of defence related equipment and vehicles for the Mauritius Police Force (MPF), finance the acquisition of waterjet fast attack craft, Project Trident (Construction of berthing jetty and Head Quarter building for National Coast Guard of Mauritius), equity participation for financing various infrastructure projects, procurement of defence items from India, For implementation of Mauritius Metro Express Project Phase-IV from Reduit to St. Pierre and Cote d'Or Region. Out of the above, 6 project of US\$ 102.4 million is completed and other 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\$ 465 million to the Government of Mauritius

India Exim Bank has extended a Government of India supported LOC of US\$ 465 million to the Government of Mauritius for Equity Participation for financing various Infrastructure Projects. The credit agreement was signed on May 27, 2017.



Project Details: Contract was signed between and Varindera Constructions Ltd. and National Housing Development Corporation Ltd, Mauritius and included under the LOC on July 05, 2019.

The scope of the Project includes construction of 956 units of social housing at Mare Tabac and Dagotiere, sites in Mauritius having 4 house units in G + 1 configuration. The size of each housing unit is 69 Sqm appx. with two bedrooms, living and dining room, kitchen, toilet and bathroom. The project also includes associated infrastructure work like roads, water supply, sewerage, drains and other public utilities.

The total cost of the Project- US\$ 25,000,000

Project was successfully completed on January 20, 2022. ■

The Quarter That Was

India Exim Bank Signs Issuing Bank Agreements with five Bangladeshi Banks to Support Trade between India and Bangladesh

Export-Import Bank of India (India Exim Bank) during October 16-17, 2022, concluded Issuing Bank Agreements with 5 Bangladeshi Banks viz., Mutual Trust Bank Ltd., Dhaka Bank Ltd., Bank Asia Ltd., Midland Bank Ltd. and Shahjalal Islami Bank under India Exim Bank's new trade facilitation initiative, Trade Assistance Programme (TAP).

During the signing of the agreements, India Exim Bank's Chief Financial Officer, Mr. Tarun Sharma highlighted that over the last few months, India Exim Bank has supported multiple trade transactions with Bangladesh aggregating close to US\$ 20 million covering a wide range of sectors including agriculture, automotive parts, capital and engineering goods, iron and steel and textiles. The conclusion of Issuing Bank Agreements with the above 5 banks opens up more opportunities to support trade between the countries and enable these banks to establish working relationship with wider number of commercial banks in India.

India Exim Bank also organised an interactive session on TAP in Dhaka on October 17, 2022, to brief the partner banks about the objective, process flows and documentation. The session was attended by around 50 bankers from local banks in Bangladesh.

India Exim Bank Inks Pact with RXIL Global to Finance Export Receivables through GIFT City-based ITFS Platform

India Exim Bank has signed a Master Agreement with RXIL Global IFSC Ltd. (RXIL Global), a subsidiary of Receivables Exchange of India Limited (RXIL), to finance exports receivables through the ITFS platform situated in GIFT City in Gandhinagar, Gujarat on November 28, 2022. The agreement was signed by Mr. N Ramesh, Deputy Managing Director of India Exim Bank and Mr. Ketan Gaikwad, Managing Director & CEO, of RXIL. ITFS is an initiative of the Government of India to build an electronic platform for facilitating trade financing for exporters and importers by providing access to multiple financiers. This platform shall play an important role in arranging credit for exporters & importers from global institutions through amongst others, factoring and other trade financing services at a competitive cost.

With the signing of this Agreement, India Exim Bank will be able to offer factoring and other trade finance products to Indian companies, with an enhanced reach to MSMEs. India Exim Bank will also participate in sandbox transactions of the RXIL's platform.

India Exim Bank and Carib Export's Joint Study

India Exim Bank joint research study with the Caribbean Export Development Agency titled, "Enhancing India-CARIFORUM Economic Relations and Prospects for Cooperation" was released at the hands of Mr Raju Sharma - Charge d'affaires High commission of India to Trinidad and Tobago and Mr. Leo Naut - Deputy Executive Director - Caribbean Export Development Agency in the virtual presence of Mr. N. Ramesh, Deputy Managing Director, India Exim Bank at the "Caribbean Investment Forum" organized by Caribbean Export Development Agency and Caribbean Association of Investment Promotion Agencies (CAIPA) in association with Ministry of Trade and Industry, Government of Trinidad and Tobago on November 11, 2022 in Trinidad and Tobago.

The study outlines opportunities for trade and investment that are present for both India and the Caribbean region in the areas of trade, investment and mutual cooperation.

Absa Bank Ltd., South Africa onboards India Exim Bank's Trade Assistance Programme (TAP)

India Exim Bank has concluded Issuing Bank Agreement with Absa Bank Ltd. (ABSA), South Africa during a visit of a delegation from ABSA led by its Managing Executive, Mr. Anand Naidoo in Mumbai on November 10, 2022. The agreement was signed by Mr. N Ramesh, Deputy Managing Director of India Exim Bank and Mr. Anand Naidoo, thereby on-boarding ABSA on India Exim Bank's new trade facilitation initiative, Trade Assistance Programme.

Exim Bank Forecasts India's Merchandise Exports for Q3 (October-December) of FY2023 to Amount to US\$ 100.5 billion, and Non-Oil Exports to Amount to US\$ 80.5 billion

India Exim Bank forecasts India's total merchandise exports to remain above US\$ 100 billion (US\$ 100.5 billion) during the third quarter (October-December) of FY2023, notwithstanding some y-o-y contraction (5.9% over the corresponding quarter of the previous year). Non-oil exports are forecast to amount to US\$ 80.5 billion during the said period, (contracting by 9.7% over the previous year). India's exports could be shadowed by deepening global energy crisis, tighter global monetary and financial conditions, continued slowdown in select major trade partners and continued uncertainty around the Russia Ukraine conflict. While a negative growth is likely to be witnessed during the first two months of the quarter, however due to recent domestic policy changes and envisaged improvement in the external environment, there could be a recovery in India's exports in the coming months. ■

Country Scan

Brazil



The combination of a sharp slowdown in the global economy, high domestic interest rates and inflation in 2023 is expected to drive a deceleration of real GDP growth from 2.7% in 2022 to 0.7% next year. This situation is likely to be aggravated by deteriorating credit conditions amid rising loan costs, slowing credit growth and higher delinquency rates. Tight monetary policy, tax-cuts and moderating global commodity prices are expected to bring inflation down to 4.7% next year compared to 9.3% in 2022. The Real is expected to depreciate to R5.25:US\$1 in 2023 from R5.17: US\$1. Lower commodity prices in 2023 would reduce the trade surplus as a result the current-account deficit is expected to widen from 2.4% of GDP in 2022 to 2.7% of GDP in 2023. Risks to Brazil's external position are expected to be assuaged by the country's structural trade surplus, modest external debt ratio, and comfortable reserves cushion. Public external debt is low, and most companies have some sort of currency hedge, despite moderate private external debt.

Gabon



The real GDP growth is estimated to rise to 3.6% in 2022 as oil production increases to sustainable capacity. Growth in the timber and construction sectors is also likely to add to economic output. In 2023, the economic growth is expected to rise to 3.5%, supported by higher growth in the services and agricultural sectors and continued strength in the construction and timber sectors. Inflation is estimated to rise to an average of 4.6% in 2022 as high global food and energy costs create upward price pressures, which is likely to be only partly limited by subsidies. Inflation is projected to remain high in 2023 at 4.4%. The CFA franc is estimated to depreciate to CFAfr609.1:US\$1 in 2022 and appreciate to CFAfr576.7:US\$1 in 2023 as the ECB continues to tighten its policy stance. The current account is estimated to be in surplus in 2022, before slipping into deficit in 2023-26, mirroring oil price movements. A surplus is expected in 2022 of 1.3% of GDP, with the external position boosted by high oil export earnings. The deficit during 2023-26, averaging 2.4% of GDP, is projected to be the result of steadily declining oil prices and related deterioration in the trade surplus.

Cameroon



The real GDP growth is expected to pick up to 4.5% in 2023, from growth of 3.7% in 2021. Development of the Kribi deep water port would be supporting growth in mining (particularly iron ore) production and export; and rising capacity at the Hilli Episeyo floating LNG terminal is likely to push the economic activity. However, oil production is expected to decline in the coming years due to maturing oil fields. Inflation is expected to ease to an average of 4.1% in 2023 from an average of 5.6% in 2022 as global commodity prices decline, supply side constraints ease and domestic currency strengthens against US dollar. The CFA franc is expected to appreciate, from CFAfr 679.7: US\$1 at the end of 2022 to CFAfr 646.3: US\$1 at end-2023. The current-account deficit is expected to gradually narrow from an estimated 6.6% of GDP in 2022 to 3.2% of GDP in 2027, in line with the narrowing trade deficit. The current-account deficit is expected to principally be financed by concessional loans and borrowing from official creditors and by foreign direct investment in the LNG sector.

Ghana



The real GDP growth, after slowing to an estimated 3.3% in 2022, is expected to slow further to 1.9% in 2023, the second-lowest rate for a generation (after the 2020 coronavirus shock). A cost-of-living squeeze, monetary tightening by the BoG (central bank) and fiscal cutbacks is likely to cause domestic demand to contract for the first time since 2014. The average consumer inflation is expected to decline over 2023 but stay high at a full-year average of 22.6%, as global commodity prices fall from their 2022 level and monetary tightening makes an impression on domestic demand. The expected approval of an IMF programme in the second half of 2023 and sustained monetary and fiscal tightening is likely to help stem the cedi's freefall, with the currency expected to reach GH¢17.53:US\$1 in 2023. From an estimated 5% of GDP in 2022, the current-account deficit is expected to narrow sharply, to 1.5% of GDP in 2023 and 0.3% of GDP in 2024, as prices of global refined fuel imports decline from their 2022 peak levels and as easing domestic demand and expectations of more stringent regulations on imports suppress the import bill. ■

Currency Currents

US Dollar

US\$ The Federal Reserve, in the recent December meeting has hiked the policy rate by 50 bps to highest levels since 2007 to 4.50% to combat inflation and revises the 2023 Fed funds target rate to 5.00%-5.25%. The dollar index, which measures the greenback (US\$) versus six major currencies, fell from 105.13 to 103.98 after US inflation data and fell further to 103.77 post policy rate hike.

Inflation is showing signs of deceleration as the consumer price index rose 7.10% in the month of November, which was lesser than expected as supply constraints ease and weakness in China weighs on global commodity prices. Even though the rising tendency of CPI has slowed down, the inflation rate in the economy is still higher than the target of 2.00% set by Federal Reserve. Weakness in oil prices exerts downside pressure on the US\$/INR due to India's reliance on energy imports. US\$/INR pair remained volatile and has been trading between 73.77 and 83.29 in the current year.

The closing rate of US\$/INR as on December 19, 2022, stood at 82.7050.

Australian Dollar

A\$ Australia's consumer sentiment remained deeply pessimistic and business confidence turned negative for the first time this year as the Reserve Bank delivered its sharpest tightening cycle in 33 years to counter surging prices. Consumer sentiment rose 3% to 80.3 in December, recovering from a 2-1/2-year low of 78.0, while pessimists easily outweighed optimists. Business confidence fell to -4 in November after holding above 0 since December 2021.

Further, the Australian Dollar (AUD) slid against the US dollar amidst a dampened market sentiment as an economic slowdown looms, after the US Federal Reserve, the Bank of England, and the European Central Bank raising rates by 50 bps each and poor economic performance of China that showed economic activity worsened in November before the government abruptly dropped its Covid Zero policy. The commodity prices and interest rate differentials have moved against AUD/US\$.

In the December policy meet, the Reserve Bank of Australia hiked rates by 25 bps to 3.10% and retained a hawkish bias, after which, the pair has been trading in the range of 0.6666 and 0.6893 and closed at 0.6699 as on December 19, 2022.

Hong Kong Dollar

HK\$ The Hong Kong dollar (HKD) has traded at the weaker end of its currency band for most of the past six months, inviting fresh speculation about the nearly 40-year-old peg to US dollar. Rising borrowing costs in the local market are also damping carry trades against the currency which pushed it to the weak end of its 7.75-7.85 per US dollar trading range earlier in the year.

The Federal Reserve has raised its key rate in successive meetings since March in the most aggressive policy tightening since 1994. Hong Kong's monetary policy moves in lockstep with U.S. policy as the Hong Kong dollar currency is pegged to the US dollar in a tight range of 7.75-7.85 per dollar. The Hong Kong Monetary Authority (HKMA) on recent policy has raised its base rate charged through the overnight discount window by 50 basis points to 4.75%, hours after the U.S. Federal Reserve delivered a rate hike of the same margin. Post the rate hike, HKD has appreciated amid a weaker dollar and closed at 7.78 as on December 19, 2022.

UAE Dirham

Dh UAE Dirham is pegged to the U.S. dollar and is among the world's most stable currencies. The United Arab Emirate's economy grew by an estimated 8.2% in the first quarter, buoyed by higher oil production and real GDP is expected to grow 5.4% this year and 4.2% next year. The Central Bank of the UAE has decided to raise the Base Rate applicable to the Overnight Deposit Facility by 50 basis points, following the US Federal Reserve hike, pushing the rate from 3.9% to 4.4%.

In addition, India is working towards initial agreement on a rupee-dirham payment mechanism with the UAE as early as in January with a view to reducing transaction cost of trade, as the South Asian nation looks to diversify from the dollar and boost bilateral trade links. The system will include payment for purchase of oil and gas. This Comprehensive Economic Partnership Agreement between the two countries is boosting India's exports to UAE.

During the quarter, US\$/AED has traded in the range of 3.6718-3.6730. The closing rate of USD/AED as on December 19, 2022, stood at 3.6724. ■

Exim Mitra

In an endeavour to enhance India's International trade and to reduce the asymmetry in availability of information on trade finance, credit insurance facilities and other trade related intelligence amongst Indian entrepreneurs, India Exim Bank launched a portal which aims to make concerted efforts towards fulfilling the twin objectives, namely providing information on credit availability for exports, and delivering trade related information. Exim Mitra, attempts to demystify queries related to international trade received from Indian entrepreneurs, some of which are listed below:

Clarification on Sending the Documents to Overseas Buyer Directly or through the Bank and the Liability of the Bank if they Misplace the Documents

There is always a deficiency of trust between the buyer and the seller in international trade. In this case, it is advisable to route the document through the bank. If one is a star exporter/ status certificate holder, one may send the documents directly to the buyer.

If the documents to be sent by the exporter are under LC (Lines of Credit), then the bank who is processing the document is responsible for the loss. In case the documents are on collection basis, the bank will pay only if the importer makes the payment.

For further clarifications one may refer to master circular in export of goods and services - Reserve Bank of India - (https://rbi.org.in/scripts/BS_ViewMasDirections.aspx?id=10395#C10) and can specifically refer the section on "Direct dispatch of documents by the exporter".

Regarding the Estimates of Additional Costs one Must Pay for Importing Waste OCC Paper to India under CIF?

When goods are purchased under CIF (Cost, Insurance and Freight) basis, the seller has the responsibility of the costs and risks of the goods up to the port of discharge. Thereafter all the costs must be borne by the buyer. In this case, it is difficult to estimate the precise costs, since each carrier has a different commercial structure. However, the general costs heads are as below,

- Shipping company charges
- Container freight station charges
- Customs clearance charges
- Transportation to the destination.

Depending on the size of container, shipping line and CFS (Container Freight Station), the cost might change.

Regarding the Export of Live Goats to Oman from India

The important documents required for export of livestock are as follows -

- Copy of valid import/export license or permit. If no permit/license is required, then undertaking from the exporter/owner is needed.
- Official health requirement/format of the importing country. If no prescribed health requirement/format is required, then undertaking from the exporter/owner is needed.
- Fulfilled health requirement of importing country including testing, treatment, vaccination etc. (if applicable).
- Self-certified copies of present health documents including vaccination record of the animal.
- Other important undertaking and declaration required are as follows
 - Documents of origin, if applicable/asked
 - Copy of airway bill/journey details of animal
 - Authorization letter if owner is not approaching directly

One may like to visit "Animal Quarantine & Certification Services" for export procedures and documents for livestock products -<http://www.aqcsindia.gov.in/import-export-of-livestock-and-livestoc-products.html>

Information on Procedures and Formalities for Importing Onions into Malaysia

When bringing goods into or out of Malaysia, traders must provide customs officials with documents such as a customs export or import declaration, commercial invoice, bill of lading, packing list, and certificate of origin.

Malaysia adheres to the Harmonized Tariff System (HTS) for imported and exported goods that do not originate in ASEAN member countries. Malaysia adheres to the ASEAN Harmonized Tariff Nomenclature for imported and exported goods arriving from/to ASEAN member countries (AHTN).

Malaysia has several Free Industrial Zones (FIZs) and Free Commercial Zones (FCZs). Companies based in FIZs and FCZs can import raw materials, finished goods, and equipment without paying tariffs. Malaysia is a signatory to seven bilateral free trade agreements (FTAs) with Australia, Chile, India, Japan, New Zealand, Pakistan, and Turkey. To take advantage of these FTAs, traders must submit a preferential certificate of origin (PCO) with their goods. Traders must apply for a PCO through Dagang Net, Malaysia's single window clearance system.

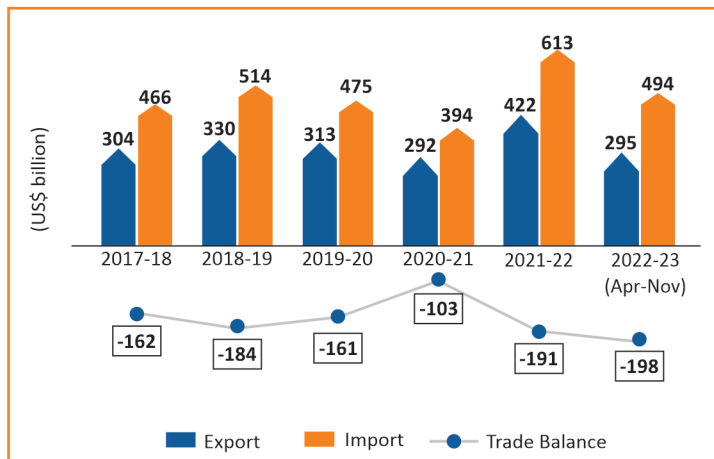
In addition, the Malaysian government has developed a "Free Trade Agreement Calculator" to assist traders in determining whether their goods are eligible for reduced tariffs.

Whether a Farmer who Exports Products which are Sourced from Other Farms is Eligible for an Income Tax Exemption along with Zero GST for Exports?

Any person or a farmer who procures goods from another farm whether for domestic sale or international sale is a merchant trader. In this case, the trader is a merchant exporter and his profits from those exports are taxable. If the goods are subject to GST, the merchant exporter has two choices: pay 0.1% GST and export under a letter of undertaking, or pay the applicable GST and export zero-rated. ■

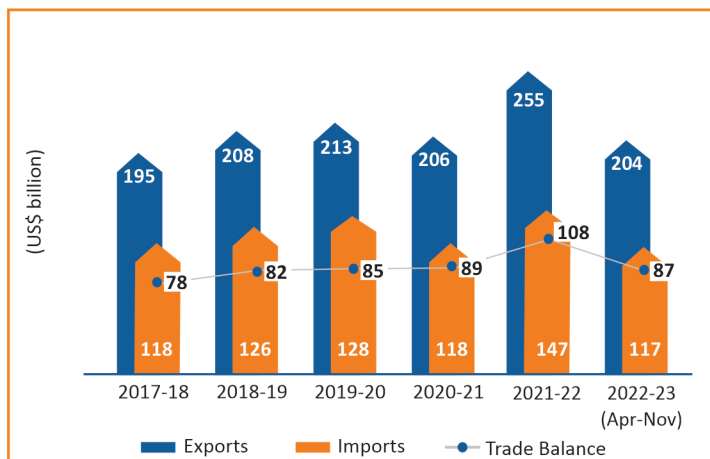
Snippets on Indian Economy

Merchandise Trade



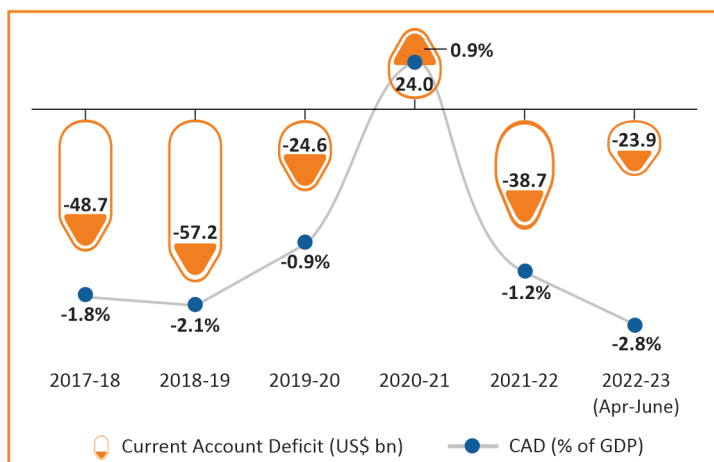
Source: Ministry of Commerce and Industry, GoI

Services Trade



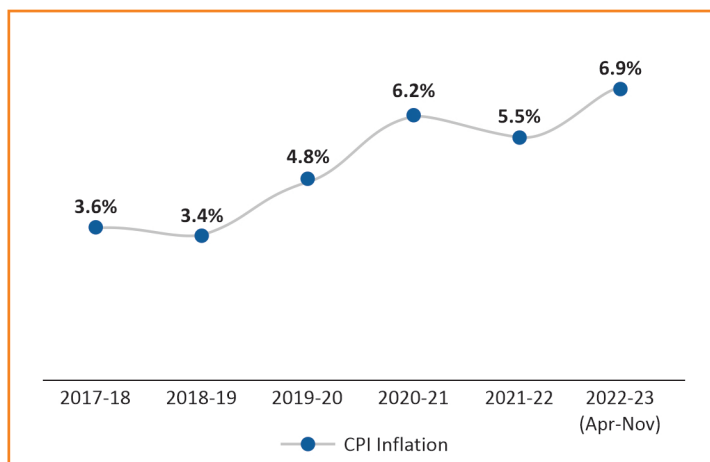
Source: RBI & Ministry of Commerce and Industry, GoI

Current Account Deficit



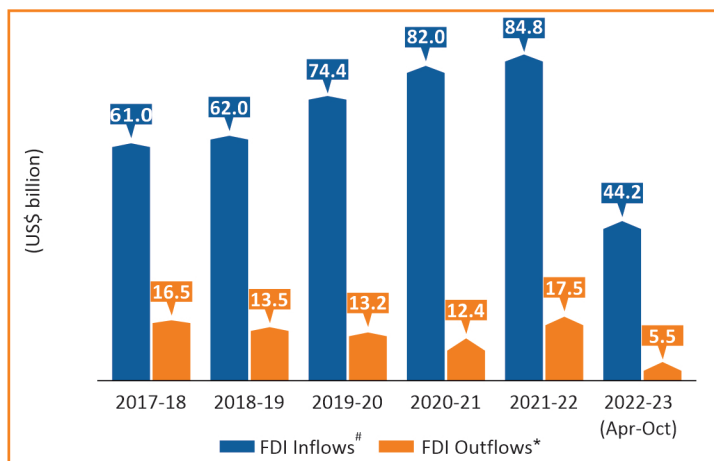
Source: RBI

Consumer Price Inflation



Source: Ministry of Statistics and Programme Implementation, GoI

Foreign Direct Investment Flows

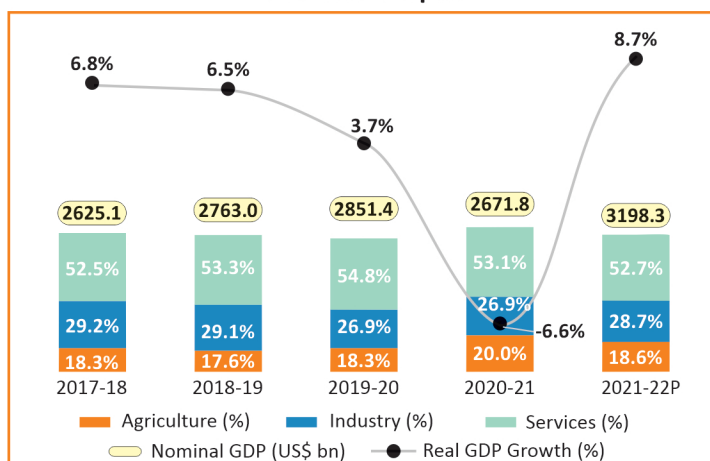


Note: * - FDI Outflows reflect actual figures and include equity, loans and guarantees invoked

- FDI Inflows include equity, re-invested earnings and other capital

Source: RBI and Ministry of Finance, GoI

Sectoral Output



Note: Nominal GDP (US\$ bn); P - Projections

Source: Institute of International Finance & MOSPI, GoI