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Global Value Chains: India's Locus Standi

As India aspires to become a US$ 5 trillion economy by 2024-25, it would require shifting its gears and accelerate, and sustain a real GDP growth rate of at least 8% going forward. With respect to this, it is imperative for India to focus beyond its domestic constituents and look towards global trade.

However, while there are several possible approaches that could be introduced to enhance India's exports, greater integration into the Global Value Chains (GVCs) and focus on higher technology intensive exports is but important.

World over trade is witnessing changes as countries participate in the GVCs. For emerging economies such as India to reap the benefits of trade, it should participate in the GVCs. Though India's participation in GVCs is consistently increasing but its participation is quite low vis-à-vis various other developing countries.

Value Chains: Overview

Manufacturing in 21st century is a lot more globalized with production, trade and investment being increasingly organized within the GVCs, where different stages of production are located across different economies of the world. The value chain starts with designing, development and innovation in the product which are the upstream stages of production. Following next is where the product is manufactured and assembled. Finally, downstream stages include transportation, marketing, sales, and after sales services. Participation in product development, research and development, and the final stages of production leads to significant gains from trade as these stages make high value addition.

Participation in value chains to facilitate economic development has benefits and pitfalls. Being able to produce just one stage in the production of a commodity helps the country become a part of the value chain of the product, followed by productivity benefits and technology spill overs. On the flip side, they are often stuck at low value addition stages and exploit their natural resources for expansion.

From the view of development, there are several positive aspects of GVCs. First, firms would benefit from comparative advantage in a specific production process, instead of establishing the whole course of production capacity and thereby, participating in the global production network. Second, more employment opportunities are created once participation in GVCs is initiated. For instance, jobs are being created in developing economies from iPhone assembly in China, BPO operations in India, and automobile and auto part production in Thailand, Turkey, and China. Third, GVCs also provide the opportunity for technology transfer or spill over to developing countries through local learning.

GVCs: India's Locus Standi

A conclusion based on just exports could be misleading about a country's participation. This is because, a country might have a high export figure, but it may have a low value addition to exports (high dependence of a country on imports of intermediates for exports).

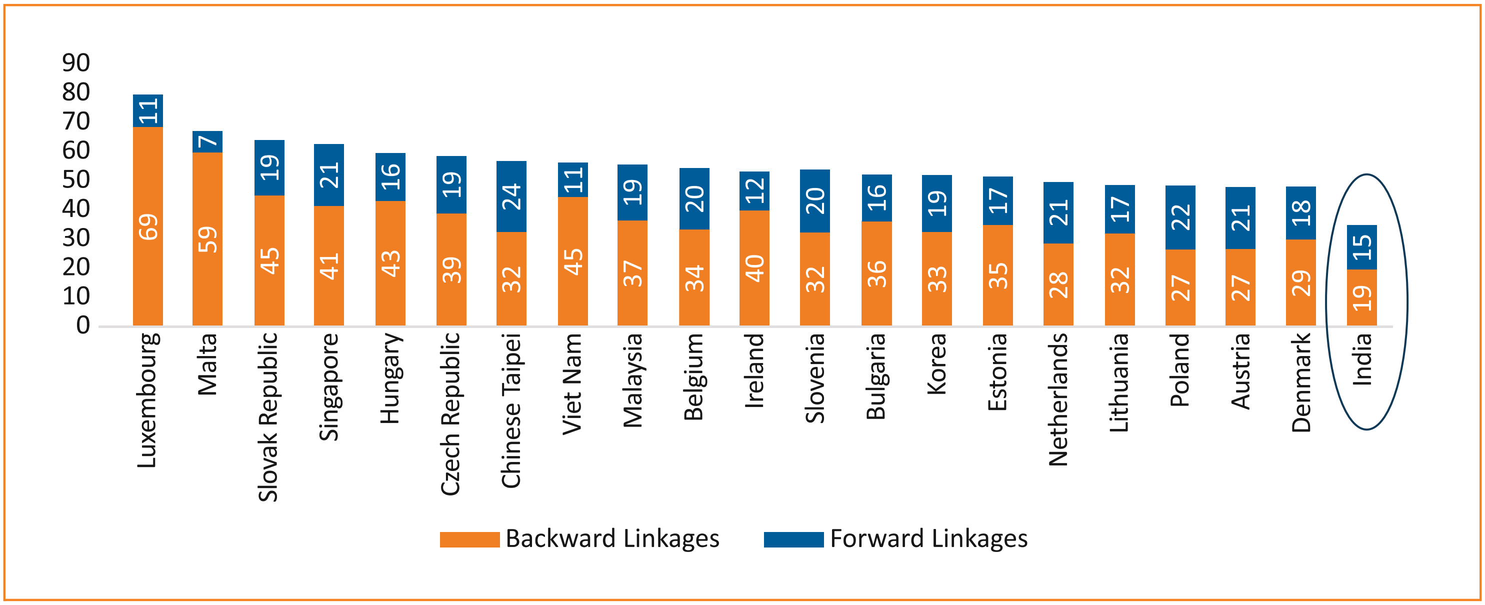
Using foreign value-added content of gross exports as a parameter to measure the extent of participation in GVCs through backward linkages, it is observed that India's integration in GVCs is low (16.1%), as India's foreign value-added content of gross exports in the recent times has reached below the OECD average (19.3%). In fact, countries such as Vietnam (43.6%) have more than double foreign value-added content of exports than that of India, as these economies majorly import intermediates from other countries. In comparison to ASEAN nations, India's foreign value-added content in gross exports has always remained lower than the average of ASEAN countries.

Further, GVC participation could be measured as a sum of forward and backward linkages. An analysis of GVC participation for select economies reveals that in the case of economies such as the US, Japan, and the UK, forward linkages are much stronger than backward linkages, indicating net value added gains from linking into GVCs. Countries like Luxembourg, Slovak Republic, Hungary, Chinese Taipei, Vietnam, Malaysia, Mexico have very high backward linkages indicating the fact that these economies are highly dependent on imports for their exports. For India, while the backward linkage in 2016 was 19.1%, the forward linkage was 14.9%. It is important to note that economies such as Saudi Arabia, Norway, Kazakhstan, amongst others have high forward linkages, as their main exports are natural resources (crude oil) and as a result, a high portion of domestic value added is being used in other countries' exports.

India in Manufacturing GVC: Key Industry-Wise Analysis

An industry-wise analysis shows that foreign value-added content in exports of almost every sector in India has gone down in recent years. Granular analysis shows, foreign value-added content of transportation and storage has gone

Figure 1: GVC Participation across Select Economies[1] and India in 2015



Source: OECD TiVA Database, 2018

[1]The 20 economies other than India are the ones sorted according to their GVC participation which is, in turn, the sum of forward and backward linkages. Separately, India is also shown.

down from 19.4% in 2005 to 13.8% in 2016, information and communication (from 9.8% to 6.3%) and overall business services (from 11% to 7.9%). Sectors with the most foreign value-added content of exports (backward linkages) are namely in industries such as `computers, electronic and electrical equipment' (31.1%), `basic metals and fabricated metal products' (29.6%); `chemicals and non-metallic mineral products' (28.1%), etc.

Further, globally, economies are playing an increasingly important role in getting connected to the final consumers in the other nations. The role of foreign final demand in a country's domestic production can be enquired through the indicator 'Domestic value-added content in foreign final demand'. The indicator illustrates the full upstream impact of final demand in foreign markets to domestic output. For example, in the case of chemical and pharmaceutical industry, the domestic value-added content in foreign final demand has gone up by 6.2 percentage points from 32.6% in 2005 to 38.8% in 2016 because of high foreign demand. Other industries such as 'textiles, wearing apparel, leather and related products' (33.5%); 'chemicals and pharmaceutical products' (38.8%), amongst others are also highly motivated by final demand abroad. It may be noted that overall 26.9% of India's domestic value added in manufacturing exports is driven by consumption abroad.

Analysis of domestic value-added share of exports by industries also reveals substantial variance. Industries related to use of natural resources, agriculture and retail trade have higher domestic value added in gross exports whereas manufacturing industries have in general lower domestic value added content in gross exports. Increased participation into GVCs leads to considerable fall in domestic value-added share in exports as countries increasingly engage in trade in intermediates. However, in case of India, domestic value added as a share of gross exports has increased from 81.2% in 2005 to 83.9% in 2016, overall. This is indicative of India's growing domestic value-added content in its exports. Major increase in the shares is observed for 'coke and refined petroleum products' (54.7% to 58.8%)'; 'computer, electronic and optical products' (64% to 67.8%); 'transportation and storage' (80.6% to 86.2%); amongst others.

Importance of Services in Value Chains

Manufacturing today involves much more than the pure production of goods. It increasingly includes services related activities such as business services, logistics, communication services, computing services, etc. Additionally, services add value to products through design development, marketing, etc. and ensure the competitiveness in manufacturing. While foreign services value-added (FSVA) share in gross exports (both goods and services) for India was 5.7%, the Domestic Services Value-Added (DSVA) share in gross exports during the same year was 46.4%, in 2016. The services sector is very crucial for manufacturing competitiveness, and hence plays a significant role in GVCs. In 2016, services value added contributed to 25.1% of manufacturing exports (17.9% domestic and 7.2% foreign) with the highest share for 'basic metals and fabricated metal products' at 30.9%, under the manufacturing sector. In fact, the share of DSVA in the manufacturing exports has increased from 16% in 2005 to 17.9% in 2016, while during the same period, the share of the FSVA has almost remained the same (7.4% in 2005 to 7.2% in 2016). It may be noted that Luxembourg, Malta, Ireland, Vietnam and Hungary have a very high share of FSVA content in exports while economies such as the USA, India, Australia and Germany have a higher share of DSVA content in exports.

Way Forward

There are various viable strategies which can help India in increasing its participation in the GVCs and eventually, increase its footprint into global production network. Some of the strategies that India can look into are technological upgradation, trade agreements, focus on service sector, attracting FDI, and focusing on infrastructure. ■

Project Exports: Cushion for India's Export Growth from Trade Shocks

Release of Exim Bank's Study titled 'Project Exports from India: Strategy for Reenergizing and Reorienting' by Hon'ble Minister of Commerce and Industry, Mr. Piyush Goyal, during the seminar on 'Building a Roadmap for Boosting Project Exports' held on 8-9 December 2019, in New Delhi.

In a world where global uncertainties and instabilities are still abound, and risks and challenges to economies are growing, economic globalization faces significant headwinds, as multilateralism and free trade are under threat. Unsurprisingly, exports growth from India has also lost momentum in the recent period amidst global contraction in demand due to rising economic uncertainties. Merchandise exports from India decreased by 2.4% during April-January 2019-20, as compared to corresponding period of the previous year. The need to reverse the underlying trend and bolster confidence to cope with the risks and challenges associated with heightened trade tensions and global slowdown cannot be overemphasized.

In the face of slowdown in global merchandise exports, enhancing focus on project exports can contribute towards strengthening the country's balance of payment position. Since project export earnings range over a period of one to five years, these export orders impart stability to the export earnings of the country. Project exports not only earn foreign exchange for the country, but also boost the economy in many ways, including through enhanced exports of high value added goods and services, cross-country transfer of new technology, training of personnel and a resultant high-skilled employment generation in the economy.

Performance of Indian Project Exports in Recent Years

Indian project exporters have made remarkable progress in tapping the opportunities in overseas markets across major sectors, thereby making substantial contributions to the exchequer. As per data from the Project Exports Promotion Council, project exports from India peaked at US$ 8.2 billion during 2016-17, and accounted for nearly 1.9% of the overall exports (merchandise and services combined) from India during the year. To supplement the data collated by the PEPC, Exim Bank conducted a survey of select project exporters in India, whose findings indicated that during FY16-FY18, companies reported securing contracts valued at nearly US$ 17.7 billion.

Further, data from Multilateral Development Banks (MDB) such as World Bank, the Asian Development Bank (ADB), and the African Development Bank (AfDB), indicates that participation of Indian companies in MDB funded projects has also registered substantial increase, particularly in infrastructure projects. During the period 2014-2018, Indian companies have secured contracts valued at US$ 21.0 billion in ADB, AfDB, and World Bank funded projects.

Supplies of engineering goods on deferred credit terms are also referred as project exports. Engineering exports from India account for nearly one-fourth of the country's total merchandise exports, and nearly 3% of India's GDP. During the period 2011-12 to 2018-19, engineering exports from India registered a CAGR of 4.6%, with a record performance of US$ 81 billion worth of exports in 2018-19.

According to Exim Bank's Study, power sector has emerged as the topmost sector for project exports from India, with companies securing several contracts in the segment of power transmission and distribution. As per the Exim Bank survey, in value terms, nearly 48% of the contracts secured by Indian companies during the period under consideration were in the power sector. Renewable energy (share of 11%), transport (10%), railway (10%), and other construction (9%), were the other major sectors for project exports from the country. This also holds true in the case of MDB funded projects secured by Indian companies, wherein the participation has particularly been prominent in energy, transportation, and water and sanitation sectors.

Satisfactory performance in terms of cost effectiveness, application of technical expertise and timely delivery of quality products and services has earned project exporters from India enormous goodwill and helped develop the brand image of India as a trusted, high-quality project exporting country. Consequently, Indian project exporters have established market presence across several markets, but Middle East and North Africa, and Sub-Saharan Africa regions continue to remain the key markets for Indian project exporters.

Exim Bank's Study also indicates that China, Turkey and South Korea are among the top competitors for Indian project exporters. Analysis in the Study indicates that strong government support, robust ECA framework, and focus on enhancing technological capabilities are some of the commonalities between India and its competitors. In some areas such as cheaper raw material costs, countries such as China have clear advantages over Indian companies. On the other hand, India's human resource capabilities are perceived to be a key strength by Indian project exporters.

Challenges

Some of the major challenges faced by Indian project exporters in execution of overseas projects, as found in Exim Bank's survey, include high political and business risks in project countries; institutional delays, including land acquisition, planning and approval delays, passiveness in decision making; financial constraints in projects, particularly related to cash flow issues, delay in payments, credit unavailability; and labour related challenges such as limited availability of skilled and affordable labour, as well as low labour productivity.

Other important challenges to Indian project exports include inter alia, concentration of project markets with limited presence in geographies other than Africa, South Asia and Middle East; low bid conversion ratio in some regions such as Europe; and large unmet gap in infrastructure financing which translates into reduced project opportunities. These longstanding issues, in addition to other concerns such as high competition, lack of risk appetite, and non-membership in some MDBs, among others, lead project exporters from India to face major challenges in realizing the untapped potential in this sector.

Way Forward

Sustainability of India's competitiveness in project exports critically hinges on alleviating the aforementioned challenges and creating an enabling domestic policy environment, especially considering the stiff competition faced by Indian companies from other countries that benefit from a host of policy and fiscal incentives.

There is a need to develop capabilities in sectors where the success of Indian companies has been limited vis-à-vis other top competitors such as China. There is also a need to diversify the markets for project exports, and tap relatively lesser explored geographies such as Latin America and Caribbean, East Asia and Pacific, and Central Asia.

Globally, the role of government in promoting project exports is pivotal and Export Credit Agencies (ECAs) are a key purveyor of the incentive programmes. Strengthening ECA support mechanism in India will, therefore, be a sine qua non for boosting project exports from the country. Although ECA support mechanism in India is fairly comprehensive as compared to ECAs in competitor countries, such as China, South Korea and Turkey, there is need for stronger positioning in terms of capital resources, along with substantial regulatory easing.

Other than these, there is need for across-the-board engagement in several other areas such as consideration of inclusion of project exports in FTA/RTA negotiations; addressing data related issues; membership in regional MDBs such as the Inter-American Development Bank (IDB) for incremental market access in lesser tapped geographies; creating awareness about procurement opportunities, among others.

Initiatives are also required to be undertaken by the project exporters to tap upcoming project opportunities. Project exporters could be encouraged to explore the following approaches, in this regard:

- Consortium Approach: Indian contractors should be encouraged to adopt a consortium approach for bidding and execution of projects. Even within a sector, consortium approach can help pool capacities of exporters and help them in bidding for larger value contracts.
- Local Presence through JVs: Having a local presence in the country of the project significantly enhances the probability of success in securing a contract. Local presence helps contractors to interact with the market players and assess their competitive position at an early stage. Therefore, joint ventures in the project countries could be considered by project exporters in key markets.
- Subcontracting: Companies of small and medium size could also consider the possibility of engaging in project exports by way of securing sub-contracts from major European/American/Japanese companies. Gaining exposure to international projects through these subcontracting opportunities can help strengthen capacities and allow companies to bid independently over time.

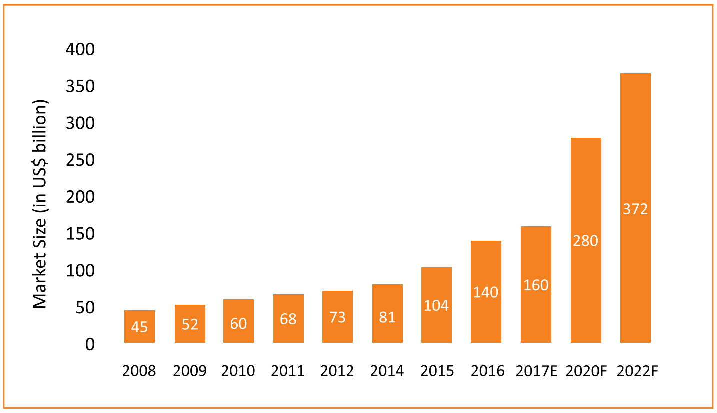
With growing impetus to infrastructure projects across most developing countries, and multilateral financial institutions scaling up their investments across various infrastructure segments, the scale of opportunities in project exports is large and growing. Indian exporters can leverage these opportunities as they have already developed substantial competitiveness in this sector. Strengthening of capabilities in project exports will also be crucial from the point of view of positioning the Indian economy higher on the exports value chain, as also for meeting the ambitious US$ 1 trillion export target by 2024-25. ■

Healthcare Sector in India

Introduction

Healthcare is one of the largest sectors in India, both in terms of revenue as well as employment. This sector consists of hospitals, pharmaceuticals, biopharmaceuticals, diagnostics centres, medical equipment and medical tourism. India ranks 145th among 195 countries in terms of quality and accessibility of healthcare. For India, Healthcare Access and Quality (HAQ) index increased from 24.7 in 1990 to 41.2 in 2016, which is below the global average of 54.4. The Indian healthcare Industry was pegged at around US$ 150 billion in 2016, which is expected to reach US$ 280 billion by 2020[2].

Figure 2: Healthcare Sector Growth Trend (US$ billion)



Note: E- Expected, F- Forecast
Source: IBEF

Growth in Sub-Sectors

The hospital industry in India is expected to grow at CAGR of 15-16% to reach ₹ 7.8 trillion by FY24 from ₹ 3.8 trillion in FY19[3]. The structural growth, expansion in tier II and III cities and government policies, such as Ayushman Bharat is forecast to work as growth impetus. The pharmaceutical sector in India was valued at US$ 33 billion in 2017. The turnover of domestic pharmaceutical market reached ₹ 1,29,015 crore (US$ 18.12 billion) in 2018, growing at 9.4% year-on-year (in ₹) from ₹ 1,16,389 crore (US$ 17.87 billion) in 2017. With 71% market share, generic drugs form the largest segment of the Indian pharmaceutical sector. Based on moving annual turnover, anti-infective (13.6%), cardiac (12.4%), and gastrointestinal (11.5%) segments had the biggest share in the Indian pharmaceutical market in 2018. The Indian biopharmaceuticals industry is expected to grow at 17-18% CAGR, over the next five years. The market is expected to reach ₹ 400-420 billion by 2024, driven by the launch of biosimilars. The medical devices industry in India was estimated to be around US$ 11 billion during 2017, which has the potential to grow at 28% p.a. to reach US$ 50 billion by 2025[4].

FDI in Health Sector

Since January 2000, FDI is permitted up to 100% under the automatic route in hospitals in India. In insurance, an emerging component of healthcare services, foreign investment is allowed up to 49%: investments up to 26% is placed under the automatic route investments beyond 26% and up to 49% require prior government approval. During April 2000 - March 2019, FDI inflows for drugs and pharmaceuticals sector stood at US$ 15.98 billion. Inflows into sectors, such as hospitals and diagnostic centres and medical appliances stood at US$ 6.09 billion and US$ 1.82 billion, respectively, during the same period.

Opportunities

With increasing population, changing lifestyle and increasing income, the per capita expenditure on healthcare is expected to increase. Rising healthcare cost and burden of new diseases along with low government funding is raising demand for health insurance coverage.

India is a preferred destination for Medical tourism due to presence of world-class hospitals and skilled medical professionals. There are considerable opportunities in the healthcare infrastructure as the investment in infrastructure is expected to increase even further, with the increasing demand of healthcare facilities. 58,000 job opportunities are expected to be generated in the healthcare sector by the year 2025 and over US$ 200 billion is expected to be spent on medical infrastructure by 2024[5].

With the ongoing coronavirus outbreak, challenges for the Indian healthcare sector has been escalating. Pharmaceutical sector is the first major sector to be impacted by this outbreak due to supply constraints from China. China is the major source of Active Pharmaceutical Ingredients (API) to the Indian pharmaceutical industry. The requirement for medicines, testing equipment and hospital infrastructure is also expected to increase with the escalation of novel coronavirus spread in India. Coupled with supply constraints the demand gap may widen for these requirements, resulting in further challenges for the healthcare sector with respect to procurements and pricing in the short term.

[2]FICCI-KPMG Report [3]CRISIL Research
[4]Invest India – National Investment Promotion & Facilitation Agency
[5]Healthcare Industry Report, IBEF

Union Budget 2020

Structured on the theme of 'Ease of Living' the Union Budget 2020-21 comprised of a series of far-reaching reforms, aimed at energizing the Indian economy through a combination of short-term, medium-term, and long-term measures.

On the macroeconomic front, the Government revised the FY 20 fiscal deficit target to 3.8% from the earlier target of 3.1% and set the FY 21 fiscal deficit target to 3.5%. With regards to sector specific allocation, while Agriculture and Rural Development registered a decline on year-on-year basis as indicated in the Table 1, Education, Healthcare, Transport Infrastructure and Agriculture Credit registered an increase.

Table 1: Change in Budget Allocation to Select Sectors

Broad Sector Classification under Budget	Y-o-Y % change in Allocation
Agriculture	-8.6%
Rural Development	-12%
Agricultural Credit Target	+15%
Education	+4.7%
Healthcare	+7%
Transport	+8%

The Budget laid special emphasis on agriculture, irrigation and rural development through 16 action proposals. The intent to transform the agriculture sector is reflected in the increased allocation of ₹ 1.6 lakh crore towards agriculture. Besides this, the initiatives taken up includes Agriculture Credit target of ₹ 15 lakh crore for 2020-21; schemes of 'Kisan Rail' and 'Krishi Udaan' for a seamless national cold supply chain for perishables; and expansion of PM-KUSUM to provide 20 lakh farmers for setting up stand-alone solar pumps.

In the health sector, the Budget proposed more than 20,000 empanelled hospitals under PM Jan Arogya Yojana for poor people; and expansion of Jan Aushadhi Kendra Scheme to all districts offering 2000 medicines and 300 surgicals by 2024.

To undertake accelerated development of highways. This will include development of 2500 km access control highways, 9000 km of economic corridors, 2000 km of coastal and land port roads and 2000 km of strategic highways. The Delhi-Mumbai Expressway and two other packages are expected to be completed by 2023 and work on the Chennai-Bengaluru Expressway will also be started. It is proposed to monetise at least 12 lots of highway bundles of over 6000 km before 2024.

Introducing the concept of the 'New Economy', the Union Budget lays down a policy to enable private sector to build Data Centre parks throughout the country. Fibre to the Home (FTTH) connections through Bharatnet will link 100,000 gram panchayats this year. It is proposed to provide ₹ 6000 crore to Bharatnet programme in FY 21. Measures proposed to benefit the start-ups include a digital platform for seamless application and capture of IPRs, Knowledge Translation Clusters to be set up across different technology sectors including new and emerging areas.

With regards financial sector, it was noted that in the last few years, Government of India has infused about ₹ 3,50,000 crore by way of capital into Public Sector Banks for regulatory and growth purposes. Governance reforms would be carried out in these banks, so that they become more competitive. Government has already approved consolidation of 10 banks into 4. Further, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit Insurance Coverage for a depositor, which is now ₹ 1 lakh to ₹ 5 lakh per depositor.

To meet the need for greater private capital, it is proposed to sell the balance holding of Government of India IDBI Bank to private, retail and institutional investors through the stock exchange. To help easy mobility while in jobs, we wish to infuse into the Universal Pension coverage with auto enrolment. More than five lakh MSMEs have benefitted from restructuring of debt permitted by RBI in the last year. For selected sectors such as pharmaceuticals, auto components and others, it is proposed to extend handholding support – for technology upgradations, R&D, business strategy etc., a scheme of ₹ 1000 crore will be anchored by EXIM Bank together with SIDBI.

Lastly, In order to provide significant relief to the individual taxpayers and to simplify the Income-Tax law, the Finance Minister proposed to bring a new and simplified personal income tax regime, wherein income tax rates will be significantly reduced for the individual taxpayers who forego certain deductions and exemptions.

Exim Bank's Support to Kalamkari Art

Exim Bank has been supporting and curating grassroots enterprises and craftsmen across India, in the areas of product development, design and packaging sensitization, with the twin-objective of reviving the traditional arts and crafts of India, besides affording a sustainable means of livelihood to the artisans. The Bank, through Grassroots' Initiatives for Development programme, organizes training programmes and workshops, to motivate the next generation artisans into learning ancestral crafts, build a sustainable business and help gain due recognition for the various arts and crafts, at several platforms across India and overseas.

About the Art 'Kalamkari'

Kalamkari art has been reportedly practised in India since 2000 years in two unique styles- (i) the block-printed; and (ii) the hand-painted variety. Kalamkari art is an ancient style of hand painting done on cotton (kora cloth) or silk fabric with a tamarind twig used as a pen by using natural dyes. The word Kalamkari is derived from a Persian word where 'Kalam' means pen and 'Kari 'refers to craftsmanship. This art involves 23 meticulous but interesting steps of dyeing, bleaching, hand painting, block printing, starching, cleaning, etc. Motifs drawn in Kalamkari range from flowers, peacock, paisleys to divine characters.

Andhra Pradesh is famous globally, as the home of this ancient art form. The two identifiable forms of kalamkari are (i) Srikalahasthi from Chittoor district; and (ii) Machilipatnam Kalamkari of Krishna district. Machilipatnam Kalamkari involves the use of vegetable dyed block-painting of fabrics and is produced in the town of Pedana, near Machilipatnam in Krishna district of Andhra Pradesh. This delta region in Coastal A.P. is renowned for producing some of the finest quality Kalamkari prints of export quality. There are around 8,000-10,000 kalamkari weavers in Machilipatnam, who continue to practice this art which has served as their prime source of livelihood, over the generations.

Exim Bank organized a 'Product and Design Development' training programme for 30 experienced master weavers engaged with Ms. Jahnavi Kalamkari, in Pedana village, near Machilipatnam, Andhra Pradesh for a period of one month, during December 2019.

The training programme aimed at improvising the designs, introducing and adopting new innovative design concepts, new technologies, product development, quality upgradation and packaging. It also aided the Kalamkari artisans to improve their understanding, and become quality conscious about their products, in the larger context of enhancing the scope for income generation. The training benefited participants in developing new products through value addition, enhanced appeal in domestic as well as international market, since the new products developed are utility based and in tune with the market trend.

Such training programmes accomplishes one of the Bank's objectives – i.e. to support and promote grassroot enterprises, especially in the handicraft and handloom sector through focused interventions such as assistance in skill development, product development and export capability creation, thereby enabling and ensuring sustenance of India's rich cultural heritage.

Exim Bank’s Lines of Credit

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. Under the Lines of Credit extended with the support of Government of India, Exim Bank reimburses 100% of contract value to the Indian exporters, upfront upon the shipment of goods in which at least 75% of goods and services of total contract value should be sourced from India. LOCs have enabled India to demonstrate project execution capabilities in the emerging markets. LOCs have helped to gather considerable momentum in the recent years, especially in the developing countries of Africa, Asia, Latin America, Oceania and the CIS. The Bank has now in place 258 Lines of Credit, covering over 61 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US$ 25.15 billion, available for financing exports from India. LOCs are thus an effective instrument for promoting and facilitating India’s exports of projects, goods and services.

Exim Bank, with the support of Government of India, has signed one LOC as given below during the period January-March 2020:

An LOC of US$ 35.8 million has been extended to the Government of Republic of Suriname, for financing rural electrification project through solar DG Hybrid PV systems in 50 remote villages. With the signing of the above LOC, Exim Bank, till date, has extended nine LOCs to the Government of the Republic of Suriname, with the support of the Government of India, taking the total value of LOCs extended to US$ 124.98 million. Projects covered under the LOCs extended to the Government of Republic of Suriname include power, water supply, purchase of helicopters, and rehabilitation and upgradation of milk processing plant.

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Success Story

The extension of Lake Victoria Pipeline to Tabora, Igunga and Nzega towns in Tanzania has been financed under the LOC of US$ 268.4 million to the Government of Republic of Tanzania. The project comprises of three packages. The contract valued at US$ 54.8 million executed by AFCONS-SMC J/V has been commissioned in February 2020. The water distribution system will help alleviate water shortage in the region.

The Quarter That Was

Exim Bank of India Raises US$ 1 Billion for 10 year Tenor at a Coupon of 3.25 % p.a.

The Export-Import Bank of India, on January 6, 2020, successfully priced a 10-year Bond of US$ 1 billion, its third transaction in the 144A/Reg S format. The transaction marks lowest coupon from any Indian issuer for a 10 year US$ issuance. The issue attracted a total order book in excess of US$ 2.7 billion at close, thereby achieving more than 2.7 times subscription from 184 high-quality investors. The funds thus raised will be used by the Bank to support Indian project exports, overseas investment by way of long term credit and its lines of credit portfolio.

The transaction was priced at the fair value of CT10+150 bps, well inside the initial price guidance of CT10+175 bps area, representing significant price tightening of 25 bps and zero new issue premium. In terms of geographic distribution, the bonds were distributed 44% in Asia, 36% in USA and 20% from EMEA region. In terms of distribution, the bonds were distributed to high quality investors with around 58% distributed to fund managers, 18% to banks, 13% to insurance and pension funds, 10% to Central Banks/Official Institutions and 1% to private banks.

The bell ringing ceremony for the US$ 1 billion, 10-year bond issuance was conducted on January 16, 2020 at BSE by Shri David Rasquinha, Managing Director, and Ms. Harsha Bangari, Chief General Manager & Chief Financial Officer of Exim Bank, in the presence of Shri V. Balasubramaniam, MD & CEO, INDIA INX.

Speaking on the occasion, Mr. David Rasquinha, Managing Director of Exim Bank, said, "The successful issuance of US$ 1 billion, our third such issue, is a strong market opening trade from Exim Bank, following which many other Indian issuers are likely to access the foreign currency bond markets. All Exim Bank's foreign currency bonds are already listed on India INX and it makes us proud to say that Exim Bank is cumulatively the largest bond issuer listed on India INX. Exim Bank continues to look forward to strengthening the relationship with Indian INX for its future issuances"

Prof. Hélène Rey delivers Exim Bank's 35th Commencement Day Annual Lecture

"The dollar is to currencies, what English is to languages", Professor Hélène Rey, Lord Bagri Professor of Economics, London Business School remarked during the Export-Import Bank of India's (Exim Bank's) 35th Commencement Day Annual Lecture in Mumbai on February 28, 2020. Speaking on the topic, "Financial Globalisation and International Financial Markets", Prof. Rey highlighted that the US dollar is the dominant international currency, with nearly 62.2% of international debt, 56.3% of international loans, and 62.7% of foreign exchange reserves denominated in the US dollar. She also mentioned that India is among the most dollarized countries as far as trade invoicing is concerned.

Prof. Rey explained how the dominance of the dollar in international trade, international banking and asset markets matters for international transmission of shocks and macroeconomic policies. She noted that international financial linkages have risen dramatically, which has concomitantly increased the importance of cross border spillovers of policy actions. She explained how in a dollar hegemonic system, the monetary policy of the US Federal Reserve sets the tune for the global financial cycle, and how it may affect the balance sheets and risk appetite of financial institutions in other countries. ■

Sixth Edition of Exim Bazaar

Exim Bazaar provides a common selling and demonstration stage for various handicraft and handloom artisans of the country, which enhances their market exposure and facilitates interaction with potential bulk buyers.

The 6th edition of 'Exim Bazaar' was held at the Dutch Palace, Pune during January 24-26, 2020. This three-day exhibition showcased traditional and conventional art and craft products from all over India.

A total of 50 participants, representing the rich artistic traditions of more than 17 states including Andhra Pradesh, Bihar, Delhi, Gujarat, Jammu & Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand and West Bengal showcased their handmade products. The three-day exhibition displayed a wide range of high quality handcrafted and authentic range of leather puppetry, madhubani, gond, phad, pichwai painting paintings, crafts such as handmade cutlery, copper bells, kutchi pottery, dhokra, banana fibre, bidri metalware, kauna, crystal jewellery, sanjhi paper cutting painting, terracota, wooden hanging, sabaii grass products, honey, Jaipur jewellery and handloom like tussar silk, ajarakh, kala cotton & wool, applique, bandhani, patola, rabari, chanderi, himroo, paithani, phulkari, lehariya, benarasi, carpets, patchwork quilts and kantha etc. The event attracted large number of visitors. The artisans were able to generate high sales during the exhibition, and besides many artisans secured valuable contacts for future bulk orders.

Inauguration of Sixth Edition of Exim Bazaar, an Exclusive Exhibition of Handicraft & Handloom Products in Pune.

For further information, please contact:
grid@eximbankindia.in

Activities of Eximius Centre for Learning

Exim Bank extends Lines of Credit (LOCs) to overseas Sovereign Governments/Government Agencies with the support of the Government of India (GoI), under the Indian Development and Economic Assistance Scheme (IDEAS), for supporting export of projects, equipment, goods and services from India. Against this background, Exim Bank organized a half-day seminar on 'Business Opportunities in Govt. of India-supported Exim Bank's Lines of Credit' to raise awareness on IDEAS Guidelines, empanelment, pre-qualification process, tendering process and LOC procedures for contract coverage, disbursement and monitoring, in the engineering, infrastructure, construction, healthcare, transport, solar energy and irrigation & water supply sectors. These seminars were held in four tier II cities, namely, Kochi, Pune, Kanpur and Bhubaneshwar, with an objective to reach out to SME exporters. Senior officials of the Bank and Ministry of External Affairs addressed the participants at the event.

Continuing with the aim to enhance export capability of the grassroots enterprises, especially the handicrafts artisans of India, Exim Bank partnered with the Export Promotion Council for Handicrafts to organize workshops on themes such as design trends, export documentation and export procedures. During the quarter, these workshops were organized in Coimbatore, Mangalore and Madurai, and saw huge participation from the artisan community from these clusters.

The year 2020, in particular, is a milestone year marking India-Africa Relations, with the fourth edition of the India-Africa Forum Summit (IAFS) as well as the 15th edition of the CII-EXIM Bank Conclave on India-Africa Project Partnership which will take place with support of Ministry of External Affairs and Ministry of Commerce and Industry, GoI. Exim Bank, being the policy arm of the GoI, sought stakeholder feedback on issues impacting India-Africa bilateral trade and investments through a Seminar on 'Stepping Up India's Engagements in Africa' held in New Delhi in January 2020. The deliberations at the seminar by various stakeholders, namely representatives from the Indian companies, African diplomatic missions in India, trade bodies and the Indian government, gave the industry insights into areas for diversification and thereby achieve greater collaboration between India and Africa.

Exim Bank organized its fifth webinar, Masterclass on Impact of Union Budget on Select Sectors, in which the economists of the Bank evaluated implications on various sectors, Indian economy and trade of the Union Budget presented in February 2020.

To know more about our upcoming events, log on to
www.eximbankindia.in/upcoming-events.

Exim Bank's 35th Commencement Day Annual Lecture

Exim Bank's Commencement Day Annual Lecture series was initiated in 1986, to commemorate the beginning of the Bank's operations in 1982. Since then, each year, an eminent expert is invited by the Bank to deliver a lecture on a theme related to the contemporary developments in the Indian and global economy. The lecture series seeks to encourage discussions on latest trends in international relations, global trade, finance and investment flows and related economic developments.

Some of the renowned speakers in recent past include, inter alia, Mr. Supachai Panichpakdi, Secretary General of UNCTAD; Prof. Nicholas Stern, Chief Economist & Vice President of the World Bank; Lord Meghnad Desai, Professor of London School of Economics; Rt. Hon. James Bolger, former Prime Minister of New Zealand; Dr. Kemal Dervis, former Administrator of UNDP; Prof. Jagdish Bhagwati, Professor of Economics and Law, Columbia University; Prof. Yu Yongding, President of the China Society of World Economics; Dr. John Lipsky, former Deputy Managing Director of IMF; Dr. Donald Kaberuka, the former President of the African Development Bank; Professor Gita Gopinath, Chief Economist at the IMF; and Nobel Laureate- Professor Abhijit Banerjee, Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology.

Exim Bank's 35th Commencement Day Annual Lecture was delivered by Professor Hélène Rey on February 28, 2020, at the Taj Mahal Palace Hotel, Mumbai. Professor Hélène Rey is currently the Lord Bagri Professor of Economics, London Business School. She spoke on the topic, "Financial Globalisation and International Financial Markets".

Prof. Rey highlighted that the US dollar is the dominant international currency, with nearly 62.2% of international debt, 56.3% of international loans, and 62.7% of foreign exchange reserves denominated in US dollar. She also mentioned that India is among the most dollarized countries as far as trade invoicing is concerned.

Prof. Rey explained how the dominance of dollar in international trade, international banking and asset markets matters for international transmission of shocks and macroeconomic policies. She noted that international financial linkages have risen dramatically, which has concomitantly increased the importance of cross border spillovers of policy actions. She explained how in a dollar hegemonic system, the monetary policy of the US Federal Reserve sets the tune for the global financial cycle, and how it may affect the balance sheets and risk appetite of financial institutions in other countries.

Prof. Rey further explained the difficulties for the US to remain a world banker or insurer. She opined that the equilibrium in which the dollar is the dominant international currency is becoming more unstable over time as the relative size of the US in the world economy is shrinking, while the stock of dollar liabilities in the rest of the world is consistently growing. As the current configuration of international monetary system may not be stable, Professor Rey in her address explored the potential changes in the international monetary order.

Analysing the alternatives to the US dollar, Prof. Rey said that the Euro may be the closest substitute to the Dollar, but the incomplete architecture of the Euro area and the absence of a Euro area- wide safe asset inhibits the internationalisation of the Euro. In context of the Chinese Renminbi, Professor Rey observed that while the use of Renminbi for trade invoicing and cross-border financial transactions has increased, its adoption in international markets is deterred by the capital controls imposed by China, as also the underdeveloped financial system in the country.

Prof. Rey also discussed the emergence of private, digital and crypto currencies, which could have a catalytic role in disrupting the international monetary system. Additionally, she discussed the plausibility of a competition among the main Central Banks to develop high tech international payment and settlement systems within a network. Such digital network of payments could help centralize information perfectly and enforce penalties perfectly, which the current monetary system does not address.

Mr. David Rasquinha, Managing Director, Exim Bank, in his inaugural address, also highlighted the fragilities associated with greater financial openness. He noted that while theoretically, rising capital flows in emerging market economies should support growth, in reality, financial openness has, rather, proven to be a double-edged sword, leaving emerging markets vulnerable to foreign shocks. He further added that the effect of policies taken by the US on the international monetary system during the recent times is discernible, and some of the negative effects are disconcerting. ■

Country Scan

United Kingdom

Economic growth in United Kingdom (UK) continued to remain modest in 2019 at 1.4% as compared to 1.3% in 2018 owing to softening of global demand and Brexit-related political turmoil. The growth is expected to remain weak at 0.8% in 2020 as uncertainty around Brexit and the coronavirus continues to adversely affect consumer demand and business confidence. Consumer price inflation averaged around 1.7% in 2019 and is expected to remain subdued at 1.3% in 2020 due to the uncertainties surrounding Brexit and coronavirus accompanied by structural retail disinflationary trends and relatively low global oil prices. The value of sterling has been tied closely to Brexit developments and is expected to remain volatile in the coming years. The current account recorded an estimated deficit of 3.9% of GDP in 2019. The UK's departure from the EU single market and customs union is likely to widen the current-account deficit, as increased trade barriers with the EU post-Brexit will cause exports to decrease sharply in 2020 with the new terms of trade being implemented. Imports will also decline as consumer demand weakens owing to the coronavirus, and Brexit creates new customs barriers. Consequently, the current-account deficit is expected to expand to 4.3% of GDP in 2020.

Gambia

Real GDP growth of Gambia contracted from 6.6% in 2018 to an estimated 5.4% in 2019. It is further expected to contract to 5.1% in 2020 due to structural deficiencies holding back sustained economic expansion. Expected declining prices for Gambia's major export (groundnut oil) and increased uncertainty for the upcoming presidential election would contribute to the slow down. After climbing to an estimated 7% in 2019 on the back of falling exchange rates and rising aggregate demand, inflation is expected to continue to rise in 2020 by 7.1%, pushed by rising staple food prices. After having been overvalued because of the authorities' interventions over much of the past decade, the dalasi will continue to weaken from an estimated average of D 50.1:US$ 1 in 2019 to D 52.9:US$ 1 in 2020. This weakness is partly attributable to the CBG's policy of limiting interventions in the foreign exchange market to shore up foreign reserves. In 2020-21 the dalasi is expected to remain prone to volatility from seasonal oscillations in agricultural output. The trade deficit is projected to widen in 2020, with goods import bill set to increase owing to strong demand for donor-backed infrastructure linked capital goods imports. Overall, the current account deficit as a proportion of GDP is expected to widen from an estimated 5.8% in 2019 to 6.5% in 2020.

Argentina

The Argentinian economy is expected to continue to contract in 2020, albeit at a slower pace of about 2%, the economy contracted at 2.7% in 2018. The economy had been struggling from the impact of successive currency devaluations, and now with the outbreak of coronavirus across the globe, there is major deterioration in commodity prices and weakness in all the major trading partners of the country. Despite potential in sectors such as energy, mining and agriculture, FDI inflows are expected to remain weak, especially because of uncertain global economic environment as the full impact of coronavirus pandemic still remains to be ascertained. The consumer price inflation is expected to be average at 37.7% in 2020, and thereafter is also expected to remain above 20%, as lose monetary and expansionary fiscal policy tools are used by the administration in order to cope with the economic distress. The peso is expected to depreciate to an average of Ps 63.3: US$ 1 in 2020, compared to Ps 48.15: US$ 1 in 2019. The current account will remain roughly in balance in 2020-21, but this improvement is likely then be reversed as renewed real currency appreciation and economic recovery draw in imports.

China

With the outbreak of coronavirus in China, and then its spread across the world, there is an increased global economic uncertainty. The GDP growth rate in China is expected to hover around 5.4% only, lower than 6.1% growth rate experienced in 2019. Private consumption and investments are likely to take the biggest hit, as a consequence of the outbreak of coronavirus. The consumer price inflation is expected to average around 5.2% in 2020, significantly higher than 2.9% in 2019. An upward cycle in pork prices due to supply disruptions caused by African Swine fever, and disruptions to food production and transport caused by the coronavirus outbreak will add further price pressures in 2020. The renminbi is expected to weaken to an average of Rmb 7: US$ 1 in 2020, representing a depreciation of 1.4% from 2019. Investor concerns stemming from the impact of the coronavirus on the domestic economy, as well as expectations of additional monetary stimulus, will weigh on the local currency's value. Also with a disruption to the local supply chains due to coronavirus outbreak the external sector activity is also likely to remain muted. Merchandise exports are expected to expand by 1% during 2020. The current account surplus is projected to be around 2.1% of GDP in 2020. Overall, with waning effects of coronavirus and normalization of economic activity, the GDP growth will see a recovery from 2021 onwards. ■

Currency Currents

Australian Dollar

A$ Some of Australia's top investors are still bearish on their country's currency, which has been rooted near a post-crisis low on a combination of fears over wildfires and the impact of the big slowdown in China. The Aussie Dollar (AUD) hit a new 10 year low against the US dollar (US$), to close at 0.55 on March 19, 2020.

The currency, which has historically been highly sensitive to commodity prices and economic developments in China, has lost around 30% of its value against the US$ in the past two years, with one AUD worth just US$ 0.55 compared with US$ 0.78 at the start of January 2018.

The outbreak of coronavirus is likely to have a severe impact on Chinese economic growth prospects and in turn, those of Australia. Domestic growth is anaemic, notching up just 0.4% expansion in the third quarter of last year and is likely to slow further. The result is that AUD movements have become increasingly asymmetric.

Another historical correlation has recently broken down. When the US$ gains against the Japanese Yen (JPY), AUD tends to move higher against US$. Instead, the surge in US$ in March 2020 was accompanied by a plunge in AUD. One factor contributing to the breakdown of this traditional pattern is the sudden cut in interest rates by FED as well as COVID fears resulting in flight to safety.

The Reserve Bank of Australia has done its best to stir economic activity, making three cuts to interest rates last year and two in March 2020, to a record-low 0.25%.

Nigerian Naira

₦ Oil prices collapsed in the second week of March after the world's biggest exporters failed to agree on how to respond to a drop in demand as global economic growth slows because of the spreading coronavirus. Nigeria is Africa's top crude producer.

Since the virus first appeared in China late last year, the Naira peaked on March 19, 2020 to 371.00 per US$. The currency's decline picked up pace in February, when reserves fell more than 4.5% to US$ 36.1 billion.

Although the Naira is at its weakest since August 2017, when it was last devalued, it has traded in a narrow range in that period under the management of the Central Bank.

To keep the Nigerian currency stable, the central bank has sold a quarter of its reserves since June 2019. It has also restricted importers' access to hard currency and stepped up the sale of high-yielding government debt also known as Open Market Operations (OMOs).

The bank could opt for additional capital controls to sustain the Naira. A stable currency is critical to the President's plan to revive local industries and wean the economy off oil.

The central bank has vowed to keep the Naira steady, saying in late November that the slide in reserves isn't a cause for concern.

Oil futures have fallen by more than 30% in New York and London on March 9, the biggest drop since the Gulf War in 1991, before recovering some ground. Crude sales account for about half of Nigerian government revenue and 90% of the nation's exports.

Indian Rupee

₹ The Indian Rupee (INR) touched an all-time low against the US$ as foreign investors fled the country's stock market over concerns that the coronavirus outbreak could pile more pressure on the country's economy and financial system.

The currency on March 23, weakened to an all-time low of 76.14 to US$ as growing fears over the pandemic sent shockwaves through equity and foreign exchange markets. The benchmark Nifty 50 suffered one of its worst ever days and has tumbled more than 35% over the past month.

The Indian equity markets have also been hit by a deep economic slowdown and the near collapse of Yes Bank. Overseas investors have pulled about US$ 4 billion out of Indian markets since late February.

The RBI on March 6, took over one of the country's largest private lenders, Yes Bank, in a move that unnerved investors. The bank had for months failed to find new investors to offset a sharp uptick in bad loans. The takeover sparked panic among depositors and it is believed by analysts that it could have a knock-on effect for other banks, weakening an already stressed financial system.

Concerns over the Rupee's weakness led the RBI on March 12, to announce it would sell some of its dollar reserves in a bid to shore up the currency. The Reserve Bank has also announced OMOs as well as Long Term Repo Auctions for a period of 1 year and 3 years at the prevailing Repo Rate to ensure abundant liquidity-into the financial system.

Exim Mitra

Information about Verification of Company Profile of Overseas Suppliers

Exporters/Importers can get information about overseas suppliers from ECGC Ltd. (formerly Export Credit Guarantee Corporation of India). Under its policies issued to exporters, ECGC Ltd. underwrites risks on overseas buyers by obtaining status reports on the buyers from credit information agencies, commercial banks, etc.

Exporters/Importers can also refer to D&B Business Information Reports which help determine a company's profitability, financial stability, and payment performance. For more details, please refer to the following website: https://www.dnb.co.in/risk-management-solutions/finance-credit-risk/business-credit-report.

Information on Scope for Exporting Chartered Accountancy Services from India

To get information on exporting Chartered Accountancy (CA) services from India, individuals can visit the website of the Institute of Chartered Accountants of India (ICAI) which has been set up a Committee for Export of CA Services from India (https://www.icai.org/new_post.html?post_id=970). The Committee has been entrusted with the following:

- To act as nodal committee for professional opportunities abroad for Indian CAs.
- Professional development of Indian Chartered Accountants to serve overseas, as also those serving abroad.
- To facilitate networking of Indian Chartered Accountants globally.
- To facilitate interactive forum for the members to address their issues abroad.
- Collaborating with ICAI Networks globally to harness potential opportunities and professional development.
- To take up and make representations to policy makers relating to global professional development and WTO.
- Protect and enlarge interests of the profession WTO/GATS.

Exporter may also like to refer to the Exim Bank Study on "India's Services Trade Liberalisation and Export Promotion: A Study for Government Policy Making" (https://www.eximbankindia.in/Assets/Dynamic/PDF/Publication-Resources/Special Publications/STRI%20Study_Main%20Report.pdf) which can provide information on global trends and policy initiatives.

Information on Export of Herbal Products from India

Department of Commerce has set up Export Promotion Councils for promoting exports of various product groups/ sectors. Pharmaceuticals Export Promotion Council (Pharmexcil) is mandated to promote exports of herbal exports.

Exporters can contact Pharmexcil which provides information about the following:

- Trade delegations/ buyer-seller meetings abroad
- Reverse buyer-seller meetings in India
- Assisting members to get their claims under Marketing Development Assistance/ Market Access Initiatives schemes of the Government of India
- Issue of Certificate of Origin
- Seminars/ interactive meetings on exports related issues
- Trade enquiries received from abroad

Information on Number of Days Permitted for Presentation of Documents for Letters of Credit

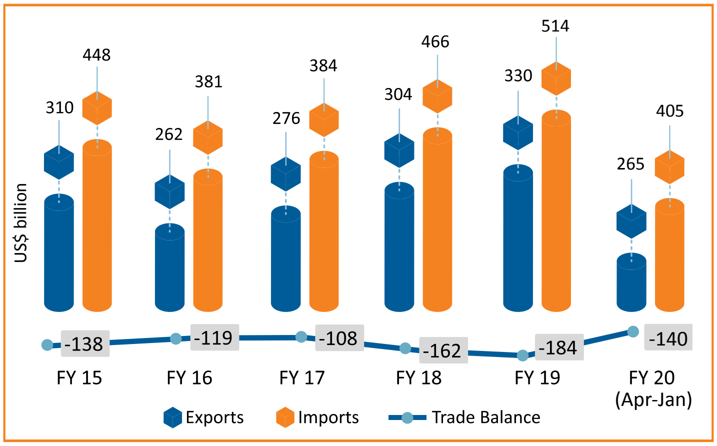
Letter of Credit (LC) is a conditional undertaking to pay a certain amount of money, given by an issuing bank, at the request of an applicant, to a beneficiary, upon presentation of specified documents. So, the presentation of documents specified is the essential condition for triggering the payment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

Information on Minimum Annual Export Turnover under SCR Policy

An exporter whose annual export turnover is more than ₹ 500 lakhs is eligible for SCR or Standard Policy. This is a Standard Whole Turnover Policy wherein all shipments by an exporter are required to be covered under the policy. A coverage of 90% is provided to exporters under the policy. For more information, please refer to the following website: https://www.ecgc.in/shipments-comprehensive-risks-policy-scr.

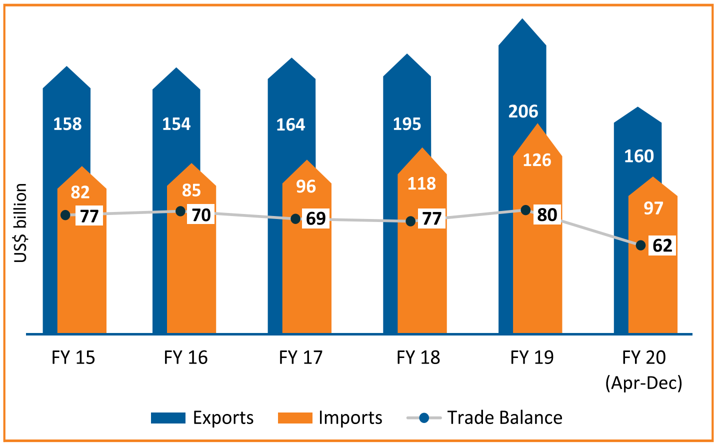
Snippets on Indian Economy

Merchandise Trade



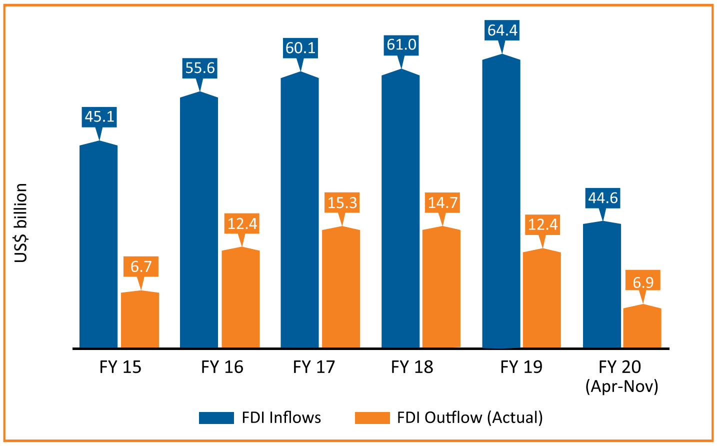
Source: Ministry of Commerce and Industry

Services Trade



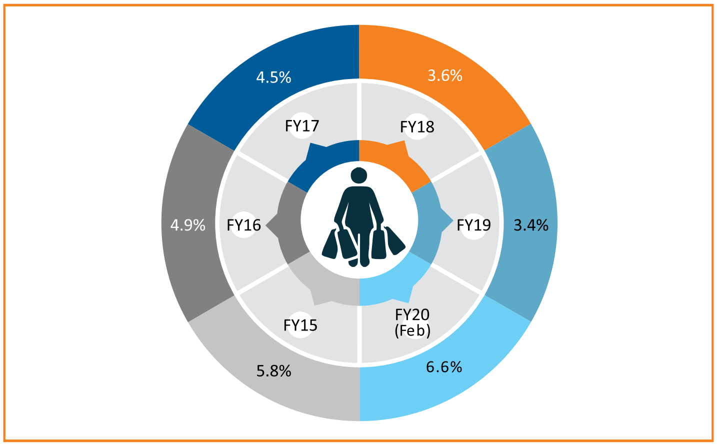
Source: RBI

Foreign Direct Investment (FDI) Flows



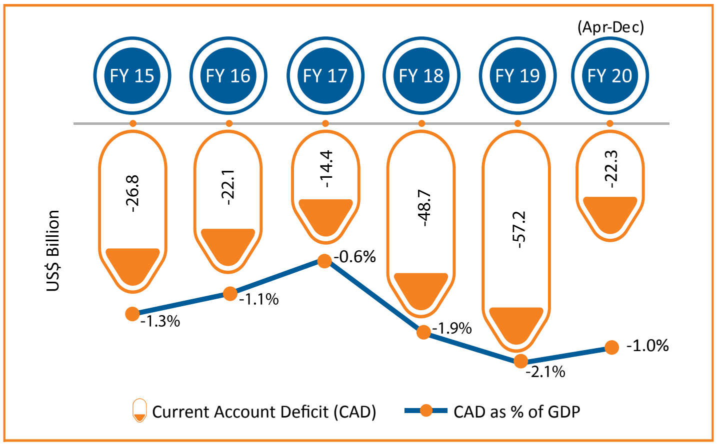
Source: RBI & Ministry of Finance, GOI

Consumer Price Inflation



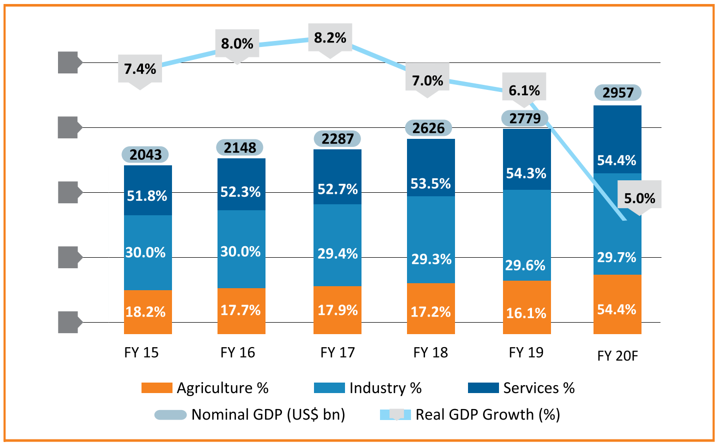
Source: Ministry of Statistics and Programme Implementation

Current Account Deficit (CAD)



Source: RBI

Sectoral Output



Source: IIF & MOSPI , GOI

Note: F – Forecast