

# EXIMIUS: EXPORT ADVANTAGE

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## Strengthening Collaborations to Bridge the Trade Finance Gap: A G20 Perspective

– **Jahanwi Singh**, Chief Manager  
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Trade finance refers to any type of financing which enables international trade. It encompasses credit, guarantees and insurance needed to facilitate the payment for merchandise or service on terms that satisfy both the exporter and the importer. The trade finance architecture currently comprises several conventional and non-conventional sources of financing including commercial banks, development banks, insurance companies, export credit agencies (ECAs), multilateral development banks (MDBs), venture capitalists, business angels, fin-techs, etc.

### Trends in Trade Finance

Most of the trade finance products have witnessed a slowdown in the recent period. SWIFT trade finance traffic, which is a good indicator of overall use of Letter of Credit (L/C), has declined since 2010, reaching its lowest levels in 2019, and dropping further in 2020. Correspondent banking activities have also decreased since the global financial crisis, exacerbating the challenges to trade finance in developing countries. In contrast, some trade finance products have witnessed growth over the recent years. For example, international factoring business has witnessed a nearly consistent increase during the period 2015-2021, recording a Compound Annual Growth Rate (CAGR) of 2.0% during the period. With the recovery of international trade in 2021, international factoring volumes registered an increase of 14.7% in 2021 to reach an estimated US\$ 706 billion. Likewise, global export credit and insurance volumes have also increased during 2017-2021, to reach US\$ 2.6 trillion in 2021.

### Challenges To Trade Finance

**Uncertain Global Dynamics:** The global trade finance industry has faced significant challenges due to the poly-crisis of geopolitical issues, trade wars, protectionism, and the COVID-19 pandemic. The rise in interest rates have further dampened sentiments of trade finance providers. According to an October 2022 survey by Accenture, nearly two-thirds of the borrower firms have been impacted by rising interest rates over the past 12 months. The impact has been notably higher in economies such as Thailand, India, Malaysia and Singapore. Besides, trade wars and protectionism also continue to remain a cause of concern for trade financiers. In a recent survey by the FCI, more than half of the respondents perceived that protectionism could further widen the trade finance gap. Clearly, the uncertain global dynamics continue to pose headwinds for trade finance.

**Anti-Money Laundering(AML)/ Know Your Customer (KYC) Requirement:** AML/KYC requirements was the biggest hindrance to trade finance, as per the 2021 ADB Survey on Trade Finance Gaps, Growth and Jobs. These requirements increase the cost of providing

loans as complying with them is time-consuming, complex, and occasionally difficult to navigate. Additionally, the regulations lead to greater rejection of applications and termination of correspondent banking relationships, limiting bank lending to small firms and developing countries.

The Financial Action Task Force (FATF)'s incident-based global standards for AML and Combating Financing of Terrorism (CFT) bring in immense subjectivity and ambiguity, and render banks vulnerable to large fines in case of incidents, raising the cost of cross-border exposure for banks and financial institutions (FIs). According to a 2022 report by Fenergo, regulatory levies to financial institutions on account of noncompliance have surged steadily since 2007, to reach an estimated US\$ 56.1 billion by 2022, on account of failures pertaining to AML, data privacy, and ESG compliance violations, among others. KYC norms and customer due diligence processes have also increased the costs for financial institutions, with KYC procedures making it costlier to bring new clients on-board. The increasing compliance costs have compelled banks to withdraw from several geographies and client segments, in a process which is referred as 'de-risking', leading to financial exclusion of businesses and markets.

**Impact of Basel Norms:** The impact of Basel requirement is another key challenge for trade finance. The 2017 revisions in Basel III are expected to result in banks allocating more risk and capital to many of their products, leading to capital shortfall. A recent report by the European Banking Authority, indicates that a full implementation of the Basel III reform could lead to a capital shortfall of nearly EUR 0.8 billion for Tier 1 risk-based capital requirements, for a sample of 160 banks in the region. The impact of capital shortfall in European banks is also likely to have spillover effects on cross-border lending to emerging market economies, due to the high concentration of cross-border banking in advanced economies including the EU. This is expected to further widen the trade finance gaps. Moreover, under the Basel norms, the leverage ratio requirement for L/Cs do not reflect the low riskiness of these trade finance instruments. This disincentivises the relatively lower-margin trade finance relative to other categories of assets for banks and financial institutions.

**MSME's Constrained Access to Trade Finance:** Supply of trade finance remains challenging for MSMEs, as they continue to face high rejection rates. Consequently, as per ADB, the global trade finance gap for MSMEs widened to an estimated US\$ 0.8 trillion in 2020, from an estimated US\$ 0.6 trillion in 2018. Some of the top reasons for higher rejection rate in case of MSMEs include, loan applications being totally unsuitable for support, lack of additional collateral, and COVID-19 related concerns, among others. Besides, there is also a lack of awareness among MSMEs, and they may not fully appreciate the importance banks place on KYC processes and the time banks need to analyse and evaluate trade finance applications. As per the ADB Survey, less than 1% of respondent firms believed KYC as a potential factor for rejections of their trade

finance proposals, whereas banks considered KYC concerns as the 5<sup>th</sup> most important reason for rejecting trade finance proposal.

**Uneven Adoption of Digital Technologies:** Although the pandemic has accelerated digitalisation, there is an uneven adoption of digital technologies in trade and trade finance. There are gaps in access to digitalisation between developed and developing economies, as well as between large corporations and MSMEs. One of the reasons for the varied degrees of adoption of digitalisation in trade documentation is the lack of legal framework. In order to promote cross-border trade by establishing legal recognition for electronic transferable records, the United Nations Committee on International Trade Law (UNCITRAL) established the Model Law on Electronic Transferable Records (MLETR) in 2017. However, only seven countries have so far adopted MLETR. Another major challenge faced by banks in adopting digital technologies is the high cost of technology.

## Way Ahead

**Establishing Harmonized KYC Standards:** The pandemic has accelerated the adoption of e-KYC globally, but the lack of uniformity in the due diligence process, with different countries adopting different e-KYC models, such as the 'Video-based Customer Identification Process' used by India and Germany, and the 'Identity Authentication and Matching Model' used by Hong Kong, Malaysia and the EU. Inconsistencies in the quality of information obtained from different e-KYC standards can be challenging for trade finance and trade. The G20 countries can collaborate to establish consistent KYC standards, which would help ease the screening and risk assessment requirements, and reduce administrative processes and costs. In addition to harmonising e-KYC standards, banks and financial institutions should also prioritise upgrading their legacy technology platforms to improve the compliance checks and reduce the risk of fraudulent transactions.

**Leveraging Digitalisation:** There are four potential areas of collaboration that the G20 can explore to leverage digitalisation for bridging trade finance gaps:

- I) **Adoption of the Legal Entity Identifier (LEI):** The LEI is a worldwide unique identifier, which helps improve interoperability in digital finance applications and payments by providing legal organisations with a global, digital identity. Wider adoption of the LEI can greatly improve the efficiency and transparency of cross-border financial transactions. The G20 could work together to further strengthen LEI as a global identification standard for financial transactions. The G20 could also collaborate to help reduce or eliminate the costs associated with obtaining the LEI for businesses.
- II) **Harmonising Reporting Standards:** The Financial Stability Board's 'Report on Market Fragmentation' (June 2019) noted that while there has been progress in harmonising standards

for data fields by standard-setters e.g. the LEI, more *efforts* are needed to implement standards to obtain comparability of information to allow data aggregation and to streamline reporting processes. Harmonised reporting standards would be important for the use of artificial intelligence and big data in trade finance transactions.

III) ***Adoption of MLETR:*** Harmonised legislative reforms and common standards, including from invoicing to financing products, from identity to security, are necessary enablers of digitalisation of trade and trade finance. The adoption of the UNCITRAL's MLETR or its equivalent legislation could foster an atmosphere that is smooth for the electronic interchange of documents and tackling documentation-related non-tariff barriers for ease of access to foreign markets. While the UK and the USA have introduced legislations that are MLETR-equivalent, other G20 countries are yet to adopt similar measures to harmonise digital documentation. The G20 could encourage the alignment of national laws and legal frameworks to the MLETR, consistent with other international standards. The alignment should address documents of transport, bills of lading, bills of exchange, promissory notes, and warehouse receipts, among others.

IV) ***Bridging the Digital Divide:*** Policies that lower barriers to broadband deployment, simplify the rights of way application procedure, and help communication operators make investments more easily and affordably, would be essential to bridge the digital divide between developed and developing countries. The G20 as well as multilateral institutions should drive investments to strengthen digital infrastructure. The G20 countries would also need to significantly enhance coordination of existing trade-related capacity-building programmes to bridge digital skill gaps, including in the financial services sector.

***Collaboration among Development Finance Institutions:***

Collaboration among MDBs, ECAs and national DFIs for co-financing/ parallel financing would be important to meet the financing needs for development projects in partner countries, and create project export opportunities for companies. The G20 ECAs could enter into co-financing arrangement among themselves, with support from their governments for aligning the different funding structures and cost of fund among their DFIs. These institutions could also collaborate for information sharing, creation of bankable projects through initiatives such as project preparation facilities, and creation of liquidity pools to enhance availability of adequate funds for SMEs, new exporters and firms in smaller geographies during times of tighter financial conditions. Besides, the G20 can also consider the creation of a new global liquidity insurance mechanism to fill the gap in systematic provision of foreign exchange liquidity among a broader set of countries, to help create a more robust and resilient global financial system.

***Alternative Trade Financing:*** Going forward, the role of fin-techs and alternative finance providers will be crucial in bridging the trade finance gaps. One area where such collaboration can be fostered is supply chain financing (SCF). SCF solutions provided by fintechs can be an alternative to bank-intermediated financing. Fintechs can also be beneficial for bridging the financing gap for SMEs, as they can utilise the technology platforms of fintechs to sell their trade receivables. However, financial institutions in many emerging economies find it difficult to offer the SCF products because of lack of financial infrastructure, technological capability, resources, and awareness. To that end, MDBs and DFIs could develop and operate multi-funder, blended finance platforms to incentivise the participation in SCF of lenders who may otherwise be unable or unwilling to develop their own SCF program. Besides, these institutions could also initiate dialogue with regulators and policy makers to develop an enabling framework for SCF, and advise and support commercial banks in developing new products. DFIs of several G20 countries like Mexico and Argentina, are already undertaking SCF-related interventions in collaboration with the private sector.

***Trade Finance Facility:*** National DFIs and ECAs from developing countries, with support from MDBs can explore the prospects for a trade finance facility to enhance the access to trade finance by companies and banks from participating countries. These facilities can be established at the regional level, and can provide non-funded guarantee to enhance the international confirming banks' appetite for dealing with local issuing banks by substitution of risk from the local bank to the facility. The facility can also extend trade finance loans, structured around a company's trade cycle period. The facility can also provide training and capacity building support to local banks. Further, a subsidy can be provided by the respective Governments to cover the cost of compliances which may be associated with on-boarding of banks. Such dedicated trade finance facilities can be formed through cooperation amongst the G20 countries. The facility will be especially beneficial in case of countries that have seen a precipitous decline in correspondent banking relationships.

***Mitigating Data Gap in Trade Finance:*** Currently, there is not a single, comprehensive source for data on international trade financing, though information at an aggregate level is periodically published by major market participants. There remains considerable scope for improvement in availability of consistent and uniform trade finance data. Such data would be crucial for policymaking, and can also offer essential insights to support and facilitate early warning analysis of potential liquidity crises. Collaborative efforts at the national and international levels are needed to create timely, official trade finance statistics. The G20 countries could collaborate for promoting compilation and research on trade finance data, to monitor the actual level of trade finance, as also improve trade finance policy design and operation for more inclusiveness. ■

## Iron and Steel Industry: Changing Trends

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Steel has become one of the most widely used materials across the global industries. Steel is significantly dependent on iron ore, which is mined in about 50 countries and almost 98% of global iron ore is used in steelmaking.

### Global Scenario: Iron and Steel

The world's crude iron ore reserves have fluctuated between 170 and 190 billion metric tons (BT) over the past decade. The average iron content of the total iron ore reserves in the world has been in the range of 47%-49%. With respect to the countries, Australia accounts for over 28% of the global crude iron ore reserves, followed by Brazil (18.9%), and Russia (13.9%). India's reserves of crude ore are around 5.5 BT with a global share of 3.1%, which is the seventh highest in the world.

For steel, the global crude steel production increased from 1562 MT in 2012 to 1951 MT in 2021, recording an AAGR of 2.5%. A major chunk of the global crude steel production comes from China which has a share of almost 53%. India is second in rank with a share of over 6%. As compared to a decade ago, China's share has increased by almost 7 percentage points in 2021.

### Indian Scenario: Iron and Steel

India has a highly developed steel manufacturing sector, capable of manufacturing crude steel to value added steel products. Being one of the core industries, steel contributes to slightly more than 2% of India's GDP.

India's crude steel production was registered at 120 MT in FY 22, up from 78.4 MT, a decade ago. The Indian steel industry has registered an impressive performance by growing at an average of 5% every year, during FY 13 to FY 22.

In terms of iron ore production, India reached 204.5 MT in FY 21, up from 168.6 MT in FY 12, thereby recording an AAGR of 3.4%. The production trends in iron ore have been erratic during the last decade, due to reasons such as mining bans in Goa and Karnataka.

Odisha remains the largest producer of iron ore in India with a share of over 51% in FY 21 (from 40% in FY 12); followed by Chhattisgarh (18.1%), and Karnataka (16.9%).

### Trade in Iron and Steel

#### *Iron Ores and Concentrates (HS 2601)*

The global exports of iron ore and concentrates were registered at over US\$ 218 billion in 2021, up from US\$ 128 billion in 2012 (AAGR of 10%). The exports are heavily concentrated with over

50% of the exports coming from Australia. However, the import demand is even more concentrated with China importing 70% of the global iron ore and concentrates.

India commands surplus in the trade of iron ore. The country's exports were recorded at over US\$ 4 billion in 2021 with imports being close to US\$ 0.4 billion. During the last decade, India registered a trade deficit in only 2015 as there were various bans and production caps in states such as Karnataka and Goa. India's 80% exports went to China in 2021 because of the size of the China's steel industry.

#### *Iron and Steel (HS 72)*

The global exports of iron and steel have grown from US\$ 425.9 billion in 2012 to US\$ 557.5 billion in 2021 (AAGR of 5.7%). China, Japan, Germany, Russia, and South Korea have remained the major exporters.

India's exports of iron and steel have registered an impressive growth during the last decade, increasing from US\$ 7.7 billion in 2012 to US\$ 21.2 billion (AAGR of 18%). Imports grew at a much slower pace of 1.7%. India's share in the global exports of iron and steel increased from 1.8% in 2012 to 3.8% in 2021. One-fifth of India's imports in 2021 were from South Korea vis-à-vis South Korea's 12% share in 2012, due to the FTA between India and South Korea.

#### *Articles of Iron or Steel (HS 73)*

The global exports of articles of iron or steel (HS 73, hereafter) have grown from US\$ 306.1 billion in 2012 to US\$ 359 billion in 2021 (AAGR of 2.3%). The top five exporters contribute to half of the global exports with China alone contributing to more than 25% of the global exports.

India has consistently maintained a surplus in the trade of HS 73. India majorly relies on China (34%) for the imports of HS 73, while almost 30% of India's exports of HS 73 go to the USA. The biggest gainer in India's import sources of HS 73 has been Vietnam whose share increased from 0.4% in 2012 to 5.1% in 2021.

### Policy Changes in the Industry

To protect the domestic steel industry, an export levy on iron ore lumps (10%), fines (5%), and pellets (10%) was implemented in FY 10. In the next fiscal year, the export tariff on iron ore lumps, pellets, and fines was increased to 20% across all grades. After making various modification in the rates during the next decade, the GOI hiked the export duty on iron ore lumps and

finer to 50% and the same on pellets was increased to 45% in FY 23. In November 2022, the GOI withdrew the export duty on iron ores lumps & fines below 58% Fe content, and iron ore pellets. For the exports of iron ore lumps and fines > 58% Fe, duty was set at 30%. Further, there have been state specific policy changes like the mining caps and bans in Karnataka and Goa.

An important policy change has been the introduction of MMDR (Mines and Minerals Development and Regulation) Act, 2015. Under the MMDR Act, 2015, the earlier process of Reconnaissance Permits (RPs) on first come first serve basis was replaced with non-exclusive RPs. Also, under the amendments introduced in 2021, captive mines could sell up to 50% of the production to external buyers.

It may be noted that currently the steel industry is being driven by the National Steel Policy, 2017 which targets crude steel capacity of 300 MTPA by 2030-31. The policy also projects per capita consumption of the finished steel to reach 158 kg by 2030-31, from the current 61 kg.

## Challenges and Strategy

### *Securing Coking Coal Supply*

India's proven reserves of anthracite and bituminous are 106 BT and of sub-bituminous and lignite are 5.1 BT. However, under the category of 'anthracite and bituminous', most of the reserves are of bituminous in India. Coking coal contributes around 40-45% of the steel production cost. India's import dependence for coking coal is around 85% and India targets to get this down to 65% by 2030-31.

The first step to secure the raw materials such as coking coal would be to diversify the import sources. Currently, India is heavily dependent on Australia, with almost 68% of India's coking coal imports coming from Australia.

India should also focus more on the mining and the washing technology if it wants to reduce the import dependence. Further, mining exploration can also be helpful in finding more coking coal reserves, which could be low in ash content. Overall, investing in technology could be a game changer and could ultimately reduce the import dependence.

### *Enhancing Exports*

A well laid out export strategy for the steel products can be a guiding force for the industry. Currently, steel exports are majorly dependent on either a fall in domestic demand or better international prices. Additionally, non-alloys dominate the finished steel exports from India. Out of the 15.5 MT of finished steel exports in FY 22, 13.9 MT were of non-alloys. As a result, the export realization in terms of value is lesser vis-à-vis products at the higher end of the steel value chain.

Further, the cost competitiveness of the steel sector also needs to be addressed. While domestically, the steel produced might be cost effective, the outbound steel for exports especially high-grade steel or special steel is not much export competitive. Finally, a stable policy environment could be one of the most important factors in determining the direction of the exports. Policy decisions such as export duty on steel could negatively impact the steel exports.

### *Logistical Challenges*

Most of the steel plants in India are far from the ports, while being closer to places which supply raw materials. However, freight cost of railways in India is on the higher side due to cross subsidization of passenger travel. One of the important solutions is to revise the freight class under railways for iron ore. Currently, the iron and steel, including iron ore, both are under class 165. However, coal is under the class 145. Revising the freight class to 145 for iron ore and steel would attract lower freight rates and would make Indian steel even more competitive. It may be noted that in railways, higher the freight class, higher is the fare.

Further, consistent investing in the new logistics infrastructure will be an important step. This could involve strengthening and development of new ports, dedicated railway connectivity between ports and plants and upgrading it to increase the average speed, building new expressways, etc.

### *Integrating Industry 4.0 and Steel Industry*

Integrating the industry 4.0 practices in the steel manufacturing is important because this has the capability to create efficient steel plants and reduce the cost of production. Basically, IoT sensors can be used in the plants to collect the data and feed the data to the AI. This would allow the AI to adjust the temperature or air pressure on its own, after sufficient data has been generated. The AI technology will also reduce the human errors.

### *Moving Towards Greener Steel*

The iron and steel industry contributes to around 9-10% of the global carbon emissions. Globally, India is the second largest contributor to carbon emissions from steel with a share of 6.6%. One of the biggest steps in the direction of a green steel is the use of green hydrogen in the iron and steel industry. However, moving towards green steel will require policy efforts. For instance, even with the forecasted lower cost of production for green steel, the cost could be well above the blast furnace/basic oxygen furnace technique. Therefore, solutions should be explored where in green hydrogen can be blended with grey hydrogen. Further, the Government may also explore rolling out a PLI scheme specifically to produce green steel. ■

## India - Australia Trade Relations

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India and Australia GDP together account for US\$ 4.8 trillion of the world economy (5% of the world GDP) in 2021<sup>1</sup>. India and Australia are two of the most prominent economies in the Indo-Pacific region, with aligned interests and concerns.

### India's Merchandise Trade with Australia

The total trade between India and Australia doubled in 2021, registering a growth of 107% in imports and 97% in exports compared to 2020. In 2021, exports rose majorly from an increased demand for mineral oils and India exporting light petroleum distillates to Australia. On account of the disruptions caused by the pandemic, bilateral trade witnessed a reduction to US\$ 10.7 billion in 2020. While exports have increased from US\$ 3 billion in 2019 to US\$ 3.5 billion in 2020, imports have decreased from US\$ 10.6 billion to US\$ 7.3 billion during the same period.

### India's Merchandise Exports to Australia

India-Australia trade relations have fared well after the coronavirus pandemic with the total trade increasing to US\$ 22 billion in 2021, increasing by 106% in comparison to that in 2020. In 2021, Australia stands as the 17<sup>th</sup> largest export destination of India, with a share of 1.8% in India's total exports.

India's exports to Australia have traditionally been dominated by mineral fuels and oils which constituted almost half of the total exports from India to Australia in 2021. This was followed by natural or cultured pearls and stones (accounting for 5.3% of India's total exports to Australia), pharmaceutical products (5%), machinery and mechanical appliances (3.5%), articles of iron or steel (3.2%) and electrical machinery and equipment (2.8%), among others.

### India's Merchandise Imports from Australia

In 2021, Australia stands as 11<sup>th</sup> largest import source for India, with a share of 2.6% in India's total imports. In product terms, mineral fuels and oils (HS-27) was the largest imported commodity with a massive share of 75.6% in India's total imports from Australia in 2021. Under HS-27 at 6-digit level, the highest imported commodity is coal with imports amounting to US\$ 11.1 billion in 2021. The imports under the product category have increased from US\$ 4.7 billion in 2016 to US\$ 11.4 billion in 2021. Other important imports include natural or cultured pearls or stones (7.6% of India's total imports from Australia), ores, slag and ash (5.3%) and inorganic chemicals (2.9%).

### Present Barrier in India-Australia Trade

Since AI-EFTA came into force recently on December 29<sup>th</sup>, 2022, the effectively applied tariff on Australia is the same as the MFN tariffs.

### Tariff on India's Imports from Australia

It is the effectively applied tariff that the Australian exporters face while exporting to India. There are 159 categories of products (at 6-digit HS code) that has effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 286.6 million in 2021, and this corresponds to meagre 1.9% of the total imports of India from Australia in 2021. There are 25 product categories under the 1%-0% effectively applied tariff rate, which corresponds to highest 80.7% of the total imports in 2021, amounting to US\$ 12.2 billion. There are 1,118 product categories under the 3% - 15% effectively applied tariff rate, which corresponds to 16.3% of the total imports in 2021, amounting to US\$ 2.5 billion.

So cumulatively, 98.9% of Indian imports from Australia faces effectively applied tariff rate of less than or equal to 15% when exported to India. 246 product categories face effectively applied tariff ranging between 15% - 150% with the total import share of 1.1% in 2021. There are 13 product categories at HS-6-digit level majorly belonging to beverages (HS-22) and automobiles (HS-87) with an effectively applied tariff over 100%.

### Tariff on Australia's Imports from India

Australia, being a developed region, has low MFN tariffs, thus promoting free and easy trade with its partners. In comparison to India, the effectively applied tariff is low in the case of Australia, with it being a developed country. There are 1,046 categories of products (at 6-digit HS code), imports for which amounted to US\$ 3.8 billion in 2021, on which Australia imposes the effectively applied tariff of 0%. These products constituted more than half (59.6%) of Australia's imports from India in 2021. There are 189 product categories with imports amounting to US\$ 425 million under the 1%-3% effectively applied tariff, which corresponded to 6.7% of Australia's imports from India in 2021. Subsequently, there are 1,588 product categories with Australia's imports from India amounting to US\$ 2.1 billion, facing effectively applied tariff between 3% to 5%.

### Non-Tariff Measures Imposed by India

Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP), WTO, as of June 2022, India has imposed

<sup>1</sup> World Economic Outlook, October 2022

1,029 NTMs towards the WTO members (including Australia), as well as bilaterally imposed by India on Australia. Out of the 1,029 NTMs, 362 were put into force and 667 initiated<sup>2</sup>. Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT) are among the most widely used NTMs, with 276 SPS (32 in force and 244 initiated) and 273 TBT (7 in force and 266 initiated) in place. Anti-dumping (AD) measures have also been adopted by India, followed by protection through quantitative restrictions (QR), countervailing measures (CV), State Trading Enterprises (STE), safeguard (SG), and tariff-rate quota (TRQ) measures as of June 2022.

### ***Non-Tariff Measures Imposed by Australia***

As of June 2022, Australia has 1,046 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by Australia. Among the 1,046 NTMs, 326 were put into force and 720 were initiated. Australia's import NTMs are mostly technical measures, referring to technical regulations and procedures for assessing conformity with technical regulations and standards. SPS and TBT measures are among the mostly used NTMs, with 514 SPS and 239 TBT measures in place. Other than these, Australia has also adopted ADP, CV, QR, TRQ, STE and Export Subsidies (XS) measure under NTMs.

### **India's Services Trade with Australia**

Both India and Australia are major services trading countries globally. While Australia is the 28<sup>th</sup> largest services exporter globally in 2021, India is the 8<sup>th</sup> largest services exporter. In terms of imports, Australia is the 30<sup>th</sup> largest global services importer, while India stood at 10<sup>th</sup> position in 2021.

India holds strong services trade relation with Australia. India is 3<sup>rd</sup> largest export destination, with a 9.6% share in Australia's global services exports and the 9<sup>th</sup> largest import supplier, with a 3.5% share in Australia's global services imports in 2020.

Australia's total services trade with India increased from US\$ 4.1 billion in 2010 to US\$ 6.1 billion in 2020. However, due to the pandemic and related uncertainty, Australia's services trade with India fell by 15.2% in 2020 from 2019 where it was at its peak at US\$ 7.2 billion. During 2010-2020, Australia has constantly maintained a trade surplus with India which stood at US\$ 3.4 billion in 2020.

<sup>2</sup> Initiation date is the date when the measure in preparation is made known to other WTO members; in SPS and TBT it is then the date when the measure is distributed to other members through Documents Online System. In AD, CV, and SG, the date of initiation of investigation is also the date when the affected member is notified of initiation. In agricultural NTMs, initiation is not applicable. In force is when the measure is put in force, in case of Antidumping, Countervailing, and Safeguards measures; while it may or may not be notified for SPS and TBT.

### ***Australia's Services Exports to India***

India is the third largest services exports destination for Australia in 2020. The services exports of Australia to India have increased steadily over the last decade, from US\$ 3.3 billion in 2010 to US\$ 4.8 billion in 2020. The year 2019 reported the highest level of services exports to India from Australia (US\$ 5.3 billion) during the same period. However, exports fell by 9.4% in a single year during 2019-2020.

With a share of 92.5%, travel accounted for the single largest share in Australia's total services exports to India in 2020. Other exports from Australia includes personal, cultural, and recreational services and telecommunication, information and computer services.

### ***Australia's Services Imports from India***

In 2020, India stood as 9<sup>th</sup> largest services supplier to Australia with the share of 3.5% in Australia's total services imports. During 2010-2020, the total services imports from India have increased from US\$ 796 million in 2010 to US\$ 1.4 billion in 2020. Australia's services imports from India reached its peak in 2019 at US\$ 1.9 billion. Services including contact intensive sectors were severely impacted due to pandemic, and thus the imports from India fell by almost 26.3% alone in one year between 2019 and 2020.

Australia's total services imports from India consist mainly of the commercial services with negligible share of government services. Telecommunications, computer and information services make 38% Australia's services imports from India. This was followed by other business services and travel, constituting 30.5% and 24.2% of the total services imports from India respectively in 2020.

### **Australia-India Economic Cooperation and Trade Agreement**

India and Australia signed ECTA agreement in April 2022. The agreement entered into force on December 29, 2022. AI-ECTA is a landmark agreement for India, given the size of Australian market and recent trade enhancement between both the countries.

### ***Tariff Reduction Offered by India on Australian Imports***

There are 1,595 products at 6-digit HS-code which have been excluded from any commitment of reduction or elimination of customs duties. This corresponds to US\$ 1.7 billion imports of India from Australia in 2021, amounting to 11.2% of total import basket. Under the excluded category, leading import item is gold in unwrought forms (HS-710812) which faces 12.5% of tariff with imports amounting to US\$ 1.1 billion in 2021.

There are 1,590 product categories at 6-digit HS Code wherein customs duties on goods originating from Australia, classified under the tariff lines will be reduced or eliminated under equal annual instalments over 3, 5, 7 or 10 years. These products cumulatively account for 2.1% of total imports in 2021 amounting US\$ 320 million.

There are 2,196 product lines at 6-digit HS Code for which duties shall be eliminated, as from the date of entry into force of the AI-EFTA. Imports under this category amounted to US\$ 12.9 billion with a massive share of 85.3% in India's total imports from Australia. In 2021, major imports under the 'elimination at force' category is coking coal (HS-270119) for which tariff charged is 1% with imports amounting to US\$ 11.1 billion, copper ores and concentrates (HS-260300) facing tariff of 2.5% currently, with imports of US\$ 504.4 million and alumina, calcined (HS-281820) currently facing tariff of 6.25% with imports of US\$ 400.7 million.

#### ***Tariff Reduction Offered by Australia on Indian Imports***

India has secured lucrative concessions from Australia regarding duty eliminations under the AI-EFTA. Under the agreement, duties on 100% tariff lines are to be eliminated by Australia over 5 years. At 6-digit HS Code, there are 2,771 product categories for which tariffs will be eliminated on the date AI-EFTA enters into force. These products account for 97.4% of Australia's total imports from India, amounting to US\$ 6.2 billion in 2021.

Under the products for which tariffs will be eliminated on the date of agreement enforcement, the largest imported commodity is petroleum oils and oils obtained from bituminous minerals, preparations (HS- 271000), for which imports amounted to US\$ 2.3 billion. Other major imports under 'elimination at force' category are medicaments in dosage (HS- 300490), diamonds (jewellery) worked but not mounted or set (HS-710239) and jewellery and parts of precious metal except silver (HS- 711319), among others.

There are 113 lines of products at 8-digit HS Code for which Australia will phase out tariffs in five equal annual instalments beginning on the date of entry into force of the agreement. These products account for 2.6% of imports of Australia from India, amounting to US\$ 168.5 million. Top imports under 'phased elimination' category are balls, iron or steel, cast, for grinding mills (HS-732591), pipes, iron steel welded of diameter less than 406.4m (HS-730630), articles of iron or steel (HS-732690) and table kitchen articles, parts, stainless steel (HS -732393).

#### ***Australia's Commitments in Services***

Australia has undertaken GATS/ FTA plus commitment in services. Services sectors of India's interest have been

committed by Australia like Computer related services, Audio visual services, Other Business Services, R&D Services, Education services, Health Services, Professional services (Legal Services, Accounting, Taxation, Architectural Services, Engineering, Integrated Engineering, Urban Planning and landscape architectural services, Medical, dental and veterinary services, nursing services etc.), Environmental services, Financial services, Tourism & Travel related services, Transport Services etc. These commitments include

- Commercially meaningful market access commitments have been undertaken by Australia for cross border supply of services and for services delivered through commercial presence.
- Post study work visa up to 4 years for Indian students.
- Generous temporary entry and temporary stay commitments (up to 4 years) for Intra Corporate Transferees, Contractual Service Suppliers and Independent Executives.
- Quota of 1800 per year for qualified, professional Indian traditional chefs and yoga instructors entering as Contractual Service Suppliers
- Work & Holiday visa arrangement for young professionals

Australia has offered market access to Business Visitors (BV), Intra Corporate Transferees, Contractual Services Suppliers, Independent Executives and Installers and Servicers for various services sectors. Besides, commitments on entry, stay and work rights for spouses and dependents have also been undertaken by both India and Australia.

#### ***India's Commitments in Services***

Australia has offered 135 sub-sectors to India and India has made commitments in around 103 subsectors (GATS-36), with MFN in 31 sub sectors, broadly including 11 service categories of 'IT and Communication Services', 'Business Services', 'Construction and related engineering services', 'Distribution Services', 'Educational Services', 'Environmental Services', 'Financial Services', 'Health related and Social Services', 'Tourism and travel related Services', 'Recreational Cultural and Sporting Services' and 'Transport Services'.

Key areas of Australia's interest like Business Services, Financial Services, Education are being committed by India. India will transition to negative schedule approach in 6 years. Both countries have agreed to a detailed provisions to pursue mutual recognition of Professional Services and Other licensed/ regulated Occupations. ■

## Indian Chemical Industry: Exploring Growth Potential

– **Rahul Mazumdar**, Assistant General Manager  
**Sakshi Garg**, Deputy Manager

Chemical industry has been a critical component of the modern globalized world economy, converting raw materials like crude oil, natural gas, air, water, metals, and minerals into diverse ready-to-use products which are essential to our daily lives. Apart from producing a wide range of finished products like fertilizers, pesticides, LED lighting and other agrochemical products, the industry also produces key inputs for other manufacturing activities like synthetic fibres and plastics and water chemistry that benefit living standards of consumers around the world.

### Global Chemical Industry

During 2006 and 2021, the revenue of the global chemicals industry has more than doubled from US\$ 2.3 trillion to US\$ 4.7 trillion. China is the global leader in chemical manufacturing with a share of 44.6% in global sales of chemicals amounting to US\$ 1.767.0 billion in 2020. The European Union (US\$ 570.0 billion), the USA (US\$ 486.6 billion), Japan (US\$ 164.5 billion), South Korea (US\$ 116.5 billion), and India (US\$ 105.1 billion) are the other major players. It may be noted that after the 2008 financial crisis, chemical manufacturing in developing countries started picking up, leading to a global shift towards Asia as the world's chemicals manufacturing hub.

### Recent Trends in India

The Indian chemical industry has evolved from being a basic chemical producer to becoming an innovative industry. The 'chemical and chemical products' sector accounted for 1.4% of the total Gross Value Added and 9.6% of total manufacturing output in FY 2021. Notably, the industry is also a rich source of employment generation with MSMEs accounting for 25%-30% of the sector.

### Installed Capacity and Production of Major Chemicals

The installed capacity of major chemicals in India stood at 156 lakh tonnes in FY 2021 as against the production of 112.42 lakh tonnes. During FY 2021, almost 70% of the major chemicals produced in India were alkali chemicals. Organic chemicals had the second highest share in production at 17%,

followed by inorganic chemicals (9%), dyes and pigments (3%), and pesticides (2%). Other than inorganic chemicals, all other major chemical segments witnessed growth in production during FY 2017 to FY 2021.

### India's Trade in Chemical Products

Chemicals form an integral part of India's export basket, constituting a share of 8% in total exports in 2021. During the period 2017-2021, exports of chemicals registered a strong AAGR of 12.8%. However, India has remained a net importer of chemicals for a long time. Imports of chemicals have ballooned, recording an AAGR of 14.1% during 2017-21 and accounting for about 5% of India's import basket in 2021. Consequently, India's trade deficit in chemicals has burgeoned over the years.

India's exports of chemicals have increased from US\$ 20.4 billion in 2017 to US\$ 31.9 billion in 2021. Organic chemicals were the highest exported category among the group, with exports amounting to US\$ 21.2 billion in 2021. The exports registered a healthy AAGR of 12.7%. The other categories also witnessed strong export growth during the period. Exports of inorganic chemicals grew by an AAGR 13.3%, at US\$ 2.4 billion in 2021; tanning or dyeing extracts grew by an AAGR 9.9% at US\$ 3.8 billion; and with an AAGR of 17.2% exports of insecticides, rodenticides etc. were valued at US\$ 4.5 billion in 2021.

During the same period (2017-2021), India's imports of chemicals grew from US\$ 26.8 billion to US\$ 41.3 billion. Organic chemicals constituted the majority of imports (66%) at US\$ 27.2 billion, a rise of US\$ 9.3 billion from imports of US\$ 18 billion in 2017. Inorganic chemicals grew at the highest AAGR of 17.6%, with imports of US\$ 9.6 billion in 2021. The imports of tanning or dyeing extracts and insecticides, rodenticides etc. grew at an AAGR of 9.1% and 10.6%, with imports at US\$ 2.5 billion and US\$ 1.9 billion in 2021, respectively.

Overall, for the industry, trade deficit amounted to US\$ 9.4 billion in 2021, higher than the deficit of US\$ 6.4 billion

in 2017. The increase in trade deficit is largely attributed to the growing imports of inorganic chemicals, which led to the trade deficit increasing from US\$ 4 billion in 2017 to US\$ 7.2 billion in 2021. The deficit was mostly driven by China, Japan, Singapore, and South Korea. These trends indicate that growth in exports is not commensurate with the rising imports of chemicals. To promote self-reliance, the industry needs to focus on boosting domestic manufacturing and exports.

### **Exploring Chemical Industry's Growth Potential**

The chemical industry in India has contributed consistently towards value creation and has strong presence globally. The low per capita consumption and low penetration levels in the user industries represent huge untapped opportunity in the long term. Further, with growing trade deficit in chemicals, opportunities to substitute imports by developing technology and knowhow and operating at economies of scale arise.

#### **Explore New Markets**

The demand for chemicals is highly dynamic. Mature products in one region may be innovative products in another. It is thus important to focus on countries having the highest import growth in different segments of chemicals. For inorganic chemicals, the top growing markets are Poland, Vietnam, South Korea, Mexico, and Thailand. India's current exports to these markets form a paltry share in the global imports of the latter. For organic chemicals, there is potential for India to increase exports to Ireland, Turkey, Russia, Spain, and Belgium. In tanning or dyeing extracts, the lucrative markets are Vietnam, Belgium, Poland, the Netherlands, and China. In agrochemicals, while India's exports to high growth markets viz. USA and Brazil already account for a considerable share in their imports, further possibilities may be explored for boosting export to other important markets such as Australia, Canada and Russia.

#### **Facilitate Import Substitution Through Capacity Addition**

There is a need for import substitution through capacity additions particularly with reference to the rising chemical imports from China in the last decade. Furthermore, optimum utilization of existing capacity is also required. The capacity utilization rate of inorganic chemicals stands at 63%. Given that the segment has witnessed rising imports coupled with moderate export growth, present capacity needs to be optimally utilized. Capacity utilization in pesticides and dyes and pigments is also low.

### **Need for Greater Integration into the Global Value Chains (GVCs)**

While China has had high forward linkages (above 60%) for the last two decades for chemicals and pharmaceutical products, the same for India has stayed under 50%. Furthermore, India has been having increased dependence (backward linkage) on China for some critical inputs used by the chemical and pharmaceutical industry. During 2012-2021, while India's import of chemicals from the rest of the world increased at an AAGR of 8.3%, the imports from China grew at an AAGR of 11.8%, making up for about 35% of India's chemical imports in 2021. In order to reduce the import dependence and boost exports, greater focus should be laid on enhancing India's integration into the GVCs, enabling domestic manufacturers to specialize across various stages of production.

#### **Bolstering the R&D**

In the bulk products segment, the chemical industry should undertake process innovation with the objective of reduction in cost of production. In addition, the industry needs to invest in technological resources that would lead to specialized product development. To boost innovation, more dedicated regional clusters for chemical industry should be created and similarly, more universities focused on chemical engineering should be shortlisted to develop innovation hubs.

#### **Fund for SMEs in Chemical Industry**

With considerable market potential abroad, SMEs need to move up the value chain so as to reap the gains in overseas markets. A suitable fund may thus be constituted by the Government on the lines of the Technology Upgradation Fund as available to the textile industry, or provision of accelerated depreciation as available to the solar energy sector. The fund could also be utilized to access designs, patents, processes, and technology.

#### **Moving Towards Sustainability and Green Chemistry in India**

The goal of green chemistry is to create better and safer chemicals while identifying the safest and most efficient ways to manufacture them and to mitigate wastes. To accelerate the uptake of green chemistry, it is important to continue to build a comprehensive, ongoing understanding of green chemistry enablers, market drivers and obstacles. It is equally important to support conducive federal policies that increase the supply of and demand for green chemistry solutions besides addressing the problems related to funding and training. ■

## India Exim Bank Lines of Credit

Contributed by: **Lines of Credit Group**

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. Under the LOC extended with the support of Government of India, India Exim Bank reimburses 100% of contract value to the Indian exporters, upfront upon the shipment of goods with at least 75% of goods and services of the total contract value to be sourced from India. LOCs have enabled India to demonstrate project execution capabilities in the emerging markets. LOCs have helped to gather considerable momentum in the recent years, especially in the developing countries of Africa, Asia, Latin America, Oceania and the CIS. LOCs have helped to create the requisite political goodwill for India in the beneficiary countries besides promoting India's political, strategic and commercial interests. LOCs help project India's growing economic strength as well as its willingness to contribute to infrastructure development and capacity building in the recipient developing countries. LOCs also, help to export goods and services required in the markets of the recipient country, in which India does not have a presence. The Indian exporters can obtain payment of eligible value from India Exim Bank, without recourse to them, against negotiation of shipping documents/provision of services. Indian exporters realise full payment on shipment of goods, through India Exim Bank, without being exposed to risk on the buyer or the buyer's country.

The LOCs are extended to sovereign governments or their nominated agencies, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Bank as on March 22, 2023, has 271 Lines of Credit, covering over 62 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US\$ 27.98 billion, available for

financing exports from India. LOCs are thus an effective instrument for promoting and facilitating India's exports of projects, goods and services.

India Exim Bank, with the support of Government of India, has signed one LOC, as highlights below, during the period January-March 2023:

A LOC of US\$ 2.63 million was extended to the Banco Exterior de Cuba [BEC] - an agency nominated by the Government of Cuba, towards restructuring the overdues under the LOCs as on December 31, 2021.

- With the signing of the above LOC, India Exim Bank, till date, has extended 7 Lines of Credit to BEC with the support of the Government of India, taking the total value of LOCs extended to US\$ 349.69 million. Projects covered under the LOCs extended to Cuba, includes Bulk Blending Fertilizer Plant, Modernization of an Injectable products plant, Setting up a 51MW wind energy, Setting up of a 50 MW Co-generation power plant, Installation of 75MWp Photovoltaic Solar Parks, Purchase of Rice from India. Out of the above, one project 'Bulk Blending Fertilizer Plant in Cuba' of US\$ 2.71 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 LOC 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 New Age Fire Fighting Company Ltd. and Ministry of Local Government & Disaster Risk Management, Government of Mauritius included under the LOC on October 26, 2020.

The scope of the Project includes Supply, Testing and Commissioning of 20 Fire Fighting and Rescue Vehicles including 3 water/foam Tenders.

The total cost of the Project- **US\$ 6,432,434**

Project was successfully completed on **September 08, 2022.** ■

## Quarter That Was

Contributed by: **Corporate Communications Group**

### **India Exim Bank Opens Indian Markets with a Benchmark-sized Sustainability Bond**

India Exim Bank has successfully issued a 10-year Sustainability Bond of US\$ 1 bn in the 144A/Reg-S format on January 10, 2023, under its Environmental Social Governance (ESG) Framework. This issuance makes India Exim Bank the first Indian issuer to open the markets for dollar and sustainability bond issuances in 2023. On the back of a strong start to the year and a constructive market, India Exim Bank capitalised on the strong demand, with an intraday execution and initial price guidance tightening of 30 bps to end at CT10+190 bps, inside of its secondaries and at par with the fair value point on the curve.

The net proceeds of Sustainability Bond will be used towards eligible projects under the Bank's ESG Framework that are aligned to select Green and Social categories in Framework, including renewable energy; clean transportation; access to essential services and basic infrastructure; affordable housing; and sustainable water and wastewater management. The annual reporting of the use of proceeds under the Sustainability Bond would be subject to External Verification.

India Exim Bank has consistently worked towards enhancing its ESG initiatives, along with transparency and communication with its stakeholders. The Bank has in place an ESG Framework, to issue green, social, or sustainable bond / loans. Further, the Bank also strengthened its Board-approved ESG Policy – 'Environment, Social and Governance Policy of the Bank for Sustainable Development / Responsible Financing' last year.

India Exim Bank has pioneered the market, in its commitment towards sustainable financing. India Exim Bank's 2033 Sustainability Bond effectively reopened the G3 market for Indian issuers after nine months since last issuance in March 2022. Further, the Bank had also launched India's first USD-denominated 5-year Reg-S Green Bond in March 2015. This was also the first benchmark-sized green bond out of Asia in that year, which matured in April 2020. In 2019, the Bank issued its first ever USD-denominated Socially Responsible Bond.

### **India Exim Bank collaborates with Kala Ghoda Arts Festival**

India Exim Bank partnered with the iconic annual Kala Ghoda Arts Festival of Mumbai that was held from 4-12 February this year. More than 60 artisans supported by India Exim Bank over a decade through capacity building, product placements and marketing advisory, exhibited their unique traditional art forms from India.

Artisans from Andhra Pradesh, Uttar Pradesh, West Bengal, Rajasthan, Maharashtra, Delhi, Karnataka, Kashmir, Tamil Nadu, Gujarat and Madhya Pradesh were present in the exhibition. Some of the participating artisans and weavers who exhibited their

diverse range of skills, talents and techniques are national and state awardees.

India Exim Bank assists artisans, master craftsmen, weavers, clusters, self-help groups, NGOs, grassroots and micro enterprises through capacity building, participation at trade fairs and exhibitions both in India and overseas and sourcing overseas buyers and distributors, under its Grassroots Initiatives and Development and Marketing Advisory Services programmes. The assistance under these programmes has enabled financial empowerment, employment generation and promotion of entrepreneurship among individual artisans, and ensuring the survival of century old traditional handicraft and handloom products and sustenance of the traditional heritage of Indian crafts.

### **India Exim Bank lists its maiden benchmark-sized 10-year Sustainability Bond at India INX, GIFT IFSC**

The Listing Ceremony for India Exim Bank's maiden US\$ 1 billion, 10-year Sustainability Bond under its Environmental Social Governance (ESG) Framework was held on March 03, 2023, at India INX, GIFT IFSC, by Ms. Harsha Bangari, Managing Director, and Shri Tarun Sharma, Chief Financial Officer of India Exim Bank, in the presence of Dr. Vivek Joshi, Secretary, Department of Financial Services, Ministry of Finance, Government of India, and Shri Injeti Srinivas, Chairperson, International Financial Services Centres Authority (IFSCA).

In terms of geographic distribution, the bonds were well distributed, with 39% in EMEA region, 32% in APAC and 29% from the USA. In terms of distribution, the bonds were distributed to high quality investors with around 70% distributed to fund and asset managers, 12% to Banks, and 10% to Sovereign Wealth Funds, followed by insurance/pension corporations, private banks and others. The annual reporting of the use of proceeds under the Sustainability Bond would be subject to External Verification.

### **Forecast of India's Export**

India Exim Bank forecasts India's total merchandise exports to consistently remain above US\$ 100 billion for the fourth consecutive quarter (January-March) of FY2023, amounting to US\$ 110.9 billion, while non-oil exports are forecast to amount to US\$ 87.7 bn during the same period. 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. Despite a contraction in exports during the last two quarters of the current financial year, India is expected to witness all-time record high merchandise exports of US\$ 447.3 billion during FY2023. Non-oil exports are forecast to clock US\$ 350.5 billion for the full year. ■

## Country Scan

Contributed by: **Research and Analysis Group**

### Maldives



The real GDP growth is expected to be in line with the recovery of tourism sector. Following growth of 11.5% in 2022, the economy is expected to record a growth of 7.7% in 2023.

Global prices dominate inflationary trends in the Maldives, as domestic consumption, driven mainly by tourism expenditure, is met mostly through imports. Although global prices are expected to moderate in 2023, they are likely to remain elevated by historic levels, exerting inflationary pressure, particularly for food, utilities and transport. Consumer price inflation is expected to be higher in 2023, with prices rising by an average of 3.8%. The rufiyaa is pegged to the US dollar, the midpoint of the exchange rate is US\$: Rf12.85 and the rate is permitted to fluctuate within a band of  $\pm 20\%$ . In recent years the currency has consistently grazed the weak edge of the band. Maldives is expected to draw down its external buffers in 2023 because of a high (and rising) import bill and continued support for the currency. The Rufiyaa exchange rate is expected to remain constant around Rf 15.39: US\$ 1 in 2023. The deficit is expected to narrow from an estimated 21.6% of GDP in 2022 to 15.8% of GDP in 2023, stemming from widening of services surplus.

### Cuba



Cuba's economic recovery is expected to proceed slowly in 2023 by 3.8%, having been set back by the Covid-19 pandemic, tighter US sanctions, monetary instability following currency adjustment in 2021, and the additional costs of repairs and recovery caused by the Matanzas oil depot fire and Hurricane Ian in 2022. The fiscal adjustment and a gradual recovery in supplies (amid a pick-up in economic growth) could eventually outweigh the fallout from the 2021 currency and price shock, taking official consumer price inflation to below 5% (and the actual rate to below 20%) by the end of 2027. Currency adjustment efforts have proven highly disruptive. It is too early to judge for certain whether or not this recent stabilisation signifies an end to peso weakening. Nevertheless, the black-market rate appears undervalued, the peso is expected to strengthen to CUP150:US\$1. Currency adjustment and the eventual unification of the dual exchange-rate system tend to stimulate export growth and import substitution, but the benefits are not expected to materialise until the second half of 2024-27. Goods exports is likely to take longer to strengthen, as a lack of financing could hamper producers' ability to lift output. Import spending could lag growth in earnings from exports of goods and services combined, engendering current-account surpluses later on.

### South Korea



South Korea has the fourth-largest economy in Asia and hosts a comprehensive, export-oriented manufacturing sector that excels in electronics, vehicles and petrochemicals. South Korea's economic growth is expected to moderate to 1.3% in 2023 from 2.6% in 2022 as both external and domestic demand continues to weaken. A downward cycle in global consumer electronics could spread to low-end semiconductors and panel screens in 2023, weighing further on the export-oriented manufacturing sector. However, China's reopening is likely to provide a moderate boost. The consumer price inflation is expected to grow by an average of 2.8% in 2023, declining from 5.1% in 2022 due to higher interest rates. On an average, the currency Won is expected to appreciate to W1,243: US\$1 in 2023, from W 1144: US\$1 in 2022 supported by a widening current-account surplus and ample foreign-exchange reserves. The current account is expected to record a surplus equivalent to 2.7% of GDP in 2023 as compared to 1.9% in 2022 as moderating global commodity prices lead to lower import bill.

### Saudi Arabia



Saudi Arabia emerged as the fastest growing economy among the G20 members in 2022. As a part of its long-term diversification plan – Vision 2030, the country is trying to diversify into non-petroleum exports. Following a real GDP expansion of 8.7% in 2022 mainly owing to elevated oil prices, economic growth of Saudi Arabia is expected to moderate to 2.8% in 2023. Stagnant average oil output as the kingdom abides by its OPEC+ agreed production quota and an increasingly restrictive monetary policy will be the constraining factors. Nevertheless, improvement in China's growth prospects, following the abrupt abandonment of its zero Covid policy, holds the promise of stronger demand in Saudi Arabia's main export market. Low inflation at 2.2% in 2023 is expected to help to sustain personal consumption, and the government's focus on economic diversification is likely to continue driving gross fixed investment. Economic growth is likely to also be driven by service-oriented sectors, in particular tourism, and by several huge infrastructure projects. The riyal's peg to the US dollar at SR3.75:US\$1, a rate that has been in place since 1986 would remain unchallenged backed by its large financial assets. The current-account surplus in 2023 narrowed to 6.5% of GDP, half of the current account surplus generated in 2022, due to the anticipated lower oil export revenues. ■

## Currency Currents

Contributed by: **Treasury and Accounts Group**

### Brazilian Real

**R** Brazil's economy contracted 0.2% in the fourth quarter of 2022, reeling from the lagged impact of a spike in consumer prices and steep interest rate hikes. The Central Bank of Brazil, in its February meeting, maintained the policy rate (Selic key interest rate) at 13.75% since its risk to inflationary scenario remain in both directions. Amid the Americana's accounting scandal, higher interest rates and worsening of credit may reduce investment and increase the risk of a recession that could let its Central Bank to change its balance of risks in the upcoming interest rate decisions.

Brazilian Real (BRL) weakened beyond its 200 Day Moving Average at about 5.21/ US\$ in the past few days and is now likely to retrace back toward that level. However, it has been relatively stable close to 5.20/ US\$ for months after a weak spell in the second quarter of 2022, defying concerns of market volatility in the upcoming October's presidential election.

The closing rate of US\$/BRL as on March 15, 2023, stood at 5.2882.

### Sri Lankan Rupee

**SLRs** Sri Lanka is currently experiencing one of the most critical moments in its history due to years of economic mismanagement, weak governance, and poor policy choices. Additionally, external factors such as the Covid-19 pandemic and the Russian invasion of Ukraine have added to the country's problems, resulting in its worst-ever crisis since Independence from the British in 1948.

The bankrupt nation grappled with soaring costs, depleted funds, and severe supply shortages for much of 2022 as it pursued a loan program with the IMF after a debt default in May last year. While waiting for relief, Sri Lanka repurposed funds, cut energy subsidies, increased taxes, and raised interest rates to the most since 2001 to 15.5%.

Sri Lanka Rupee had operated under a guidance peg, fixed exchange rate, of around 360 to the US dollar till February 2023. From March 07, 2023, the Central Bank has stopped the pre-announced guidance peg and is operating on ad-hoc pegs which fall under flexible exchange rate system where the bank would stabilise volatile movement by intervention. Further, after the relaxation of surrender rule which increased the dollar liquidity with the banks, the Sri Lankan Rupee has appreciated against USD to 305 and closed at 335 as on March 15, 2023.

### Japanese Yen

**¥** The Bank of Japan (BOJ) kept its ultra-easy monetary policy unchanged in its recent policy meeting. Further, it maintained its yield curve control policy and kept its commitment to purchase government bonds without a limit.

The yen's current rally is a massive turnaround from September when hedge funds were rushing to go short due to the widening yield gap between the hawkish Federal Reserve and dovish BOJ. That divergence helped push the currency down by almost 25% by the time it reached last year's low. The yen has now climbed more than 16% from a three-decade low of 151.95 per dollar set in October 2022. The recovery has been driven by government intervention to support the currency and the outlook for slowing US interest-rate hikes, which could push up bond yields and lure funds to the nation's assets.

The safe haven U.S. dollar and Japanese yen (JPY) found support recently from renewed fears of a global banking crisis, after contagion from the implosion of U.S.-based Silicon Valley Bank spread across the Atlantic to Swiss bank Credit Suisse. JPY being a safe-haven currency, has benefited from the banking crisis by about 4% and the pair US\$/JPY closed at 133.40 as on March 15, 2023.

### Omani Rial

**OR** Oman's economy is based on oil prices because it is one of the world's main oil producers. Oman's oil and gas industry makes up for about a third of the country's GDP and about 60% of the goods exported. Like other Gulf countries, Oman is benefiting from a surge in economic activity tied to higher oil prices.

Omani Rial (OMR) is the third highest valued currency unit in the world after the Kuwaiti dinar and the Bahraini dinar. The sultanate follows a fixed exchange-rate regime, and consequently its interest rate is closely aligned with US rates. As a result, the Central Bank of Oman's repo rate generally moves in tandem with the US Federal Reserve policy rate. Following the lead of the US Federal Reserve, Oman has raised its key policy rate to 5.25% in eight successive rate revisions in 2022 and 2023. The global economy has witnessed rising and sustained inflationary pressure and central banks around the world are attempting to address this pressure by hiking interest rates.

Standard & Poor Global Ratings upgraded Oman's credit rating to BB, from BB-, on improved fiscal performance, higher oil prices and lower public debt last November.

The closing rate of US\$/OMR as on March 15, 2023, stood at 0.38488. ■

## Exim Mitra

Contributed by: 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:

### **Information Regarding Registration and Membership Certificate (RCMC) and Packing Standards for Export of Kakhra (Diet Kakhra)**

RCMC is mandatory for getting any license/authorisations for import or export and for getting any benefits under FTP. Since khakra is a processed food, APEDA is the authority to issue RCMCs. One can check out other processed foods - miscellaneous preparation on the APEDA website. There are no specific packaging requirements for exporting khakra. To assure safety, one must pack items in appropriate consumer packages (primary packing) and then place those packages in seaworthy packaging (secondary packing), which will help the commodities resist the rigours of an ocean voyage and prevent spoilage enroute. One can get detailed advice on the most recent developments in the packaging industry as well as the necessary technical specifications by contacting the Indian Institute of Packaging.

### **Information on Merchandize Exports from India Scheme (MEIS) Reward**

Under chapter 3 of Foreign Trade Policy (FTP), there are schemes like MEIS & SEIS that provide benefits to exporters of certain goods or services. The objective is to reward the exporter to offset the infrastructural inefficiencies and other costs that the exporters face while exporting from India and to provide a level playing field for Indian exporters in international market. The eligibility for MEIS benefits is based on the type of item and the country of export which can be checked on DGFT website under important links or under appendix 3B of FTP. MEIS reward is a percentage of the total value of the export measured in FOB (Free on Board) terms that usually range between 2 to 5%. By FOB, the price of goods is measured at the time of loading at the domestic port and do not include loading, shipment, and insurance costs. The rewards are not in cash but in freely transferable duty credit scrips.

### **Whether Exporter of Multiple Items needs to get Registered with Various Export Promotion Councils (EPCs) and Boards or Registration with FIEO is Enough?**

There are 14 Export Promotion Councils (EPCs) in India which are the registering authorities for exporters and are guided by the Foreign Trade Policy 2009-14. Also, there are five statutory Commodity Boards (Tea, coffee, rubber, spices, and tobacco) in India. During RCMC application from the EPC/Board, an exporter must declare his main line of business. For e.g., if one is an exporter of spices, Certificate of Registration as an exporter of spices (CRES) issued by Spices Board shall be treated as RCMC and no other RCMC with EPCs needs to be applied. FIEO can issue the RCMC under its Multi products group category, if the export products for which registration is sought fall under at least two product groups covered by two different export promotion councils. However, Registration with the council concerned with his main line of business is compulsory in such cases. For multi-product exporters, not registered with any EPCs or where line of business is yet to be settled, then the exporter has an option to obtain RCMC from FIEO.

### **Details about Pre-Shipment Credit and its Functions**

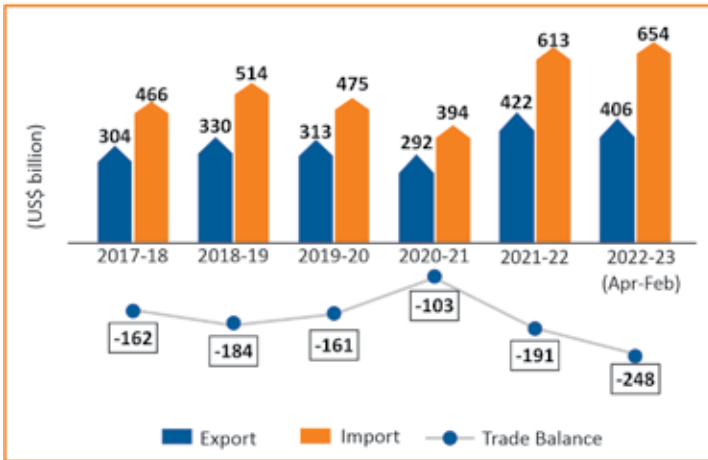
Pre shipment credit refers to any loan, advance, or other credit given by a bank to an exporter for financing the purchase, processing, manufacturing, or packing of goods prior to shipment. It also refers to working capital expenses for providing services on the basis of a letter of credit opened in his or another person's favour by an overseas buyer or a confirmed and irrevocable order for the export of goods/services from India or any other proof that an export order from India has been placed on the exporter or another individual, unless the bank's requirement that export orders or letters of credit be lodged there has been waived.

The period that a bank may take to grant a packing credit advance will typically depend on the specifics of each case, such as the time needed to procure, manufacture, or process (if necessary), and ship the relative goods/rendering of services. Banks primarily decide the period for which a packing credit advance may be given, having regard to the various relevant factors so that the period is sufficient to enable the exporter to ship the goods/render the services.

# Snippets on Indian Economy

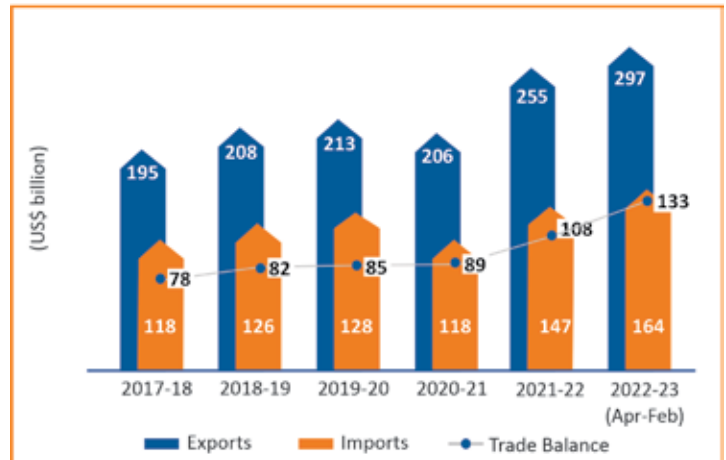
Contributed by: Research and Analysis Group

**Merchandise Trade**



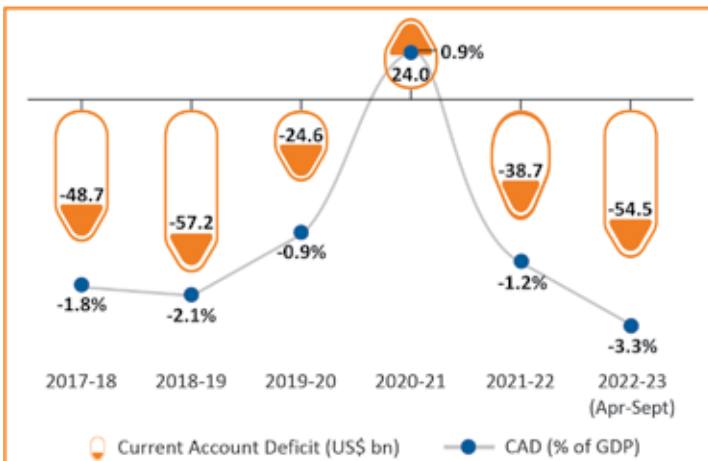
Source: Ministry of Commerce and Industry, GoI

**Services Trade**



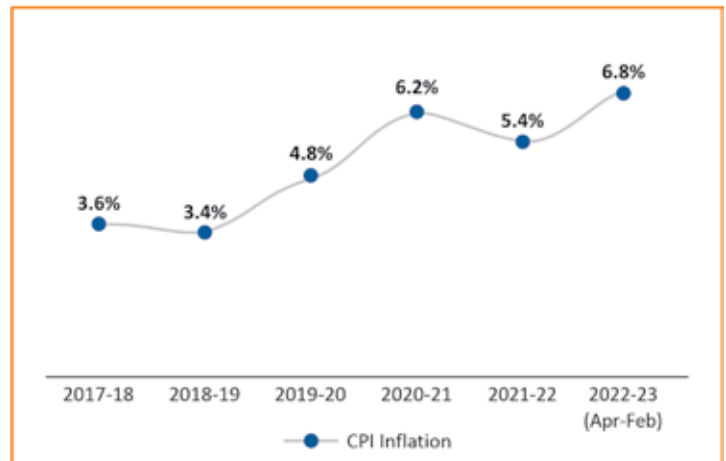
Source: RBI

**Current Account Deficit**



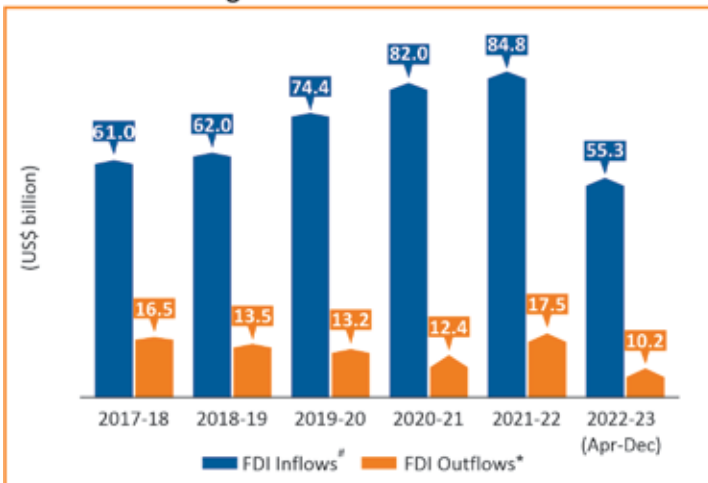
Source: RBI

**Consumer Price Inflation**



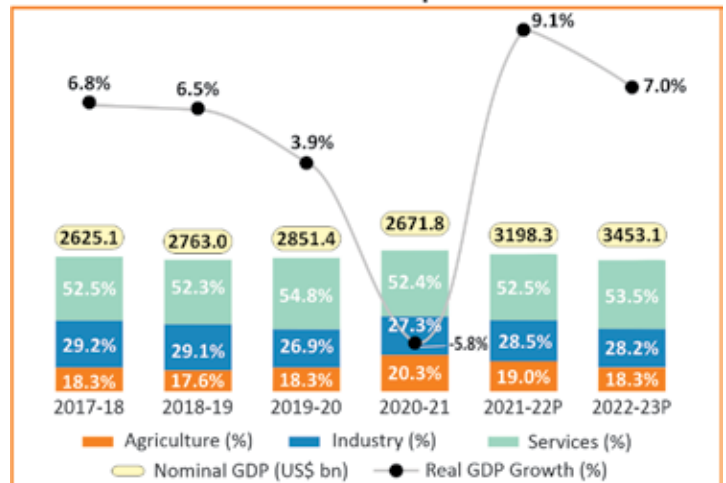
Source: Ministry of Statistics and Programme Implementation, GoI

**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