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Strategic Development of Ship Building Sector : Institutional Support System and Policy Framework in India and Select Countries

In line with the trends in global trade, the global shipbuilding industry witnessed a continued contraction during the period 2008 to 2012, with global shipbuilding orderbook position declining from 368 million gross tonnage (GT) in 2008 to touch a nadir of 160 million GT in 2012 **(Chart).** The industry in major shipbuilding nations, such as China, Korea, Japan, Philippines, Vietnam, and India witnessed this contraction.

The Big-3, viz. China, Korea, Japan, dominate the global shipbuilding industry, together accounting for as much as 87 per cent of the global industry in 2013. Other countries, such as Philippines, Brazil, and Vietnam, in recent years, have also emerged as important shipbuilding nations, reflecting the strong institutional and policy support mechanism by respective governments. In 2013, Philippines emerged as the 4th largest shipbuilder (up from the 8th position in 2006),and Brazil is now the 5th largest shipbuilder (up from the 12th position in 2006).

Signs of Rebound after Prolonged Contraction

However, reflecting the recent pickup in global trade witnessed in 2013, the global shipbuilding industry has also witnessed a rebound to touch 182.9 million GT in 2013, up from 160 million GT in 2012. All the major shipbuilding nations, except India, have also registered turnaround in the industry.

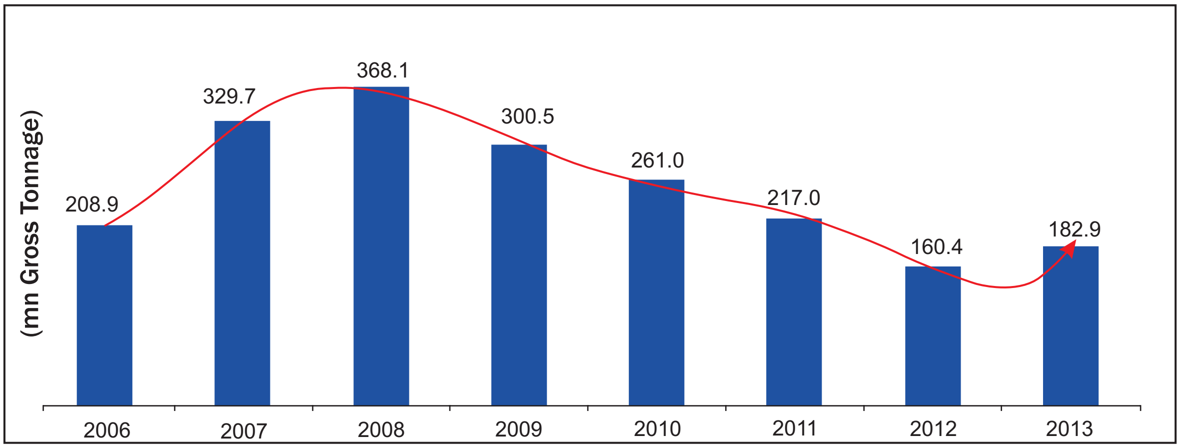
Indian Shipbuilding Industry & Global Ranking

India's shipbuilding witnessed a rise from 0.8 million GT in 2006 to reach 3.5 million GT in 2008, which was maintained at 3.4 million GT in 2009. However, the industry witnessed a steady decline thereafter to 1.1 million GT in 2013. As a result, the share of India in global shipbuilding that rose from a marginal 0.4 per cent in 2006 to touch 1.1 per cent in 2009, declined steadily there after to 0.6 per cent in 2013. Reflecting the sharp rise in India's orderbook position during 2006 to 2009, India's ranking amongst the major shipbuilders also improved **(Table).**

India's Global Capability in Exports of Ships

India ranks amongst the major global exporters of ships and boats. Reflecting India's potential, India's exports have witnessed a steady and sharp rise during the period 2002 to 2011, significantly increasing from a marginal US$ 56 million to US$ 7 billion during the period. Consequently, India's global ranking has also witnessed a sharp rise from the 22nd position in 2005, to the 10th position in 2008, and further to the 5th position in 2009. Reflecting its global export capability, India ranked as the 4th largest global exporter, accounting for 3.7 per cent of global exports during 2011. However, with the slump in global demand India's exports too moderated to US$ 4.1 billion in 2012 (2.6 per cent of global share and

Chart : Trends in Global Shipbuilding - Orderbook Position at year-end, 2006-2013



Source: Shipbuilding Statistics, 2014, by The Shipbuilders' Association of Japan, based on IHS Shipbuilding Statistics

Table: Global Shipbuilding - Orderbook at Year-End, 2006-2013 (% share in world GT)

Rank		2006		2008		2009		2010		2013
	World Total	100.0	World Total	100.0	World Total	100.0	World Total	100.0	World Total	100.0
1	S Korea	37.0	S Korea	37.4	China	37.0	China	39.5	China	39.9
2	Japan	27.3	China	33.7	S Korea	34.7	S Korea	34.3	S Korea	33.2
3	China	21.4	Japan	17.3	Japan	17.3	Japan	16.3	Japan	14.3
4	Germany	2.0	Philippines	1.6	Philippines	2.2	Philippines	2.7	Philippines	2.6
5	Taiwan	1.1	Vietnam	1.2	India	1.1	Brazil	0.9	Brazil	2.3
6	Vietnam	1.0	India	1.0	Vietnam	1.0	Vietnam	0.9	Taiwan	1.1
7	Italy	1.0	Germany	1.0	Brazil	0.7	India	0.9	Vietnam	1.1
8	Philippines	0.9	Romania	0.9	Taiwan	0.7	Taiwan	0.7	Romania	0.9
9	Romania	0.8	Brazil	0.7	Germany	0.7	Germany	0.6	US	0.7
10	India	0.4	Taiwan	0.7	Italy	0.7	Italy	0.5	Italy	0.6
11	US	0.3	Italy	0.5	Romania	0.6	Romania	0.4	India	0.6
12	Brazil	0.1	US	0.2	US	0.2	US	0.1	Germany	0.6

Source: Shipbuilding Statistics, 2014, by The Shipbuilders' Association of Japan, based on IHS Shipbuilding Statistics
Note: *Ship size - 100 Gross Tonnage (GT) & above*

ranked 5th), and further to US$ 3.6 billion in 2013(2.5 per cent of global share and ranked 7th).

Shipbuilding and Economic Development

The development of a successful shipbuilding sector has been pivotal to the rapid and robust economic development in most countries with long coastal boundaries. Shipbuilding has the potential to increase the contribution of the industry and the services sector to national GDP. The sector has an immense direct and indirect positive impact on most other leading industries such as steel, aluminium, electrical machinery and equipment etc., besides its huge dependence on infrastructure and services sectors in an economy. As a result of its multiplier effect on most manufacturing ancillary industries and on account of its large scale employment generation capability, the shipbuilding industry is also known as a mother industry. Most countries have laid immense emphasis on development of their shipbuilding sectors which has in a way also contributed to national economic development in such countries.

Institutional Support Systems and Policy Framework

In India, the major policy support mechanism for the shipbuilding industry has been the Shipbuilding Subsidy Scheme 2002, which provided a 30 per cent subsidy and extended to also cover private shipyards. However, the subsidy scheme was withdrawn in August 2007. Apart from the subsidy scheme, the Indian shipbuilding sector is subject to taxes and duties such as excise duty, customs duty, as well as value added tax. Recently, the Union Budget 2014-15 has highlighted that a comprehensive policy for promoting Indian shipbuilding would be announced in the current financial year.

In Brazil, the government has a special programme for financing the shipbuilding industry, which is funded by the Merchant Marine Fund (FMM) and operated by the Brazilian Development Bank (BNDES), as the main agent and lender. The FMM is mainly sustained by a tax on import and cabotage freight, called Freight Additional for Merchant Marine Renewal (AFRMM). Through FMM, ship owners finance shipyard production and could also avail highly favourable financing provided they place their orders in domestic shipyards. Development of the ship building sector in Brazil is essentially driven by the expansion plans of Petrobras, the state - owned oil company and its maritime transportation arm - Transpetro.

In the Philippines, the government actively supports this industry, under the Domestic Shipping Development Act 2004, through various incentives including tax exemption on imports of shipyard equipment and other capital equipment and spares, required for construction, expansion, upgrading, modernization of shipyards and facilities. Further, the industry has been accorded a "Priority Status", thereby giving the industry several investment incentives by the Board of Investment.

In Malaysia, the "Malaysian Shipbuilding and Ship Repair – Industry Strategic Plan (SBSR) 2020", announced in December 2011, has earmarked the milestones for the industry which include: capturing 2 per cent of the global shipbuilding market, as also capturing 80 per cent of the South China Sea offshore repair market. The incentives extended to the shipping and shipbuilding industry in Malaysia include: 70 per cent income tax exemption of shipping company, as well as income tax exemption of persons working on board on a Malaysian ship; and income tax exemption for 5 years for shipbuilding and ship repair. Bank Pembangunan Malaysia Berhad (BPMB), wholly owned by the government through the Ministry of Finance, is mandated as a development financial institution providing medium to long term financing to the maritime sector, along with infrastructure, technology, and oil & gas. Further, the government has also set up the Global Maritime Ventures Berhad (GMVB), as a subsidiary of BPMB, to accelerate the development of the country's maritime industry, and to develop the national shipping business sector through building strategic alliances with local partners.

In Vietnam, the shipbuilding industry is one of the priority sectors. Accordingly, the Government has extended a number of incentives to the industry in terms of: retention of corporate income tax and capital-use tax for re-investment; preferential corporate income tax; special incentives in industrial zones; protection to domestic shipbuilding industry; import tax exemption; and promoting joint ventures to facilitate technology transfer. The latest Master Plan has stressed on the imperatives of developing the country's shipbuilding industry, and the need to access modern technologies to enhance the efficiency of shipyards and supporting industries. Further, the Restructuring Scheme of 2010 has identified 3 major areas for the Vietnam Shipbuilding Industry Group (VINASHIN) to become the core of the shipbuilding and repair industry in Vietnam.

Broad Strategies and Recommendations

With the potential India possesses as a shipbuilding nation, and economic benefits of a robust shipbuilding industry, conducive policy framework and institutional support systems would go a long way in India's endeavours to emerge as a vibrant shipbuilding nation. Towards this end, countries such as Brazil, Philippines and Vietnam, among others, have put in place strong policy framework and support systems that have contributed significantly to these countries' emergence as vibrant and growing shipbuilding nations.

Learning from such country experiences would prove to be beneficial in development and expansion of India's own shipbuilding industry. Accordingly, broad strategy and recommendations in this direction could include, among others:

- ***Setting up of a Marine Fund and Support to Domestic Shipbuilding***

The Merchant Marine Fund (FMM) put in place by Brazil has often been highlighted as the success behind Brazil's emergence as a major shipbuilding nation. Brazil now ranks as the 5th largest shipbuilding nation in 2013 up from the 12th position in 2006. Financial support to the shipping and shipbuilding sector, under this fund, can be assessed from the rising trend in disbursements, which have risen from around US$ 130 million equivalent in 2001 to reach US$ 1.26 billion in 2011. Besides, support to domestic shipyards under Petrobras' expansion programmes, such as PROREFAM, EBN and PROMEF, with focus on shipbuilding by domestic shipyards have provided much needed impetus to the industry in Brazil.

- **According Strategic Industry Status**

In the Philippines, which has now emerged as the world's 4th largest shipbuilding nation, the Domestic Shipping Development Act 2004 has put in place supporting fiscal measures to the shipping and shipbuilding industry. Further, the government's thrust to the shipbuilding industry can be assessed from the country's Executive Order of 2006, which has extended “pioneer industry” status to the domestic shipbuilding industry, providing investment incentives under the Board of Investment's Investment Priority Plans (IIPs).

- ***Technology Upgradation through Joint Ventures***

An important measure to upgrade technology in the shipbuilding industry could be joint ventures with major shipbuilding companies/ shipyards. For instance, the Hyundai-Vinashin shipyard, a joint venture between VINASHIN of Vietnam and Hyundai Mipo Dockyard, is now rated among the most modern, as also one of the largest ship repairing yard in South East Asia.

- ***Specialized Marine Financing Institution and Marine Finance Scheme***

Setting up of a specialized financing institution / marine finance scheme could also provide the much needed boost to the shipbuilding industry. In Malaysia, in line with the country's Strategic Plan 2020 for the shipbuilding and ship repair industry, Bank Pembangunan Malaysia Berhad (BPMB) actively supports the shipbuilding industry through a marine finance scheme providing medium and long term financial support to domestic shipyards.

- ***Exploring Potential Demand from Overseas Markets***

An important strategy to provide a boost to India's shipbuilding activities as also India's exports could be matching India's export capability with demand existing for ships in emerging markets. A case in point would be exploring specific markets in Africa, which are major importers.

In this direction, an important strategy could be putting in place credit lines to identified potential markets in Africa, which would serve to enable such countries to increase imports from India, while also generating much needed assured orders for Indian shipyards. For instance, in the case of China, China Exim Bank has extended credit lines to shipping companies in Ethiopia, Brazil and Iran, to help generate construction and export orders for domestic shipyards in China.

India's Trade Relations with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV)

The adoption of "Look East Policy" by India in 1992 was an initiative towards developing extensive economic and strategic relations with the ASEAN nations (including Cambodia, Lao PDR, Myanmar, and Vietnam - CLMV). Since then India has progressed from a dialogue partner to the present status of a strategic partner. The economic and trade linkages which saw an expansion of trade volumes stand testimony to the intensified economic engagement. During the last ten years, India's total trade with the CLMV countries has grown from US$ 1.1 billion in 2004 to US$ 11.2 billion in 2013, more than a nine-fold increase **(Chart)**. Trade balance is in India's favour, with a surplus amounting to US$ 2.6 billion in 2013. Among the CMLV countries, India has a trade deficit with Myanmar, and Lao PDR. India's exports to the CLMV countries comprise pharmaceuticals; machinery and instruments; vehicles other than railway; plastics and articles thereof and cotton. On the other hand, India's key imports from the region include rubber and articles; wood and articles of wood; ores, slag and ash; mineral fuels, oils and distillation products and coffee, tea and spices.

India's bilateral trade with Cambodia has been on a rising trend, increasing more than eight-fold from US$ 17 million in 2004 to US$ 149.6 million in 2013, buoyed by increasing exports. In 2013, Cambodia accounted for 0.2 per cent of India's total trade with ASEAN, 0.4 per cent of India's exports to ASEAN and had a negligible share in India's imports from the ASEAN region. Structurally, India enjoys a trade surplus with Cambodia.

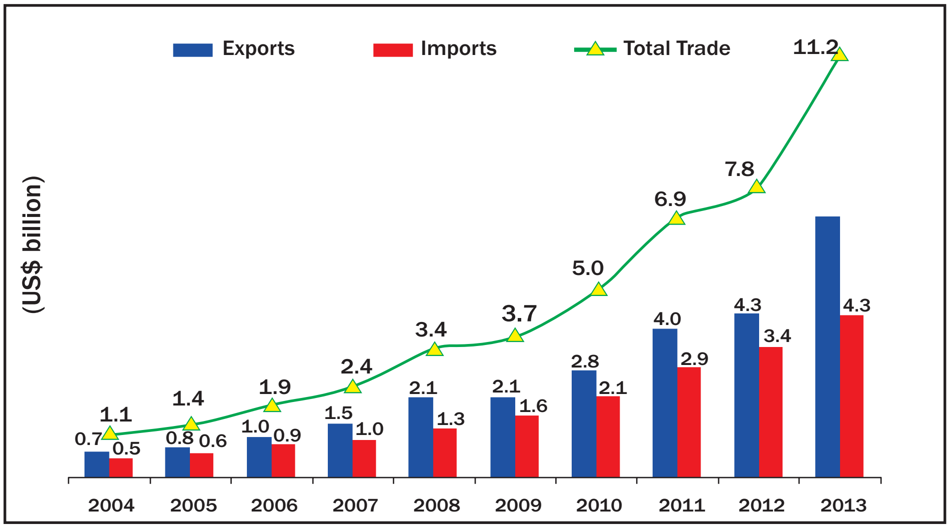
India's bilateral trade with Lao PDR has grown from US$ 1 million in 2004 to US$ 172.6 million in 2013. The trade balance which had been overwhelmingly in favour of India turned towards Lao PDR in 2010, primarily stemming from India's increased purchase of copper ores and concentrates of from Lao PDR. In 2009, India accorded Duty Free Tariff Preference Scheme (DFTP) to Least Developed Countries, including Lao PDR. The Scheme grants Laos duty free access to 94 per cent of India's total tariff lines.

Since early 1990s, with the adoption of the Look East Policy (LEP), engagement between India and Myanmar has been growing consistently. Trade relations between India and Myanmar have witnessed a steady growth in recent years, with India's trade having risen from US$ 523.4 million in 2004 to more than US$ 2 billion in 2013, a four-fold increase. In 2013, India accounted for 13 per cent of Myanmar's global exports in 2013, and ranking as its 3rd largest export market. However, trade balance is in Myanmar's favour, owing to increased import of pulses and forest based products from Myanmar. The two countries have set a trade target of US$ 3 billion to be achieved by 2015.

Border trade between India and CLMV countries (through Myanmar) has special significance and there is immense potential to enhance bilateral economic relationship due to the geographical continuity, with India and Myanmar sharing 1,643 kms of common border. India's four states in the North Eastern Region viz. Mizoram, Manipur, Nagaland and Arunachal Pradesh share international border with Myanmar. According to Myanmar Department of Border Trade, the border trade turnover between India and Myanmar ranges from (US$ 10 to US$ 22 million) which will be higher if informal trade is taken into account (Indian Embassy, Yangon). Secondary reports also show the prevalence of informal trading of items like fertilizers, vehicles, particularly two-wheelers from India to Myanmar through land border.

In recent years, India's relations with Vietnam are marked by growing economic and commercial engagement. Bilateral trade between India and Vietnam reached US$ 8.8 billion in 2013, from US$ 608.1 million in 2004. The two sides have set a target of US$ 7 billion for bilateral trade by 2015. Vietnam ratified the India-ASEAN FTA in goods with effect from June 1, 2010. The proposed agreement on trade in services and investment is likely to impart further boost to bilateral trade and economic relations. Vietnam is India's largest export market, as well as import source in CLMV region.

Chart: India's Trade with CLMV Countries



Source: Trade Map, ITC

Strategically located at the tip of the African continent, South Africa is a key investment destination in Africa.

South Africa has enormous potential as an investment destination, offering a unique combination of highly developed first-world economic infrastructure with a vibrant emerging market economy.

Here are just some of the reasons for doing business in South Africa:

- ***Sound Economic Policies***

South Africa's disciplined fiscal framework is aimed at promoting domestic competitiveness, growth and employment and increasing the economy's outward orientation. Key economic reforms have given rise to a high level of macro-economic stability. Taxes have been reduced, tariffs have been lowered, the fiscal deficit has been brought under control, and exchange controls have been relaxed.

Despite its bright prospects, South Africa still faces key challenges of poverty, unemployment and inequality. The government is addressing these through two key economic frameworks: the New Growth Path, which aims to create a more developed and equitable economy; and The Industrial Policy Action Plan, which aims to promote broader participation in the mainstream of the industrial economy.

The South African Reserve Bank's programme of inflation targeting has shown good results, the real interest rate has stabilised and the currency remains at competitive levels.

The government has made it clear that foreign investment is welcome in South Africa.

- ***Favourable Legal and Business Environment***

General commercial legal practices relating to transactions and the drafting of commercial agreements are generally globally applicable and in line with international norms and conventions.

Trade and industry is undertaken within the framework of a free enterprise economy. The courts are open to foreigners on exactly the same terms and conditions as South African citizens, although many commercial disputes are resolved through arbitration by agreement between the parties.

The Johannesburg Stock Exchange (JSE Limited) rates among the top 20 stock exchanges in the world by market capitalization. It has harmonized its listing requirements, disclosure and continuing obligations with those of the London Stock Exchange (LSE) and offers investor protection.

- ***World-class Infrastructure***

South Africa has world-class infrastructure – including a modern transport network, widely available energy, and sophisticated telecommunications facility.

The government has identified massive infrastructure projects as key to boosting the country's economic growth rate and creating employment.

- ***Access to Markets***

Located at the southernmost tip of the African continent, South Africa is ideally positioned for access to the 14 countries comprising the Southern African Development Community (SADC); as well as the islands off Africa's east coast, and even the Gulf States and India. South Africa is a trans-shipment point between the emerging markets of Central and South America and the newly industrialised nations of South and Far East Asia.

Major shipping lanes pass along the South African coastline in the South Atlantic and Indian oceans, and its seven commercial ports form by far the largest, best equipped and most efficient network on the continent.

- ***Trade Reform, Strategic Alliances***

South Africa has trading relationships with more than 200 countries and territories. It was admitted to the BRIC group of countries of Brazil, Russia, India and China (now called BRICS) in 2011.

The country has special relationships with the Southern African Customs Union (Botswana, Namibia, Lesotho and Swaziland), the Southern African Development Community, as well as the European Union. There are also bilateral agreements in place with Mozambique and Zimbabwe.

- ***Ease of Doing Business in SA***

South Africa ranked 43rd out of 189 countries in the World Bank and International Finance Corporation's Doing Business 2014 report, an annual survey that measures the time, cost and hassle for businesses to comply with legal and administrative requirements.

- ***Industrial Capability, Cutting-Edge Technology***

The country's manufacturing output is increasingly technology-intensive, with high- tech manufacturing sectors – such as machinery, scientific equipment and motor vehicles – enjoying a growing share of total manufacturing production.

- ***Competitiveness***

South Africa was ranked 56th out of 144 countries in the World Economic Forum's Global Competitiveness Index for 2014-15. It remains the highest ranked country in sub- Saharan Africa, and claimed third place among the BRICS countries.

The government has provided incentives for value-added manufacturing projects, support for industrial innovation, improved access to finance, and an enabling environment for small business development.

Industrial development zones have been established in close proximity to major ports and airports, offering world-class infrastructure, dedicated customs support and reduced taxation.

South Africa has a well-developed and regulated competition regime based on best international practice. Competition legislation follows European Union, US and Canadian models.

(Article contributed by Department of International Relations and Cooperation, Republic of South Africa)

Source: www.southafrica.info

Exim Bank's Lines of Credit

Exim Bank of India (Exim Bank) has placed special emphasis on extension of Lines of Credit (LOCs) as an effective market entry mechanism with particular focus on small and medium enterprises. Exim Bank extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipments, goods and services from India, on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. Exim Bank also extends LOCs at the behest of Government of India. Under the LOCs extended at the behest of Government of India, Exim Bank reimburses 100 per cent of contract value to the Indian exporters, upfront upon the shipment of goods and at least 75 per cent of goods and services of total contract value should be sourced from India. Exim Bank's LOCs offer a risk-free, non-recourse export financing option to Indian exporters. Bank has now in place 197 LOCs, covering over 74 countries in Africa, Asia, Latin America, Europe and the CIS, with credit commitments of over US$ 10.58 billion, available for financing exports from India.

Exim Bank, at the behest of and with the support of Government of India, has signed five LOCs as given below during the quarter July-September, 2014:

- An LOC of US$ 100 million to the Government of Vietnam to finance Purchase of equipment / supplies from India. Exim Bank has earlier extended three LOCs aggregating to US$ 91.50 million to the Government of Vietnam for financing export of textile machinery, equipment and services for hydro power projects, NAM Chien hydropower project.
- An LOC of US$ 62.95 million to the Government of Senegal, to finance Rice Self Sufficiency programme in Senegal. Exim Bank has earlier extended ten LOCs aggregating to US$ 199.33 million to the Government of Senegal for financing development of rural SME and purchase of agricultural machinery and equipment, export of buses and pick-up vans, irrigation project, IT training projects, rural electrification project, and fishing industry development project , among others.
- Two LOCs to Banco Exterior De Cuba, Government of Cuba viz. US$ 2.71 million for Bulk Blending Fertilizer Plant in Cuba and US$ 5.05 million for financing Modernization of an Injectable product plant in Havana. With the above two LOC Agreements aggregating US$ 7.76 million, Exim Bank, till date, has extended three LOCs to Cuba, at the behest of the Government of India, taking the total value of LOCs extended to US$ 12.76 million. The earlier LOC was extended to Banco Exterior De Cuba, Government of Cuba for financing Milk powder Processing Plant in Camaguey Province of Cuba.

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Buyer's Credit under NEIA

The Bank's strong emphasis on increasing project exports from India has been enhanced with the introduction of the Buyer's Credit under GOI's National Export Insurance Account (BC-NEIA) program. BC-NEIA is a unique financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters and serves as an effective market entry tool to traditional as well as new markets in developing countries, which need deferred credit on medium or long term basis.

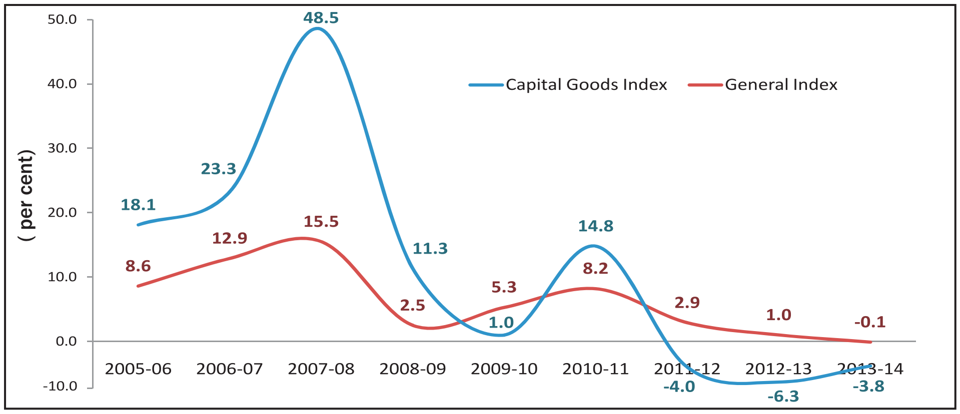
The Ministry of Commerce and Industry announced the introduction of a “pilot scheme” of 2 per cent Interest Subvention for Project Exports through Exim Bank, and the modalities and guidelines of the Scheme were approved in March 2013.

At present, a positive list of 51 countries has been identified by ECGC for which Indian exporters can avail Buyer's Credit under NEIA. The list could be suitably expanded/ modified on receipt of credit requests for projects from other countries, as has been done in the past. The Bank has till date sanctioned an aggregate amount of US$ 1.52 billion for 12 projects valued US$ 2.78 billion. The Bank has also given in-principle commitments for supporting several projects and the current active pipeline includes 54 projects aggregating US$ 6.4 billion under BC-NEIA, at the behest of several leading Indian project exporters.

The capital goods sector is of strategic importance to the Indian economy. It has a multiplier effect on the overall economic growth as it directly or indirectly influences core manufacturing development within India by providing critical inputs.

Indian capital goods industry's performance has been frail in recent years. During 2010-11, the capital goods industry grew significantly by 15 per cent compared to a near flat growth of 1 per cent during 2009-10. However, this performance could not be sustained in 2011-12, when output of the capital goods industry actually registered a decline of (-) 4.1 per cent. This weak performance worsened continued in 2012-13 and 2013-14, with the industry witnessing y-o-y declines of (-) 6.3 per cent and (-) 3.8 per cent, respectively (**Chart**).

Chart: Y-o-Y Growth of Capital Goods Index and General IIP Index



Source: MOSPI

The largest exporter of capital goods during 2012 was China, with a share of 19 per cent in world exports, followed by Germany (12 per cent), USA (10 per cent), Japan (8 per cent), Italy (4 per cent) and Hong Kong (4 per cent). India stood at the 28th position, with a share of 0.6 per cent in total world exports of capital goods. The major importers were USA (15 per cent), China (10 per cent), Germany (7 per cent), Hong Kong (4 per cent), UK (4 per cent) and France (4 per cent). India stood at the 17th position with a 2 per cent share in total world imports.

While the demand for capital goods in the country has been witnessing a consistent increase, domestic manufacturers have not been able to keep the pace of demand, leading to increasing dependence on imports across market segments. This is reflected in the significant trade deficit that the country has in the sector. In 2013-14, exports of capital goods increased to US$ 16.4 billion, from US$ 15.7 billion in the previous year, witnessing a y-o-y growth of 4.3 per cent. Imports on the other hand declined by (-) 11.5 per cent from US$ 43.4 billion in 2012-13 to US$ 38.4 billion in 2013-14. The major destinations for India's exports of capital goods in 2013-14 were USA (13.5 per cent), Germany (5.4 per cent), UAE (5.3 per cent), UK (4.4 per cent), and China (3.8 per cent). India's major import sources of capital goods were China (31.4 per cent), Germany (12.1 per cent), USA (8.7 per cent), Japan (8.5 per cent), and South Korea (5.5 per cent).

The growing imports and low capacity creation in domestic economy is mainly due to inverted duty structure and ECB policies in favour of imports. Major inputs for production of capital goods attract higher customs duty than finished products. Further, the zero duty EPCG scheme allows import of capital goods for pre-production, production and post-production at zero customs duty. The cost arbitrage between ECB funds and domestic funds works out to about 1 per cent to 2 per cent. As per ECB guidelines, ECB funds could be used for procurement of domestic capital goods, but the borrower needs to declare in advance the amount required for such local sourcing at the time of applying Loan Registration Number (LRN) and has to repatriate the proceeds immediately to his Rupee account maintained with Authorised Depository (AD) in India. On the other hand, ECBs meant for use in foreign currencies (or import of capital goods) can be parked abroad with stipulated agencies. Such policies leave the domestic capital goods industry in a position of competitive disadvantage.

The capital goods sector derives majority of its demand from the manufacturing sector. The manufacturing sector performed only modestly with most segments of the sector having trade deficit. Further, the share of the manufacturing sector in India's GDP is still low when compared to other peer group countries. However, given the Government of India's focus and vision to increase the share of the manufacturing sector to 25 per cent of GDP, there remains a significant upside going forward. This is further buttressed by the increased focus on infrastructure during the 12th Five Year Plan.

It is felt that select strategies covering steps such as encouragement of private sector in R&D and innovation, strategic takeovers, cluster development approach, redefining investment caps for SMEs and focussed investment in hi-tech capital goods sector, will go a long way in boosting the performance of capital goods sector, going forward.

On the whole, the outlook for the capital goods industry in India remains bright, particularly over the medium and long-term. According to the Report of the Working Group on Capital Goods and Engineering Sector for the 12th Five Year Plan (2012-2017), production of capital goods and engineering goods sector is projected to cross ₹ 681,000 crore by 2016-17 from the level of ₹ 312,557 crore in 2011-12.

Asian Infrastructure Investment Bank set up

India has signed an agreement along with 20 other countries to become the founding member of the China-backed Asian Infrastructure Investment Bank (AIIB). The AIIB bank aims to aid infrastructure development in the Asian region and reduce dependence on Western-dominated World Bank and IMF. The agreement was signed by Usha Titus, Joint Secretary, Department of Economic Affairs, Ministry of Finance. The AIIB will be in addition to the BRICS (Brazil, Russia, India, China and South Africa) Development Bank formed in 2014. The bank will be based in Shanghai. It is set to commence its operations with an Indian as its President.

Govt allows 100% FDI in construction

In what may prove to be a major boost for Indian economy, 100 per cent foreign direct investment (FDI) under automatic route will be permitted in the construction development sector. The minimum built-up area requirement for FDI in construction projects from 50,000 sq metres may also be brought down to 20,000 sq metres. The minimum capital requirement for projects has also been reduced from US$ 10 million to US$ 5 million. The government, however, clarified that the FDI was not permitted in any entity that was engaged or proposes to engage in real estate business, construction of farmhouses and trading in Transferable Development Rights (TDRs).

Surge in gold imports widens India's trade deficit in September

Higher imports of gold and a moderation in export growth have led to the expansion of India's trade deficit to US$ 14.3 billion in September 2014, which is up 132.7 per cent from a deficit of US$ 6.1 billion seen in September 2013. The Ministry of Commerce said, “This phenomenal increase in trade deficit is mainly due to rise in imports without adequate rise in exports”. In September 2014, India's overall merchandise exports stood at US$ 28.9 billion, which is up about 2.7 per cent from US$28.1 billion during September 2013. However, India's imports in the month surged to US$43.2 billion, which is up almost 26 per cent compared to imports worth US$34.3 billion in September 2013. Imports in September 2014 grew mainly due to increase in India's non-oil imports which increased 32.2 per cent y-o-y. According to the Commerce Ministry, there was an unusual growth in import of gold and ores in September 2014. Import of Metalliferous Ores & Other Minerals stood at US$ 0.8 billion in September 2014, which is up 105.6 per cent y-o-y, while gold imports soared to US$3.8 billion, up almost 450 per cent from September 2013 and up 87.5 per cent from US$ 2 billion worth imports in August 2014. It is expected that gold demand in India will continue to remain high due to the onset of the festive season and lower prices.

India seeks permanent solution on food security in WTO rules

India has told the UN General Assembly that developing countries must have the freedom to use food reserves to feed the poor "without the threat of sanctions" and a permanent solution on food security with necessary changes in WTO rules is a must. "The issue of food security is central to the pursuit of poverty eradication and sustainable development in developing countries and must be treated with the same urgency as other issues, if not more", Counsellor in the Indian Mission to the UN, Amit Narang said in a UN General Assembly session on 'Macroeconomic Policy Questions: International Trade and Development'. He said that India had participated actively and "in good faith" in the Ninth Ministerial Conference of the WTO in Bali in December 2013 and the country remains committed to the Bali decisions, including the one on trade facilitation.

Review of FTAs almost finalised: Sitharaman

The review process of the existing Free Trade Agreements (FTAs) that India had entered into with partner countries is almost finalised and domestic manufacturers would benefit from the revised pacts, Minister of State for Commerce and Industry, Nirmala Sitharaman, told the Press Trust of India. "We did review the FTAs as well as the SEZs and the process is almost in the final stages. There is a feeling that some of the FTAs are benefiting the partner countries and there is absolutely no discord between finance and commerce ministries in this regard. We in the commerce ministry want better utilisation of the agreements for increasing exports from the country. The government will ensure that", she said. Sitharaman said India was keen on FTAs with the ASEAN countries.

S&P upgrades outlook for India rating to "stable" from "negative"

Standard and Poor's raised the outlook for India's "BBB-minus" rating to "stable" from "negative," saying the country's government mandate and improved political setting offered a conducive environment for reforms. S&P had cut India's outlook to "negative" in April 2012. India is now rated at the lowest investment grade with a "stable" outlook.

Cooperation with SelectUSA to promote Indian investments into USA

Exim Bank has signed a Memorandum of Intent (MoI) with SelectUSA to encourage collaboration to promote Indian investments to the United States. SelectUSA is the first US government-wide programme to promote and facilitate business investment in the United States. Exim Bank is actively involved in facilitating and supporting India's bilateral trade and investment relations with partner countries including the United States. This MoI serves as an important deliverable as the United States engages with India's new government. US Secretary of Commerce Penny Pritzker witnessed the signing as a precursor to the US-India Strategic Dialogue in New Delhi on July 31, 2014. The MoI is a component of advancing commercial ties between the two countries. The MoI reinforces the strong commercial relationship between the two countries. Under the terms of the MOI, both parties will seek to act as central points of contact for existing and potential investors who seek investment opportunities and information on bilateral investment flows. The parties also aim to collaborate on programming in India and the United States for existing and potential investors to the United States.

Export-Import Bank of India organized a roundtable with SelectUSA, on September 23, 2014, to promote Indian investments in the US. A team of senior officials from SelectUSA led by Ambassador Vinai Thummalapally, Executive Director, SelectUSA, as well as dignitaries from the US Embassy, New Delhi and US Consular General, Mumbai were present at the event.

Partnership with JBIC to promote infrastructure development

Exim Bank has signed a Memorandum of Understanding (MoU) with Japan Bank for International Cooperation (JBIC) to jointly explore the possibility of infrastructure development collaboration to enhance connectivity and regional integration between India and its neighbouring countries. Under the MoU, both the institutions will also explore the possibility of financing business opportunities in other countries, such as African countries where Indian and Japanese companies have a presence, to promote economic cooperation and industrial development.

In January this year, the Government of India and the Government of Japan had announced their intention to further cooperate in building infrastructure that will improve connectivity and regional integration between India and its neighbouring countries to support cross border business activities thereby contributing to economic growth and development in the region.

Outward Direct Investments (ODI) in Manufacturing Declines

Outward direct investments (ODI) from India have undergone a considerable change not only in terms of magnitude but also in terms of geographical spread and sectoral composition. An Exim Bank study titled 'Outward Direct Investment from India: Trends, Objectives & Policy Perspectives', observes that India's outward investment increased from US$ 1.0 billion in 2001-02 to US$ 30.9 billion in 2011-12. However, in terms of sectoral dispersion, the study points out that it has primarily been the manufacturing sector that has been the favoured choice for Indian ODI, across most of the last decade, although its significance has gradually been waning. Thus, while the share of manufacturing sector in India's ODI was 59.8 per cent in 2003-04, its share declined to 31.5 per cent in 2011-12. Within manufacturing, refined petroleum products were the largest category (in terms of cumulative investments), followed by pharmaceuticals, medicinal chemical and botanical products, and motor vehicles. While the sectoral dispersion has remained fairly stable during this period, a notable change has been the emergence of fabricated metal products (except machinery and equipment) and special purpose machinery among the major segments of Indian overseas investment during the latter part of the decade.

Push for a boost in India's Project Exports

Exim Bank organized a “Stakeholders Seminar on Project Exports” in Mumbai with the objective to develop a roadmap for a quantum jump to India's Project Exports. The Bank's programmes such as Lines of Credit and Buyers' Credit enable Indian project exporters to access new markets in developing countries and increase exports of goods and services from India, and create jobs. Exim Bank, in collaboration with the African Development Bank, is also setting up a Project Development Company (PDC) which will focus on infrastructure projects that have specific strategic interest to India. The PDC is expected to provide an entire gamut of project development expertise to identified projects.

Renewable Energy in India : Harnessing the Potential

There has been an increasing realisation on enhancing the use of renewable energy as a primary instrument for achieving the twin objectives of energy sufficiency and climate change mitigation. With India becoming globally more responsible in its endeavour towards sustainable development, the possibility of renewable energy becoming a cornerstone for the country's future energy requirements are significantly high.

Investment in clean energy and power generation from renewable sources have been on a rise in India, largely at the back of energy security concerns, government support, and initiatives taken on account of climate change. India's renewable energy installed capacity has grown from 3.9 GW in 2002-03 to about 31.7 GW in March 2014. As on 31 July 2014, renewable energy accounted for 12.9 per cent of the total installed capacity in the power sector (**Chart**).

Wind Energy in India

India, with a large peninsula belt, and two-season monsoon, has significant potential in generating wind energy. Apart from onshore generation, India has also potential for tapping offshore belts for wind energy. India is the second largest wind market in Asia, presenting substantial opportunities for both domestic and international players. Capacity additions in the wind sector have been primarily driven by the generation-based incentive (GBI), where the generator receive 50 paise per unit of electricity generated, subject to a cap of ₹ 10 million per MW. The GBI improves equity internal rate of return by 140-150 bps, thus improving attractiveness of states where preferential tariffs are below ₹ 4.9 per unit.

Accelerated depreciation (AD) benefit, which expired in 2011-12, allowed for depreciation of 80 per cent on wind assets in the first year.

On account of attractive preferential tariffs by the states of Maharashtra, Rajasthan and Andhra Pradesh, healthy capacity additions in the wind energy sector are expected.

Solar Energy in India

Another important form of renewable energy from the viewpoint of energy security is solar, since it is abundantly available. India receives solar energy approximately 5000 trillion kWh/year equivalents which is much more than India's energy consumption. Jawaharlal Nehru National Solar Mission (JNNSM) is one of the most significant drivers of the development of solar power in the country. However, in spite of the favorable incentives, India has tapped only a small part of its enormous potential.

In 2013-14, capacity additions of 990 MW were witnessed in the solar sector, led by policies initiated by states such as Madhya Pradesh, Rajasthan and Maharashtra. Expiry of the AD benefit in wind power is expected to have shifted the focus to solar power.

Bulk of the projects under JNNSM phase II policy will be constructed during 2014 and state-led projects are also expected to come up in the year. The phase II of JNNSM now specifies that 50 per cent of the projects (375 MW) need to be built with domestically manufactured cells and modules. Similar provisions such as domestic content requirement in state policies as well as future state policies will tremendously boost local manufacturing as well as make solar business viable in the long term.

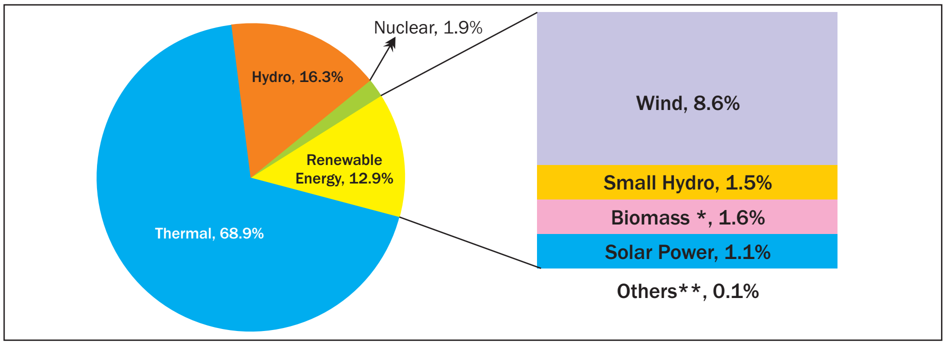
Biomass Energy in India

Biomass energy is utilisation of agri-residue such as baggase, rice husk, straw, cotton stalk, elephant grass, coconut shell and forest organic residue such as wood, plants, etc., to generate electricity. Availability of biomass in India is estimated at over 160 million tonnes per year covering residues from agriculture, forestry, and plantations. Nearly 70-75 per cent of the residue is used as fodder, as fuel for domestic cooking and for other economic purposes. As per MNRE estimates, the balance 25-30 per cent of usable agro industrial and agricultural residues per year is available for power generation. This translates into a potential power generation capacity of over 17,500 MW. An additional 5,000 MW of capacity can be added through bagasse-based co-generation based on the existing sugar mills in the country.

Outlook

Although the potential and government support to the industry are immense, further efforts are required. Strict enforcement of Renewable Purchase Obligations(RPOs) is critical for augmenting renewable energy capacity additions, and steps need to be taken in this direction. Going forward, rising per capita energy consumption and wider access to energy in the country is expected to drive the growth of power capacity in the renewable segment.

Chart: Fuel-Wise Installed Capacity in the Power Sector (as on July 31,2014)



*includes bagasse co-generation ** includes waste to power
Source: Ministry of Power, Ministry of New and Renewable Energy

Exim Bank's International Economic Research Annual (IERA) Award

Export-Import Bank of India (Exim Bank) has instituted an Annual Award, titled International Economic Research Annual (IERA) Award, since 1989 for research in International Economics, Trade & Development and Related Financing. The objective of this Award is to promote research in international economics, trade, development and related financing by Indian nationals at universities and academic institutions in India and abroad. The Award was instituted in commemoration of the birth centenary of India's First Prime Minister Pandit Jawaharlal Nehru, 1889-1989.

The Award process involves inviting entries from applicants who have undertaken research work leading to a doctorate in the above mentioned areas and selection of the Award winning entry by an independent Jury of high repute. Details of the Award are disseminated through advertisements in newspapers, magazines and journals in India and abroad and also through the Internet. The details are also circulated to universities and research institutions in India and abroad. The Award consists of prize money of Indian Rupees Two Hundred and Fifty Thousand (₹. 2.5 Lakhs) and a Citation.

Entries for the Award

Research work by Indian nationals in international economics, trade, development and related financing (either awarded a doctorate or accepted for award of doctorate) from a university or equivalent academic institution in India or abroad is a pre-requisite for eligibility of the Award. Credit would be given for originality and clarity of presentation. Issues of relevance to India / Exim Bank such as those pertaining to foreign trade, foreign direct investments, joint ventures, international competitiveness, policies impacting trade and investment, monetary and fiscal interventions would be of particular interest. The Award would be given to a person eligible to receive an award in Indian Rupees. Exim Bank accepts, as entries, theses which have been awarded a Doctorate or accepted for award of a Doctorate during the four calendar years preceding the year in which the prize is to be awarded and up to September 30 of the current calendar year in which the prize is to be awarded. Thesis can be submitted either in English or Hindi, and in the latter case must be accompanied by a version in English. In the last 25 years (1989-2013), 33 theses have been awarded the IERA Award, of which 13 theses selected were for research undertaken in foreign universities.

Since its institution, the Award has been won by research scholars for high quality research. The Award winning theses include research in diverse areas such as foreign direct investment, exchange rate regimes, external debt of developing countries, international technology transfer, international joint ventures, foreign trade regimes and strategic trade policy. The Award winning doctoral theses covered a wide spectrum of research relating to international economics, trade & development and related financing. Some of the past winners are Dr. Nagesh Kumar, Dr. Tarun Kabiraj, Dr. A. Prasad, Dr. Rajat Acharyya, Dr. Aditya Bhattacharjea, Dr. Avadhoot Nadkarni, Dr. Poonam Gupta, Dr. Sajjid Chinoy, Dr. Praveen Kumar, Dr. Deb Kusum Das, Dr. Rashmi Banga, Dr. Prachi Mishra and Dr. Debasis Mondal. The recognition that the award has gained over time among academia is evident from the fact that some of the past winners of the Award include today's prominent economists, research scholars, and academicians.

Result of the IERA AWARD for 2013

The Exim Bank IERA Award 2013 was announced by Mr. Yaduvendra Mathur, Chairman and Managing Director, Exim Bank, at an award function held on September 30, 2014, in New Delhi. The Award Jury, based on evaluation of the entries, unanimously recommended the selection of Dr. Anwesha Aditya as the winner of the IERA Award for 2013, for her doctoral thesis titled “Trade Liberalization, Product Variety and Growth”. Dr. Aditya received her Doctoral degree in 2013 from Jadhavpur University. The thesis was written under the supervision of Dr. Rajat Acharya. She is working as an Assistant Professor of Economics in the Department of Humanities and Social sciences, IIT Kharagpur, West Bengal. In her thesis, Dr. Aditya seeks to provide an analysis of the impact of trade liberalisation, product diversification, and export composition on economic growth using an empirical and theoretical approach. The study also investigates whether the trade growth relationship may depend on institutions, like multilateral and regional trading arrangements and country-specific institutions such as political regimes of countries, and the productivity constraints, like human capital, and research and development (R&D).

The Award was handed over to Dr. Anwesha Aditya by the Chief Guest, Dr. Indira Rajaraman, member of Central Board of the Reserve Bank of India , and member of the Thirteenth Finance Commission, who also released Exim Bank's Occasional Paper titled “Trade Liberalisation, Product Variety and Growth”, which is based on Dr. Aditya's Award winning thesis.

Marketing Advisory Services
July-September, 2014

Exim Bank in association with Concern India Foundation supported Madhya Pradesh based Tribal Artisan for displaying Gond Paintings at the Art For Concern Exhibition. The Traditional & Folk Art exhibition held in Mumbai from September 23-25, 2014, was organized by Secure Giving & Concern India Foundation and supported by Exim Bank. The objective of supporting the event was to provide assistance in finding new market opportunities and draw access to large number of potential buyers.

Gond paintings are done by the Pardha subgroup of Gond tribals of Madhya Pradesh. These paintings depict the stylized presentation of life on the tree and under the tree. These paintings are borderless and are based on the elaboration of the dots. Gond Painters start the paintings with one dot and as per the vision puts series of dots upwards, downwards, sideways, for the final image to appear. These dots are often intercepted and supplemented by elliptical, oval and triangular shapes. The themes for Gond paintings are drawn from folktales, tribal narratives, stories and myths.

The exhibition introduced artistic heritage and artwork from master craftsmen from across India, which included Chola Bronze sculpture, Phad, Gond & Madhubani painting, Kalamkari & Kalighat painting on cotton textile, Mata ni Pachedi painting, Miniature Art, Pichwai fabric painting, and Terracotta Art. During the three day event, a total of 27 paintings were sold and more than 200 guests visited the exhibition.

Exim Bank, through its Marketing Advisory Services, plays a promotional role to create and enhance export capabilities and international competitiveness of Indian companies. Exim Bank assists in identification of opportunities overseas and seeks to help Indian exporting firms in their globalization efforts by proactively assisting in locating overseas distributor(s)/ buyer(s)/ partner(s) for their products and services.

Products ranging from medical, handicraft and handloom, agricultural and food & beverages, engineering, textile, pharmaceuticals & cosmetics, floriculture, have been identified and actively marketed by the Bank under this unique programme. The bank also supports in reviving old relationships and re-establishing linkages between importer and exporter.

The Bank leverages its high international standing, in-depth knowledge and understanding of the international markets and well established institutional linkages, coupled with its overseas physical presence, to support Indian companies in their overseas marketing initiatives on a success fee basis.

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Book Review

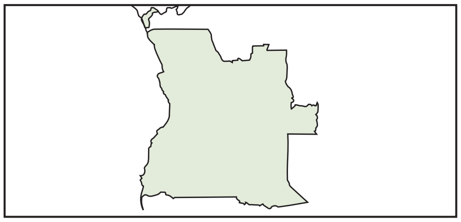
'The G20 Macroeconomic Agenda - India and the Emerging Economies'

The G20 was formed in December 1999 during the years of Asian Financial crisis. As the premier forum for global economic governance, G20 was successful in warding off the global economic crisis of 2008–09 and preventing it from becoming a full-blown depression. In its wake, G20 initiated a series of financial sector reforms and managed to achieve unprecedented global cooperation, by bringing together the G7 and newly emerging economies, for improved global macroeconomic management. As the global economy recovered in 2010, G20 expanded to include a development agenda in particular, achieving food security, controlling commodity price volatility, recycling global savings to boost infrastructure investment, and enhancing energy and environmental sustainability.

It also discusses the role India has played in the success of the G20 process and delineates the possible barriers to India's enhanced involvement in the G20 and in global governance in general.

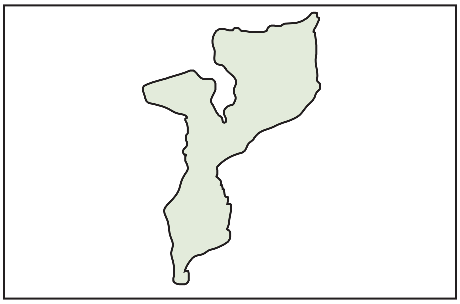
As the global economy remains mired in uncertainties, stemming from the Euro crisis, lacklustre economic performance in the United States, and slowing of major emerging economies, this publication fills the need for a collection of analytical research papers from the perspective of emerging economies, and takes stock of the performance of the G20 thus far. It also points towards the unresolved issues and the future course of action in global financial and macroeconomic stance.

Angola



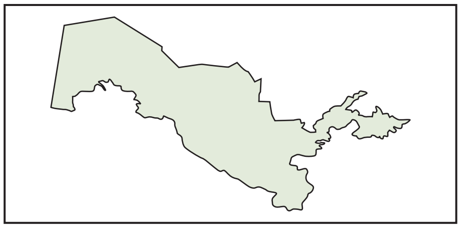
Africa's second largest oil producer grew at 5.1 per cent in 2013, falling short of its target of 7.1 per cent. The oil sector forms the backbone of the economy, hence there is a need to diversify, and reduce dependence on the oil sector. In this direction, public investments have been made in connection with the national development plan aimed at diversifying the economy and combating unemployment. "Dedollarisation" measures, which since July 2013 have compelled oil companies to carry out their transactions in the local currency, are accentuating price rises. The fiscal deficit recorded in 2013 for the first time since 2009 is expected to deepen in 2014. The Angolan banking sector is weakened by its heavy dependence on the oil sector and its exposure to foreign (especially Portuguese) banking systems in difficulty. Moreover, the recent measures requiring oil companies to go through the local banks for their transactions raise concerns about the banking system's ability to manage the resulting cash flows.

Mozambique:



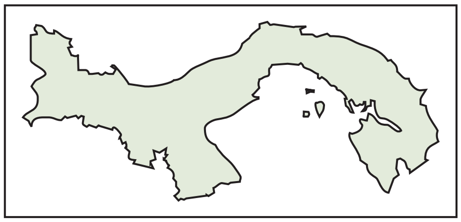
In 2013 real GDP posted robust 7 per cent growth, although lower than expected due to severe floods early in the year. The main drivers of growth have been foreign direct investment (FDI), focused mostly on the extractive sector. The progressive increase in coal production and the implementation of large infrastructure projects, coupled with budgetary expansion, are expected to continue to drive growth, projected at 7.5 per cent in 2014. The authorities will continue to implement an ambitious policy to promote inclusive growth.

Uzbekistan:



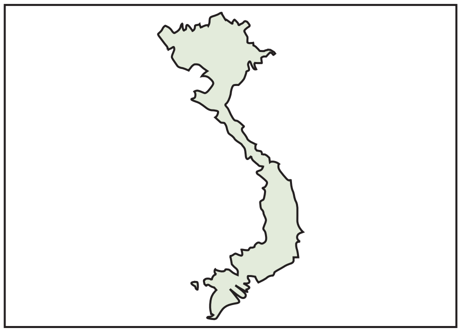
Economic activity in Uzbekistan continues to be driven mostly by revenues created by the gas export sector. The government continues to invest heavily in infrastructure and industrialisation. Currently, projects to boost the competitiveness of the Uzbek economy are implemented via the Industrial Modernisation and Infrastructure Development Program for 2011-15, and the Fund for Reconstruction and Development. It is likely that Uzbekistan's long-run growth prospects will be constrained by particularly slow progress in implementing structural reforms, continued directed lending practices by the state, limited currency convertibility, and a degree of disengagement with international financial organisations. Uzbekistan's trade policy is based on import substitution. In 2013, the state adopted a new decree imposing additional procedures and controls on a number of consumer goods, thereby restricting imports. However, given the weakness of its industry sector (gas aside), many parts of the economy remain dependent on imports.

Panama



According to the World Economic Forum's Global Competitiveness Report 2014-2015, Panama is the most competitive in Central America. Panama's economy grew at 6.5 per cent in 2013, driven by large scale investment projects. Investments represent a third of the country's GDP, while in the rest of the LAC region it accounts for 25 per cent. The recent discovery of oil reserves in Panama's Darien jungle, which could contain as much as 900 million barrels, has opened the way for the country to wean itself from imported oil and its related debt .

Vietnam



After a slight dip during 1997 Asian financial crisis, Vietnam's growth averaged 7.5 per cent in 2000-2007. GDP grew by a robust 8.4 per cent in 2007, driven by strong domestic growth as well as higher investment following the country's accession to WTO in January 2007. However, the global recession had dampened the export oriented economy in 2008. In 2013, real GDP growth was seen growing at 5.4 per cent. Inflation has been observed to be high in Vietnam in recent years, owing to easy availability of domestic credit. In 2013, inflation eased to 6.6 per cent as compared to a high of 18.7 per cent seen in 2012. Health and medical services, energy, education and transport, have experienced higher and more volatile inflation than those sectors where prices are determined mostly by market forces. Vietnam has the highest inflation among its other regional peers. In 2013, Vietnam entered its third year of macroeconomic stability with lower inflation, strong external trade and capital flows, and a firmer exchange rate.

Australian Dollar

The Australian dollar (AUD) is currently the sixth most traded currency of the world foreign exchange market accounting for over 6 per cent of the worldwide foreign exchange transactions. Since commodities account for a large proportion of Australia's exports, there is close link between commodity prices and the Australian Dollar. When world commodity prices rise, the Australian Dollar tends to appreciate and vice versa. As a result, the Australian dollar is sometimes described as the "Commodity Currency".

After three consecutive years of gain the AUD is forecast to weaken. against the US dollar. The US economic revival in 2014-15 will cause the Australian dollar to depreciate, reaching a low in mid-2015.

The Australian Dollar (AUD) strengthened against the Pound (GBP), Euro (EUR) and US Dollar (USD) after it found support from positive inflation data, which supported the Reserve Bank of Australia's aim of interest rate stability. According to data released by the Australian Bureau of Statistics, Consumer Prices in the nation edged higher than expected in the third quarter of the year. Consumer Price Inflation rose by 0.5 per cent, more than the 0.4 per cent figure forecast by economists. On an annual basis, the rate of CPI rose by 2.3 per cent in the last quarter, matching market expectations.

The only risk to further AUD appreciation lies in strong US data that may push the 'Aussie' lower against other major peers.

As on September 30, 2014, AUD was trading at 1 AUD =0.8732 USD.

South African Rand

Fundamentals in South Africa continue to worsen as the current account gap which has widened to (-) 6.2 per cent of GDP in Q2. Continued weakness in exports and commodity prices suggest further upward pressure on the external deficits. Inflation remains elevated, but should come down along with commodity prices. Given downside risks to growth and inflation across most of emerging (EM) market, and steady rates it is expected that any EM tightening cycles under way will end up very shallow.

High-yielding currencies such as the Australian and New Zealand dollars and the South African Rand (ZAR) will also come under pressure as massive currency flows head back towards the United States. The US Federal Reserve is on course to raise interest rates in 2015 ensuring yields on US assets to increase.

The so-called commodity currencies such as ZAR have benefited in this period of low rates in the US, investors could simply borrow money at low rates and take advantage of higher yields in places such as South Africa. The same is true of the United Kingdom - record low rates will soon be reversed and with it so the potential for flows from SA to the UK and US grows.

The Rand is forecast to strengthen in 2015, on average, before resuming a gradual trend of depreciation. The rand will remain volatile throughout the forecast period (2014-18), being a widely traded currency. Moreover, the volatility of foreign portfolio investment will continue to pose a significant threat to currency stability. As on September 30, 2014, ZAR was trading at 1 USD =11.30 ZAR.

Chinese Yuan

China had followed a dual exchange rate policy since 1979. In 1994, it unified the rate to create a crawling Yuan (CNY) peg. The peg allowed the Yuan to move in a band centered on a rate of 8.28 per US Dollar to 8.30 per US Dollar till the Asian financial crisis and after that it remained virtually fixed at 8.28 per USD. China revalued its currency by 2.10 per cent on July 21, 2005 to 8.11 per USD, changing from fixed rate regime to floating rate regime. Under this regime, the People's Bank of China, the Central Bank, allows Yuan to rise and fall each day by 0.30 per cent (further widened to 0.50 per cent in May 2007) from the Central Bank's middle rate reset each day on previous day's close. Yuan to rise and fall each day by 0.30 per cent (further widened to 0.50 per cent in May 2007) from the Central Bank's middle rate reset each day on previous day's close.

Yuan has been appreciating against its major trading partners in last six months but the rally against the currencies of China's major trade partners may be ending as authorities are likely to engineer a "mini devaluation" to spur the economy.

The People's Bank of China bought dollars to weaken the yuan by 2.6 per cent in the first quarter, the most since 1994, to deter one-way bets on its appreciation. The Chinese currency rose 0.2 per cent in the second quarter and has strengthened 1.4 per cent since June 30, the sole gainer among 31 major exchange rates tracked by Bloomberg.

The Yuan is forecast to continue to strengthen slowly against the US dollar in 2015. As on September 30, 2014, CNY was trading at 1USD = 6.1382 CNY.

What began by conducting a workshop in Sivaganga, Tamil Nadu to understand the dynamics of rural handicrafts, under Rural Initiatives of Exim Bank, got formalized as Grassroots Initiative and Development (GRID) group in 2011, as new initiatives of Exim Bank. GRID group envisages supporting globalization of enterprises based out of rural areas of the country. This initiative supplements Bank's other support programs and seeks to address the needs of relatively disadvantaged sections of society while creating expanded opportunities for traditional crafts persons and artisans, and rural entrepreneurs of the country. The underlying objective is to create an enabling environment for rural microenterprises to explore newer geographies leveraging effectively upon the Bank's extensive institutional and trade promotion linkages.

The Bank has consciously sought to establish, nurture and foster various institutional linkages and has entered into formal cooperation arrangements with select, broad-based organizations in order to directly reach out to artisans and other target segments, by helping in capacity building, technological upgradation, quality improvement, market access, training and more, thereby contributing towards employment generation and poverty alleviation.

Through this initiative, the Bank extends financial support to promote grassroots initiatives/technologies; particularly the ones with export potential and help the artisans/ producer groups /clusters / small enterprises /NGOs, across the country realize remunerative return on their produce and finally facilitating exports from these units. The group functions like SME (Small and Medium Enterprise) and handles credit proposals from the organizations working at the rural /grassroots level and offers tailor-made financial products to cater to their needs.

The range of activities under the Grassroots initiatives is designed in such a way that they address three key bottlenecks faced by grassroots organizations, viz. access to finance on competitive terms; skill development and; finding markets for their products. In order to tackle the issue of availability of funds for rural enterprises, the department helps organizations by providing them lending support to upscale their activities/ business. For enhancing capacities and skill development, the Bank helps in organizing training programs, design development workshops, packaging solutions for the products and quality improvement seminars.

The group is mandated to work towards developing a robust, vibrant and holistic approach in its intervention (helping at every stage of product development / business cycle viz. capacity building, export capability creation and expansion, diversification and finally to the exports) thus helping enterprises address issues that restrict them to make foray into exports. The broad areas of support extended by Bank, through its Grassroots Initiatives and Development (GRID) department to various organizations include, capacity building, developing common facility centres, developing raw material bank, technological intervention (technology upgradation) and creating export capability in micro and small enterprises (MSMEs), grass root rural business enterprises, etc

The group has supported various grassroots organizations/enterprises working with different legal structures like artisan/weavers cooperatives, societies, NGOs, trusts, clusters working towards livelihood generation.

Given that the Group was formalized as a Unit only about three years ago, its activities have been evolving. Thus, during the course of its development, the activities have also expanded to include support to relatively young enterprises with a strong orientation towards technology and high potential for generating foreign exchange. This effort was crystallized when the Bank entered into a Memorandum of Cooperation with IIT Chennai's Rural Technology Business Incubator (RTBI) for supporting business incubatees of RTBI.

Yet another step to support the rural enterprises in the form of promotion and marketing of handloom and handicraft products from India is the formation of Bharat Handloom Marketing Company limited (BHMCL), a joint venture company comprising equity participation of Exim Bank, National Handloom Development Corporation Ltd. (NHDC) and Associtions of Corporation and Apex Societies of Handlooms (ACASH). BHMCL would collect information regarding handloom activities, including market surveys & research, and work as a data bank for weavers and artisans. It would help to establish linkages with national and international organizations for marketing of handloom products from India and take up welfare/ developmental schemes for handloom sector in India.

This way, Bank's objectives of promoting exports from grassroots level organizations would get boost by BHMCL focusing on product development and market access.

In a nutshell, the activities through GRID aim towards developing a holistic approach (beginning with the capacity building, export capability creation and helping in expansion, diversification and finally to the exports) thereby, addressing the issues coming in the way of enterprises making it to the exports, directly or indirectly.

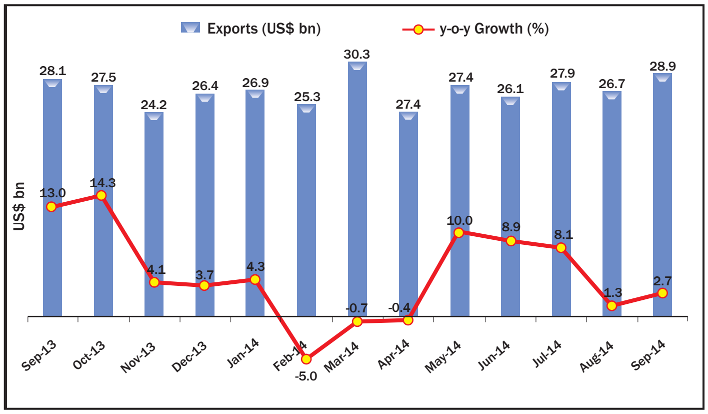
Snapshot of Indian Economy

INDICATORS	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
GDP (at current prices, US$ bn)	**1224.1**	**1365.4**	**1708.5**	**1880.3**	**1858.7**	**1877.5**	**2134.7**[f]
GDP Per capita (US$)	**1044.9**	**1146.7**	**1411.7**	**1528.7**	**1486.8**	**1472.1**	-
Real GDP Growth (%)*	**6.7**	**8.6**	**8.9**	**6.7**	**4.5**	**4.7**	**5.7**[e] **(Apr-Jun)**
Agriculture & allied activities	0.1	0.8	8.6	5	1.4	4.7	3.8[e] (Apr-Jun)
Industry	4.4	9.2	7.6	7.8	1	0.4	4.2[e] (Apr-Jun)
Services	10	10.5	9.7	6.6	7	6.8	6.8[e] (Apr-Jun)
Sectoral Share in GDP (%)							
Agriculture & allied activities	15.8	14.6	14.6	14.4	13.9[e]	14.0	13.4[e] (Apr-Jun)
Industry	28.1	28.3	27.9	28.2	27.3[e]	26.1	26.2[e] (Apr-Jun)
Services	56.1	57.1	57.5	57.4	58.8[e]	59.9	60.4[e] (Apr-Jun)
Population (mn)	**1171.5**	**1190.7**	**1210.2**	**1230**	**1250.2**	**1270.6**	-
Inflation rate (WPI, annual avg. %)	8.1	3.8	9.6	8.9	7.4	6.0	2.38 (Sep '14)
Gross Fiscal Deficit (% of GDP)	**6.0**	**6.5**	**4.8**	**5.7**	**4.8**	**4.6**	**4.1**[e]
Exchange Rate (₹/US$, avg.)	45.9	47.4	45.6	47.9	54.4	60.5	61.61 (Sep 30,'14)
Exchange Rate (₹/Euro, avg.)	65.1	67.1	60.2	65.9	70.1	81.2	78.21 (Sep 30,'14)
Exports (US$ bn)	**185.3**	**178.8**	**251.1**	**306**	**300.4**	**314.4**	**161.5 (Apr-Sep)**
% change	13.6	-3.5	40.5	21.8	-1.8	4.7	5.0^
Oil Exports (US$ bn)	**27.5**	**28.2**	**41.5**	**56**	**60.9**	**63.2**	**33.7 (Apr-Sep)**
% change	-3	2.3	47.2	34.9	8.7	3.8	3.0^
Non-oil Exports (US$ bn)	157.7	150.6	209.6	250	239.5	251.2	127.8 (Apr-Sep)
% change	17.1	-4.6	39.2	19.3	-4.2	4.9	5.6^
Imports (US$ bn)	**303.7**	**288.4**	**369.8**	**489.3**	**490.7**	**450.2**	**234.2 (Apr-Sep)**
% change	20.7	-5.1	28.2	32.3	0.3	-8.3	1.6^
Oil Imports (US$ bn)	**93.7**	**87.1**	**106**	**155**	**164**	**164.8**	**82.6 (Apr-Sep)**
% change	17.4	-7	21.6	46.2	5.9	0.4	3.3^
Non-oil Imports (US$ bn)	**210**	**201.2**	**263.8**	**334.3**	**326.7**	**285.4**	**151.6 (Apr-Sep)**
% change	22.2	-4.2	31.1	26.7	-2.3	-12.6	-0.7^
Trade Balance (US$ bn)	**-118.4**	**-109.6**	**-118.7**	**-183.3**	**-190.3**	**-135.8**	**-72.7 (Apr-Sep)**
Trade/GDP (%)	**39.9**	**34.2**	**36.3**	**42.3**	**42.6**	**40.7**	**-**
Export/GDP (%)	**15.1**	**13.1**	**14.7**	**16.3**	**16.2**	**16.7**	**-**
Services Exports (US$ bn)**	**106.0**	**96.0**	**124.6**	**142.3**	**145.7**	**151.5**	**78.9 (Apr-Sep)**
*Software Exports (US$ bn)***	46.3	49.7	53.1	62.2	65.9	69.5	17.5 (Apr-Jun)
Services Imports (US$ bn)**	**52.0**	**60.0**	**80.6**	**78.2**	**80.8**	**78.5**	**43.1 (Apr-Sep)**
Services Balance (US$ bn)**	**54.0**	**36.0**	**44.0**	**64.1**	**64.9**	**73.0**	**35.9 (Apr-Sep)**
Current Account Balance (US$ bn)	**-28.7**	**-38.4**	**-47.9**	**-78.2**	**-87.8**	**-32.4**	**-7.8 (Apr-Jun)**
CAB as percentage of GDP (%)	-2.3	-2.8	-2.8	-4.2	-4.8	-1.7	-1.7
Forex Reserves (US$ bn)	**252.0**	**279.1**	**304.8**	**294.4**	**292.0**	**304.2**	**276.3 (Sep 27,'13)**
External Debt (US$ bn)	**224.5**	**260.9**	**317.9**	**360.8**	**409.4**	**440.6**	**450.1 (Apr-Jun)**
External Debt to GDP Ratio (%)	20.3	18.2	18.2	20.5	22.0	23.3	23.2 (Apr-Jun)
Short Term Debt (US$ bn)	43.3	52.3	65.0	78.2	96.7	89.2	87.9 (Apr-Jun)
Short Term Debt / Total Debt (%)	19.2	20.1	20.4	21.7	23.6	20.3	19.5 (Apr-Jun)
Total Debt Service Ratio (%)	4.4	5.8	4.4	6.0	5.9	5.9	8.1 (Apr-Jun)
FDI (US$ bn)	**41.9**	**37.7**	**34.8**	**46.6**	**34.3**	**36.0**	**21.5 (Apr-Sep)**
GDRs/ADRs (US$ bn)	1.2	3.3	2.0	0.6	0.2	0.02	-
FIIs (net) (US$ bn)	-15.0	29.0	29.4	16.8	27.6	5.0	22.3 (Apr-Sep)
FDI Outflows (US$ bn)	**19.4**	**15.1**	**16.5**	**10.9**	**7.1**	**9.2**	**0.6 (Apr-Sep)**
MEMO ITEMS	2009	2010	2011	2012	2013	2014[f]	2015[f]
Global GDP (% change)	**-0.4**	**5.2**	**3.9**	**3.4**	**3.3**	**3.3**	**3.8**
Advanced Economies	-3.4	3.0	1.7	1.2	1.4	1.8	2.3
Emerging and Developing Economies	3.1	7.5	6.3	5.1	4.7	4.4	5.0
World Merch. Trade (Vol., % change)	**-11.7**	**14.0**	**6.6**	**2.7**	**2.7**	**3.8**	**5.1**
World Merch. Exports (US$ trn)	**12.5**	**15.2**	**18.1**	**18.2**	**18.7**	**19.3**	**20.1**
Growth in Value of World Merch. Exports (%)	**-22.0**	**21.6**	**19.5**	**1.0**	**2.5**	**3.4**	**4.2**

Source: GOI's Economic Survey, Various issues ; Union Budget Document ; RBI Annual Report, Monthly Bulletin, & Weekly Statistical Supplement; Ministry of Finance; CSO; EIU; NASSCOM; Ministry of Commerce & Industry; Institute of International Finance ; WEO, IMF.

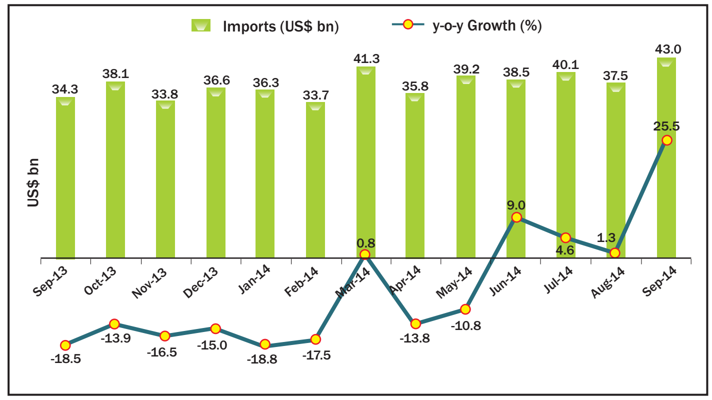
Note: [e] - GOI's estimates; [f] - forecasts ; ^-% change is over corresponding period of the previous year; - Not Available; * - Budget 2014-15 estimates real GDP growth in the range of 5.4 to 5.9 per cent in 2014-15; **- Data from 2009-10 onwards is given by RBI as per new format of standard presentation of BoP statistics based on guidelines set out in IMF Balance of Payment Manual.

Chart 1: India's Exports – Monthly and Percent Change



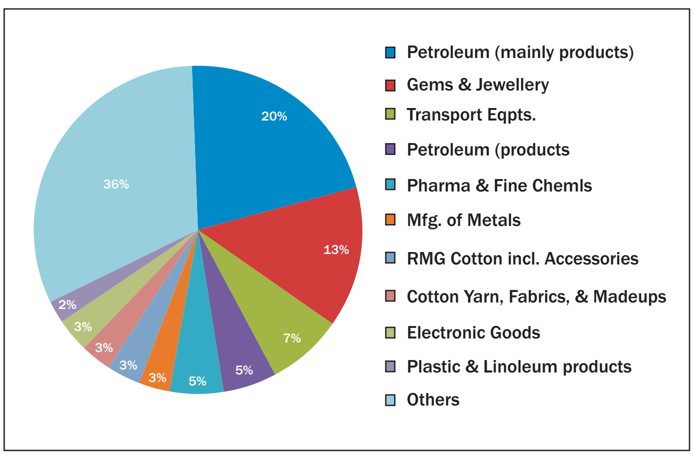
Source: MOCI

Chart 2: India's Imports – Monthly and Percent Change



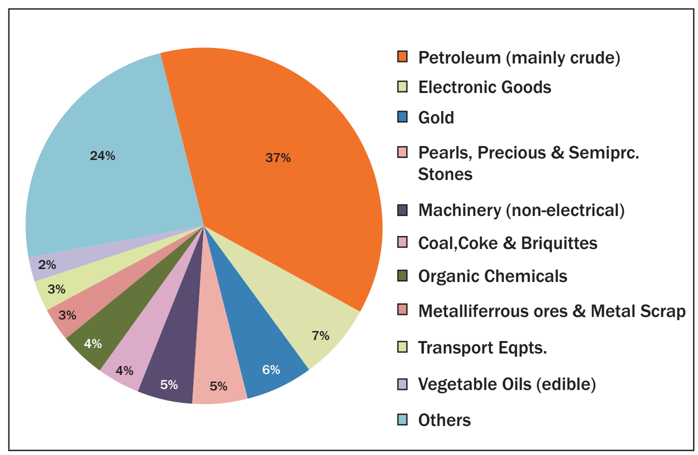
Source: MOCI

Chart 3: India's Export Composition in 2013-14



Source: MOCI

Chart 4: India's Import Composition in 2013-14



Source: MOCI

Chart 5: India's Share in World Merchandise Exports

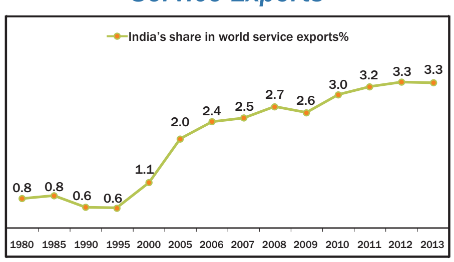
Notes:

1) China emerged as the leading global exporter in 2009, replacing Germany.

2) India is the 19th largest global exporter in 2013, up from 26th position in 2007, and 32nd position in 2000.

Source: WTO (Accessed on September 30, 2014)

Chart 6: India's Share in World Service Exports



Notes:

1) India is the 6th largest global service exporter in 2013, up from 7th position in 2012 and 9th position in 2011, 11th position in 2009, and 15th position in 2005.

Source: WTO (Accessed on September 30, 2014)

Note : Indian Rupees are referred in crore and lakh

1 crore : 10 million

1 lakh : 100 thousand

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Trade and Partnership Opportunities

Trade Opportunities

Dairy Equipment & Machinery

Manufacturer & exporter offering wide range of products for the Dairy Industry such as dairy equipments, stainless steel milk cans, buckets & utensils, storage system, dairy product machineries and solar refrigerator.

Block Printing Textile

Block printing artisans from Jaipur, Rajasthan, involved in manufacturing readymade garments and textiles products with an effort to keep the traditional art form alive. Products offered are fabrics, scarves, tote bag, skirt, shirt, bags and trousers.

Industrial Goods

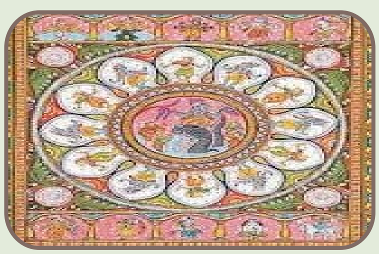
An ISO 9001:2008 certified manufacturer exporter of lifting equipment offering complete range of lifting solutions. Products offered are chain pulley blocks, electric wire rope hoist, electric chain hoist, EOT crane, jib cranes, gantry cranes and link chains.

Steel Products

India's largest exporter of flat products with fully integrated flat carbon steel manufacturing facility. Exports iron ore to ready to market products like pre-painted galvanized steel coil, hot rolled and cold rolled steel coil, and wire rods to more than 20 countries across the globe.

Pattachitra Paintings

A Traditional cloth-based scroll painting originating from the state of Odisha. These paintings are based on Hindu mythology. All colors used in these paintings are natural and are made in traditional way by skilled painters.



Automobile Parts

India's leading Original Equipment Manufacturer (OEM) offering expanded range of products such as EPDM rubber, PVC, nitrile, door seal, window channel, TPE extruded sealing products and radiator hoses.

Investment Opportunities

Partnership opportunities for Indian companies

A Mozambique based company is seeking Indian companies interested in considering partnership for EPC, technology supplier and/or potential equity investor for construction of an industrial fertilizer plant for producing raw material such as nitric acid, and fertilizers such as ammonium nitrate, NPK and DAP. In the second phase, the company aims to scale-up the production of ammonia, urea and nitrogen and construct a co-generation power plant (220 MW) in Mozambique.

Partnership Merits : Leverage the strategic location to export to Asian market and neighbouring African countries.

Interested parties may like to reach out to Marketing Advisory Services Group on contact details mentioned as under.

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