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## Indian Pharmaceutical Industry : Challenges & Prospects

### GLOBAL SCENARIO

The pharmaceutical industry is evolving at a rapid pace, accompanied by an increase in demand for pharmaceuticals in the emerging markets, and the advancement in technology. Globally, the pharmaceutical market was estimated at US\$ 1027.2 billion during the year 2014. North America (mainly the USA), Europe and Japan are the dominant markets in the global pharmaceutical industry. The North American market remained the single-largest market and accounted for more than a third of the total pharmaceutical sales in the year 2014. The pharmaceutical sales in Europe during the year 2014 accounted for nearly 22.3 per cent of the global market share. Pharmaceuticals sales in the Asian, African and Australian regions grew by 9.1 per cent during the year 2014, and jointly accounted for approximately 19.4 per cent of the world pharmaceutical market. Japan and Latin America had shares of 7.9 per cent and 7 percent respectively in the global pharmaceutical market.

Global exports of pharmaceutical products (HS Code 30) registered a modest growth at a CAGR of 3.6 per cent between 2010 and 2014, from US\$ 443.2 billion to US\$ 510.3 billion. Germany was the leading exporter of pharmaceutical products (with a share of 15.6 per cent in global exports) during the year 2014, followed by Switzerland (12.3 per cent), Belgium (9.8 per cent), and the USA (8.6 per cent). In terms of growth, exports from India registered the highest growth at a CAGR of 17.6 per cent during the period 2010 to 2014, followed by Italy at a CAGR of 11.5 per cent, and Denmark at a CAGR of 10.1 per cent. The United States of America was the largest importer of pharmaceutical products globally with a share of 13.8 per cent in the worldwide imports.

### INDIAN SCENARIO

As per industry estimates, globally, the Indian pharmaceuticals market is estimated to be the third largest in terms of volume and thirteenth largest in terms of value. The exports of pharmaceutical products have displayed a moderate growth during

the year 2015-16, despite global trade slowdown. The exports of bulk drugs during the year 2015-16 were valued at US\$ 3.6 billion; these exports have displayed a marginal growth of approximately 0.8 per cent during this period. The exports of drug formulations have increased at a year-on-year growth rate of 12.8 per cent and amounted to US\$ 12.6 billion during 2015-16. The major export destinations for drug formulations during the year 2015-16 were: the USA (with a share of 39.5 per cent) followed by South Africa (4.1 per cent), the UK (3.6 per cent), Nigeria (3.0 per cent) and Russia (2.7 per cent).

The USA is the leading importer of bulk drugs from India and its share in the aggregate exports during the year 2015-16 was approximately 11.2 per cent. The other significant importers of bulk drugs from India are Germany (4.2 per cent), Turkey (3.4 per cent), Iran (3.3 per cent), Brazil (3.2 per cent), and Egypt (3.2 per cent).

### CHALLENGES & PROSPECTS

#### Select External Challenges

##### Trade Agreements

The Trans Pacific Partnership Agreement (TPP) and The Transatlantic Trade and Investment Partnership (TTIP) are forecast to have serious implications on Indian pharmaceutical industry. The collective impact of the TPP on the pharmaceutical industry is anticipated to grant at least 10 years of additional monopoly to innovator companies in several ways, which is forecasted to reduce the pressure on innovators to research new drugs. The TTIP may prevent Indian pharma companies to come to market with the same products that they used to trade over the years using the window of preference treatment for the members. These pacts are projected to largely affect the Indian generic industry. According to the industry sources, the decline in generics is forecast to be discernible from the end of 2017 and a greater impact of these mega trade deals is envisaged to be felt by 2020.

### **PICS & EU-Trademark**

PIC/S' regulatory requirements is envisaged to be a vital challenge for the Indian pharma industry especially for companies in the MSME pharma segment, who will have to invest significantly to upgrade their facilities to be at par with the harmonized GMP framework of the PICS. While attaining the membership is challenging, the industry is also of the consensus that not joining PICS may be more detrimental for the industry particularly in terms of losing market access in the PICS member countries, which is rising in numbers. The European Union's (EU) new trademark legislation that stipulates stricter enforcement measures on goods in transit through its territories not only blocks trading of goods within the bloc with logos found similar to the ones registered in the EU, but also permits the seizure of such consignments at EU ports and airports even if they are meant for a third country.

### **Select Internal Challenges**

#### **Data Integrity**

The shortage of skilled manpower has emerged as a major hurdle in the development of the pharmaceutical industry in India. Combined regulatory staff, at federal and state levels, including inspectors is estimated to be around 1500, currently, which is far from sufficient, considering that India has over 10,000 drug manufacturing facilities. This is in sharp contrast with the fact that the USA has 15000 regulatory staff for 3000 pharma manufacturing facilities.

#### **Credibility of Clinical Trial Data**

There has been a huge growth in the number of clinical trials undertaken in the country; however, capacity to regulate clinical trials has not kept pace with this growth leading to a few reported unethical practices such as: limited patient compensation for adverse events; approval of drugs without clinical trials; and lapses in informed consent

procedures. While the Government of India has enhanced the regulatory control measures, the delays in new drug approvals as a result of the new regulatory control regime has been also making some of the multinational pharma companies to rethink their clinical trial activities in India.

#### **IPR**

Intellectual property rights (IPR) in the pharma sphere have been a contentious issue globally. The granting of a Compulsory License (CL) leads to revenue loss. In a recent order in India by the Controller of Patents, it has been held that granting a CL should be the last resort and efforts for obtaining a voluntary license should be made first.

#### **Over Dependence on China for Bulk Drug and APIs**

Indian pharma industry imports metformin, analgesics paracetamol, ranitidine, vitamin C and its intermediates from China in large quantities. India is largely dependent on China for almost all APIs by fermentation route, such as penicillin, cephalosporins and macrolides. The over dependence situation on China for important bulk drugs and API is of significant concern for Indian pharmaceutical industry as any shift in Chinese policies or eco-political conditions between the two countries may result in a significant setback for the Indian formulation industry.

#### **R&D**

The analysis of new drug pipeline of leading Indian pharma companies shows that the new patent regime has not been able to become the driving force; there are also complaints that the R&D activities of Indian firms are increasingly getting concentrated on life style diseases of global nature and they find little opportunity in addressing the drug delivery requirements of local diseases such as TB and malaria. In contract research, Indian firms have been partners of subordinate status who

perform piecemeal projects in drug research and they are not exposed to the whole process of new drug development. The subordinate status of the Indian firms in the long run may result in a dependency relationship of Indian firms with the MNCs.

### **WAY FORWARD**

#### **Trade Agreements and Market Access Negotiations**

India may consider joining the TPP; alternately, India may consider pursuing other Free Trade Agreements (FTAs) more diligently factoring its concerns of trade barriers. In the current scenario, however, India may hold an observer status in PIC/S until it decides on the membership issue. Further, India may also consider forming a Strategic Committee for countering and erecting technical barriers to trade including IPR for better negotiations. For market access, in addition to relying on traditional information sources, companies may consider participating in local projects and partnering with local firms. Partnering with local firms on R&D could be a strategy to shorten the approval times and reduce development and marketing costs.

#### **Regulatory Compliance**

Indian pharmaceutical companies should be pursuing stronger compliance and risk management capabilities, rather than to merely satisfying the emerging legal requirements. Taking a risk-based approach to compliance planning, execution, and monitoring may help in a heightened regulatory environment. It may enable companies to focus on critical risk areas that need attention while reducing emphasis and effort on less critical ones. Preparedness and skill development on documentation, statistical techniques as per regulatory requirements are other important areas where Indian pharma companies need to invest. In order to bring in uniformity in the regulatory mechanism there is a need for extensive revamp or restructuring of the

Drug and Cosmetics Act (1940) and the departments implementing it. This may also help in addressing the increasing concern of counterfeit drugs reportedly produced in this country.

#### **Pricing and cost pressures**

To improve the chances for product approval at favorable pricing, pharma companies may consider transitioning to a strategy of developing new drugs or drug delivery mechanisms that target complex disease areas that are high in value but low in competition. Furthermore, they should take the necessary steps to ensure that the effectiveness of these new drugs or drug delivery mechanisms is not easily replicable.

#### **Manufacturing of Bulk Drugs and Intermediaries**

Increased production of essential drug intermediaries and APIs at competitive prices should be the current focus of the Indian pharmaceutical industry to ensure adequate supply of essential raw materials and attain self-sufficiency, and reduce the dependence on imports.

#### **Research and Development**

To promote novel research and development in the areas of neglected tropical diseases, there is a need for short/medium/long term policy to further incentivize the private sector for new drug development and bringing down the commercialization barriers in these areas. Public-Private Partnerships (PPPs) need to be more commercially oriented and proactive in bringing innovations to the market. To commercialize new drugs developed for neglected tropical diseases, there is also a need to promote them by providing incentives to the private sector in the form of subsidies, or through drug assistance programmes, or by reviving public sector R&D for development of these drugs.

#### **IPR**

To promote IPR activity in the Indian

pharmaceuticals industry, the pharmaceutical companies need to be encouraged to undertake new drug discoveries, innovate new dosage forms, and new uses of existing drugs. This may be done through subsidizing the cost of filing and maintenance of patents, and supporting the cost of litigations and other legal formalities. There is an urgent need for the SMEs to develop collaborative research culture with the public and privately funded research organisations for their survival and increased participation in IPR activities.

#### **Clinical Research & Trials**

To address the unethical practices in clinical research and encourage clinical trials in India, the approval mechanisms for protocols need to be more transparent and time efficient. In addition, a policy promoting clinical research and innovation needs to be supported by action at various levels, which may include rationalizing regulations, capacity building, accreditation of investigators, establishing sites and ethics committees, supporting infrastructure development, creating public education and awareness, and ensuring transparency and openness.

#### **Pharma-SME Development**

To help pharma SMEs realize their potential to venture abroad, there is an urgent need to strengthen their access to national research laboratories, promoting pharmaceutical SME clusters, and continuous training and skill development programmes that help them venture abroad.

#### **Cluster Development**

Setting up of pharma specific clusters in SEZ formats may help the industry in addressing the regulatory requirements and resultant costs. Common facilities, including common patent libraries, effluent treatment plants, and low-cost power may be some of the constituents of the clusters.

#### **Skill Development and Training**

There is a need to focus on skill development and training of personnel engaged in the pharmaceutical and life sciences industry in various areas, such as analytical ability, manufacturing and quality management, documentation skills, skills to comply with regulatory requirements and statistical techniques. Academic syllabus of pharmaceutical training institutions may include these areas.

#### **Pricing of Formulations**

According to the industry, a stable pricing policy or market based price control may continue to encourage the formulation industry to invest in R&D in NDDS and dosage forms. It was also suggested that the prices of the patented products may be regulated on Purchasing Power Parity basis.

#### **OUTLOOK**

According to the IMS Health, the total use of medicines is expected to reach 4.5 trillion doses by the year 2020, registering an increase of 24 per cent as compared to the 2015 levels. It has been anticipated that the global increase in the volume of medicines utilized till the period 2020, will majorly occur in India, China, Brazil, Indonesia and Africa. The global spending on medicines is expected to reach US\$ 1.4 trillion by 2020, representing an increase of 29 per cent to 32 per cent from the 2015 levels. According to industry sources, the Indian Pharmaceutical industry is expected to grow at 12-14 per cent CAGR during the period 2015-16 to 2020-21. A rapid increase in exports of formulations and bulk drugs to the regulated markets has also been predicted. Regulated markets are predicted to be the leading export destinations of Indian pharmaceutical products in the future. The exports of generic off-patent bulk drugs to the regulated markets are anticipated to rise in the future.

### Introduction

Caribbean Community (CARICOM) is one of the major trade blocs in the Latin America and Caribbean region. The CARICOM was established by the Treaty of Chaguaramas, Trinidad and Tobago, which came into effect on August 1, 1973. It comprises of 15 countries viz. Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, The Bahamas, Haiti and Suriname. The Chaguaramas Treaty was amended between 1993 and 2000, to create a new version of the Treaty, known formally as The Revised Treaty of Chaguaramas, heralding the establishment of the CARICOM Single Market and Economy (CSME), which came into effect in January 2006. CSME is intended to benefit the people of the Region by providing more and better opportunities to produce and sell goods and services and to attract investment, by allowing the free movement of labour, capital, goods and services within CARICOM<sup>1</sup>.

### India's Bilateral Trade Relations with the CARICOM

India's trade with CARICOM countries has witnessed a sharp decline, from US\$ 2890.4 million in 2011 to US\$ 739.9 million in 2016. While India's imports from CARICOM have gradually risen from US\$ 229.2 million in 2011 to US\$ 470.6 million in 2016, the exports to CARICOM have witnessed a steep fall of nearly ten times, from US\$ 2661.2 million in 2011 to US\$ 268.7 million in 2016. Consequently, the trade balance too, has declined sharply over the period, from a surplus of US\$ 2432 million in 2011 to deficit balance of US\$ -201.9 million in 2016.

Among the CARICOM countries, Trinidad and Tobago is India's largest trading partner, accounting for 30.33 per cent of India's total exports to CARICOM and 32.8 per cent of India's total imports from

CARICOM during the year 2016. Other major export destinations for India in CARICOM are Haiti, Jamaica, Belize and Barbados, while the major import sources for India in CARICOM are Bahamas, Guyana and Suriname.

India's major exports to CARICOM include Pharmaceutical products (21.8 per cent of exports in 2016), Vehicles other than Railway or tramway (12.9 per cent), Iron and Steel (8.8 per cent), Plastics and articles (6 per cent), Clothing and Apparel (4.8 per cent) and Preparations of cereals, flour, starch or milk (4.8 per cent)

India's major imports from CARICOM includes Ships, boats and floating structures (54 per cent of imports in 2016), Mineral fuels, oils, and its distillation products (29.6 per cent), Wood and articles of wood (11.3 per cent), Inorganic Chemical and compounds of precious metals (2 per cent), and iron and steel (1 per cent).

### India's Investment Relations with the CARICOM

#### CARICOM's Investment in India

CARICOM's total FDI in India amounted to US\$ 139.65 million during the period April 2000-December 2016. St. Vincent and the Grenadines is the largest source for investment from the CARICOM region, with a share of 40 per cent in the total FDI from the region. The Bahamas (28.1 per cent), St. Kitts & Nevis (24 per cent), Belize (4.9 per cent), and Trinidad and

Tobago (1.8 per cent) are the other major investors in India from the CARICOM region.

#### Indian Investment in CARICOM Countries

During April 1996 to November 2016, the total Foreign direct investment from India to CARICOM region amounted to US\$ 191.4 million. Bahamas is the largest destination of India's investments in the region, with a share of 84.4 per cent in total, followed by Guyana (11.4 per cent).

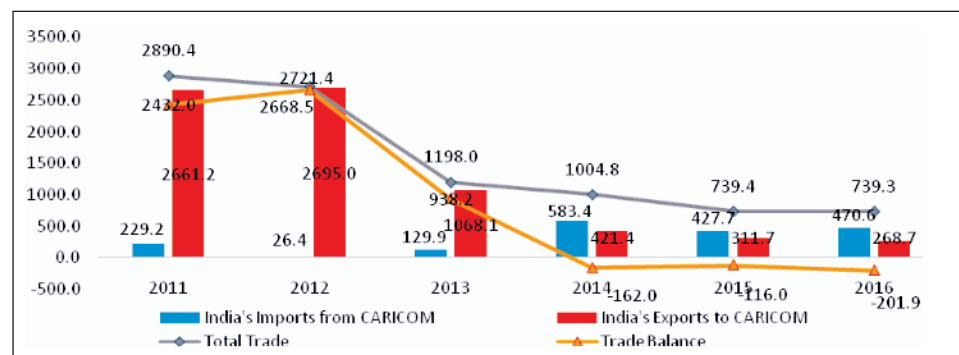
### India-CARICOM Relations: Recent Initiatives

During the Second India-Caribbean Community (CARICOM) Ministerial Meeting held in New York on September 30, 2015, both sides discussed on further strengthening India-CARICOM bilateral relations, through cooperation in capacity building; promotion of business and trade; enhancement of people to people contact, training in various fields such as project management, information technology, agri-business etc; the holding of business events and cultural festivals; and facilitation of visas. Both sides agreed that the existing levels of trade are much below potential. In this regard, the CARICOM side welcomed India's proposal to hold a trade promotion event next year within the region<sup>2</sup>.

<sup>1</sup>Ministry of External Affairs, Government of India "Caribbean Community and Common Market (CARICOM) January 2013"

<sup>2</sup>Ministry of External Affairs, Government of India

Chart 1 : India's Trade with CARICOM Countries (in US\$ Million)



Source : ITC Trademap, UN COMTRADE

The Association of South East Asian Nations (ASEANS) which comprises of Indonesia, Singapore, Malaysia, Cambodia, Laos, Vietnam, Myanmar, Philippines, Brunei, Thailand are an important trading partner for India under the 'Act East Policy'. India launched the 'Look East Policy' in 1991, became a sectoral dialogue partner with ASEAN in 1992 and a full dialogue partner in 1996. Further, ASEAN India centre (AIC) was established in 2013, for strengthening the AI partnership and promoting dialogue and cooperation in the areas of interest. In April 2015, India set up a separate mission to ASEAN in Jakarta with a dedicated ambassador to strengthen engagement with ASEAN and ASEAN centric processes.

The extent of India ASEAN trade is well reflected in the following trade statistics. The total trade increased fourfold from US \$ 16.1 billion in 2004 to US \$ 64.7 billion in 2016, with a peak of US \$ 80.2 billion in 2013. India maintains a trade deficit with ASEAN since our imports far exceed exports. Trade deficit widened to US \$ 15.1 billion in 2015, while in 2016 it has narrowed down to US \$ 11.8 billion. The fall in the exports in recent years is mainly because of a fall in the exports of mineral fuels & oils and their products from US \$ 11.1 billion in 2013 to US \$ 4.3 billion in 2016, organic chemicals from

US \$ 2.1 billion in 2012 to US \$ 1.2 in 2016. Imports of animal & vegetable fats and oils have seen a consistent decline from US \$ 8 billion in 2012 to US \$ 5.7 in 2016, similarly mineral fuels and mineral oils have declined from US \$ 10.3 in 2012 to US \$ 7.7 billion in 2016.

Among the ASEAN nations Singapore (27.9 per cent), Vietnam (22.6 per cent), Malaysia (15.9 per cent), Indonesia (11.9 per cent) are the biggest export destinations for Indian exports. India's exports to ASEAN mainly include minerals; oils and their products (16.4 per cent), meat and its products (10.1 per cent), machinery & boilers (6.6 per cent), ships, boats and floating structures (6 per cent), fish and its products (5.8 per cent), pearls; precious metals and stones (4.4 per cent), organic chemicals (4.4 per cent) etc.

Indonesia (31.9 per cent), Malaysia (22.6 per cent), Singapore (17.6 per cent), Thailand (14 per cent) are the biggest importers to India among the ASEAN nations. India imports mineral fuels & oils and their products (20.2 per cent), animal or vegetable fats and oils (15 per cent), electrical machinery; equipment and parts thereof (11.5 per cent), organic chemicals (4.8 per cent), plastics and articles (4.4 per cent) etc.

India's cumulative FDI in ASEAN countries from April 1996 to March 2016 stood at

US \$63.2 billion. Singapore is the biggest destination of Indian FDI. Similarly, the FDI inflow from these countries is around US \$ 47.7 billion from April 2000 to March 2016, which is 16.5 per cent of all the FDI inflow in that period. This makes ASEAN the second largest investor in the Indian market after Mauritius (33.2 per cent). Within the ASEAN nations, Singapore leads and by a huge margin. Around 96 per cent of the total cumulative FDI by ASEAN in India comes from Singapore. Other significant investors are Indonesia, Malaysia and Thailand.

India's cooperation with ASEAN is further reflected in the implementation of various projects in the fields of Agriculture, Science and Technology, Space, Environment & climate change, Human resource development and capacity building, New and renewable energy, Tourism, People to People contacts and connectivity etc. Programmes and projects totalling over US\$ 48.85 million have been proposed since September 2011 till date to ASEAN through the ASEAN Secretariat. The eighth edition of Delhi Dialogue, an event for discussing political security and economic issues between India and ASEAN, concluded in February 2016. It focused on mutual security and economic issues and had a business, ministerial and academic session.

| Year                 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| <b>Imports</b>       | 8.5  | 10.6 | 16.3 | 21.0 | 26.7 | 24.0 | 29.6 | 40.3 | 42.7 | 42.3 | 44.5 | 41.5 | 38.2 |
| <b>Exports</b>       | 7.6  | 10.3 | 12.4 | 13.8 | 19.4 | 17.9 | 23.0 | 34.5 | 32.3 | 37.9 | 31.3 | 26.4 | 26.4 |
| <b>Total Trade</b>   | 16.1 | 20.9 | 28.7 | 34.9 | 46.1 | 41.9 | 52.6 | 74.8 | 75.0 | 80.2 | 75.8 | 67.9 | 64.7 |
| <b>Trade Deficit</b> | 1.0  | 0.3  | 3.9  | 7.2  | 7.3  | 6.1  | 6.7  | 5.8  | 10.4 | 4.4  | 13.2 | 15.1 | 11.8 |

Source : Trade Map, ITC Geneva

India and Iran have shared common ties in the form of language, culture and traditions. The two countries shared the border till 1947. Diplomatic relations between independent India and Iran were established on March 15, 1950. The "Tehran Declaration" signed in 2001 during the visit of then Prime Minister Atal Bihari Vajpayee to Tehran set the possible areas of cooperation between the two nations. This was further enhanced by the "New Delhi Declaration" in 2003 which set forth the vision of a strategic partnership between India and Iran. 12 MoUs/Agreements on issues like cultural exchange, science and technology, port development, mining, construction and infrastructure were signed during Prime Minister Narendra Modi's visit to Iran from May 22-23, 2016. A Trilateral Agreement was also signed on Transit and Transport between India, Iran and Afghanistan. The 18th India-Iran JCM was held in New Delhi on December 28, 2015 which witnessed signing of MoU on cooperation in areas like trade, finance, energy, infrastructure and cultural issues.

### India's Trade with Iran

India-Iran terms of trade has been tilted towards Iran as a result of import of crude oil by India. Therefore over the years India has been having a trade deficit with Iran. The trade deficit has been the highest in 2011-12 and stood at US\$ 11.4 billion as a result of the surge in imports valued at US\$ 13.8 billion (as shown in Figure 1). Total trade between the two countries also peaked in this year and amounted to US\$ 16.2 billion. Bilateral trade however started falling post 2011-12 as a consequence of the economic sanctions imposed on Iran as the international banking channels had gradually become non-existent. Now that the economic embargo has been lifted in 2016, trade relations are expected to improve with the current figure of India's export to Iran for April-January (2016-17) valued at US\$ 1.9 billion and imports from Iran valued at US\$ 8.2 billion for the corresponding period. Iran was the

thirtieth largest export destination in 2016 with a share of 0.9 per cent in India's global exports. Iran was also the fourteenth largest source of India's imports, with a share of 2.3 per cent of India's global imports.

India's exports to Iran include rice, tea, iron and steel, organic chemicals, metals, electrical machinery, drugs / pharmaceuticals, etc. India's imports from Iran is majorly dominated by petroleum and its products accounting for 71 per cent of total imports followed by inorganic/organic chemicals, fertilizers, plastic and articles, edible fruit and nuts, glass and glassware, natural or cultured pearls, precious or semiprecious stones, etc. India was the second largest buyer of Iranian crude after China and Iran was the third largest supplier of crude to India during April-September 2016.

### India's Investment Relation with Iran

During April 1996 to November 2016, the cumulative approved Indian FDI in joint ventures and wholly owned subsidiaries (FDI outflow) in Iran stood at US\$ 179.5 million. Indian companies such as ESSAR, OVL, Tata Steel, Persia Rohit Mines & Industries Company, etc. have presence in Iran. The State Bank of India (SBI) has a representative office in Tehran.

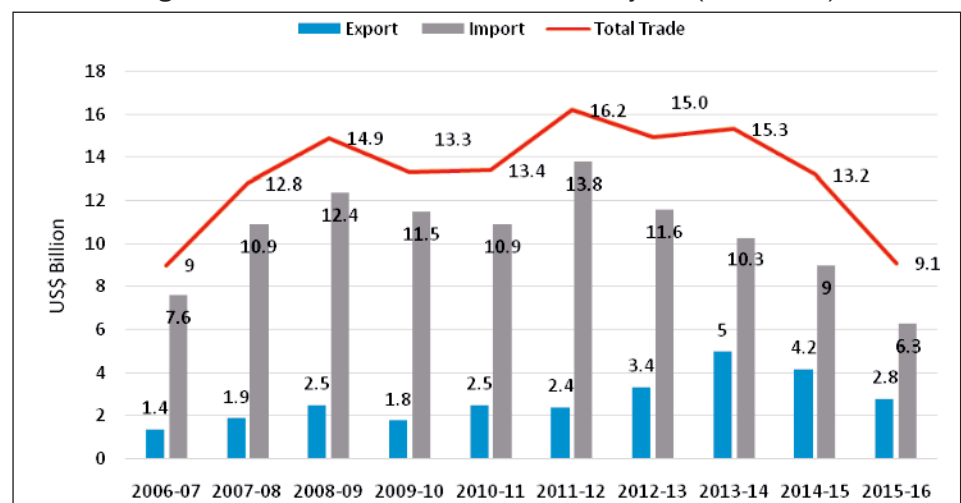
During April 2000 to December 2016, India's total foreign direct investment

inflows from Iran amounted to US\$ 1.0 million. Joint Ventures between India and Iran include the Irano-Hind Shipping Company, the Madras Fertilizer Company, and the Chennai Refinery.

### India's Pact with Iran for Chabahar Port

In 2003, India and Iran had agreed to execute the Chabahar project, but the venture was delayed due to the Western curbs. During the visit of Prime Minister Narendra Modi to Tehran in May 2016, the contract on Chabahar was signed which inter-alia commits to Indian investment of US\$85 million for equipping the Chabahar port. The Trilateral Transit Agreement (Chabahar Agreement) was signed by the three transport ministers of India, Iran and Afghanistan. This port will act as a strategic transport and trade corridor through Afghanistan giving India access to international markets like Europe and Central Asia thus saving time and cost of doing business. A bilateral contract has been signed for port development and operations between IPGPL (India Ports Global Private Limited) and Arya Banader of Iran. The contract envisages development and operation for 10 years of two terminals and 5 berths with cargo handling (multipurpose and general) capacities.

Figure 1 : India's Trade with Iran in last ten years (US\$ Billion)



Source : Department of Commerce, Export Import Data Bank

1. Export-Import Bank of India 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's LOCs provides a risk-free, non-recourse export financing option to the Indian exporting community, which helps them penetrate new markets and enhance their export volumes in the existing markets overseas. 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 infra structural projects, equipment, goods and services from India, on deferred credit terms. Exim Bank also extends LOCs with the support of Government of India. Under the Lines of Credit extended with the support 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. The Bank has now in place 212 Lines of Credit, covering over 63 countries in Africa, Asia, Latin America, Europe and the CIS, with credit commitments of over US\$ 15.86 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 to developing countries.

2. Exim Bank, with the support of Government of India, has signed eight LOCs as given below during the period July-September 2016 :

[i] Two LOCs of US\$ 15 million and US\$ 29.95 million were extended to the Government of Kenya for Development of various small and medium enterprises and Upgrade of Rift Valley Textiles Factory (RIVATEX East Africa Ltd) respectively. With the above two LOCs, Exim Bank, till date, has extended three LOCs to Kenya, with the support of the Government of India (GOI), taking the total value of LOCs extended to US\$ 106.55 million. The earlier LOC was extended to

Government of Kenya for power transmission lines.

[ii] An LOC of US\$ 23.50 million was extended to the Government of Malawi for construction of a new water supply system from Likhubula river in Mulanje to Blantyre. With the above LOC, Exim Bank, till date has extended four LOCs to Malawi, with the support of GOI, taking the total value of LOCs extended to US\$ 180 million. The earlier LOCs were extended to Government of Malawi for irrigation, tobacco threshing plant, cotton processing facilities, green belt initiative, irrigation network, sugar processing equipment and fuel storage facility.

[iii] An LOC of US\$ 30 million was extended to the Government of Niger for Solid Waste Treatment cum Landfill Project. With the above LOC, Exim Bank, till date has extended five LOCs to Niger, with the support of GOI, taking the total value of LOCs extended to US\$ 126.54 million. The earlier LOCs were extended to Government of Niger for supply of buses, automobiles, flour mills, motor pumps, solar electrification and solar photovoltaic system, potable water for semi-urban and rural communities.

[iv] An LOC of US\$ 26 million was extended to the Government of Senegal for Acquisition of buses. With the above LOC, Exim Bank, till date has extended twelve LOCs to Senegal, with the support of GOI, taking the total value of LOCs extended to US\$ 288.28 million. The earlier LOCs were extended to Government of Senegal for supply of Buses, Irrigation Project, IT training projects, Rural electrification project, Supply of medical equipments to hospitals, Fisheries Development Project etc.

[v] An LOC of US\$ 78 million was extended to the Government of Sierra Leone for Transmission Line and Substation in Sierra Leone. With the above LOC, Exim Bank, till date has extended three LOCs to Sierra Leone, with the support

of GOI, taking the total value of LOCs extended to US\$ 123 million. The earlier LOCs were extended to Government of Sierra Leone for procurement of tractors and connected implements, harvesters, rice threshers, rice mills, maize shellers, pesticide spray equipment and rehabilitation of existing facilities and infrastructure to supply potable water.

[vi] An LOC of US\$ 92.18 million was extended to the Government of Tanzania for rehabilitation and improvement of water supply system in Zanzibar. With the above LOC, Exim Bank, till date has extended five LOCs to Tanzania, with the support of GOI, taking the total value of LOCs extended to US\$ 615.22 million. The earlier LOCs were extended to Government of Tanzania for supply of tractors, pumps and equipments, Water supply schemes to Dar-es-Salam and extension of Lake Victoria pipeline to Tabora, Igunga and Nzega.

[vii] An LOC of US\$ 750 million was extended to the Government of Nepal for post-earthquake rehabilitation projects. With the above LOC, Exim Bank, till date has extended four LOCs to Nepal, with the support of GOI, taking the total value of LOCs extended to US\$ 1,650 million. The earlier LOCs were extended to Government of Nepal for road projects, rural electrification projects, power transmission projects and hydro power projects.

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### **Exim Bank Signs and MoU with Government of Andhra Pradesh to facilitate State's Exports**

Exim Bank of India and the Government of Andhra Pradesh have entered into a Memorandum of Understanding (MoU) for promotion of exports from Andhra Pradesh. The MoU was signed by the Chairman and Managing Director of Exim Bank, Mr. Yaduvendra Mathur, and Mr. Shamsher Singh Rawat, Secretary and Commissioner for Industrial Promotion, Government of Andhra Pradesh. Exim Bank seeks to support the exporters having operations in Andhra Pradesh in achieving higher exports by facilitation of market linkages through its market advisory services, which will assist in identifying suitable partners. Besides, the Bank would help develop skills through capacity building workshops, help the exporters' participation in select trade fairs and exhibitions, and through research activities. Exim Bank would also use its strong institutional linkages that it has developed over the years with institutions in advanced markets like USA, Singapore, Japan, Australia, EU, etc, and facilitate technology transfer to the technology-seeking enterprises in Andhra Pradesh. With its presence through a Regional Office in Hyderabad, the Bank is desirous of further extending funding facilities to exporters from the State so as to provide them opportunity to access the global market.

### **Exim Bank of India strengthening South-South Cooperation**

Export-Import Bank of India organized a Capacity Building Workshop for Global Network of Export-Import Banks and Development Financial Institutions (G-NEXID) in Mumbai during September 26-30, 2016. The G-NEXID was formed in 2006 under the aegis of UNCTAD, and has 25 institutions from across the globe. The Workshop was inaugurated by Mr. Yuri Afanasiev, UN Resident Coordinator and UNDP Resident

Representative in India, in the presence of Mr. Yaduvendra Mathur, Chairman and Managing Director, Exim Bank. Both agreed and stressed upon the impending role of the developmental financial institutions in the changing global scenario. The objective of hosting the Workshop was to strengthen the South-South cooperation in alignment with the G-NEXID's mandate, and facilitate cross learning. The Workshop includes interactions with India's premiere financial institutions across areas like export finance, SMEs, infrastructure, credit insurance, trade finance, apart from engaging with Reserve Bank of India and a noted Indian conglomerate. The five day workshop has participation from BNDES (Brazil), Development Bank of Zambia, ECOWAS Bank for Investment and Development (Togo), Indonesia Eximbank, Nigerian Export-Import Bank, and Saudi Export Promotion Board.

### **Exim Bank of India raises USD 1 billion for 10 year tenor at acoupon of 3.375% p.a.**

The Export-Import Bank of India, on July 28, 2016, successfully launched a 10 year Bond issue of US\$ 1 bn, it's inaugural transaction in the 144A/Reg S format. This was the largest issuance ever for Export-Import Bank of India and also the largest single tranche issuance out of India in 2016. The issue attracted a total order book in excess of US\$ 2.50 billion thereby achieving 2.5x over subscription of the issue size from over 157 investors. Initially announced for US\$ 500 mn, the issue was upsized to US\$ 1 bn based on strong demand from the investors. The funds thus raised will be used by the Bank to support Indian project exports, overseas investment by way of long term credit and it's lines of credit portfolio. Having initially marketed the deal at 210 basis points over U.S. Treasuries, the Bank was able to achieve a final pricing of 187.5 basis points over U.S. Treasuries, to yield 3.383% on a coupon of 3.375% resulting in negative new issue premium

against a very strong market backdrop. Yield achieved on the Notes is the lowest on a US\$ 500 mn deal by an Indian Entity since 2000. In terms of geographic distribution, the Notes were distributed 61% in USA, 20% in Asia and 19% in the Europe. U.S. institutional investor allocation of 61% was the highest ever for any Bank/FI out of India. Bank of America Merrill Lynch, Barclays, Citigroup, JP Morgan and Standard Chartered Bank acted as Joint Lead Managers and book runners for the offering.

### **Exim Bank releases paper on "Indian Pharmaceutical Industry: Challenges and Prospects"**

Exim Bank has prepared a comprehensive study entitled "Indian Pharmaceutical Industry: Challenges and Prospects", the first copy of which was presented to Ms. Rita A. Teatota, Commerce Secretary, Ministry of Commerce & Industry, Government of India, at New Delhi on August 31, 2016. The Study has noted that although the Indian pharmaceutical industry has acquired a noteworthy position in the global pharma sector, there are various challenges faced with regard to the changing regulatory environment and slowdown in trade. The Study highlighted that the Trans Pacific Partnership Agreement (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) Agreements are likely to have serious implications for the Indian pharmaceutical industry, and could materially affect the Indian generic industry. Moreover, the Pharmaceutical Inspection Co-operation Scheme (PICS) regulatory environment is envisaged to be a vital challenge for the India pharma industry, particularly the MSME pharma segment, as they would have to invest significantly to upgrade their facilities to be at par with the harmonized GMP framework of the PICS.

The machinery sector is of strategic importance to the Indian economy and forms the backbone of manufacturing activity. The sector has a multiplier effect on overall economic growth and facilitates development of a wide range of user industries by providing critical inputs necessary for manufacturing. Therefore, the sector influences the core manufacturing development within India.

India today has a strong and diverse base of machinery, primarily an outcome of the country's import substitution policy followed during most part the last century post-independence. Despite the significant progress in machinery production in India, India remains a major importer of these products. Development of domestic capabilities in this sector is essential to neutralize trade deficit and ensure self-reliance.

### Production Scenario

The Index of Industrial Production (IIP) for capital goods (base: 2004-05) registered positive growth rates during the period 2005-06 to 2010-11, with the growth rate remaining higher than the general IIP during the entire period except in 2009-10. However, from 2011-12 onwards, capital goods index has consistently recorded negative growth, except in 2014-15, when the index grew by 6.3 per cent (Exhibit).

During 2011-12 to 2015-16, the IIP for machinery and equipment n.e.c. (NIC 29), and office, accounting and computing machinery (NIC 30) witnessed negative to moderate growth rates. Electrical machinery and apparatus n.e.c (NIC 31) registered double-digit growth rates during 2013-14 and 2014-15, before declining by 11.4 per cent during 2015-16.

### Trade Scenario

India is a net importer of machinery, with exports in 2014 amounting to US\$ 19.3 bn, and imports being US\$ 31.0 bn. While exports have grown consistently over the past few years, imports have registered a secular decline during the past two years, thereby reducing the overall trade deficit in these products. However, the trade deficit still remains sizeable at US\$ 11.7 bn.

Process plant machinery - the largest category of machinery exports from India - has grown in line with the overall trend for machinery exports during the period 2010-2014. The availability of low-cost equipment from China and other countries has led to increased imports of large process equipment in India. Moreover, the availability of new, innovative and technologically advanced process plant equipment in developed countries has also contributed to the increase in imports. Over the past few years, Indian vendors are adopting new and innovative techniques to compete with international vendors, thereby reducing the import of process plant equipment<sup>1</sup>.

The USA was the largest market for India's exports of machinery in 2014, with a share of 15 per cent in total exports. The UAE, Germany and the UK (share of 5 per cent each) were the other top export destinations for machinery exports. While Asian countries (not including China) are not among the top global importers, they feature significantly among India's export destinations.

China was the largest import source for India among all categories of machinery, except machine tools. Of the total imports of US\$ 31.0 bn by India in 2014, more than a

quarter was sourced from China, with Germany (14 per cent), the USA (10 per cent), and Japan (9 per cent) being the other major sources.

### Outlook

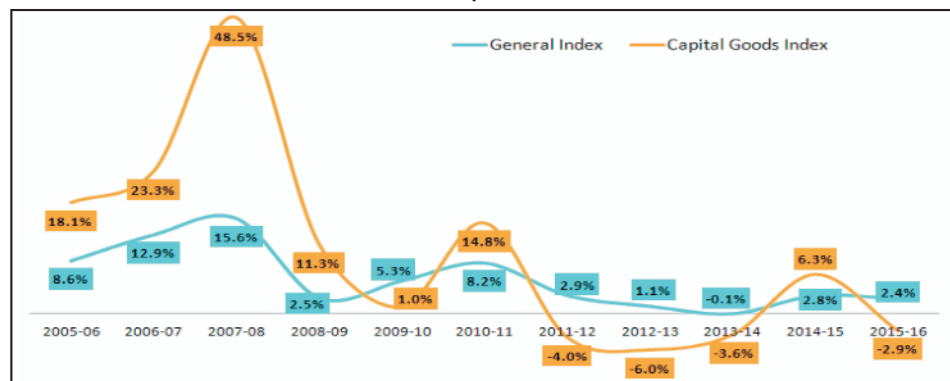
Significant capacity additions in end-user industries fuelled by revival in demand are expected to spur the growth in production of general purpose machinery in the medium term. Segments such as bearings will benefit on account of improvement in automotive demand. Increasing capacity additions in fluid handling industries such as chemical and allied products, oil and gas, and irrigation shall benefit the pumps and valves industry in the country. Demand for compressors stems from white goods such as air conditioners, refrigerators, etc. Production of these consumer durables is expected to remain buoyant in the medium term, thereby providing a boost to compressor segment.

The Government has put emphasis on the infrastructure sector in the Union Budget 2017-18. The allocation for roads and highways has increased significantly. Government has earmarked additional investments for rural roads construction projects. Execution of these projects shall provide an impetus to the mining and construction equipment sector.

The country is expected to witness substantial expansion in the generation capacity, and strengthening of the power transmission and distribution network. Besides the developments in conventional energy sector, the government also aims to achieve 175 GW of renewable power generation capacity by 2022. The government also plans to undertake 'green energy corridor' projects entailing investments of ₹ 380 billion. All these factors are expected to augur well for the electrical equipment industry.

While the demand for these products from the country is set to improve over the medium term, the manufacturers must keep pace through increase in investment, improvement in technological capabilities and development of standards at par with global benchmarks.

Exhibit : Movements in General and Capital Goods Index of Industrial Production



<sup>1</sup>TechNavio

The commencement of Indian electronics industry could be traced back to the sixties, when the Government took initiatives in the manufacturing of space and defence electronic products. This was followed by developments in consumer electronics, mainly the manufacturing of transistor radios, black and white TVs, calculators and other audio products; later in 1980s, manufacture of colour televisions also started.

The 1980s, witnessed the golden period of the electronics sector when several noteworthy developments occurred including the advent of computers and telecom products and digital exchanges. Following the software boom, since the middle of 1990s, India's focus shifted to software related electronic products. Further, the steep fall in import tariffs in the country rendered the hardware sector open to international competition. This was aggravated by the elimination of custom duties in 1997 when India became signatory to the International Technology Agreement.

Currently, the electronics market in India is one of the largest in the world and is expected to become US\$ 400 billion in 2020. However, estimated production will reach US\$ 104 billion, creating a gap of US\$ 296 billion in demand and production. Presently, value added in the electronics industry of India is merely 5-10%, with electronic giants like Samsung, Dell and Hewlett Packard importing nearly 90% of their electronic components. Although there has been significant increase in the production of electronics, there remains large unmet demand which is currently being met by imports.

## Trade Scenario

India is a net importer of electronic goods and had a huge trade deficit of US\$ 35.79 billion in 2015, primarily on account of significant imports from China whose share in India's total trade deficit in electronic products stood at 61.3% in 2015. China's share in India's trade deficit is largest in the segment of Telecom Instruments (69%), followed by Computer Hardware and Peripheral (62%), Electronic Components

(60%), Consumer Electronics (53%) and Electronic Instruments (43%).

## Government Incentives for Electronics Production and Exports

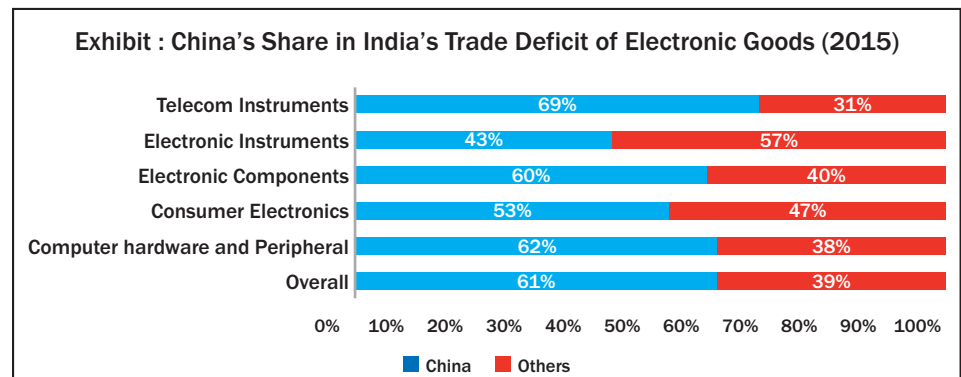
1. The National Policy on Electronics 2012 has been notified with a vision to create a globally competitive Electronics System Design & Manufacturing industry to meet the country's needs and serve the international market.
2. Modified Special Incentive Package Scheme (M-SIPS) provides financial incentives to offset disability and attract investments in the sector.
3. Electronic Development fund (EDF) is set up as a "Fund of Funds" with the objective to create a vibrant ecosystem of innovation, research and development with an active industry involvement. The allocation for M-SIPS and EDF has exponentially increased to ₹ 745 crore in the Union Budget 2017-18.
4. Government has approved setting up of two semiconductor wafer fabrication manufacturing facilities in India.
5. Policy for providing preference to domestically manufactured electronic products in Government procurement is under implementation.
6. Electronics Manufacturing Clusters Scheme provides financial assistance for creating world-class infrastructure for electronics manufacturing units.
7. Mandatory compliance to safety standards has been notified for identified Electronic Products with the objective to curb import of sub-standard and unsafe electronics goods.

8. An Electropreneur park providing Incubation for development of ESDM sector which will contribute IP creation and Product Development in the sector.
9. Approvals for all foreign direct investment up-to 100% in the electronic hardware manufacturing sector are under the automatic route.

## Outlook

Going forward, rapid urbanization, rising personal disposable income, adoption of high-end technology devices, high technology obsolescence and product innovation, competitive pricing of products, easy financing schemes, expansion of organized retail and distribution networks, and several government initiatives are going to be major drivers for the growth of the electronics industry in India.

Strategies for development of domestic capabilities and encouragement of FDI like, establishment of training centres for electronic components production; promoting venture capital investment; development of dedicated clusters on the lines of Finnish mobile telecom cluster; guidance for product development, and strengthening of regulatory environment in the category of medical devices; development of stronger linkages between academia and industry; incentivizing innovative products through Government procurement; engagement in international co-operations on R&D and electronics production; and streamlining tax structure, can help create an enabling environment for the domestic manufacturing.



Source : UNCOMTRADE

## Exim Bank Extends Support To Women Weavers In Tamil Nadu

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. Exim Bank also supports artisans and craftsmen from Handicraft & Handloom sector by way of assisting in product development workshops and skill development training programmes with an objective of capacity building and enhancing their export readiness.

For a duration of three months from mid-August to mid-November 2016, Exim Bank extended support to Tamil Nadu based producer owned company for organizing a Skill Development Training Programme for its weavers at the weaving facility located near the foothills of Kodaikanal. The programme laid emphasis on training semi-skilled and non-skilled women weavers in several activities involving production of goods made using handloom.

The women weavers were retrained in handling operations of ordinary handloom, tailoring, finishing of products, quality check and operating the jacquard loom, which is a new technique to the skilled weavers as to earlier knowledge of operating only the ordinary handloom. The knowledge gained about different types of weaving techniques resulted in up-gradation of existing skills as well as production of high quality products suitable for the export market.

The Skill Development Training Programme for women weavers in Tamil Nadu resulted in self dependency and encouraged each participant to independently undertake complete processes including pre-loom activities such as (preparing yarn, weft etc), setting up the loom, weaving fabrics on handloom using jacquard weaving technique till the tailoring, stitching & finishing of products. Different type of home furnishing and bed & bath products were produced during the training programme.

## Activities of ECL during July - Sept 2016

Exim Bank, in furtherance of its mandate to promote India's international trade and investment, has been involved in conducting many seminars, trainings, workshops involving exporters and importers, ECL has been actively organizing seminars across the country mostly in tier 1 and tier 2 cities. These seminars were conducted with speakers from FIEO, DGFT, Customs, ECGC and a leading commercial bank from the region. Thus, the seminars/workshops brought various stake holders contributing to India's Trade & Investments on one platform and the issues relevant to the Indian exporters/importers were addressed.

In order to abreast the entrepreneurs at NE region on the various scopes & potentials of International Trade, on export potentialities of their product and also to create awareness for the exporting community of the region on the various financing schemes currently available from Financial Institution, ECL in association with Indian Chamber of Commerce had organized a seminar on "Energizing Entrepreneur in International Trade" at Agartala on Sept 6, 2016.

Similarly, to create awareness on the world Economy vis-a-vis Indian trade scenario, ECL in association with Federation of Indian Exports Organisation had organized a Seminar on "Emerging Global Trade Scenario-Impact on India's Exim Trade" at Kolkata on Sept 16, 2016.

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## Book Review

### India's Approach to Development Cooperation

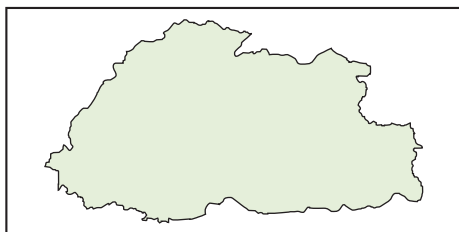
Publisher : Routledge (15 April 2016)

Price : ₹6,451

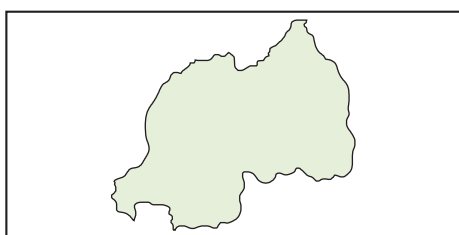
India's role in development cooperation has transformed over the years, and the country is currently a major provider of development assistance. Highlighting the various facets of this assistance, 'India's Approach to Development Cooperation' traces and analyses the evolution of Indian development cooperation. The Book is organized in four parts, and explores the evolution and impact of Indian development cooperation on the global dynamics of aid.

The first section discusses the fundamentals of Indian development Cooperation. The second set of chapters focus on distinctive contemporary features of Indian development cooperation. In his discussion of India's engagement in the health sector, S. Chaturvedi highlights how India's traditional bilateral focus- supporting medical infrastructure, human resource development, and medicine and vaccine supply- has diversified in the last decade to include multilateral engagement through vertical funds and collaborative research. Further, Chapter 5 of the Book provide an assessment of the impact and challenges of the Government of India's Lines of Credit program.

The third section takes a geographical focus, examining India's cooperation with Nepal, Afghanistan and Africa. In this, R. Beri's study of India's engagement in Africa illustrates the range of instruments and strategies characterizing India's South-South cooperation (SSC). The final section presents external perspectives on Indian development cooperation. X. Li and T. Zhou in Chapter 10 of the Book provide an extended comparison between the two largest SSC providers- China and India. S. Howes and J. Pryke in Chapter 11 of the Book provide a similar comparison between India and Australia.

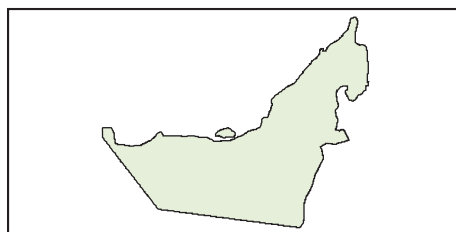
**Bhutan**

According to the IMF, Bhutan is set to be one of the fastest growing economies in the world in 2017 with an expected GDP growth rate of around 8.5 per cent. Steady expansion of gross fixed investment is expected to be the main driver of this growth. Investment spending is expected to rise following the decision of completing the Punatsangchu-II hydro power project which will be commissioned in mid-2018. Revenue generated from Dagachchu hydro power project, commissioned in 2015, will further boost government spendings this year. Industrial output, mainly backed by construction activities in the hydro power projects, is expected to grow at 10.8 per cent in 2017-18. Household spending is also expected to grow as a result of credit expansion.

**Rwanda**

Rwanda's economic growth has been mainly supported by the recent investment in the energy sector and textile manufacturing facilities. Despite weak global prices for tea and coffee, the agricultural sector also registered growth boosted by the continued investment aimed at tackling adverse weather conditions, improving productivity and boosting commercial farming. The second phase of Lake Kivu power plant (75 mw) along with a 28 mw hydro power plant on the Nyabarongo River will contribute significantly to the national

electricity supply and also support the expanded mining production. Agricultural performance is also expected to remain strong in the medium-term supported by the government's land registration initiatives to attract private investment, and increasing coffee prices.

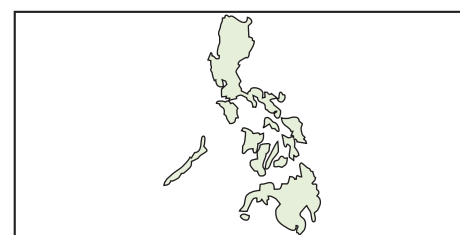
**United Arab Emirates**

Modest recovery in oil prices restricted United Arab Emirates (UAE)'s growth to an estimated 2.5 per cent in 2016. Low oil prices resulted in reduced government spending and restricted banking liquidity, thus adversely affecting investments. The final quarter of 2016 witnessed growth in the private sector due to higher oil production, revival of investment projects and a stronger performance delivered by the non-oil sector. The economic growth is however expected to pick up in 2017 followed by the OPEC mandated cuts in oil production. UAE is going to host the World Expo in 2020, which is expected to draw a lot of visitors, boosting private consumption and services exports in the coming years.

**Brazil**

Brazil is set to recover from the deep recession wherein the real GDP had contracted by 3.8 per cent in 2016. Economic policy adjustments are expected to bolster confidence and bring about a recovery in 2017. The Brazilian Government has introduced major fiscal reforms and is enacting measures to

reduce Brazil's cost of doing business. Though the economy is on the right track to recovery, there exist downside risks, mostly domestic. In the long term a key determinant of Brazil's growth will be demographics, with fewer people enter the working-age population. Unemployment rate is expected to remain high in 2017 (13 per cent). Lower interest rates are expected to ease household and corporate debts, but credit growth is expected to remain weak. Extractive industries would be mostly driven by external demand but are expected to slow down with China's sluggish growth.

**Philippines**

Philippines has remained stable compared to other economies during the global downturn owing to its strong private consumption supported by mainly steady flow of remittances. Real GDP grew by 6.9 per cent in 2016 which is expected to ease to 6.4 per cent in 2017 due to moderating investment trend because of high base effects. The economy grew by 7.1 per cent during the July-September quarter of 2016. Private consumption will continue to get a boost in 2017 owing to moderate inflation, increase in formal employment and healthy flow of remittances. Public investment is also expected to remain strong as a number of infrastructure projects are expected to get a push by the government. The Business Process Outsourcing (BPO) sector is expected to remain relatively insulated from the slowdown of the Chinese economy due to its strong fundamentals not allowing unsustainable credit growth. As a result, merchandise and services exports of Philippines is expected to grow at a stable of 5.7 per cent in 2017.

### British Pound

So far this year the British Pound has weakened over 10 per cent against the US Dollar and tested its worst levels in more than three decades. Majority of the year-to-date losses were recorded on the day when British voters decided that UK should end its 43 year old association with the European Union (EU). The surprise outcome led to an unprecedented fall in sterling, taking the GBP / USD pair to the lowest level since 1985.

Despite of the historic referendum, so-called Brexit, UK will continue to be a part of EU as the actual process would take a minimum of two years, or more, once Article 50 is invoked. For the UK to initiate the process of leaving the economic bloc, it has to give an official notice under an agreement called Article 50 of the Lisbon Treaty, which governs the withdrawal process and stipulates two year to negotiate / agree on terms of withdrawal. The official notice was not given immediately after the referendum as the proposal has to be ratified by Parliament. Moreover, the current Prime Minister, Theresa May, has indicated that the process will not kick-off before the end of 2016. It, however, remains unclear if Britain will invoke Article 50, hold a second referendum, or work to renegotiate the terms of its membership, which eventually fuels several years of tremendous uncertainty over UK's changed relationship with the EU.

### Singapore Dollar

The Singapore dollar (SGD) is the official

currency of Singapore. The Monetary Authority of Singapore maintains the historic exchangeability of Singaporean dollar.

Encouragingly, the Singapore economy did manage to accelerate into the second quarter of this year (2Q16). Growth printed 0.8 per cent up from a tepid 0.2 per cent qoq back in the first quarter (1Q16). Moreover, 1Q16 GDP growth was also revised higher to 2.1 per cent yoy, up from the previous print of 1.8 per cent yoy. With the first half (1H16) growth coming in at above 2.0 per cent, official growth forecast of 1-3 per cent appears to be comfortably achievable.

Despite the encouraging growth print in 2Q16 and the likely absence of a technical recession, the downside risk to growth for the rest of the year, in our view, is still present. If global and regional economic conditions deteriorate further rather than stabilize in second half of year (2H16), the window for further easing is still open in a move to reflect sluggish domestic fundamentals including disinflationary conditions. Note that global monetary policy bias still looks to see further accommodation, given the recent policy rate cuts already seen in the neighbours.

### USD

The past few weeks have seen exceptional back-and-forth speculation over the possibility of the US Federal Reserve raising interest rates next week for the second time in over ten years. While the likelihood of this occurring

remains low, at least from the markets' perspective, key Fed speakers and major US economic data releases have alternately shifted the discussion from one side to another, often moving financial markets abruptly along the way.

Additionally, September has thus far seen a general deterioration of US economic data in the form of substantially worse-than-expected releases regarding employment (NFP) and both the manufacturing and services industries (PMI), that have significantly lowered the market's expectations for a September rate hike. Most recently, a plethora of US economic data was just released, mostly worse than expected, which generally did not bode well for the prospects of a US rate hike by an already skittish Fed. Most notably, retail sales, core retail sales, the Producer Price Index, and industrial production were all significantly lower than expected.

Beyond the Fed's ambiguous performance on its dual mandate, there are other major concerns that could prompt the Fed to keep its powder dry in September. One of the biggest worries is that the US economy faces long-term structural issues that could impede its long-term sustainable growth rate. The ratings agency Fitch recently touched on these issues, citing aging demographics, a zeitgeist of saving in the wake of the Great Financial Crisis, a strong dollar, and declining productivity growth as factors that make the economy "unlikely to sustain 3 per cent annual growth through 2016-2017."

Exim Bank instituted the International Economic Research Annual (IERA) Award in 1989 to promote research in international economics, trade, development and related financing by Indian nationals at universities and academic institutions in India and abroad, leading to a doctoral degree. The Award consists of prize money of Indian Rupees Three Hundred and Fifty Thousand and a Citation. The EXIM Bank IERA Award for 2015 was awarded to Dr. Chinmay Tumble for his doctoral thesis titled "Migration and Remittances in India: Historical, Regional, Social and Economic Dimensions". This article is drawn from EXIM Bank's Occasional Paper based on Dr. Chinmay Tumble's award winning thesis.

The phenomenon of international migration has generally received less attention from researchers when compared to the movement of goods and services, which has predominated the discussion and research in international economics. In this scenario, regional migration within developing countries like India has been even harder to assess, because of lack of meaningful data and scant research. Thus, it becomes all the more interesting to undertake research in this area. Looking at both domestic and international migration in India in the historical and cultural context, it is observed that the areas covering around 20 per cent of the population of India have seen high rates of migration throughout the 20th century and that, *"this migration has been highly persistent, male dominated, remittance based and circular in nature."* Interestingly, on collating the data for sex ratio for migration intensive districts from 1881-till date, it is found that areas with high rates of migration have a higher

female to male sex ratio, for instance Ratnagiri, Udipi etc. and areas which usually see an influx of a lot of migrant population have lower sex ratios, for e.g. Mumbai, Delhi etc. A widely held notion in general is that economic underdevelopment of regions fuels migration, but that is not necessarily true. At least the data doesn't confirm to this story, unequivocally. The correlation between underdevelopment and migration does not hold, as people from both developed and under developed regions are found to migrate for better opportunities. Historically, groups that have been migrating form their own networks in the host area, which play a significant role in explaining migration. Areas with heavy dependency on the remittances have an economic model highly dependent on the remittance income. An important aspect of remittance based economies is that even though level of industrialisation is low, the HDI is higher, because of remittance money. Thus, this study also somewhat breaks the myth that highly remittance- dependant economies are 'undesirable'.

Statistically, the remittance economy of India is one of the largest in the world, for both domestic/inter-state remittances and international remittances. India is the largest recipient of remittances globally and second largest domestic remittance market. In 2007-08, the total international remittances were over US\$40 billion, while the domestic remittances were over US\$10 billion. States like Kerala, Punjab and Goa are top three remittance dependant economies in the international remittance market and the states like Bihar, UP and Rajasthan are top three remittance dependent economies in the domestic remittance market. Post liberalisation in 1991, the remittances are seen to have an increasing trend in the Indian economy, in both domestic and international remittance markets. The

top 25 per cent of the households receive 50 per cent of the domestic remittances, so that could be increasing the source region inequality. Interestingly, 60 per cent of the domestic transfers are inter-state and around 70 per cent are channelled through informal means (incidentally, the figure is around 25 per cent for China), thus there is a huge scope of financial inclusion of the migrant workers by banks and financial institutions.

The remittances continued to grow, in the international market, steadily from early 1990s onwards till 2008. This was irrespective of the economic conditions prevailing in the host and home countries. But after the financial crisis of 2008, the remittances fell for the first time in almost two decades and that too by 6 per cent, in 2009. In this context, it is interesting to look at whether the remittance cycle is associated with the business cycle of the host country. One could anticipate that there are factors that determine the responsiveness of remittance flows to changes in host country economic conditions. Countries with a heterogeneous or diverse migration destinations are less prone to business cycle shocks of the destination countries. For e.g.-Countries like India have seen a stable flow of remittances even in the aftermath of global financial crisis. This is because of the fact that India receives remittance flows from its migrant workforce from a number of countries spanning the gulf to the Americas. Developing economies, because of their higher growth rates presents valuable investment opportunities for eyespots abroad. Therefore, a positive correlation between business cycle and the remittance cycle of the home country is observed. India, which is one of the largest remittance receiving countries in the world, hence, is expected to continue to be so.

| INDICATORS   | 2009-10       | 2010-11       | 2011-12       | 2012-13                 | 2013-14                 | 2014-15                 | 2015-16                   | 2016-17                            |
|--|---------------|---------------|---------------|-------------------------|-------------------------|-------------------------|---------------------------|------------------------------------|
| <b>GDP (at current prices, US\$ bn)</b>            | <b>1365.4</b> | <b>1708.5</b> | <b>1823.0</b> | <b>1829.0</b>           | <b>1863.2</b>           | <b>2042.4</b>           | <b>2072.3<sup>f</sup></b> | <b>2217.7<sup>f</sup></b>          |
| <b>GDP Per capita (US\$)</b>                       | <b>1146.7</b> | <b>1411.7</b> | <b>1482.1</b> | <b>1462.9</b>           | <b>1466.4</b>           | <b>1581.1</b>           | <b>1581.4<sup>f</sup></b> | <b>-</b>                           |
| <b>Real GDP Growth (%)</b>                         | <b>8.6</b>    | <b>8.9</b>    | <b>6.7</b>    | <b>5.6<sup>**</sup></b> | <b>6.6<sup>**</sup></b> | <b>7.2<sup>**</sup></b> | <b>7.6<sup>p**</sup></b>  | <b>7.1 (Apr-Jun)<sup>e**</sup></b> |
| <i>Agriculture &amp; allied activities</i>         | 0.8           | 8.6           | 5.0           | 1.5 <sup>**</sup>       | 4.2 <sup>**</sup>       | -0.2 <sup>**</sup>      | 1.2 <sup>p**</sup>        | 1.8 (Apr-Jun) <sup>e**</sup>       |
| <i>Industry</i>                                    | 9.2           | 7.6           | 7.8           | 3.6 <sup>**</sup>       | 5.0 <sup>**</sup>       | 5.9 <sup>**</sup>       | 7.4 <sup>p**</sup>        | 6.0 (Apr-Jun) <sup>e**</sup>       |
| <i>Services</i>                                    | 10.5          | 9.7           | 6.6           | 8.1 <sup>**</sup>       | 7.8 <sup>**</sup>       | 10.3 <sup>**</sup>      | 8.9 <sup>p**</sup>        | 9.6 (Apr-Jun) <sup>e**</sup>       |
| <b>Sectoral Share in GDP (%)</b>                   |               |               |               |                         |                         |                         |                           |                                    |
| <i>Agriculture &amp; allied activities</i>         | 14.6          | 14.6          | 18.5          | 17.8 <sup>**</sup>      | 17.5 <sup>**</sup>      | 16.3 <sup>**</sup>      | 15.3 <sup>p**</sup>       | 13.7 (Apr-Jun) <sup>e**</sup>      |
| <i>Industry</i>                                    | 28.3          | 27.9          | 32.5          | 31.9 <sup>**</sup>      | 31.5 <sup>**</sup>      | 31.2 <sup>**</sup>      | 31.2 <sup>p**</sup>       | 31.7 (Apr-Jun) <sup>e**</sup>      |
| <i>Services</i>                                    | 57.1          | 57.5          | 49.0          | 50.3 <sup>**</sup>      | 51.0 <sup>**</sup>      | 52.5 <sup>**</sup>      | 53.5 <sup>p**</sup>       | 54.6 (Apr-Jun) <sup>e**</sup>      |
| <b>Population (mn)</b>                             | <b>1190.7</b> | <b>1210.2</b> | <b>1230.0</b> | <b>1250.2</b>           | <b>1270.6</b>           | <b>1291.4</b>           | <b>1312.6<sup>f</sup></b> | <b>-</b>                           |
| <b>Inflation rate (CPI, annual avg. %)</b>         | <b>12.2</b>   | <b>10.4</b>   | <b>8.3</b>    | <b>10.2</b>             | <b>9.5</b>              | <b>5.9</b>              | <b>4.9</b>                | <b>4.31 (Sep '16)</b>              |
| <b>Inflation rate (WPI, annual avg. %)</b>         | <b>3.8</b>    | <b>9.6</b>    | <b>8.9</b>    | <b>7.4</b>              | <b>6.0</b>              | <b>2.0</b>              | <b>-2.5</b>               | <b>3.57 (Sep '16)</b>              |
| <b>Gross Fiscal Deficit (% of GDP)</b>             | <b>6.5</b>    | <b>4.8</b>    | <b>5.9</b>    | <b>4.9</b>              | <b>4.5</b>              | <b>4.1</b>              | <b>3.9<sup>e</sup></b>    | <b>3.5<sup>e</sup></b>             |
| Exchange Rate (₹/US\$, avg.)                       | 47.4          | 45.6          | 47.9          | 54.4                    | 60.5                    | 61.1                    | 65.5                      | 66.66 (Sep 30,'16)                 |
| Exchange Rate (₹/Euro, avg.)                       | 67.1          | 60.2          | 65.9          | 70.1                    | 81.2                    | 77.5                    | 72.3                      | 74.75 (Sep 30,'16)                 |
| <b>Exports (US\$ bn)</b>                           | <b>178.8</b>  | <b>249.8</b>  | <b>306.0</b>  | <b>300.4</b>            | <b>314.4</b>            | <b>310.3</b>            | <b>262.0</b>              | <b>131.4 (Apr-Sep '16)</b>         |
| % change   | -3.5          | 39.8          | 22.5          | -1.8                    | 4.7                     | -1.3                    | -15.6                     | -1.7 <sup>^</sup>                  |
| <b>Oil Exports (US\$ bn)</b>                       | <b>28.2</b>   | <b>36.4</b>   | <b>56.7</b>   | <b>60.9</b>             | <b>63.2</b>             | <b>56.7</b>             | <b>30.4</b>               | <b>14.1 (Apr-Sep '16)</b>          |
| % change   | 2.3           | 29.0          | 55.9          | 7.3                     | 3.8                     | -10.2                   | -46.4                     | -16.9 <sup>^</sup>                 |
| <b>Non-oil Exports (US\$ bn)</b>                   | <b>150.6</b>  | <b>213.4</b>  | <b>249.2</b>  | <b>239.5</b>            | <b>251.2</b>            | <b>253.6</b>            | <b>231.6</b>              | <b>117.3 (Apr-Sep '16)</b>         |
| % change   | -4.6          | 41.8          | 16.8          | -3.9                    | 4.9                     | 0.9                     | -8.7                      | -0.5 <sup>^</sup>                  |
| <b>Imports (US\$ bn)</b>                           | <b>288.4</b>  | <b>369.8</b>  | <b>489.3</b>  | <b>490.7</b>            | <b>450.2</b>            | <b>448.0</b>            | <b>380.4</b>              | <b>174.4 (Apr-Sep '16)</b>         |
| % change   | -5.1          | 28.2          | 32.3          | 0.3                     | -8.3                    | -0.5                    | -15.1                     | -13.8 <sup>^</sup>                 |
| <b>Oil Imports (US\$ bn)</b>                       | <b>87.1</b>   | <b>106.0</b>  | <b>155.0</b>  | <b>164.0</b>            | <b>164.8</b>            | <b>138.3</b>            | <b>82.9</b>               | <b>39.3 (Apr-Sep '16)</b>          |
| % change   | -7.0          | 21.6          | 46.2          | 5.9                     | 0.4                     | -16.0                   | -40.1                     | -18.6                              |
| <b>Non-oil Imports (US\$ bn)</b>                   | <b>201.2</b>  | <b>263.8</b>  | <b>334.3</b>  | <b>326.7</b>            | <b>285.4</b>            | <b>309.7</b>            | <b>297.5</b>              | <b>135.1 (Apr-Sep '16)</b>         |
| % change   | -4.2          | 31.1          | 26.7          | -2.3                    | -12.6                   | 8.5                     | -3.9                      | -12.3 <sup>^</sup>                 |
| <b>Trade Balance (US\$ bn)</b>                     | <b>-109.6</b> | <b>-120.0</b> | <b>-183.3</b> | <b>-190.3</b>           | <b>-135.8</b>           | <b>-137.7</b>           | <b>-118.4</b>             | <b>-43.0 (Apr-Sep '16)</b>         |
| <b>Services Exports (US\$ bn)<sup>***</sup></b>    | <b>96.0</b>   | <b>124.6</b>  | <b>140.9</b>  | <b>145.7</b>            | <b>151.8</b>            | <b>158.1</b>            | <b>154.3</b>              | <b>65.8 (Apr-Aug '16)</b>          |
| <i>Software Exports (US\$ bn)<sup>***</sup></i>    | 49.7          | 53.1          | 62.2          | 65.9                    | 69.4                    | 73.1                    | 74.2                      | 18.2 (Apr-Jun '16)                 |
| <b>Services Imports (US\$ bn)<sup>***</sup></b>    | <b>60.0</b>   | <b>80.6</b>   | <b>76.9</b>   | <b>80.8</b>             | <b>78.7</b>             | <b>81.6</b>             | <b>84.6</b>               | <b>39.0 (Apr-Aug '16)</b>          |
| Services Balance (US\$ bn) <sup>***</sup>          | 36.0          | 44.0          | 64.0          | 64.9                    | 73.1                    | 76.5                    | 69.7                      | 26.9 (Apr-Aug '16)                 |
| <b>Current Account Balance (US\$ bn)</b>           | <b>-38.4</b>  | <b>-47.9</b>  | <b>-78.2</b>  | <b>-87.8</b>            | <b>-32.4</b>            | <b>-26.8</b>            | <b>-22.1</b>              | <b>-0.3 (Apr-Jun)</b>              |
| CAB as percentage of GDP (%)                       | -2.8          | -2.8          | -4.2          | -4.8                    | -1.7                    | -1.3                    | -1.1                      | -0.1 (Apr-Jun)                     |
| <b>Forex Reserves (US\$ bn)</b>                    | <b>279.1</b>  | <b>304.8</b>  | <b>294.4</b>  | <b>292.0</b>            | <b>304.2</b>            | <b>341.6</b>            | <b>360.2</b>              | <b>372.0 (Sep 30,'16)</b>          |
| <b>External Debt (US\$ bn)</b>                     | <b>260.9</b>  | <b>317.9</b>  | <b>360.8</b>  | <b>409.4</b>            | <b>446.2</b>            | <b>475.0</b>            | <b>485.6</b>              | <b>479.7 (Apr-Jun)</b>             |
| External Debt to GDP Ratio (%)                     | 18.2          | 18.2          | 21.1          | 22.4                    | 23.8                    | 23.8                    | 23.7                      | 23.4 (Apr-Jun)                     |
| Short Term Debt (US\$ bn)                          | 52.3          | 65.0          | 78.2          | 96.7                    | 91.7                    | 85.5                    | 83.4                      | 82.1 (Apr-Jun)                     |
| Short Term Debt / Total Debt (%)                   | 20.1          | 20.4          | 21.7          | 23.6                    | 20.5                    | 18.0                    | 17.2                      | 17.1 (Apr-Jun)                     |
| Total Debt Service Ratio (%)                       | 5.8           | 4.4           | 6.0           | 5.9                     | 5.9                     | 7.6                     | 8.8                       | 7.5 (Apr-Jun)                      |
| <b>FDI (US\$ bn)</b>                               | <b>37.7</b>   | <b>36.0</b>   | <b>46.6</b>   | <b>34.3</b>             | <b>36.0</b>             | <b>45.1</b>             | <b>55.6</b>               | <b>22.8 (Apr-Aug '16)</b>          |
| GDRs/ADRs (US\$ bn)                                | 3.3           | 2.0           | 0.6           | 0.2                     | 0.02                    | 1.3                     | 0.4                       | -                                  |
| FII (net) (US\$ bn)                                | 29.0          | 29.4          | 16.8          | 27.6                    | 5.0                     | 40.9                    | -4.0                      | 5.0 (Apr-Aug '16)                  |
| <b>FDI Outflows (US\$ bn)</b>                      | <b>15.1</b>   | <b>17.2</b>   | <b>10.9</b>   | <b>7.1</b>              | <b>9.2</b>              | <b>4.0</b>              | <b>8.9</b>                | <b>2.3 (Apr-Aug '16)</b>           |
| <b>Memo Items:</b>                                 | <b>2010</b>   | <b>2011</b>   | <b>2012</b>   | <b>2013</b>             | <b>2014</b>             | <b>2015</b>             | <b>2016<sup>f</sup></b>   | <b>2017<sup>f</sup></b>            |
| <b>Global GDP (% change)</b>                       | <b>5.4</b>    | <b>4.2</b>    | <b>3.5</b>    | <b>3.3</b>              | <b>3.4</b>              | <b>3.2</b>              | <b>3.1</b>                | <b>3.4</b>                         |
| Advanced Economies                                 | 3.1           | 1.7           | 1.2           | 1.2                     | 1.9                     | 2.1                     | 1.6                       | 1.8                                |
| Emerging and Developing Economies                  | 7.4           | 6.3           | 5.3           | 4.9                     | 4.6                     | 4.0                     | 4.2                       | 4.6                                |
| <b>World Merch. Trade (Vol., % change)</b>         | <b>14.3</b>   | <b>6.9</b>    | <b>2.5</b>    | <b>3.2</b>              | <b>3.2</b>              | <b>2.4</b>              | <b>2.3</b>                | <b>3.8</b>                         |
| <b>World Merch. Exports (US\$ trn)</b>             | <b>14.9</b>   | <b>17.9</b>   | <b>18.0</b>   | <b>18.5</b>             | <b>18.6</b>             | <b>16.2</b>             | <b>15.9</b>               | <b>16.9</b>                        |
| <b>Growth in Value of World Merch. Exports (%)</b> | <b>20.7</b>   | <b>20.2</b>   | <b>0.8</b>    | <b>2.4</b>              | <b>0.6</b>              | <b>-13.0</b>            | <b>-1.4</b>               | <b>6.3</b>                         |

**Sources :** Economic Survey, Various issues; Union Budget, RBI Monthly Bulletin, Annual Report & Weekly Statistical Supplement; Ministry of Finance; CSO; EIU; NASSCOM; Ministry of Commerce & Industry; Institute of International Finance (IIF); WEO, IMF.

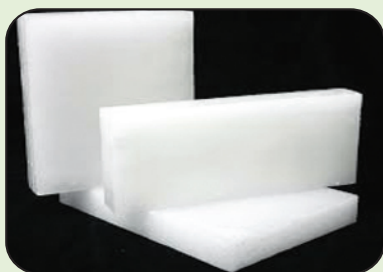
**Note :** e - GOI's estimates; p - EAC, GOI's Provisional Estimate; f - IIF Estimates; - Not Available; @ - IIF Forecast; ^-% change is over corresponding period of the previous year; ^- not available; \*\* - Data as per the revised base year 2011-12; \*\*\* - Data from 2009-10 onwards is given by RBI as per new format of standard presentation of BoP statistics based on guidelines set out in IMF Balance of Payment Manual

## Trade and Partnership Opportunities

### Trade Opportunities

#### Paraffin Wax

A Public Sector oil company engaged in producing petroleum products and paraffin wax. The company has the largest wax producing unit in India offering Paraffin Wax used in candle making.



#### Agro Commodities

Trading company directly associated with farm producers & processors having ISO 9001:2000 certified manufacturing unit. The company offers variety of agro products, millets, spices, masala powder, instant mix & flakes.



#### Pharmaceuticals

Engaged in branded and generic contract manufacturing of allopathic, nutraceuticals, ayurvedic, cosmetic and veterinary products. The company also offers multivitamin supplement in syrup form for the age group of 6 month to 3 years.



#### Stainless Steel Coils

One of the largest stainless steel conglomerates in India and ranks amongst the top 10 stainless steel conglomerates in the world. The company produces stainless steel in 200, 300, 400 & duplex grades.



#### Air to Water Generator

A global leader in water technology producing unique machines providing clean safe drinking water from 25 ltr to over 5000 ltr of pure drinking water from air.



#### Rubber Processing Machinery

An ISO 9001:2000 certified company offering automation solutions primarily for Tire manufacturing including services such as design engineering, R & D, fabrication and assembly.



### Partnership Opportunities

#### Project Opportunities :

- (I) A Colombia based company is interested in partnering with Environmental solution providers from India.
- (II) A hospitality company in Zimbabwe is seeking partnership for construction of tourism lodge near the Victoria Falls.

#### Export Opportunities :

- (I) Healthcare company from Ivory Coast, Africa is looking for manufacturer of hand sanitizers as per personal care products council (PCPC) grades.
- (II) Canada based importer is seeking interest from Indian Public Security Garments manufacturing companies to fulfil its requirement of uniforms including pants and shirts to Canada.
- (III) Egypt based importer interested in procuring bulk quantities of Stainless Steel Coils from India.

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

For more details, please contact : Phone : 2217 2600 Extn : 2707 / 2737; Fax : 2218 8268. Email : mas@eximbankindia.in