

# EXIMIUS: EXPORT ADVANTAGE



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## Promoting Creative Economy in India

Creative industry has been one of the oldest elements of the human civilization; however, the term 'creative industry' is not bound by a single definition. UNCTAD defines the creative economy as an evolving concept which runs on the interaction between human creativity and ideas and intellectual property, knowledge, and technology.

### Measuring Creative Economy

The diversity of creative economy poses a challenge in estimating the true size of it. An attempt was made by the UNESCO in 2015 in a report 'Cultural Times: The First Global Map of Cultural and Creative Industries' to measure the size of the creative economy in 2013. As per the report, the global size of the cultural and creative industries (CCI) was valued at US\$ 2250 billion, which was roughly 3% of the global GDP in 2013 and the industry employed around 29.5 million people.

TV segment contributed the most to revenue at 20% while the highest share in employment was of visual arts at 21%. In terms of the regions, Asia-Pacific (APAC) was the largest CCI market in 2013 with US\$ 743 billion of revenues accounting for 3% of its regional GDP and was followed by Europe at US\$ 709 billion.

In the Indian context, one of the major segments under the cultural and creative industries is the film industry. India ranks 6<sup>th</sup> globally, outside the US, with respect to the top international box office markets by revenue. The reason behind such a significant size of Indian box office market is the diversity of languages in which the films are made.

### Trade in Creative Economy

#### Creative Goods

There are seven key industries classified as part of the creative goods which include art crafts, audio-visuals, design, new media, performing arts, publishing, and visual arts. The global exports of creative goods recorded an AAGR of 5.5% during 2010 to 2019; however, India's exports of creative goods grew faster, during this period, at 7.2%. With respect to India's imports of creative goods, it grew faster than the exports and recorded an AAGR of 9%, during the same period. The exports of creative goods from India

increased from US\$ 13.8 billion in 2010 to US\$ 21.1 billion in 2019 – 1.5 times increase.

In India, the contribution of design segment was 87.5% of the total creative goods exports in 2019. Almost 9% is contributed by art crafts segment. In case of imports too, the highest share was of design segment at 41.4% in 2019, which gained a share of almost 14% over its share in 2010. The design segment was followed by audio-visuals and publishing with shares of 19.1% and 18.9%, respectively.

### ***Creative Services***

In the Indian context, UNCTAD lists down a few services which can be assessed to measure the trade of creative services. These services are ‘charges for the use of intellectual property n.i.e.’; ‘research and development’; ‘audio-visual and related services’; ‘computer services’; and ‘information services’.

The exports of creative services from India touched US\$ 100 billion in FY20 and the share of creative services exports in the total service exports from India was recorded at almost 47% in FY 20, up from 43.5% in FY 11. Imports, on the other hand, were recorded at US\$ 17.7 billion in FY 20 and its share in total services imports was 13.8% in FY 20.

### **Emerging Technologies in the Creative Industry**

Creative industries’ operations in the last few decades have seen consistent technological upgradations. The world saw the advent of internet, CDs, DVDs, digital payments, streaming services, and the latest, digital currencies such as bitcoin, in the last few years. Some of them have not found a perfect alternative, while some such as CDs and DVDs have seen a downfall.

### ***AI and Machine Learning***

IBM corporation defines the artificial intelligence (AI) as any human like intelligence exhibited by a computer, robot, or other machine. In the commercial scope, AI is increasingly being explored in recent times. The market value of AI was recorded at US\$ 7.2 billion in 2015. It increased almost six times by 2019 and was valued at US\$ 42.8 billion, with an AAGR of 60.2%, during this period. North America is the leader with a share of almost 51%, followed by APAC at 28%.

AI and ML are increasingly being used in the creative industries. For instance, a short film titled ‘Sunspring’ in 2016 was entirely written by an AI bot named ‘Benjamin’ using neural networks. Another example is of Forbes which has a tool named ‘Bertie’ for its editorial staff and senior contributors in North America.

### ***Extended Reality (XR)***

The extended reality (XR) is a term that engulfs all the immersive technologies such as augmented reality (AR), virtual reality (VR), and mixed reality (MR). The XR market was valued at US\$ 17.8 billion in 2019 and is forecasted to hit the mark of US\$ 296 billion by 2025, thereby it is expected to register a CAGR of 62% during 2019 to 2025. Particularly, in the creative industries, media and entertainment is one of the biggest end-user industries with respect to the XR market.

The future of XR segment is bright given that the time spent on screen has been increasing in the past few years. The daily time spent on internet per capita has increased from 32 minutes in 2011 to 143 minutes in 2020 on mobile.

### ***Blockchain***

Blockchain has been popular in the world of cryptocurrencies, however, its uses go beyond the digital currency concept and have the potential to completely change, how the creative industries operate. Smart contracts can be integrated in the blockchains and can replace traditional contracts when it comes to the music and digital rights. The blockchain technology can distribute fairly amongst the stakeholders and is more inclusive, when it comes to giving the right share of revenue to stakeholders such as lyricists, music composers, singers, amongst others.

### **Policies in Select Countries**

#### ***Australia***

Australia was one of the first nations in the world to prepare a formal policy for creative industries. In 1994, Australia’s first National Cultural Policy titled ‘Creative Nation’ was released. Understanding the importance of indigenous as well as the migrant cultures in Australia, the Government had set up Aboriginal Centre for the Performing Arts in 1997. A follow up to the 1994 policy was done in 2013 with the release of the document called ‘Creative Australia’ which is the National Cultural Policy of Australia.

#### ***The UK***

The UK set up the Department for Culture, Media, and Sport (DCMS) in 1997. Subsequently, a Creative Industries Task Force was set up which released the Creative Industries Mapping Document in 1998 and a follow-up report in 2001. The 1998 document attempted to define and measure the creative industries. Further, in 2018, the UK Government and the Creative Industries Council (CIC), agreed to a three-year

sector deal to stimulate investment and innovation by creative organisations.

### **South Korea**

In the 1990s and 2000s, South Korea established a host of agencies and acts related to the creative industries, such as Korea Association of High-Tech Game Industry, Korean Federation of Design Associations, among others. Further, the Korea Creative Content Agency (KOCCA), was established in 2009 by integrating five related organizations. A landmark blueprint in 2013 was published by South Korea with the name 'Creative Economy Action Plan and Measures to Establish a Creative Economic Ecosystem'.

### **Thailand**

In 2005, the Thailand Creative & Design Center (TCDC) began its operations under the supervision of the Office of Knowledge Management and Development. In 2018, Creative Economy Agency (CEA), a governmental organization, was created that puts forth to develop the creative economy for economic and social growth. Thailand also launched the Creative Thailand Policy in 2009, which aimed at developing Thailand into a creative industry hub in ASEAN.

### **Indonesia**

In 2007, Indonesia's first ever Cultural Product Week was launched, and its name was changed to Indonesian Creative Products Week in 2009. In 2011, Indonesia established a new ministry called Ministry of Tourism and Creative Economy. In 2015, the Government of Indonesia set up the Indonesian Agency for the Creative Economy (BEKRAF). In 2017, BEKRAF launched the framework of Investment Readiness Level (IRL) for the fashion, craft, application and game developers, and culinary sub-sectors.

## **Select Development Strategies for India's Creative Industry**

### ***Defining and Mapping the Creative Industries in India***

For India, the first and foremost important task would be to define the bandwidth of creative industry in the country. While there is a definition provided by UNCTAD, India can look beyond that and expand the scope of the same while defining the creative industry, as in Thailand which included Thai food and Thai traditional medicines in their definition of creative industry.

### **Finance**

One of the most important challenges that the cultural and creative industries across the world face is of financing.

Various institutions in the world have set up fund to help this industry grow. For instance, the European Commission (EC) has in place the Cultural and Creative Sectors Guarantee Fund (CCS GF). India could also establish a similar guarantee fund specifically for creative industries.

### ***Establishing Joint Programs***

India could also establish a joint programme for the creative sector funding using its relationship with various multilateral fora. The main objective of this program could be to safeguard, develop and promote the cultural and linguistic diversity and heritage, and increase the competitiveness and economic potential of the cultural and creative sectors.

### ***Addressing the Issue of Copyrights***

Amongst the various challenges in the creative industry in India, one that remains prominent is copyrights. It is estimated that Indian films lose US\$ 2.7 billion of revenue every year due to piracy. In Indian music industry, the piracy rate stands at almost 67% which is significantly higher than the global average of 27%. India could explore the Chinese model under 'Sword Net Action' for the short term, while in the longer run, implementing stringent laws could be the solution.

### ***Establishing the Creative Districts/Hubs***

There are over 700 districts in India, each spread over large areas, possessing its own identity, and culture. The Governments across India, both central and state, could identify some of the districts that could be put in the category of creative districts, on the lines of the creative districts model in Thailand. In-depth research could be carried out by a central government agency or in collaboration with subject matter expert agencies such as the British Council, to identify creative districts in India.

### ***Forming a Specialized Institution for Creative Industries***

A full-fledged thrust, post the mapping of the creative industries in India, can only be given once a nodal agency is set up which is specifically dedicated to the growth and development of the creative industries in India. It may be noted that countries such as the UK (Creative Industries Council), Thailand (Creative Economy Agency), Indonesia (Agency for the Creative Economy (BEKRAF)), etc. already have creative industry development institutions in place. On the lines of these institutions, India could also set up a dedicated creative industry development institution, Creative Industry Agency (CEA) of India. ■

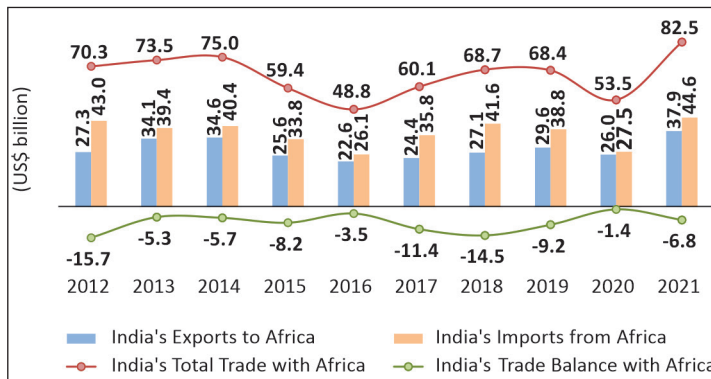
## Building a Resilient Africa: Enhanced Role of India

Africa is a dynamic continent, with unlimited commercial and development opportunities. The recent years have witnessed tremendous increase and deepening of economic and cultural exchanges and cooperation between India and Africa.

### Merchandise Trade and Investment

The synergy that exists between India and Africa can be gauged from the robust trends in India-Africa trade relations. India's total trade with Africa stood at US\$ 82.5 billion in 2021, recording the highest ever level witnessed by both regions. India's exports to Africa in 2021 was US\$ 37.9 billion, increasing by around 28% over the pre pandemic levels. India's imports were to the tune of US\$ 44.6 billion in 2021 increasing by around 62% over 2020. While India's exports to Africa accounted for 9.6% share in India's total exports in 2021, India's imports from Africa accounted for 7.8% share in India's total imports. India's trade deficit with the region widened to US\$ 6.8 billion in 2021.

India's Trade with Africa



Source: ITC Geneva, based on COMTRADE Statistics; and India Exim Bank Research

In 2021, South Africa, with a 15.8% share, was the leading destination for India's exports to Africa. Other major export destinations include Nigeria (11.9%), Egypt (8.7%), Togo (7.7%) and Kenya (6.6%). As regards India's imports from Africa, South Africa was the major import source for India during 2021, with a share of 24.8% in India's imports from Africa. Nigeria was the second-largest import source with a share of 20.5% during 2021, followed by Guinea (7.7%), Egypt (6.7%), and Angola (4.4%).

Petroleum products (mainly refined) were the largest items in India's export basket to Africa, contributing 19.1% of India's total exports to Africa during 2021. These were followed by vehicles (10.4%), pharmaceuticals (10.3%) and cereals (8.5%). Mineral fuels (mainly crude) accounted for 47.8% of India's total imports from Africa during 2021 followed by pearls, precious stones, and metals (25.4%) and copper articles (4%).

According to data from the Ministry of Finance, Government of India, and the Reserve Bank of India (RBI), approved cumulative Indian investments in Africa during April 1996 to March 2022 amounted to US\$ 73.9 billion. Mauritius, Mozambique, Sudan, Egypt, and South Africa were the top destinations of India's investments in Africa. Africa's manufacturing sector (36%) attracted the highest Indian investments during April 2010-March 2022. Other major sectors attracting Indian investments include financial, insurance, real estate and business services (22%), agriculture and allied sectors (14%), transport, storage and communication services (11%).

### Project Exports to Africa

Project exports from a nation reflects its technological and industrial capabilities and acts as a foreign exchange earner in the long term. During 2016-2021, India secured US\$ 831.7 million worth of the African Development Bank (AfDB) awarded contracts. Multi-national projects accounted for the majority of the contracts secured by Indian companies under the AfDB financed projects during 2016-2021, accounting for 41% of the total contracts secured by Indian companies during the period. After multi-national projects, Tanzania accounted for the highest share in total contracts secured by Indian companies (16%) in the AfDB funded projects, followed by Morocco (14%), Ethiopia (7%), Uganda (5%), and Kenya (4%). The power sector accounted for majority of the contracts in terms of value awarded to Indian companies in the AfDB funded projects, accounting for 82% of total value of contracts secured during 2016-2021, followed by transport (13%), agriculture (3%), and water and sanitation (1%).

During 2016 to 2021, overall value of contracts secured by Indian project exporters in the World Bank funded projects in Africa stood at US\$ 1.3 billion and number of contracts stood at 285. Egypt, with a share of 16% was the major recipient of contracts secured by Indian companies in Africa by value, followed by Ethiopia (15%), Nigeria (10%), and South Africa (7%). In terms of sectors, India secured the largest value of African contracts in the World Bank funded projects during 2016-2021 in energy and extractives sector (56%), followed by transportation (12%), industry, trade, and services (9%), and ICT (7%).

### Strategies to Enhance India's Role in Building a Resilient Africa

India's strategy to enhance its trade and investment relations with African countries would entail an integrated approach comprising, inter alia, integrating Africa to the

GVCs, strengthening Africa's infrastructure and connectivity, and facilitating trade finance in Africa, among others. Consumer-driven goods related to agribusiness, apparel and clothing, pharmaceuticals, and automotive components are opportunities for India's foreign direct investment, where Africa, through the AfCFTA is putting in place appropriate rules of origin and eliminating tariff barriers.

### ***Agriculture and Food-processing***

The bottlenecks in Africa in terms of inadequate agricultural infrastructure, and average productivity in spite of the availability of abundant land and natural resources provide an opportunity for India to add the much-needed vigour to the region's agriculture sector. These interventions could be achieved through supply of tractors and agricultural equipment, investments in tractor manufacturing or agro-based implements, providing technology-based support for irrigation including solar operated pumps, and joint creation of institutions focusing on marketing and finance that can help the sector to grow, amongst others.

### ***Healthcare and Pharmaceutical Value Chain***

Setting up of quality healthcare infrastructure in Africa may be explored through two broad routes, either under the Gol-supported LOCs that help India build a better relationship with the African nations or through the PPP model. Here, construction of primary and secondary healthcare centres and hospitals can be under the LOC route, whereas constructions of tertiary healthcare centres and hospitals, can be through the PPP route. Indian hospital majors, who have gained significant experience in running hospitals under the PPP framework, could be ideal partners for Africa's healthcare infrastructure needs. PPPs could prove to be an efficient solution that reduces the investment risks, improves efficiency, and could lead to more inclusive outcomes. Twinning India's expertise in the construction and administration of hospitals could be a focused, win-win approach for Africa-India bilateral relations.

Africa is dependent on imported medicinal and pharmaceutical products. Many Indian companies have already established local manufacturing units or joint ventures in Africa for supplying quality medicines at concessional rates for major diseases. The PPP model could be explored for the development of the pharmaceutical value chain (for research and development, production, procurement, storage, and distribution). Large scale regional pharmaceutical or vaccine manufacturing plants and joint research and cold storage facilities could also be established.

### ***Financing for Clean Energy***

India led International Solar Alliance (ISA) could play a major role in providing solar energy solutions to African countries. A

significant portion of Africa currently uses solar energy to meet relatively basic needs like lighting, charging mobile phones, and powering low-capacity appliances. However, installed capacity in African countries remain much low compared to the potential. The Government of India has earmarked concessional LOCs worth US\$ 2 billion for solar projects in Africa out of its US\$ 10 billion concessional LOCs committed for Africa during India-Africa Forum Summit. However, the uptake of solar projects under these LOCs in partner countries in Africa have remained relatively low, partially due to the minimum Indian content requirement. Setting up of fully integrated supply chains remain crucial to reduce India's import dependence and increasing cost competitiveness to boost India's domestic production and exports of solar panels. This will further help in enhancing India's project exports to Africa in the solar sector as well as support Africa's clean power generation.

### ***Alternate Solutions for Infrastructure Financing***

Focusing on alternative solutions like local currency financing or countertrade arrangements to finance project exports could be explored, especially in case of resource intensive countries to support future repayments and assist low-income countries to achieve their development goals. India and Africa can also jointly explore the potential for tripartite cooperation initiatives with third countries in critical areas such as transfer of skills, transfer of technology, and technical assistance. The trilateral partnership initiatives could be given further impetus by setting up a dedicated fund or agreements involving the development financial institutions of the respective countries for investing in infrastructure projects in Africa.

### ***Enhancing Access to Trade Finance***

According to the estimates from the AfDB and Afreximbank, the value of unmet demand for trade finance in Africa was US\$ 81.8 billion in 2019 and has averaged US\$ 91 billion over the past decade. This is evident from the fact that 40% of Africa's trade remains bank intermediated as compared to 80% globally. As observed by the AfDB research<sup>1</sup>, during 2011 to 2019, the major correspondent banks in Africa saw significant decline in their trade finance confirmation activities. Regulatory restrictions and higher compliance costs have been the major constraints cited for the retreat of international confirming banks from Africa, resulting in reduced trade finance availability, especially for SMEs. In order to fill this gap, development finance institutions could develop financial instruments like risk participation and transaction guarantee agreements to support non-traditional confirming banks in Africa. ■

<sup>1</sup> Confirming Banks and Trade Finance in Africa, Africa Economic Brief, AfDB, 2022

## Impact of Russia-Ukraine Conflict on the Indian Economy

Russia's special operations in Ukraine and the set of punitive sanctions imposed on Russia by the US and its allies, especially the European Union countries, have the potential to impact India through multiple channels. The impact of Russia-Ukraine conflict on India's overall trade flows are expected to be lesser, owing to low share of India's direct trade with Russia and Ukraine. While Russia's share in India's merchandise trade stood at 1.3% in 2021-22 (exports : 0.8%; imports : 1.6%), Ukraine's share in India's total trade in 2021-22 stood at 0.3% (exports : 0.1%; imports : 0.5%).

### Surge in Input Costs and Impact on Macroeconomic Variables

An expected resultant commodity price surge could lead to a severe increase in input costs, leading to increase in the product prices for exports and goods for domestic consumption. The impact of higher crude oil prices for a prolonged period on India's macroeconomic fundamentals could be severe, affecting through various channels such as GDP growth, inflation, savings, exchange rate of rupee, interest rates, trade, current account and finally on India's fiscal deficit.

**Exchange Rate:** High oil prices and volatility prevailing in global markets have resulted in Rupee coming under significant pressure. Higher oil prices would result in higher trade deficits and leading to Rupee depreciation. Till May end rupee has depreciated by around 4.3% since the beginning of the conflict. Widening trade deficits due to increased import bill and continued selling by foreign portfolio investors (FPIs) have put pressure on Indian Rupee. Over the past few months, the RBI has taken several measures to enhance foreign exchange flows to the country, attract fresh overseas capital to Indian market and rein in the value of the rupee. The RBI has undertaken two US\$ 5 billion US\$/INR sell/buy swap in March and April 2022 to manage volatility in the forex market, in addition to monetary policy measures including raising policy rates. Exchange rate is likely to remain volatile due to the uncertainties related to the conflict, risk aversion tendencies, spike in Brent crude oil prices and policy tightening by the Federal Reserve.

**Inflation:** A rise in global crude prices and heightened uncertainties would increase the domestic price of crude products and increase domestic inflation. The continuous hardening in crude oil prices exacerbated by the ongoing Russia-Ukraine conflict, other geo-political concerns, and its

impact on the Indian Rupee pose the biggest risk to the Indian inflation trajectory in the coming quarters. This impact of crude on consumer price index (CPI) comes from two channels. First, the direct channel where crude products themselves appear as constituents in the CPI. In the short run, a change in prices of crude products will affect the CPI directly due to their weighted contribution in the index. Secondly, over time the retail prices of all other commodities manufactured using crude as an input will also increase due to this shock and in turn affect the CPI again, which is the indirect effect. The net impact of the crude price increase on inflation is thus given by the sum of both direct and indirect effects. The impact of rising crude oil prices on WPI and CPI inflation would be influenced by the extent of pass through to domestic retail prices of fuels.

According to the economic outlook report of India Ratings, a 10% increase in petroleum product prices without factoring in currency depreciation will lead to a 42 bps increase in retail inflation and 104 bps in wholesale inflation. Similarly, a 10% increase in price of sunflower oil without factoring in currency depreciation will lead to 12.6 bps increase in CPI and 2.48 bps in wholesale inflation. A 10% increase in prices of these two commodities alone can push retail and wholesale inflation upwards by 55 bps and 109 bps, respectively, affecting consumer sentiments and purchasing power.

**Financial Services:** Flight to safety has resulted in capital outflows from emerging economies, including India. Foreign Portfolio Investment (FPI) flows are expected to remain volatile in the coming months due to Russia- Ukraine conflict and its fallout in the form of sanctions, high inflation and expected increase in interest rate by the Federal Reserve. Continuous FPI outflows and heavy selling in domestic equities could weigh on the equity markets and India's market valuations. Indian companies having exposure to Russia, Ukraine and other European companies would come under the scanner, with chances of stress in their financial conditions.

**Public Services:** The impact of higher oil prices would affect India's expenditure budget, leading to fiscal targets going awry. Impact of high crude oil prices on Government finances could lead to Government of India cutting back on capital outlays. Imports of defence equipment currently underway could also be impacted.

## Trade Channel and Impact on Current Account

On the export front, since pharmaceutical products, being necessary goods, are currently exempted from sanctions, India's pharmaceutical exports which are the largest exports from India to both Russia and Ukraine are expected to witness only a marginal impact. Russia and Ukraine are also major destinations of Indian tea exports, and the crisis is expected to create an over-supply of tea in the domestic market, leading to falling tea prices. At the same, a depreciating Indian Rupee is expected to benefit India's export-oriented sectors by making exports competitive. Disruptions in supply chains, along with rise in export insurance costs and shipping freights are also expected to raise the trading costs of Indian exporters. As regards imports, India's import costs would rise owing to higher prices of crude, fertilizers, metals, and edible oil. India's external sector remains highly vulnerable to global crude oil price movements and is expected to continue to remain so in the near future.

On the other hand, rise in commodity prices may prove favourable in case of sectors such as steel and aluminium, leading to higher realisations for domestic primary steel makers and aluminium smelters. However, it would have negative impact on the construction, real estate, and automobile sectors which are the end users of these products.

With Russia and Ukraine producing around 75% of the neon gas (Ukraine alone about 70%) used to manufacture semiconductors, disruptions are expected in the automobile sector which is already undergoing disruptions from the semiconductor shortages. Russian sanctions are expected to further curtail semiconductor production. With Russia being one of the largest producers and suppliers of palladium, globally, there has been a significant increase in the price of palladium amidst uncertainties surrounding Russian sanctions.

Thus, an expected increase in import bills due to elevated food, fuel, and fertilizer prices; moderation in domestic demand in major trading partners and growing uncertainty surrounding capital inflows may further widen India's current account deficit and impact reserves in the short term.

## Heightened Defence Spending

India's present military arsenal is heavily stocked with Russian-made or Russian-designed equipment, purchased mostly under government-to-government contract. Due to Russia-Ukraine conflict, India's reliance on Russia for arms imports are expected to come down. However, this would lead to India diversifying its import sources, leading to increased defence spending for the country. On the other hand, increased efforts

by Government of India to increase the domestic production of defence equipment under 'Make in India' would reduce India's dependency on Russian based defence products and divert part of its huge defence budget to meeting development needs and other priority sectors.

## Exposure of Indian Banks in Russia

Except for the Commercial Indo Bank LLC (JV of SBI and Canara Bank), Indian banks do not have any subsidiaries, branches or representative offices in Russia, and trade finance businesses for Indian banks are relatively less because of the limited trade size between India and Russia. State Bank of India, the largest Indian commercial Bank's exposure in Russia is reported to be less than US\$ 10 million. However, according to reports, due to the worsening geopolitical situation, Indian banks have decided not to process any transactions involving Russian entities due to global sanctions. Indian banks are currently exploring ways to circumnavigate the sanctions placed on Russian trade. Thus, implications of the current conflict on Indian banks are expected to be limited.

## India as an Alternative Supplier of Products

A positive possible benefit of the ongoing crisis is that India could emerge as an alternative supplier of several of products which were being supplied by Russia and are currently facing supply disruptions. For instance, Russia is a major exporter of steel and India could emerge as a major supplier of steel products, especially to the European Union. Ukraine was the 5<sup>th</sup> largest exporter of iron ore (HS 2601), in 2021, while India was the 7<sup>th</sup> largest and Russia 9<sup>th</sup> largest exporter, globally. Hence, the conflict presents opportunities for Indian iron ore producers to expand exports of the product. Similar is the case with Indian agriculture exports. There lies opportunities for India in wheat, maize, millet, processed food, nuts, confectionery, fruits and fruit juices, pulses and cereal preparations. Indian exporters of these commodities could perhaps benefit from increased global demand for these commodities, emerging as alternative supply sources.

## Towards Greener Energy and Increased Investment in Renewables

Using unconventional energy in the place of crude, along with increased used of electric vehicles (EVs) could help India to reduce its heavy dependence on imported fuel, while cushioning the country from similar oil price shocks. The present scenario is perhaps ideal for India to invest more on renewables and alternative fuels and increase renewable energy consumption in the coming years, paving way for greener energy in the country. ■

## Towards a Balanced India-European Union FTA

India and the European Union (EU) have witnessed a new dynamism in its relationship in 2021, with both the economies eager to sign a comprehensive agreement to further promote economic partnership. It is time for India and the EU to build on its solid trade and investment engagements and take this relationships to newer heights. While negotiating for an Free Trade Agreement (FTA) between India and the EU, following are some of the aspects for consideration:

- **Focus on Negative List instead of Positive List of Products**

Ex-ante sector-specific impact analysis is crucial for any tariff rationalization policy, as it prevents miscalculation arising due to generalization. Based on this examination, a sensitive/negative list of products should be developed which includes those products which in case of tariff liberalization may negatively impact the domestic economy. While negotiating FTA, instead of focusing on list of products on which import tariff concessions are to be given, the focus should be on the products in the sensitive/negative list on which tariff concession would be limited to protect the interest of the sector as well as people involved in it. For the current FTA negotiations between India and the EU, sensitive sectors include alcoholic beverages, automobile, and dairy sector, wherein the EU will demand increased access to Indian market.

- **Trade Liberalization relative to Other FTAs Signed by the EU**

While negotiating for concessions under FTA, India needs to take into consideration the concessions that the EU has made under its FTA as well as GSP framework with India's competitors (like Vietnam, Bangladesh, and Sri Lanka) in the EU market. The product identification based on competitiveness, followed by the country-wise comparative tariff analysis shows that there exist enormous opportunities for expanding exports if tariff concessions are provided in line with India's competitors. Specifically, there exist immense opportunities in case of articles of apparels both knitted and non-knitted (HS-61 and HS-62), and footwears and gaiters (HS-64), among others. India currently exports US\$ 2.9 billion products to the EU under HS-61 and faces an Effectively Applied Tariff (AHS) of 9.4%, which is far more than that faced by its competitors like Bangladesh (0%) and Vietnam (3.8%). Globally, the EU imported articles of apparel and clothing accessories knitted

or crocheted (HS-61) amounting to US\$ 93.4 billion in 2021. Bangladesh enjoying a 0% Preferential Tariff (PRF) under Everything but Arms (EBA) scheme exports US\$ 15 billion worth of HS-61 to the EU, Vietnam stemming from its FTA with the EU faces a PRF of 3.8% and exports US\$ 2.3 billion worth of products under this category. In case of articles of apparel and clothing accessories, not knitted or crocheted (HS-62), Indian exports to the EU currently face an AHS of 9% and the exports amount to US\$ 2.6 billion. The EU imported articles of apparel and clothing accessories not knitted or crocheted (HS-62) amounting to US\$ 85.4 billion in 2021. Bangladesh enjoying a 0% PRF under EBA scheme exports US\$ 9.3 billion worth of HS-62 to the EU, Vietnam stemming from its Standard GSP eligibility and FTA with the EU faces a PRF of 6.3% and exports US\$ 2.9 billion worth of products under this category.

In case of footwear and gaiters listed under HS-64, India currently exports goods worth US\$ 1.4 billion, while facing an AHS of 6.6%. The EU imported footwear and gaiters (HS-64) amounting to US\$ 59.6 billion in 2021. Vietnam stemming from its Standard GSP eligibility and FTA with the EU faces a PRF of 2.1% and exports US\$ 7.5 billion worth of products under this category. In product categories like vehicles other than railway or tramway (HS-87), aluminium and articles thereof (HS-76), organic chemicals (HS-29), articles of iron and steel (HS-73), among others, India is facing higher tariff rates compared to its competitors. To sum up, the possibility of Indian exports expanding in the EU would depend on the tariff concessions provided by the EU to these competitor countries relative to India.

- **Reducing Non-Tariff Barriers**

In case of India's exports to the EU, the reduction in the tariff rates may not lead to a significant increase in the exports from India since the import tariffs are already low in the EU. Higher market access opportunities for India can only be realized if the Non-Tariff Measures (NTMs) are properly addressed. Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP) as of December 2021, the EU has 2618 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by the EU. Among the 2618 NTMs, 510 were put into force and 2108 were initiated. In disaggregated terms, Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures are the largest NTMs with 944 SPS (148

in force and 796 initiated), and 1,464 TBT (153 in force and 1311 initiated).

Amongst the NTMs imposed by the EU on the WTO members (including India), there are 38 measures bilaterally imposed on India, in the form of Anti-Dumping (ADP) measures (15), Countervailing measures (4) and SPS measures (19). According to broad sector classification of WTO I-TIP, live animals and products and vegetable products are maximum protected sectors through NTMs, followed by prepared foodstuff, beverages, spirits, vinegar, and tobacco, products of the chemical and allied industries, machinery and electrical equipment, among others. For instance, the process of exporting dairy products to the EU is complex and require adherence to several stringent requirements. Similar is the case of agri-food exports to India from the EU, which face various non-tariff barriers. Thus, India and the EU need to address these non-tariff barriers in order to help both sides trade more easily.

India and the EU could also work towards drawing up 'Mutual Recognition Agreements' (MRAs). The MRAs are agreements between two trading partners to reduce technical barriers to trade and is an agreement for mutual recognition of 'conformity assessment'. Conformity assessment (i.e. product safety and standard testing) may take various forms, including inspection, testing, certification, and licensing according to technical regulations and standards which are aimed at preventing safety, environmental and health risks. The EU needs to recognize that the designated testing body in India could perform required testing based on the technical requirements of the EU and vice versa with India. This will allow a product produced and certified in India to be exported to the EU without undergoing further testing in the EU and vice versa, to assess whether the product meets the EU technical requirements. Additionally, India also requires institutional interventions for certifications. In this regard, the Digital Global Identity Systems for supplier verification and certification, based on Blockchain can be developed with the EU's assistance, which is particularly beneficial to the industries dominated by SMEs. These interventions could reduce non-tariff barriers to trade between both the partners.

- ***Moving Up the Value Chain***

An inverted duty structure emerges when import duties on finished products are lower than those on parts/ raw materials, effectively incentivizing imports of goods rather than imports of parts and inputs for local manufacturing. A type of inverted duty has also arisen due to FTAs wherein the finished goods

imported from an FTA partner country have zero or low duty, but products of earlier stages of production like raw materials and intermediate goods imported from non-FTA countries have higher duties. Inverted duty structure is forcing many multinationals to shut down their production facilities in India and move out. This could also be due to the composition of raw materials particularly agricultural raw materials which have relatively higher tariffs. There is an urgent need to ensure that raw materials have lower duties except for any sensitive items. Sensitive items particularly in the agricultural sector and having livelihood concerns should also be taken care of. This will also help in addressing the inverted duty structure and can further help India move up in the global value chain. This would give a boost to the Make in India through promoting manufacturing in India.

- ***Movement of People***

The Indian diaspora could be the key foundation on which the India-EU relationship can be further strengthened. Temporary movement of natural person for the supply of services (Mode 4) is one of the four modes of trade in services under Generalized Agreement on Trade in Services of the WTO. Thus, a comprehensive trade agreement with the EU could be used to further promote interest of Indians in the EU. When India is negotiating with the EU, it can request for a liberal commitment for Mode 4, covering both the high and low skilled workers in terms immigration policies, visa requirements, stay-back after studies, and social security benefits. This deal should support regulators of all regulated professions to deliver recognition of more Indian professional qualifications. This could mean professionals will be able to take on jobs in EU without having to re-sit numerous exams/courses. Indian professionals will benefit from new opportunities to work in the EU or deliver services remotely, and the EU companies will be able to attract and retain more global talent.

- ***Equal Exchange***

Since the EU's tariffs are already low, the EU stands to gain more from the tariff liberalization in case of an FTA. Hence, the trade deal should be based upon the principle of give and take where on one hand we give greater market access to the EU in India, and on the other there could be greater investments from the EU in enhancing R&D capacity of Indian manufacturers and technological partnerships. India needs to continue its efforts to undertake reforms to create a smooth journey for investors in areas such as land acquisition, and enforcement of contracts among others. ■

## India's Engineering Goods Sector: An Update

### Overview of the Engineering Sector

Engineering goods are durable goods used as plant, machinery, and parts across various core sectors in both production and service delivery processes. Engineering goods sector mainly comprises metals and metal products (including ferrous and non-ferrous), electrical machinery, industrial machinery, construction equipment, machine tools, automobile and auto components, amongst others.

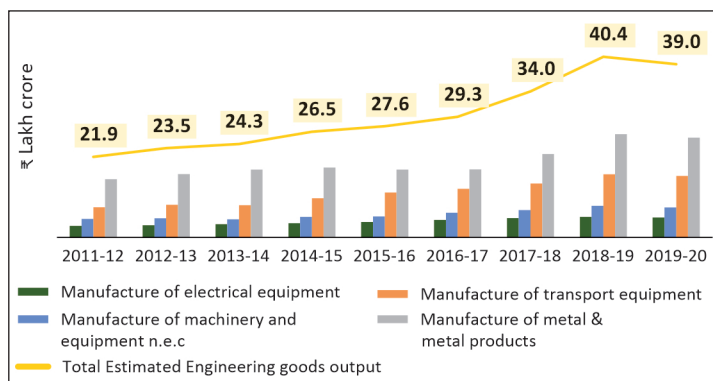
The sector can be broadly categorized into heavy engineering and light engineering. Heavy engineering segment caters to various sectors such as power, plastic, construction, metallurgy, textile, sugar, rubber, dairy, oil and gas, refineries etc. The heavy engineering industry comprises several kinds of heavy machinery, electrical equipment, construction equipment, mining equipment, defence equipment, machine tools, automobile and auto components, amongst others. Light engineering segment comprises smaller parts such as bearings, castings, fasteners etc., and are often used as inputs by the heavy engineering industry.

### Production Scenario

Engineering goods is the largest and among the most diverse industrial sectors of India. According to the latest available data from the Ministry of Statistics and Programme Implementation (MOSPI), Government of India (GOI), the value of production of engineering goods was estimated at ₹ 39.0 lakh crore in 2019-20. The sectoral output is estimated to have registered a compound annual growth rate (CAGR) of 7.5%, during 2011-12 to 2019-20.

Within the sector, the manufacture of metals and metal products (comprising both ferrous and non-ferrous metals) was the largest segment, accounting for a share of 47.3% in the total output of engineering goods sector in 2019-20, followed by manufacture of transport equipment (29.1% share), machinery and equipment (14.2%) and electrical equipment (9.4%).

### Segment-wise Production of Engineering Goods in India



Source: MOSPI; India Exim Bank Research

The overall production scenario of the sector in India can also be gauged from the movement of the Index of Industrial Production

(IIP) for capital goods. During 2019-20, the IIP for the capital goods sector in India registered a negative growth of (-) 13.9%. The growth momentum stalled further in the following year, as the IIP for the sector recorded a negative growth rate of (-) 18.6% during 2020-21, owing to the Covid-19 induced slowdown in economic activity. Thereafter, IIP for capital goods has steadily recovered in FY22, registering a y-o-y growth of 17% during 2021-22, from a low base.

### Exports Scenario

Engineering goods exports are estimated to account for nearly 21.3% of the total output of the sector during 2019-20. India's engineering exports were valued at US\$ 112.1 billion in FY22, overshooting the export target of US\$ 107.3 billion for the sector set by the GOI, and registering a y-o-y growth of 46.1% during the year. The sector is crucial for India's overall exports, as engineering goods held the largest share of 26.7% in the total merchandise exports from India in 2021-22.

### Key Products and Markets

Exports of iron and steel and products of iron and steel together contributed nearly 28.3% to India's total engineering exports in FY22, followed by industrial machinery (22.0%); automobile and auto components (18.2%); non-ferrous metals and products (13.8%); and electrical machinery (9.3%), among others. Among the different segments of engineering goods, India's exports of non-ferrous metal and their products registered highest y-o-y growth of 72.2% in FY22, while exports of iron and steel and its products also registered remarkable y-o-y growth of 69.6% during the year. Additionally, exports of some of the key high-tech engineering goods such as like automobile and auto components, industrial machinery, and electrical machinery also registered robust y-o-y growth during FY22, at 44.6%, 40.8%, and 27.6%, respectively.

In terms of export markets, the USA is the largest export destination for India's engineering goods exports, accounting for 15.5% of the total engineering exports during FY22. Other top export destinations during FY22 included UAE (share of 5%), China (4.9%), Italy (3.7%), Germany (3.4%), and Nepal (3.1%), among others.

The GOI has undertaken several initiatives in the recent years to support and enhance the competitiveness of firms in the sector, including the PLI scheme for Automobile and Auto components; the PLI scheme for Advanced chemistry cell (ACC) Battery manufacturing; the Smart Advanced Manufacturing and Rapid Transformation Hub (SAMARTH) scheme for capital goods; and the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME II) scheme, among others. These are expected to bode well for the sector and help further augment exports in the forthcoming years. ■

## India Exim Bank Lines of Credit

Export-Import Bank of India (India Exim Bank) extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments, and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India. Under the LOCs extended with the support of the Government of India (GOI), India Exim Bank reimburses 100% of contract value to the Indian exporters, upfront upon the shipment of goods and at least 75% of goods and services of total contract value should be sourced from India. LOCs have enabled India to demonstrate project execution capabilities in the emerging markets. LOCs have helped to gather considerable momentum in the recent years, especially in the developing countries of Africa, Asia, Latin America, Oceania, and the CIS. LOCs have helped to create the requisite political goodwill for India in the beneficiary countries besides promoting India's political, strategic, and commercial interests. LOCs help project India's growing economic strength as well as its willingness to contribute to infrastructure development and capacity building in the recipient developing countries. LOCs also, help to export goods and services required in the markets of the recipient country, in which India does not have a presence. The Indian exporters can obtain payment of eligible value from India Exim Bank, without recourse to them, against negotiation of shipping documents /

provision of services. Indian exporters realise full payment on shipment of goods, through India Exim Bank, without being exposed to risk on the buyer or the buyer's country.

The LOCs are extended to sovereign governments or their nominated agencies, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Bank as on September 21, 2022, has 310 Lines of Credit, covering over 67 countries in Africa, Asia, Latin America, Oceania, and the CIS, with credit commitments of over US\$ 32.31 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.

### For further information, please contact:

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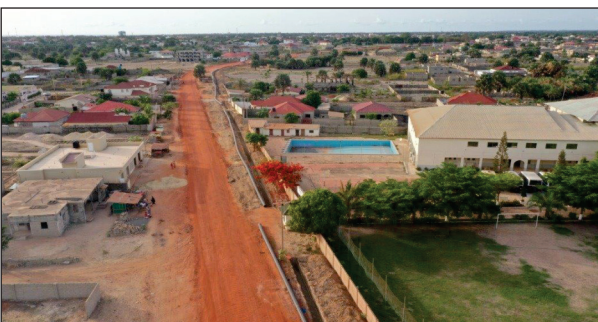
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## Success Story



### India Exim Bank's Government of India supported Line of Credit of US\$ 22.5 million to the Government of Gambia

India Exim Bank has extended a Government of India supported LOC US\$ 22.5 million to the Government of Gambia for Replacement of Asbestos water pipes with UPVC pipes project. The credit agreement was signed on October 29, 2014.

**Project:** Replacement of Asbestos Water Pipes with UPVC Pipes in the Greater Banjul area in Gambia

Contract was assigned by Shapoorji Pallonji and SMC Infrastructure JV and included under the LOC on July 05, 2016.

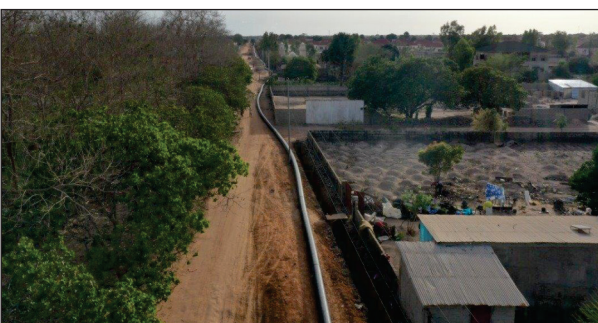
The scope of the project included EPC for Asbestos Pipe Replacement with UPVC pipes and Water Supply Rehabilitation and Expansion Project in the Gambia.

The main objectives of the project were the following:

- To replace all the existing Asbestos water mains in the Greater Banjul Area which caters to a third of the country's population as its usage has been recommended by WHO standards worldwide due to its health hazards.
- To avoid unnecessary water wastage caused by frequent bursting of Asbestos water mains as these pipes have been in the system for the past 60 years.

**The total cost of the Project- US\$ 22.5 mn**

**Project was successfully completed on April 11, 2022. ■**



## The Quarter that Was

### The 17<sup>th</sup> CII-EXIM Bank Conclave on India - Africa Growth Partnership

India Exim Bank's study titled "Building a Resilient Africa: Enhanced Role of India" was released during the 17<sup>th</sup> CII-EXIM Bank Conclave on India - Africa Growth Partnership on July 19, 2022, in the presence of Shri. Piyush Goyal, Minister of Commerce & Industry, Consumer Affairs, Food & Public Distribution and Textiles, Government of India; H.E. Mr. Marie Cyril Eddy Boissezon, GOSK, Vice President, Republic of Mauritius; H.E. Mr. Badara A. Joof, Vice-President, Republic of The Gambia; H.E. Dr. James Wani Igga, Vice-President, Republic of South Sudan; H.E. Ms. W.K. Mutale Nalumango, Vice President, Republic of Zambia; H.E. Ms Netumbo Nandi-Ndaitwah, Deputy Prime Minister and Minister of International Relations and Cooperation, Republic of Namibia; Ms Harsha Bangari, Managing Director, India Exim Bank, along with senior corporate executives.

The study finds huge trade complementarity between India and Africa. India's total trade with Africa stood at US\$ 82.5 billion in 2021, recording the highest ever level witnessed by both regions. The study finds bilateral export potential of India and Africa at US\$ 48 billion. The paper also examined the evolution of India's development cooperation with Africa over the years and emphasised the need for India to step up efforts to enhance this developmental partnership, especially in the context of changing global architecture in recent times.

### Inauguration of India Exim Bank supported CSR projects at Palghar and Raigad

India Exim Bank in collaboration with Swades Foundation inaugurated two dream villages in Sudhagad Block, Raigad District, Maharashtra under its CSR initiatives. The project was inaugurated by Ms Harsha Bangari, Managing Director of India Exim Bank on August 15, 2022. The dream village project will ensure that every rural household has access to an individual toilet, portable drinking water through taps at home, access to healthcare services and bring about a holistic development in the villages.

India Exim Bank in collaboration with Maharashtra Dayanand Hospital inaugurated the Neo Natal Intensive Care Unit (NICU) facility for tribal kids in Palghar district of Maharashtra on the August 15, 2022. The NICU facility has been created to address the neonatal needs of the tribal population of Palghar and Dahanu. The NICU caters to over 200 neonates annually in the tribal areas.

### India Exim Bank's Outreach Program in Kanpur and Uttarakhand

India Exim Bank organised a seminar on 'Opportunities for MSMEs in International Markets' in partnership with FIEO in Kanpur on September 16, 2022. The outreach program saw exporters and entrepreneurs turn out in large numbers. The seminar enlightened them about the Bank's new initiatives including Ubharte Sitaare and Trade Assistance Program.

A seminar on 'Promoting Exports from Uttarakhand' was organised by India Exim Bank and FIEO on August 26, 2022. The event was inaugurated by the Hon'ble Chief Minister of Uttarakhand, Shri Pushkar Singh Dhami. The Chief Minister in his speech highlighted Uttarakhand's conducive business environment, infrastructure and strong entrepreneurial ecosystem and how the State government remains positive of strengthening the business environment and exports.

### India Exim Bank Organised Exim Bazaar in New Delhi

India Exim Bank organized the 9<sup>th</sup> edition of 'Exim Bazaar' at the National Crafts Museum and Hastkala Academy (Ministry of Textiles), Pragati Maidan, New Delhi from September 3-6, 2022. The Bazaar was inaugurated by Padma Vibhushan Dr. Sonal Mansingh, Hon'ble Member of Parliament (Rajya Sabha) along with the Managing Director of India Exim Bank, Ms. Harsha Bangari and in presence of Shri U. P. Singh, Secretary, Ministry of Textiles, Government of India. The Bazaar, organized by India Exim Bank, showcased traditional and contemporary art and craft products from across the country and from the neighbouring countries.

As a part of Government of India's Neighbourhood First policy, artisans from neighbouring nations of Bangladesh, Bhutan, Myanmar, Nepal and Sri Lanka were invited for the first time to the Bazaar to showcase their traditional art forms.

The Exim Bazaar is organized by the India Exim Bank with an objective to boost business prospects for the artisans as well as micro and grassroots enterprises. The exhibition provides wider visibility and brand promotion for the artisans to market their products. The Bazaar has been providing the artisans with direct access to customers and opportunities to generate leads for future sales, as well as understanding consumer preferences, improve knowledge on the industry and discover latest trends in product positioning. ■

## Country Scan

### Turkey



Turkey outperformed all other economies in the G20 group during the pandemic and avoided a recession in 2020. The country registered a growth of 11.1% in 2021 largely driven by robust export demand and a credit-fueled expansion in private consumption. Economic growth is expected to moderate considerably in 2022 with GDP growing at 3.3% as a result of high inflation eroding household income. A volatile lira, persistent inflationary expectations, rising global commodity prices amid the Ukraine war and loose monetary policy would result in keeping the inflation high, at an annual average of 73.7% in 2022. Internal and external imbalances, elevated inflation and a normalisation of monetary policy in the US and the Euro area could all contribute to a depreciation of the lira against the US dollar. The Lira is expected to average at TL 16.3:US\$1 in 2022 depreciating from TL 8.9:US\$ 1 in 2021. The current-account deficit is expected to widen and remain at 3.6% in 2022 owing to higher global energy prices and slower export growth.

### Brazil



After contracting by 3.9% in 2020, Brazil's economy grew by 4.6% in 2021, as the world progressed from the Covid-19 pandemic. The combination, in 2023, of a sharp slowdown in the global economy, high (albeit declining) domestic interest rates and still-high inflation is expected to drive a deceleration of real GDP growth from 2% in 2022 to 0.3% next year. Given uncertainty surrounding the duration of the Russia-Ukraine conflict, the commodity price spike and looser fiscal policy are expected to keep domestic inflationary pressure high, as inflation jumped from an average of 3.2% in 2020 to 8.3% in 2021 and is further expected to rise to 10.2% in 2022. The US monetary tightening and Brazil's election-related volatility weakened the Real in 2021 to R 5.40: US\$ 1 from R 5.16: US\$ 1 in 2020. Lower commodity prices in 2023 would reduce the trade surplus that was inflated in 2022 by surging iron ore, oil and soybean prices in 2022. This would lead to a widening of the current-account deficit from 0.4% of GDP in 2022 to 0.9% of GDP in 2023. Risks to Brazil's external position are expected to be assuaged by the country's structural trade surplus, modest external debt ratio, comfortable reserves cushion and a weaker Real than in the past.

### South Africa



South Africa is Sub-Saharan Africa's largest and most advanced economy—underpinned by a wealth of natural resources and a diversified industrial base. After growing by 4.9% in 2021, South Africa's real GDP is expected to ease to 1.9% in 2022, in line with the global slowdown as well as domestic supply side constraints like electricity shortage. The consumer price inflation is expected to increase to 6.4% in 2022, a five-year high, owing to a further rise in oil prices, large hike in electricity tariffs and elevated cost of global logistics. The rand is expected to depreciate to R 15.8: US\$ 1 in 2022 from R 14.8: US\$1 in 2021 as it remains vulnerable to adverse shifts in global sentiment, such as US monetary tightening and slower growth in China. The current account recorded a second consecutive surplus in 2021, of 3.7% of GDP, but it is expected to change to a deficit in 2022 and remain at 1.2% of GDP. This is due to surging oil prices, alongside costlier food and fertilizer prices, amplified by the Russia-Ukraine war, leading to buoyant import growth. Exports are likely to be supported by strong mineral prices but constrained by infrastructure bottlenecks.

### Chads



Chad's real GDP growth is expected to quicken from an estimated 0.7% in 2021 to 2.5% in 2022. This reflects a recovering economy following the negative impact of the Covid-19 pandemic and a slight pick-up in oil production as global oil prices rise. Higher cotton production, owing to growing external demand and high prices, would also boost growth. Thus, growth is further expected to pick up in 2023 to 2.7%. Given the global inflationary pressures, the inflation in Chad is estimated to average at 5.2% in 2022 and moderate to 4.8% as commodity prices cool down and domestic currency appreciates. The CFA franc is expected to depreciate from CFAfr579.2:US\$1 at end-2021 to CFAfr588.3:US\$1 at end-2022 and appreciate to CFAfr570.4:US\$1 at end-2023 as the ECB tightens policy rates. Chad's exports earnings are expected to recover with an increase in crude prices. The current-account deficit is expected to narrow as a percentage of GDP from 7.9% of GDP in 2021 to 4% in 2022 and then widen to 4.8% in 2023, reflecting movements in oil export earnings. This deficit is expected to be financed mainly by external multilateral borrowing. ■

## Currency Currents

### Indonesia Rupiah

**Rp** Southeast Asia's largest economy has made a steady recovery from pandemic disruptions and benefitted from strong global demand for commodities. Indonesia's economic growth accelerated to 5.44% in the second quarter of 2022, bolstered by strong exports and improving consumption after the easing of mobility curbs earlier this year.

On August 23, 2022, the Central bank of Indonesia raised its benchmark interest rate for the first time since 2018, stepping up monetary tightening to fight rising inflation. Bank Indonesia hiked the seven-day reverse repurchase rate by 25 basis points (bps) to 3.75%. The move targeted at stabilising the rupiah has also given investors cause to stay bullish on one of the world's more resilient emerging markets. The pair has been trading rangebound between 14,790 and 14,938 since the central bank policy announcement.

The closing rate of US\$/IDR as on September 15, 2022, stood at 14,895.

### Canadian Dollar

**C\$** The Bank of Canada hiked interest rates to their highest level to 3.25% from 2.50% in 14 years on September 07 and signalled its most aggressive tightening campaign in decades as the country battles to tame inflation. Rates are now above the BoC's neutral range, meaning that for the first time in about two decades monetary policy is likely to restrict growth.

The Canadian economy lost a net 39,700 jobs in August, missing analyst forecasts that it would add 15,000, Statistics Canada data showed. The jobless rate rose to 5.40%, missing calls it would edge up to 5.00% from a record low 4.90% in July. Oil prices have rebounded firmly in view of expectations of increased demand for oil in Europe in winter which may support the CAD.

The Canadian dollar on September 13, 2022 posted its biggest decline in more than two months against the greenback as U.S. inflation data bolstered bets that the Federal Reserve would continue to raise interest rates aggressively.

The US\$/CAD pair is trading higher amid a stronger dollar and closed at 1.3227 as on September 15, 2022.

### Cuban Peso

**₱** Cuba is undergoing its worst economic crisis since the 1990s, with food and medicine shortages and daily blackouts. Cubans have had little choice but to trade for dollars on the black market since 2020, after the government closed its trading houses to stem the loss of hard currency needed to buy goods outside Cuba. The dollar's value skyrocketed in January 2021 after the central government in Havana announced financial reform measures and set the official exchange rate at 24 pesos, that unleashed a spiral in costs, with the inflation rate hitting 70% by the end of 2021.

The Cuban peso is at its weakest against the US dollar since the 1990s, as the communist island struggles through its worst economic crisis since the fall of the Soviet bloc. The island's central bank, trying to put the brakes on peso devaluation, last month began trading at a fixed parity of 120 pesos in state exchange houses, the same rate then prevailing in the informal market.

### Israeli New Shekel

**₪** Israel's annual inflation and economic growth topped all forecasts as price gains accelerated to their fastest level since October 2008, adding urgency to the central bank's cycle of interest-rate increases. Driven by a rise in the cost of fresh fruit, transportation and housing, annual inflation accelerated to 5.20% in July from 4.40% in June and stays above target. While inflation has cooled to 4.60% in August, it still remains above the target range of 1-3%. The central bank lifted its key rate to 2.00% from 1.25% in August, continuing a tightening cycle that began in April when policymakers first raised the rate from 0.10%, an all-time low set at the outset of the COVID-19 pandemic. The shekel was largely flat intraday at 3.28 per dollar after the rates decision. Subsequently, the currency has been on a depreciating trend mainly on account of US dollar strength. US\$/ILS stood at 3.4356 as on September 15, 2022,

In multilateral partnerships like the I2U2 - involving India, Israel, the United States, and the UAE - a blue economy plan could be a game changer. This is an emerging concept for ocean governance that harnesses the economic capabilities of oceans in environmentally sustainable ways. By focusing on a variety of items such as food security, the Ukraine Crisis, and a joint renewable energy project, I2U2 appears to have the potential to make great strides on a global scale. ■

## Exim Mitra

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

### Information on Customs Duty Levied on the Transfer of a Television to New Delhi from Saudi Arabia

One can use the Customs duty calculator under the Export-Import Intelligence section of the EXIM Mitra Portal. One may click on the "Trade Guide for Imports" button on the page. Once externally directed to the Central Board of Indirect taxes and Customs website, you may enter your HS Code in the CTH column, select country of origin and search. You may then click on HS Code of your product and get the necessary information.

You may also like to visit different sections of the EXIM Mitra portal as per your requirement.

### Information on Advances Against Export Bills Sent on Collection

It may sometimes be possible to avail an advance against export bills sent on collection. In such cases the export bills are sent by the bank on collection basis as against their purchase/discounting by the bank. Advance against such bills is granted by way of a 'separate loan' usually termed as 'post-shipment loan'. This facility is, in fact, another form of post-shipment advance and is sanctioned by the bank on the same terms and conditions as applicable to the facility of Negotiation/Purchase/Discount of export bills. A margin of 10% to 25% is, however, stipulated in such cases. The rates of interest etc., chargeable on this facility are also governed by the same rules.

### Information on International Buyer's directory

- One may like to visit the "Global Product Market" section under the Export-Import Intelligence tab on the EXIM Mitra Portal.
- One can click on the export-import tab and enter the description/HS code of your product.
- Then enter the country of your export/import and click on the companies tab.
- In order to get information on companies, one would need to create their own account.

There are several avenues to look for buyers/buyer's directory-

- Telephone directories of various countries (yellow pages etc.)
- Databases which provide such information, for example, Komapss.com where one may search across 5 million select companies in more than 60 countries.
- Journals and periodicals.
- Refer to the Foreign Buyers section on the Indian Trade portal website.

However, one would have to do due diligence on your prospective buyers.

### Whether there is any GST Applicable in Case of Demurrage Incurred due to Error in Documentation (or similar) by Supplier.

In case one has agreed to tolerate the supplier's failure to give proper documents in time to enable you to clear the goods through customs, as per S.No. 5 (e) of Schedule II to Central Goods and Services Tax Act, 2017-

"...Agreeing to the obligation to refrain from an act, or to tolerate, an act, or a situation, or to do an act", shall be treated as a supply of service. As per Section 7 (1) (d) of the said Central GST Act, 2017, the expression "supply" includes the activities to be treated as supply of goods or supply of services as referred to in Schedule II.

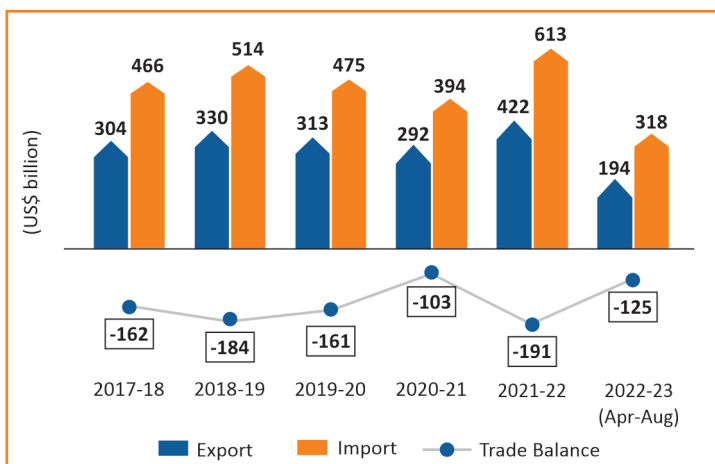
So, agreeing to tolerate the act of the supplier indeed makes the act a service and is taxable in accordance with Section 5 of the Integrated GST Act, 2017 (IGST). The IGST payable on such services is 18% as per notification no. 8/2017-Integrated Tax (rate) dated June 28, 2017, the place of supply of this service is the location of the recipient of services.

### Can an Adjustment in Transactions be Made to the Effect of Extra Payment in the Next PO due to Delayed/Damaged Shipment Received? Even if the Transaction does not Necessarily Reflect Currently?

If there is a delayed shipment by a foreign exporter, any payment due can be adjusted in the next POs with reduction up to 5% of the actual invoice value or equivalent to the penalty/ claim for the previous late shipment (whichever is less) so as to match the value of the invoice and BoE. Otherwise, may refer to RBI for their approval to knock off over and above 5% of the invoice value.

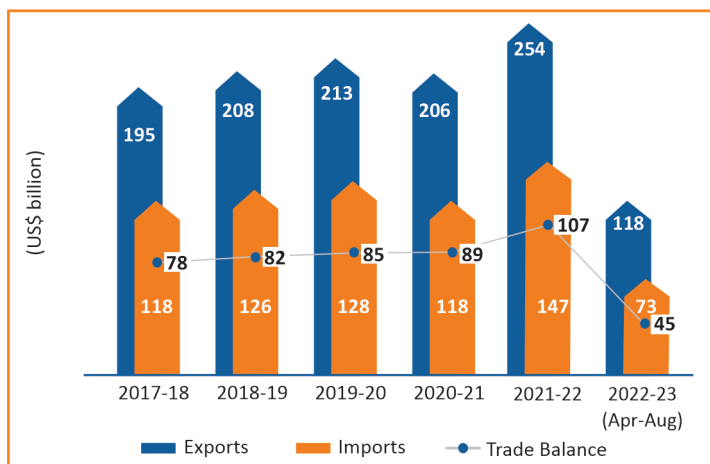
## Snippets on Indian Economy

### Merchandise Trade



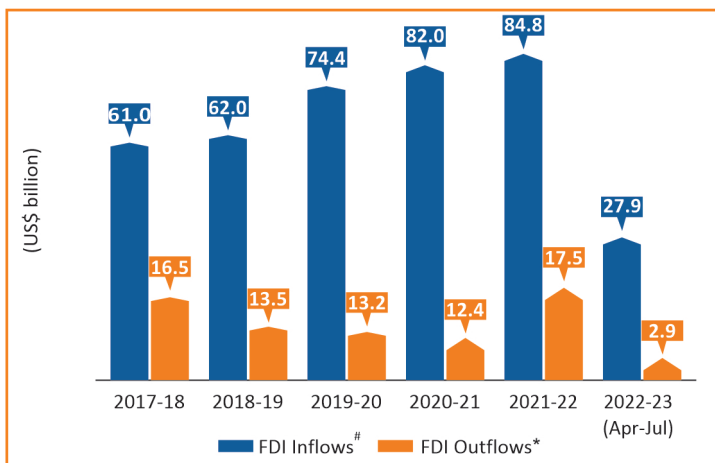
Source: Ministry of Commerce and Industry, GoI

### Services Trade



Source: RBI

### Foreign Direct Investment Flows

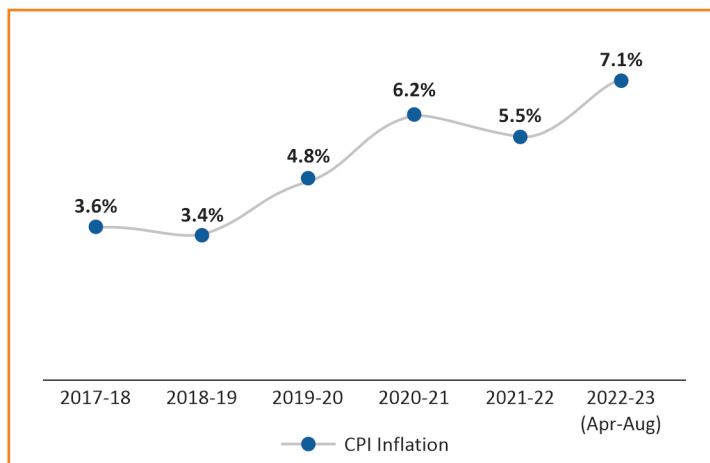


Note: \* - FDI Outflows reflect actual figures and include equity, loans and guarantees invoked

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

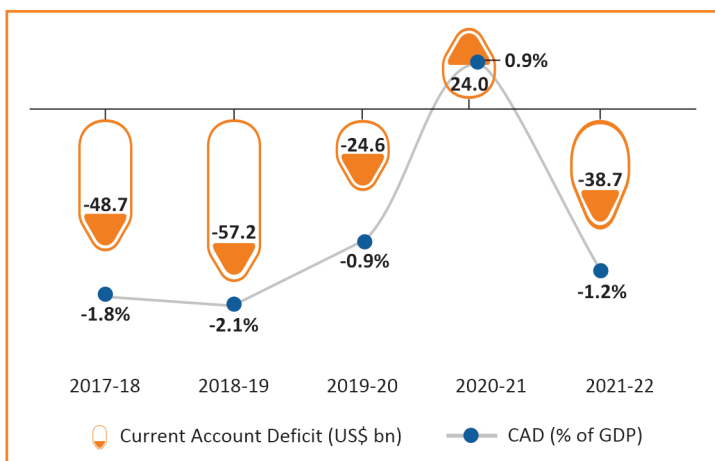
Source: RBI and Ministry of Finance, GoI

### Consumer Price Inflation



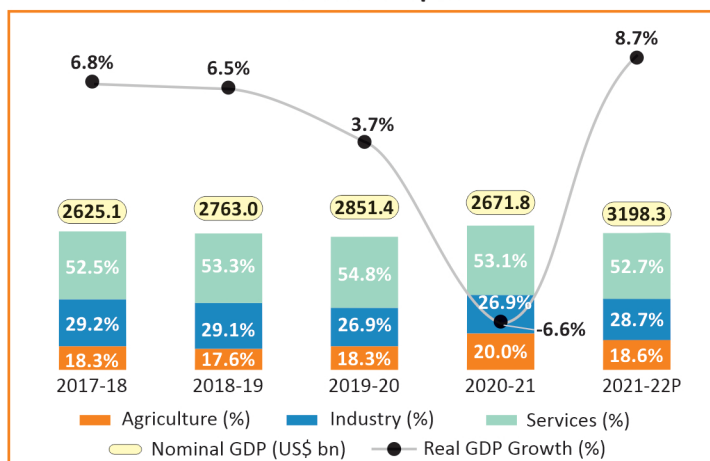
Source: Ministry of Statistics and Programme Implementation, GoI

### Current Account Deficit



Source: RBI

### Sectoral Output



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

Source: Institute of International Finance & MOSPI, GoI