

EXIMIUS: EXPORT ADVANTAGE

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Evaluating India's Middle-Export Districts: Opportunities under ODOP-DEH

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Over generations, communities across India have developed unique skills and expertise in areas like agriculture, handicrafts, jewellery, textiles, and more. These skills are deeply intertwined with their cultural heritage and have given rise to a wide array of region-specific goods. By concentrating efforts and resources on a limited number of products, regions can develop specialization and competitive advantages.

India's One District One Product (ODOP) initiative, launched by the Government of Uttar Pradesh in 2018, aimed to promote regional growth by leveraging the unique expertise of each district. Later, Government of India also adopted the ODOP initiative. As of March 2023, out of 766 districts in India, ODOP has been approved for 713 districts of 35 States/UTs under Centrally Sponsored "Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) Scheme" implemented by Ministry of Food Processing Industries (MoFPI). In 2022, ODOP was merged with the 'Districts as Export Hubs Initiative' (DEH), focusing on transforming districts into export centres. The new Foreign Trade Policy (FTP) launched in March 2023 places special emphasis on DEH and aims to achieve a US\$ 2 trillion export target by 2030.

Analysis of District-Level Exports

Out of over 760 districts in India, 673 districts exported products in FY 23, i.e., 88.5% of the districts, as per the Ministry of Commerce and Industry GoI, with the highest exports being from Jamnagar, which accounted for 15.9% of India's exports. The top 10 exporting districts i.e. Jamnagar (16%), Surat (4%), Mumbai Suburban (4%), Mumbai (3%), Kanchipuram (3%), Pune (3%), Bharuch (2%), Gautam Buddha Nagar (2%), Ahmedabad (2%), Kachchh (2%), contributed to almost 41% of India's exports in FY 23, signifying the high concentration of exports in a few districts.

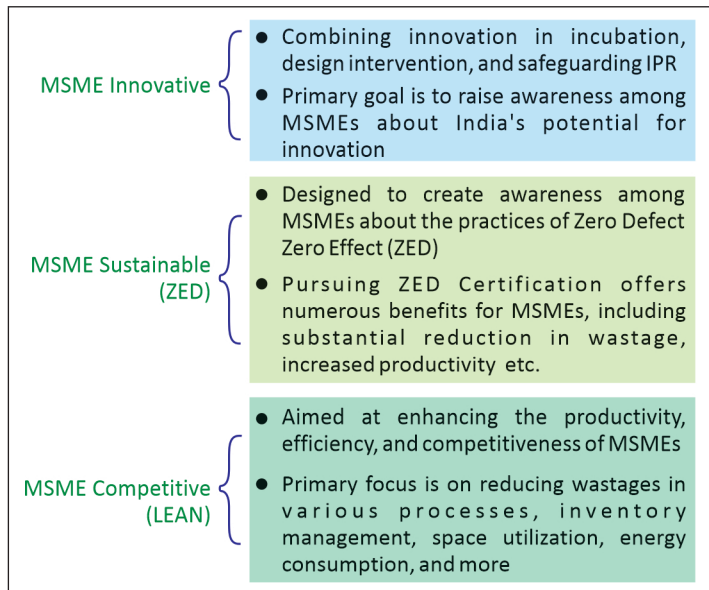
As less than 2% of the districts in India contribute to more than 41% of India's exports, there remains a significant scope to tap the 'missing middle districts' under ODOP-DEH initiative. In this regard, a total of 59 'missing middle districts' in India have been identified which contributed to exports between US\$ 1 billion to US\$ 5 billion. These accounted for 29% of India's exports (or US\$ 130.7 billion of exports) in FY 2023. It becomes extremely important to target these 59 districts, to boost India's exports in the medium to long run.

The highest number of shortlisted districts are from the state of Gujarat (7 districts), followed by Andhra Pradesh (6), Maharashtra (6), Odisha (5), Tamil Nadu (5), Haryana (4), Telangana (4), etc. The highest combined exports for the shortlisted districts are from the states of Gujarat (US\$ 18.8 billion), Tamil Nadu (US\$ 14.2 billion), Maharashtra (US\$ 13.9 billion), Andhra Pradesh (US\$ 11.1 billion), and Telangana (US\$ 9.6 billion).

Select Schemes Favourable for ODOP-DEH

MSME Champions Scheme

The MSME Champions Scheme has been designed with the following three key components:



Micro & Small Enterprises - Cluster Development Programme (MSE-CDP)

The MSE-CDP, known as the Small Industries Cluster Development Programme (SICDP) until 2007, is a vital initiative by the Ministry of MSME to enhance the productivity, competitiveness, and capacity building of MSEs and their collectives across India. It follows a cluster development approach, focusing on groups of enterprises producing similar or complementary products in identifiable areas. It establishes Common Facility Centers (CFCs) and Infrastructure Development Centres (IDCs) to provide essential services for MSEs.

As on July 11, 2023, 95 CFCs have been completed in India, 116 are ongoing and 222 have been approved. Further, for infrastructure development projects, 206 have been completed, while 129 are ongoing and 335 have been approved.

Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) Scheme

The PMFME scheme was launched to address the challenges faced by the unorganized food processing sector. This sector comprises around 25 lakh informal enterprises, contributing

significantly to employment and value addition. However, limited access to modern technology, machinery, quality control systems, and marketing skills hinder its development. The PMFME scheme aims to enhance the competitiveness of existing micro-enterprises, promote formalization, and support Farmer Producer Organizations, Self Help Groups, and Producers Cooperatives in the food processing sector.

With a proposed outlay of ₹10,000 crore over five years (2020-21 to 2024-25), the scheme will provide credit-linked subsidies and foster the development of common infrastructure to boost the sector's growth.

Efforts by Select States

Uttar Pradesh

Uttar Pradesh was the first State in India to launch the ODOP scheme in 2018, recognizing the immense significance of the MSME sector in its economy. The State is a major contributor to handicraft, carpet, and leather exports in the country. The government has taken various initiatives, including creating databases, providing training, conducting research, and formulating micro plans for product development and marketing.

Maharashtra

In 2022, Maharashtra released the ODOP booklet to promote specific products from all 36 districts in the international market. The government identified 131 products under this initiative. The ODOP Promotion Strategy involves assessing infrastructure readiness, promoting products through GI tagging, and improving the state's ranking in the Export Preparedness Index (EPI). Maharashtra actively collaborates with export organizations, trade bodies, and embassies for market outreach, creating forward linkages, and establishing global value chain arrangements

Telangana

As part of the Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) scheme's ODOP approach, the Telangana State Food Processing Society has identified specific food products for each district in Telangana. The state government's guidelines focus on providing support for processing agricultural products, reducing wastage, ensuring proper assaying, and enhancing storage and marketing facilities. The scheme prioritizes providing capital investment support to existing individual micro-units engaged in producing ODOP products.

Gujarat

In July 2023, the Ministry of Commerce & Industry collaborated with the Government of Gujarat to promote indigenous crafts and artisans as part of the ODOP program. Gujarat, with 33 districts, offers a diverse range of 68 unique products, including traditional

crafts and agricultural goods. The collaboration aims to drive consumers towards emporia, boosting sales, and increasing the visibility of Gujarat's products at the national level. Garvi Gujarat Bhawan has also integrated ODOP products into its interiors, providing a better showcase for Gujarat's handicrafts.

Himachal Pradesh

Himachal Pradesh has identified potential export products under the ODOP approach, along with specific challenges and proposed interventions. For instance, in Una district, the focus is on promoting light engineering and addressing raw material challenges through training initiatives. To further facilitate export growth, Himachal Pradesh is setting up a dedicated State-level Export Promotion Cell (HPEPC). This cell will coordinate export-oriented programs, collaborate with trade organizations, and provide marketing assistance to export-oriented industries. Capacity-building workshops will enhance export knowledge, and a B2B exchange will facilitate online trading for small and micro units.

Key Learnings from the World

Japan

The One Village One Product (OVOP) Movement, originating in Japan in 1979, has been a successful model for regional economic revitalization. It emerged in response to the challenges faced by rural areas due to Japan's shift from agriculture to industrialization. OVOP's approach focused on transforming local products into competitive offerings in local and global markets while preserving the unique cultural and resource aspects of each village. This movement proved effective in improving village economies, enhancing local income, and fostering social solidarity. It prioritized human resource development and preserving social values, promoting a collective, cooperative mindset within the community.

India's ODOP project can draw valuable lessons from Japan's experience, fostering a sense of pride and identity in its communities while promoting sustainable economic growth and social cohesion.

Thailand

The One Tambon One Product (OTOP) program in Thailand is akin to the Japanese OVOP movement but follows a top-down approach initiated by the government in 2001. It aims to enhance national competitiveness, revitalize the local economy, and alleviate poverty, especially in rural areas, by promoting domestic demand.

As India explores the ODOP project, it can draw valuable insights from Thailand's OTOP experience. India can implement its district-based program with a focus on poverty alleviation, economic revitalization, and fostering local pride and creativity.

Mexico

The Pueblos Mágicos (Magical Towns) policy in Mexico, launched in 2001, aims to promote and revitalize villages and towns with rich cultural heritage, natural beauty, and historical significance. It encourages tourism beyond major cities and beaches, diversifying the country's tourism offerings and spreading economic benefits to rural areas. The selection process involves competitive applications from towns meeting specific criteria, including population size, proximity to well-connected cities, and unique cultural or natural characteristics.

The program has been successful in boosting tourism, creating job opportunities, and preserving Mexico's cultural diversity. India's ODOP project can also draw valuable learning from Mexico's Pueblos Mágicos initiative, leveraging the unique characteristics of its districts to promote sustainable tourism and economic growth while preserving and celebrating local culture and heritage.

Philippines

The "One Town, One Product" (OTOP) program in the Philippines, launched in 2004, has been a successful rural economic development initiative. The program brings together local government units, national government agencies, and the private sector to support and empower local communities. Key factors contributing to its success include the dedication of local governments, the preservation of local culture and traditions, the abundance of local talent and skills, a ready market for products, and effective government service convergence.

As India embarks on its own ODOP project, it can learn from the achievements of OTOP in the Philippines. Emphasizing the importance of partnership, capacity building, and market promotion will be crucial to fostering inclusive and sustainable rural development in India's diverse districts.

Way Forward

India's ODOP-DEH initiative is a phenomenal initiative which if well tapped and executed can provide rich dividends to the country as whole. The initiative involves collaboration between central and state governments and local stakeholders to create a conducive environment for investment and business expansion. To succeed, the initiative must address challenges such as infrastructure development, skill-building, and digitalization. By embracing innovation and technology, India can position its districts as attractive manufacturing and export hubs on the global stage. The programme has the potential to harness the nation's cultural diversity while tapping the potential of the various districts leading to a sustainable economic growth. ■

Prospects for Enhancing India-Canada Economic Relations: Trends and Potential

– Sara Joy, Chief Manager
Srejita Nandy, Deputy Manager

Canada is the 8th largest economy globally, with a GDP of US\$ 2.2 trillion at current prices in 2022, a population of around 38 million people and a GDP per capita in current prices in 2022 estimated at US\$ 56,794. Canada is a high-income country with its economy is dominated by services sector (72.4% share in its GDP), followed by industrial sector (25.7%) and agricultural sector (1.9%).

India-Canada Merchandise Trade

India-Canada bilateral relationship is underpinned by expanding economic engagement. Bilateral merchandise trade between the countries, which stood at US\$ 3.3 billion in 2010, grew to US\$ 5.9 billion in 2015 and peaked at US\$ 7.2 billion in 2017. In 2017, imports from Canada were all time high at US\$ 4.8 billion (on account of increased imports of raw diamonds) and the trade deficit was also the largest at US\$ 2.5 billion. In 2020, total trade came down to US\$ 5.6 billion from US\$ 6.8 billion in the previous year, on account of COVID-19 induced global economic disruptions. India's exports were, however, more resilient compared to imports from Canada. Trade between both countries witnessed further momentum in 2021, with total trade reaching US\$ 6.3 billion in 2021, with exports of US\$ 3.6 billion and imports of US\$ 2.7 billion. India's merchandise trade surplus with Canada reached an all-time high of US\$ 841.6 million in 2021. In 2021, India was Canada's 14th largest export destination, 13th largest import source, and 13th largest trading partner overall.

India-Canada Services Trade

Canada's total services trade with India increased from US\$ 1.1 billion in 2010 to US\$ 5.5 billion in 2020. Canada maintained a services trade deficit with India initially, which later changed to a surplus since 2014, attributed to faster rate of increase in services exports from Canada as compared to services imports from India. India was the 5th largest destination for Canada's services exports during 2020. The services exports of Canada to India have increased steadily over the last decade, from US\$ 0.5 billion in 2010 to US\$ 3.7 billion in 2020. Canada's services exports to India peaked in 2019. With a share of 88.5%,

travel services accounted for the largest share in Canada's total services exports to India in 2020. Other sectors which accounted for a major share of Canada's exports to India included other business services (4.2%) and transport (2.3%), among others. In 2020, India was the 9th largest services supplier to Canada, with a share of 1.8% in Canada's total services imports. During 2010-2020, the total services imports from India have increased from US\$ 0.6 billion to US\$ 1.8 billion. Canada's services imports from India consist mainly of commercial services with negligible share of government services. Telecommunication, computer and information services accounted for 41.3% of services imports from India (92.4% attributed to computer services), followed by other business services (38.1%) and travel (10.7%). In disaggregated terms, technical, trade-related and other business services accounted for 42.9% of the business services imports from India, followed by professional and management consulting services (29.2%) and research and development services (22.7%). Technical, trade-related and other business services cover architectural, engineering, scientific and other technical services, waste treatment and de-pollution, agricultural and mining services, operating leasing services, trade-related services and other business services.

India-Canada Bilateral Investments

According to Financial Times' fDi Markets database, during 2010-2021, total capital investment of India in Canada stood at a cumulative amount of US\$ 5.8 billion, in 103 projects by 66 Indian companies which estimated to have contributed 16,989 jobs in Canada. In terms of capital investments, the largest share has been in software and IT services, followed by chemicals and metals, among others.

During 2010-2021, envisaged investment from Canada to India stood at a cumulative amount of US\$ 3.2 billion in 121 projects by 88 Canadian companies which estimated to have contributed 25,314 jobs in India. In terms of investments, the larger share has been in software and IT services sector, followed by metals, renewable energy and financial services, among others.

Opportunities for Enhancing India's Trade Relations with Canada

India Exim Bank's study analyses opportunities for enhancing India's trade relations with Canada by using the revealed comparative advantage method based on the data for the period 2015 to 2021. Out of the products with minimum exports of US\$ 1 million from India to Canada, 559 products have been identified with the total exports from India to Canada amounting to US\$ 3.2 billion while the global imports of Canada in the same products stood at US\$ 93.6 billion in 2021. Out of the 559 items at the HS 10-digit level, 324 items fell into category of product champions. The combined exports of these items from India to Canada were US\$ 2.2 billion in 2021, representing approximately 45.9% of India's exports to Canada in 2021. This was followed by underachievers with 41 items with India's exports worth US\$ 101.5 million to Canada. These products constitute a minimal share of 2.1% in India's total exports to Canada and are the products for which import demand in Canadian market are rising, but India does not have the required competitiveness in its exports. India's exports to Canada can be enhanced in the short run by focusing on the product champions whereas a boost to the underachiever category of products could increase India's exports in medium to long run. The study identifies potential products at HS 10-digit level for enhancing exports from India including in sectors like machinery, precious stones like diamond and articles of jewellery, pharmaceutical products, frozen food products, rice, heavy vehicles and parts, and construction machinery, among others.

Comparative tariff analyses of the two countries shows the following -

India's Tariff on Imports from Canada

There are 160 tariff lines (at 6-digit HS code level) that have effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 309.4 million in 2021. This corresponds to 11.4% of the total imports from Canada in 2021. Between tariff levels of 0.1% and 10%, the total imports amounted to US\$ 1.6 billion, corresponding to 60.2% of imports in 2021. Cumulatively, 90% of Indian imports from Canada faced an effectively applied tariff rate of less than 50% when exported to India. Products which faced highest effectively applied tariff imposed by India that are above 50% are in Chapters – HS-04, HS-07, HS-08, HS-09, HS-17, HS- 21, HS-22, HS-87 and HS-95 (mostly agriculture products, beverage and auto and auto components).

Canada's Tariff on Imports from India

There are 2873 tariff lines (at 6-digit HS code level) which amounted to US\$ 2.9 billion imports in 2021, on which Canada

imposes the effectively applied tariff of 0%. These products constitute 61.8% of Canada's imports from India in 2021. There are 1595 tariff lines amounting to US\$ 1.2 billion in the 0.1%-10% effectively applied tariff level category, which corresponded to over 24% of Canada's imports from India in 2021. So cumulatively, 86% of Canada's imports from India faced effectively applied tariff of less than 10% when exported to Canada. 432 tariff lines faced effectively applied tariff ranging between 10.1%-20%, with the total import share of 13% in 2021.

As of December 2022, Canada has imposed 2319 Non-Tariff Measures (NTMs) towards the WTO members (including India), as well as bilaterally imposed on India by Canada. Sanitary and phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures are among the mostly used NTMs, with 1424 SPS (74 in force and 1350 initiated) and 799 TBT (191 in force and 608 initiated). Canada has also adopted quantitative restrictions, tariff-rate quota, export subsidies, anti-dumping measures and countervailing measures, among others.

Potential Areas of Collaboration

India and Canada have been striving to enhance their bilateral relations through various mechanisms including Ministerial level – Strategic Trade and Energy Dialogues, Foreign Office Consultations, and sector specific Joint Working Groups. India and Canada have signed various MOUs in sectors including railways, transportation, civil aviation, skill development, uranium ore procurement, nuclear cooperation, ICT, energy, IPRs, higher education, science, and technology. An MoU was also signed between Invest India and the Investment Bureau, Global Affairs Canada on Investment Promotion and Facilitation. Indian companies in Canada are active in fields such as information technology, software, steel, natural resources, and banking sectors. Both the countries are exploring signing a Foreign Investment Promotion and Protection Agreement (FIPA).

The study identifies sectors like energy (renewables including solar and clean energy including nuclear energy and hydrogen), agriculture and allied sectors (food processing, agricultural technology and equipment and fertilisers), electric vehicle ecosystem, infrastructure financing and advance manufacturing including artificial intelligence, sensors, robotics, ICT, and medical devices technologies as potential sectors for enhancing bilateral cooperation between India and Canada. Entering into Mutual Recognition Agreements with Canada could focus on areas like regulatory standards, conformity assessment, accreditation procedures, qualifications, visas and social security. ■

India's Investment Potential in Africa

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

Africa's abundant natural resources coupled with a fast-growing middle-class population make the continent a lucrative market and an attractive investment destination. With real GDP growth estimated to average around 4% in 2023 and 2024, Africa is slated to outperform the rest of the world in economic growth. The African Continental Free Trade Agreement (AfCFTA) by establishing a vast borderless market provides further economic opportunities.

India-Africa Trade Linkages

India's total trade with Africa has increased from US\$ 6.3 billion in 2002 to US\$ 82.5 billion in 2021. Africa's share in India's global exports and imports stood at 9.6% and 7.8%, respectively. For Africa, India's contribution in its global exports and imports was 6% and 5.6%, respectively. India's exports to Africa were valued at US\$ 37.9 billion in 2021, while imports were valued at US\$ 44.6 billion. India's top export categories to Africa in 2021 were mineral fuels and oils, automobiles, and pharmaceuticals. About half of India's imports from Africa were of crude oil in 2021.

India's top export partner in the region is South Africa followed by Nigeria, Egypt, Togo, and Kenya. South Africa and Nigeria are the most important import sources for India in Africa, with a share of 45% in imports from Africa.

India-Africa Trade Agreements

Under India's Duty-Free Tariff Preference Scheme for Least Developed Countries (DFTP-LDC), duty free/ preferential market access is provided on about 98.2% of India's tariff lines. As 26 of the 34 beneficiaries under the scheme are African countries, the unilateral preferential treatment has considerably aided stronger trade relations between India and Africa.

Further, India-Mauritius Comprehensive Economic Partnership Agreement (CEPA) is the first agreement signed by India with an African country. Covering trade in goods, rules of origin, trade in services, sanitary and phytosanitary measures, among others, it is a limited agreement which entered into force in April 2021. Negotiations for a preferential trade agreement between the Southern African Customs Union (SACU), a customs union of 5 Southern African countries and India which started in 2007 have been revived in 2020.

India's Investments in Africa

India's total Overseas Direct Investment (ODI) to Africa during April 2000-January 2023 was to the tune of US\$ 50.4 billion. During the period, Mauritius was the largest recipient of India's ODI in Africa, with a share of 79.1% in India's total ODI to Africa, owing to its tax

haven status. The other top recipients during the period were Mozambique (7%), Sudan (6%), South Africa (2%) and Egypt (1.3%). Indian investments in Africa span across sectors, with manufacturing accounting for the highest chunk. The other lucrative sectors have been financial, insurance, real estate and business services, agriculture, mining, amongst others.

Firm Based Review of Indian Companies in Africa

It is gauged that prospective Indian investors give high importance to factors such as security and stability of raw materials; cost of raw materials; market size; attractive inward investment policies; repatriation of profits, political stability; and legal system by for investing in Africa. Access to third country markets; access to financial markets; and human resources parameters like management practices, labour laws, and quality of manpower are also given moderate importance.

The post-investment experience of Indian companies reflects that there is significant scope for improvement in segments like labour laws, management practices, manpower quality, and tax regime. Going forward, it is ascertained that joint venture is expected to be the most popular route for Indian companies for investing in Africa. Furthermore, the AfCFTA is expected to provide significant opportunities for Indian businesses as it focusses towards enhancing intra-regional trade. Overall, the African market has been favourable to Indian companies, both in terms of product acceptability as well as revenue generation. This is largely in line with the expectation that Africa is a growing market, and its needs are similar to what India has seen or is presently experiencing.

Investment Opportunities in Africa: Target Economies

Engaging with Africa is a key priority for India. It is important for India to explore additional markets beyond the conventional areas to advance its engagement with the African region. Top economies in Africa have been identified which offer high investment opportunities for India. These economies can be divided into three groups:

- Category A (Yellow: Countries with high-rating and investment potential) such as Botswana,
- Category B (Blue: Countries shortlisted using the above filters with no significant issues), and
- Category C (Orange: Countries shortlisted using the above filters but have issues like repatriation, FATF monitoring, etc.) such as South Africa, Nigeria, etc.

Target Economies with Suitable Business Opportunities for India

| S No | Category | Country | GDP (constant 2015 US\$) US\$ Bn | FDI (US\$ Bn) (2010-21) | Exports (US\$ Bn) 2021 | India's Exports (US\$ Bn): 2021 | India's share in imports: 2021 | Potential Industries | Rating (As of December 2022) |
|------|----------|----------------|----------------------------------|-------------------------|------------------------|---------------------------------|--------------------------------|---|------------------------------|
| 1 | C | South Africa | 353.3 | 87.0 | 123.7 | 6.0 | 5.7% | Cold storage, beer & wine, medical plastics & disposable plastics, vehicles, machinery, textiles, and chemicals | Ba2/Stable |
| 2 | B | Cote d'Ivoire | 65.3 | 7.5 | 14.0 | 0.7 | 5.1% | Agro-processing, pharmaceuticals, automobiles, IT, & textiles | Ba3/Positive |
| 3 | C | Tanzania | 64.2 | 15.5 | 6.4 | 1.7 | 11.1% | Irrigation systems, agricultural training & capacity, transportation, infrastructure, communications, electricity (especially renewable sources), wholesale & retail trade, and travel & tourism | B2/Positive |
| 4 | B | Egypt | 426.0 | 71.4 | 40.7 | 3.3 | 3.3% | Animal husbandry, fisheries, automobiles, renewable energy, and chemicals | B2/Negative |
| 5 | B | Kenya | 90.4 | 17.2 | 6.8 | 2.5 | 10.8% | Pesticides, fertilizers, horticulture, tea, coffee, automobiles, telecommunications, and medical devices | B2/Negative |
| 6 | B | Mozambique | 18.4 | 45.1 | 5.1 | 1.8 | 8.6% | Sustainable irrigation systems, second-hand equipment and machinery, cold chain solutions, agro-processing, packaging, design & construction, FMCG, oil and gas, and transportation | Caa2/Positive |
| 7 | B | Cameroon | 39.0 | 7.8 | 5.7 | 0.4 | 3.4% | Seaports, airports, railways, bauxite, and oil & gas | B2/Stable |
| 8 | C | Mali | 16.3 | 5.4 | 9.4 | 0.2 | 3.1% | Meat, material manufacturing plants, gold, oil & gas, renewable energy, automobiles (especially two-wheelers), and generic medicines | Caa2/Stable |
| 9 | B | Tunisia | 47.0 | 12.4 | 16.4 | 0.4 | 1.9% | Agro-processing industry, including soybeans and crude vegetable oil, feed grains and additives, modified starches etc. Tractors, pharmaceuticals, renewable energy, machinery, and tourism & hospitality | Caa1/Review for downgrade |
| 10 | B | Ghana | 66.1 | 35.9 | 15.1 | 1.1 | 5.6% | Food processing, automobiles, cosmetics, healthcare, mining industry equipment, and ICT | Ca/Stable |
| 11 | B | Morocco | 123.9 | 30.7 | 36.6 | 0.8 | 1.8% | Fisheries, energy, textiles, auto components, infrastructure, aerospace, healthcare, ICT, and telecommunications | Ba1/Stable |
| 12 | B | Zambia | 24.5 | 11.9 | 11.2 | 0.3 | 6.2% | Irrigation systems, farm inputs & equipment, energy, ICT, mining and minerals, medical equipment, and tourism | Ca/Stable |
| 13 | C | Nigeria | 518.5 | 51.7 | 47.6 | 4.5 | 8.8% | Oil and gas, automobiles, chemicals, power, infrastructure, consumer products, and ICT | B3/Review for downgrade |
| 14 | B | Algeria | 174.2 | 16.7 | 37.9 | 0.7 | 2.1% | Cereals, dairy, power, ICT, and infrastructure | - |
| 15 | B | DR Congo (DRC) | 48.1 | 22.7 | 22.3 | 0.6 | 6.8% | Fisheries, palm oil, rubber, warehousing, transportation, copper, cobalt, and telecommunications | B3/Stable |
| 16 | A | Botswana | 16.5 | 2.5 | 7.4 | 0.3 | 4.7% | Agriculture R&D, energy, mining & minerals, telecommunications, and medical equipment & pharmaceuticals | A3/Stable |

Opportunities for Closer Collaboration between India and Bangladesh

– Sara Joy, *Chief Manager*
Alfiya Ansari, *Deputy Manager*

Bangladesh is a significant development partner for India, aligning with India's "Neighbourhood First" policy. Their strong bilateral relation focuses on cooperation in infrastructure, connectivity, power, and defense. However, addressing the persistent trade surplus of India with Bangladesh is crucial for further enhancing bilateral trade. Bangladesh's trade deficit with India stems partly from importing intermediate goods used in its major exports, such as the RMG sector. This trade deficit with India allows Bangladesh to achieve a trade surplus in the RMG sector through trade with other major markets. Addressing this trade surplus is essential for balanced and sustainable bilateral trade growth. Following are the areas of collaboration that can be focused on to further strengthen India-Bangladesh economic ties:

Fast-tracking Implementation of Motor Vehicles Agreement (2015)

The Bangladesh-India border is among the world's longest and is labeled as a "thick" border, making trade between the two nations more expensive than trading with Germany. In 2021, bilateral trade accounted for only 12.1% of Bangladesh's trade and 1.6% of India's trade, significantly lower than intra-regional trade in East Asian and Sub-Saharan African economies. About 80% of land trade between India and Bangladesh goes through Benapole and Petrapole land ports, major trade junctions in Asia. The lack of transport integration means Indian trucks cannot transit through Bangladesh, leading to lengthy and costly routes.

To improve trade, streamlining customs procedures and enhancing cross-border infrastructure like Integrated Check Posts (ICPs), roads, airways, and rail links are essential. Such improvements would boost connectivity, fortify production networks and value chains, lower trading costs, spur economic growth, and alleviate poverty. The Motor Vehicles Agreement (MVA) within the BBIN (Bangladesh Bhutan, India, Nepal) countries, while promising, needs further negotiations and protocols to achieve its potential of creating a fully integrated cross-border road transport market in South Asia. Priority should be given to technical aspects, goods carriage requirements, and driver qualifications and licensing for its success.

Revision of Agreement on Coastal Shipping

In 2015, Bangladesh and India signed the Agreement on Coastal Shipping, aiming to streamline cargo movement through River-Sea Vessels (RSV) directly between their ports. However, the agreement faces challenges due to size restrictions and cost inefficiencies of small vessels for longer routes, especially during

rough sea conditions in the Bay of Bengal. To enhance coastal transportation's appeal, fixed barge schedules from Chittagong to Pangaon/Narayanganj ports are proposed, minimizing empty cargo return trips and reducing overall logistics costs for both nations. Additionally, removing size restrictions and allowing third-party export-import cargo transportation could optimize the coastal shipping agreement. Harmonizing technical standards and improving trade infrastructure are key for leveraging inland waterways for cross-border trade.

Mutual Recognition Agreement for Food Safety Standards

Divergent food standards in commodities like sugar, grapes, potatoes, among others are one of the barriers to agriculture trade between India and Bangladesh. These should be resolved by both countries through Mutual Recognition Arrangements (MRA). In order to implement this, the Bureau of Indian Standards (BIS) and the Bangladesh Standards and Testing Institute (BSTI) could establish a technical working group to expedite the process of harmonisation of standards and technical regulations for selected agricultural products. BSTI and BIS could work closely with standards related institutions of developed countries for the harmonization of regulatory standards through MRAs. Product-wise regulations on standards in food preparation and packaging should be mapped by both countries to reduce the cost of non-compliance. Both countries should make concerted efforts to align their food standards with international standards, such as CODEX.

Reduction of Para-Tariffs and Unification with Existing Customs Tariff Structures

Para-tariffs are defined as import taxes, other than customs duties, having a protective effect. Para-tariffs are often disguised, under-reported, and, in some cases, total protection levels exceed committed tariff bindings under the WTO. Bangladesh, through the use of several para-tariffs on top of the customs duties, has raised nominal protection levels for many import substituting industries to very high levels. Para-tariffs are applied across all bands, increasing the true incidence of import taxes and, at times, exceeding WTO bound rates. Average import tariffs (14% in 2021) double if para-tariffs are included. Para-tariffs are not part of the phaseout program under SAFTA. The problem of para-tariffs needs to be squarely addressed, and a schedule for elimination should be set.

Integrating the Textile Value Chain Linkages

The textile and clothing (T&C) sector forms a vital part of international trade and employment for India and Bangladesh, with significant value chain linkages between the two nations. India specializes in supplying intermediate inputs like silk, cotton, yarn, and fabrics, focusing on the upstream segment. On the other hand, Bangladesh excels in the downstream final apparel segment, exporting globally as well as to India. However, existing tariffs, non-tariff barriers, and transport inefficiencies hinder the growth of value chain linkages. Delays at border points, poor infrastructure, and regulatory bottlenecks escalate costs for intermediate products, making integration with Southeast and East Asian production networks challenging. Addressing these challenges is crucial to foster a stronger regional value chain in textiles. Moreover, collaboration to establish design and fashion technology institutes can position both countries as major fashion hubs.

Strengthening Regional Value Chains in Agriculture and Agro-processing

There lies potential for regional value chains (RVCs) in various sectors like agro-processing, chemicals, pharmaceuticals, garments, and more between India and Bangladesh. Collaboration along the agricultural value chain, encompassing seed production, agriculture, food processing, and R&D, offers substantial opportunities, including technology transfer. Investment prospects exist in agricultural inputs, equipment, and post-harvest infrastructure. Joint ventures can help reduce the trade deficit and diversify the industry and market for Bangladesh. The Northeastern Region of India, with its abundant agricultural resources, offers advantages for investing in the food processing industry, meeting the rising demand for high-quality agricultural products in Bangladesh. Sourcing raw materials from Northeastern India can cater to Bangladesh's demand for fruits, vegetables, and spices. Reforms in trade policies, trade facilitation, and standards are vital to fully harness these value chain linkages.

Reforms in trade policy (including rules of origin), trade facilitation, trade-related standards, and institutions could help both countries better take advantage of value chain linkages.

Trade in Medical Services

Bangladesh is a significant market for medical tourism in India, constituting a substantial portion of foreign tourist arrivals. Patients from Bangladesh frequently seek complex medical treatments in India due to its superior healthcare facilities and skilled medical professionals. India has been taking measures to position itself as a global hub for medical and wellness tourism, aiming to capitalize on factors like low treatment costs, world-class hospitals, and increasing global demand for wellness services. The Indian government's initiatives, such as the Heal in India campaign, aim to enhance India's reputation as a premier medical tourism destination. Potential opportunities for collaboration

between India and Bangladesh include establishing primary care clinics, offering wellness and rejuvenation services, promoting cross-border telemedicine, and extending Indian health insurance to medical tourists. A specific agreement on medical tourism could also be incorporated into the Comprehensive Economic Partnership Agreement (CEPA).

Opportunities in Services Sector

The services sector has been contributing the major share to the GDP of Bangladesh. This sector has also been contributing valuable inputs to manufacturing and other production activities. Trade in services, especially export, however, still remains very low compared to the sector's potential. There is lot of scope of development of service sector of Bangladesh. Bangladesh is providing transit and transshipment to India, Nepal and Bhutan, and better transit and transport infrastructure providing end-point connectivity could increase return from the transportation and communication sector. Thus, by developing adequate capacity through measures such as awareness creation to production of quality services, export of various services from Bangladesh may be increased significantly. The LDC Services Waiver has created some preferential market access facilities for Bangladesh and other LDCs. India has long been an education hub for students from its neighbourhood. Bangladeshi students are the third-largest foreign student community in India. India can collaborate with Bangladesh to upgrade the education system in Bangladesh. Enhanced cooperation in Services sector would be beneficial for both the countries.

Balanced Trade

Over the years, India and Bangladesh have taken a number of initiatives to remove trade barriers such as elimination of tariffs and nontariff restrictions at the unilateral, bilateral, and regional levels. Despite these initiatives, trade is not growing at the expected pace. The estimated indices indicate that India's exports to Bangladesh enjoyed comparatively higher complementarity than Bangladesh's exports to India. Supply constraints make it difficult for Bangladesh to take advantage of the Indian market. Bangladesh needs to strengthen its export supply capacity and India needs to offer higher market access for exports from Bangladesh to India to rise. In addition to tariff aspects, streamlining border transactions through trade facilitation is equally necessary. Therefore, physical trade barriers should be removed by strengthening and interlinking the trading instruments in both countries. The demand from Bangladeshi side to narrow the trade asymmetry with India could be possible by some extent with the signing of a CEPA by both countries. A part of India's trade surplus may be used to fund investments in Bangladesh, especially in trade enabling infrastructure which could enhance supply capacity of Bangladesh and leading to a more balanced trade in the coming years. An India-Bangladesh Friendship Fund may be set up to fund these investments to Bangladesh by Indian companies, which could be managed by India Exim Bank. ■

Essays on Risk, Insurance and Welfare

Export-Import Bank of India (India Exim Bank) instituted the BRICS Economic Research Annual Citation (BRICS Citation) in 2016. The objective of the Citation is to promote advanced doctoral research in international economics, trade, development and related financing, by nationals of any of the five member nations of BRICS, from any University/ educational institution globally. This article is based on the doctoral dissertation titled "Essays on Risk, Insurance and Welfare" selected as the winning entry for the India Exim Bank BRICS Economic Research Annual Citation (BRICS Citation) 2023, written by Dr. Digvijay Singh Negi, currently Fulbright-Nehru Postdoctoral Fellow, Cornell University, USA. Dr. Negi received his doctoral degree in 2018 from the Indian Statistical Institute, India.

The study constitutes a collection of three independent chapters that assess the role of international trade and formal insurance markets in insulating countries and producers from production shocks. It also examines the distributional implications of rising prices on net producers and consumers of food commodities.

The sharp surge in global food prices in recent years has led to concerns about the functioning of global food markets. In general, global food production is more stable than regional or national production, and thus free trade should be able to achieve greater stability in prices and consumption. The primary objective of the first chapter is to examine the performance of world markets for grains (maize, rice, and wheat) in a risk sharing framework. This chapter adopts the predictions of the efficient risk-sharing hypothesis as a benchmark. A necessary condition for efficient risk sharing is that food consumption should be perfectly correlated with global production and independent of domestic production. The chapter finds that the efficient risk-sharing hypothesis is rejected for the global food markets.

Agriculture and agriculture-based livelihoods in developing countries are highly prone to weather shocks. Even though farmers in developing countries are typically poor and even though they bear the burden of volatile income streams, formal insurance products have had limited success. The difficulties of administering the first best insurance programs tailored to the production histories of individual farmers have led to index insurance products where payouts are triggered by an index such as rainfall, temperature, or local average yields. Setting premiums is relatively easier because past data on indices of weather and average yield are more readily available than on individual production histories. As individual farmers have little or no influence on payouts, index-based insurance products are also less likely to fail due to asymmetry in information between the insurer and the insured. In particular, the uptake of index insurance is poor, especially when it is not subsidized.

The second chapter examines how rainfall insurance contracts in India can be designed to reduce basis risk. The study finds

that the associations between yield losses and index losses are stronger for large deviations than for small deviations. The major implication is that the value (to farmers) of index-based insurance relative to actuarial cost is highest for insurance against extreme or catastrophic losses (of the index) than for insurance against all losses. The study finds that station-level rainfall in India does exhibit tail-dependence and the joint distribution of district-level crop yields for nine major crops and rainfall index also exhibit tail-dependence. This implies that value to a risk-averse farmer of index-based insurance relative to actuarial cost is highest for insurance against extreme or catastrophic losses (of the index) than for insurance against all losses. There is much debate on the impact of high food prices on household welfare in developing countries. Since food is a necessity, the welfare effects of high food prices would be experienced universally. The major cause of concern is that as exposure to high food prices is proportional to its budget share in household expenditure, the worst affected population groups would be ones placed at the bottom of the income distribution. Therefore, rising food prices have become a matter of serious concern for developing countries, which are home to a majority of the world's poor.

The third chapter studies the impact of high global rice and wheat prices on household welfare in India. The chapter uses the 2007-08 surge in global food prices data to show that rice and wheat cultivating households gain from high prices. These welfare gains mainly accrue to net producers. It is observed that net producer households were able to maintain their per capita spending and consumption of rice and wheat by decreasing consumption of market purchased rice and wheat and increasing consumption of government-subsidized rice and wheat. Net consumers, on the other hand, experienced a decline in the total per capita consumption of rice and wheat even though they substituted their market purchases with homegrown produce and subsidized grains. The role of in-kind food transfers in insulating households from high prices was evident for both net producers and consumers. ■

India Exim Bank Lines of Credit

Contributed by: **Lines of Credit Group**

India Exim Bank extends LOCs to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India. Under the Lines of Credit extended with the support of Government of India, India Exim Bank reimburses 100% of contract value to the Indian exporters 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. 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 26, 2023, has 274 Lines of Credit, covering over 62 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US\$ 27.98 billion, available for financing exports from India. LOCs are thus an effective instrument for promoting and facilitating India's exports of projects, goods and services.

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Success Story

India Exim Bank's Government of India Supported Line of Credit of US\$ 10 million to the Government of Guyana



India Exim Bank has extended a Government of India supported LOC of US\$ 10 million to the Government of Guyana for Financing Procurement of Ocean Passenger-Cargo Vessel. The credit agreement was signed on November 09, 2016.

Project Details:

Contracts was signed between Garden Reach Shipbuilders & Engineers Ltd. (GRSE) and Ministry of Public Works, Government of Guyana; included under the LOC on December 30, 2021.

The scope of the Project includes:

- Design, Construction, Assemble and Delivery of the Vessel (including the equipment) to Guyana.
- Training of T&HD Personnel
- Warranty Services and Guarantee Slipping
- Spare Parts for the Vessel
- Ship Model – 3 Nos.

The total cost of the Project- US\$ 7.07 mn

Project was successfully completed on April 23, 2023. ■



The Quarter That Was

Contributed by: Corporate Communications Group

India Exim Bank Launches its subsidiary at GIFT City



India Exim Finserve IFSC Private Limited (Exim Finserve), the subsidiary of the Export-Import Bank of India (Exim Bank), at the Gujarat International Financial Tec City (GIFT City), was inaugurated by Dr. Vivek Joshi, Secretary, Department of Financial Services (DFS), Ministry of Finance, Government of India, on August 8, 2023.

Exim Finserve will extend a comprehensive range of trade finance products to Indian exporters, with a primary focus on export factoring. The factoring services by Exim Finserve will provide a combination of three essential services to exporters: receivables financing, coverage of the risk of non-payment and management of accounts receivable. This would lead to improved cash flow and reduced payment risk for exporters, enabling them to confidently explore new markets and seize growth opportunities. The factoring services would be particularly beneficial for MSME exporters as it is primarily based on the quality of accounts receivable, rather than collateral.

During the inauguration event, India Exim Bank's study titled "Strengthening Collaborations to Bridge the Trade Finance Gap: Insights for G20 Countries" was also released. The Study notes that the trade finance gap expanded to US\$ 2 trillion in 2021/22. Some of the strategies highlighted in the Study to bridge the gap include harmonisation of KYC standards for reducing frictions in cross-border payments; leveraging automation and digitalisation for trade finance; enhancing collaboration among Multilateral Development Banks, Export Credit Agencies and National Development Finance Institutions; exploring alternative trade financing such as supply chain financing solutions; creating a trade finance facility through cooperation among G20 countries; and bridging the data gaps in trade finance to improve trade finance policy design and operation.

India Exim Bank Announces the Winner of the BRICS Economic Research Citation for 2023



Dr. Digvijay Singh Negi was declared the winner of Export-Import Bank of India's BRICS Economic Research Citation 2023 for his doctoral dissertation titled "Essays on Risk, Insurance and Welfare". Dr. Negi was handed over the Citation by Ms. Harsha Bangari, Managing Director, Export-Import Bank of India, in the presence of Prof. Mark Swilling, Chairman, Development Bank of Southern Africa (DBSA) and Ms Boitumelo Mosako, CEO, Development Bank of Southern Africa (DBSA), during the 13th BRICS Annual Financial Forum, hosted by Development Bank of Southern Africa (DBSA) in Cape Town on August 22, 2023. The Forum saw the participation of the heads of member development banks of the BRICS Interbank Cooperation Mechanism viz. the Brazilian Development Bank (BNDES); State Development Corporation VEB.RF; China Development Bank (CDB); Export-Import Bank of India (India Exim Bank) and Development Bank of Southern Africa (DBSA), along with the New Development Bank. ■

Country Scan

Contributed by: **Research & Analysis Group**

Argentina



Argentina's economy is moving towards a deep recession in 2023 due to a devastating drought that is expected to weaken the agricultural output by almost 40% and contract the GDP by 2.8%. Severe draught and tightening measures will dampen the investment and private consumption, further affecting growth prospects. Inflation on average currently stands at 72.4% in 2022 and is expected to rise at 129.9% in 2023 due to elevated food prices, sustained wage pressure, and higher utilities tariffs. Pressure on the peso has been heightened by the drought, depriving Argentina of billions of US dollars. In this uncertain macro environment, there exists a significant risk of an uncontrolled maxi-devaluation with the Peso expected to depreciate to Ps:US\$ 819.5 on average by 2024. Argentina's climate shock is likely to hit the current account with an expected deficit of 2.8% of GDP in 2023. A deficit of that size would not normally be any cause for concern, but the country's extremely restricted access to foreign capital means that the expected current-account deficit of is likely to weigh on reserves and increase the risk of a currency crisis.

Russia



Russia's economic growth is expected to remain under downward pressure shrinking by 0.5% in 2023, following a 1.9% contraction in 2022 owing to the uneven impact of Western sanctions that resulted in severe productivity loss and a narrowing trade surplus in the oil and gas, aviation, and automotive sectors. Low external demand for Russian goods and a decline in labour force due to military mobilisation leading to the exodus of the working-age population is likely to also adversely impact the economy. However, the Russian economy is expected to make a rebound by 1.4% in the 2024-27 period. Inflation is expected to fall from 13.7% in 2022, to an average of 6.5% in 2023, before falling further to 5.7% in 2024, primarily because of high base effects from 2022. The Rouble (Rb) after averaging around Rb68.5:US\$1 in 2022, is expected to depreciate to an average of Rb85.5:US\$1 in 2023 due to rebounding imports and declining exports associated with the Western sanctions. Further on, Russia's current account surplus is expected to decline to 1.8% of GDP in 2023, as oil embargo and price cap shrinks the country's foreign earnings.

Iran



Iran's economy has been under severe pressure over the last decade due to external sanctions, and commodity price volatility. This has caused a significant contraction in its oil exports. However, over the last three years the economy has rebounded, managing to raise their oil production. Iran is expected to grow at an estimated 3.0% in 2023 led by the increase in oil output however, the economy is likely to continue to struggle under sanctions keeping the performance below potential. Inflation on average stood at 41.2% in 2022 and is expected to increase marginally to 43% in 2023 due to sustained depreciation of the rial, sanctions-related shortages, and monetisation of the fiscal deficit. Under the assumption of sanctions remaining in place, Iranian rial is expected to depreciate further to IR:US\$ 505,517 (average) in 2023, up from IR:US\$ 309,691 (average) in 2022, reflection high inflation. Weak policies, and structural deficiencies will prevent Iran from capitalising on global oil and gas markets. Current improvement in production is expected to stall, making Iran vulnerable to external price shocks, reducing their export earnings, and lowering the current account surplus to 7.9% in 2023, from 8.7% in 2022.

Ethiopia



Economic growth in Ethiopia is expected to grow from 5.3% in 2022 to 6% in 2023. Despite the adverse short-term impact of a civil conflict, high inflation and dwindling foreign reserves, the medium-term outlook is expected to be relatively favourable assuming the political climate improves, and an IMF programme commences by early 2024. However, Ethiopia remains vulnerable to climate risks with worsening food insecurity. Inflation is expected to remain high at 32.8% in 2023, owing to rapid money supply growth associated with domestic financing of the fiscal deficit. It is expected to average 29.6% in 2024, continuing the double-digit trend due to the import dependency linked currency devaluation. The Birr that averaged around Birr52.01:US\$1 in 2022, is expected to average around Birr57:US\$1 in 2023. It is likely that the government could allow staggered nominal depreciations of the currency as high inflationary pressures continue to undermine policy efforts to fully float it. However, improved external balances under the IMF programme should provide some support to the currency. The current-account deficit is expected to narrow from 4.4% of GDP in 2022 to 3.9% of GDP in 2023, before widening to 4.3% of GDP in 2024, mainly following trade trends. ■

Currency Currents

Contributed by: Treasury & Accounts Group

Russian Ruble

Rb

The ruble is the currency of the Russian Federation. It is used in Russia as well as in the parts of Ukraine under Russian military occupation and in Russian-occupied parts of Georgia.

The country's trade surplus, which traditionally supports its currency, has diminished. Previously, Russia maintained a substantial trade surplus due to high oil prices and reduced imports. However, oil prices have declined, and Western sanctions, including price restrictions on crude and oil products like diesel, have complicated Russia's ability to sell its oil. The reduced inflow of foreign currency resulting from decreased exports is a primary driver of the ruble's depreciation. However, the Russian economy is performing better than expected, aided by government spending and its trade with other countries.

This devaluation of the ruble, although advantageous for Moscow in terms of converting oil and gas earnings into more rubles for government spending, had gone too far, prompting the central bank's intervention. Since June, the Central bank raised its key interest rate by 4.5 percentage points to 13% as a response to the ruble's decline to its lowest point of 150 against US\$, since the early stages of the conflict with Ukraine. Russian Central Bank aims to combat inflation caused by increased imports and decreased exports, especially of oil and natural gas, as defence spending rises and sanctions impacts, partially through rate hikes.

The closing rate as on 29 September 2023 was 97.00 per US dollar.

Euro

€

The Euro is the currency and monetary unit of 20 countries in European Union. The euro was first launched as a noncash monetary unit in 1999, and currency coins and notes were released in 2002. Recently, Croatia has officially adopted the euro as its currency.

The European Commission predicted that Germany's slow growth will drag euro zone's economy slower. The main reason behind the slump in growth would be high inflation and Germany's economic state. The country is expected to slip into recession this year.

Higher inflation in Germany (5.9%) and Spain (2.6%) raised the likelihood of a rate hike and consequently, the European Central Bank (ECB) in the September policy lifted rates to a record of 4.5% and upgraded its inflation forecast for 2024, but the euro fell and has lost almost 2% against the dollar this month. The ECB, like the U.S. Federal Reserve, has pushed the idea of rates staying higher for longer. This backdrop should support a currency but in the euro's case, traders are homing in on the region's economic underperformance and betting the ECB will be forced to cut before the Fed.

EUR closed at 1.0570 against US dollar as on September 29, 2023.

Turkish Lira

TL

The Turkish lira is the legal tender in Turkey, a currency which has suffered many devaluation processes all along its history. It has been classified as the world's least valued currency on two occasions: between 1995 and 1996, and from 1999 to 2004 by the Guinness Book of Records.

Turkey's annual inflation has reached to 85.51% in October last year, the highest since June 1998. This surge in inflation began after the Turkish lira experienced significant depreciation following a series of interest rate cuts by the central bank. Despite soaring prices, the central bank continued its easing cycle, recently reducing the policy rate in October 2022 policy meeting to 10.50%.

The lira has suffered, losing approximately 81% of its value against the dollar in FY 2022 and an additional 30% in FY 2023. Further, while Turkey's central bank raised its year-end inflation forecast to 65.20%, the government's economic program prioritizes low rates to stimulate production and exports.

Recently, the central bank implemented a substantial rate hike, raising its key rate from 8.50% to 25% cumulatively in June, July, and August policy meetings, marking a shift from years of monetary easing. Consequently, the lira weakened by approx. 42%, hitting fresh record lows to 27.2994 against US\$.

The closing rate as on September 29, 2023, was 27.3712 per US dollar.

Chinese Yuan

Rmb

The Chinese Yuan is one of the worst performing Asian currencies this year. China is grappling with a significant outflow of capital, raising concerns among authorities as it adds to pressure on the depreciating yuan. The yuan has faced multiple challenges, including a sluggish economy, global firms seeking alternatives to China, and a resurgence in overseas travel affecting services trade. Foreign investors have also reduced their holdings of Chinese sovereign bonds. Additionally, the deficit in services trade persists, exacerbated by a lack of foreign tourists, despite China lifting its COVID-19 restrictions.

Official data reveals a capital account outflow of US\$ 49 billion in August, the largest since December 2015. This capital flight has been driven by China's economic slowdown and a widening interest rate gap with the United States, contributing to the yuan's decline to a 16-year low level of 7.3498 against US\$ in September 2023. This weakness could further diminish the attractiveness of Chinese markets and lead to a faster pace of outflows, potentially destabilizing financial markets.

The closing rate as on September 28, 2023 was 7.3010 per US dollar. ■

Exim Mitra

Contributed by: **Exim Mitra Group**

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 safe modes of payments in export business

For arriving at the right mode of payment the importer has to consider the exporter's present/past track of commitment, credit worthiness, market report, quality of the goods, credit rating agencies report etc.

Modes of payments from safest to least safe are as below:

1. Open account payment (safest to importer)
2. Document under collection (DA)
3. Document under Acceptance (DP)
4. Import Letter of Credit
5. Advance Payment (least safe to importer)

Further one can also refer to various sections of the EXIM Mitra portal as per their requirement.

Information on custom rules, procedures, and documents for export of fresh pomegranates from India to Australia

The export of fresh pomegranate fruits from India to Australia necessitates compliance with the import prerequisites set forth by the Department of Agriculture within the Australian government. These stipulations encompass both whole pomegranate fruits (*Punica granatum*) and ready-to-consume pomegranate arils sourced from India. Comprehensive details regarding the import conditions for these products can be accessed through the Biosecurity Import Conditions system (BICON).

As stipulated by the Australian Department of Agriculture, all imported pomegranate fruits must originate from recognized commercial production areas in India. Notably, Australia has extended Market Access to facilitate the export of pomegranates from India. A mutual understanding was reached between the countries and a work plan document was issued by the Australian Government's Department of Agriculture, Water, and the Environment (DAWE) in June 2020. This document delineates the requisite criteria and compliance measures for the export of fresh pomegranates from India to Australia. For further details, please refer to the provided link.

https://www.apeda.gov.in/apedawebsite/Announcements/ADVISORY_14.09.2020.pdf

What is Back-to-Back Letter of credit? How does it help an exporter in international transactions?

Back-to-back letters of credit often referred to as BTB LCs have emerged as a crucial International financial tool which paves way for smoother and more secure cross-border exchanges. Their ability to mitigate risks, facilitate intricate transactions, preserve confidentiality, navigate regulatory differences, and enhance trust makes them indispensable in international trade. This instrument involves two separate letters of credit, issued by different banks. The primary letter of credit, known as the master LC, is opened in favour of the seller (exporter) by the buyer's bank. Simultaneously, the seller employs the master LC as collateral to secure a second letter of credit, referred to as the sub-LC, from a local bank in their country.

In simple terms, let's assume Company XYZ is a jewellery wholesaler. One of its buyers, a small department store, gives a letter of credit to company XYZ to assure company XYZ that it can pay for a large jewellery order it is placing. In order to fill the large order, Company XYZ must purchase a large amount of raw materials from one of its suppliers. Thanks to the letter of credit from the department store. Company XYZ knows it will get paid and thus is able to use that letter of credit to the supplier for assurance of payment.

What is the eligibility criteria for bill discount against Letter of Credit? Does one need security for discounting the bill once export formalities are done and all export related documents are submitted to the bank?

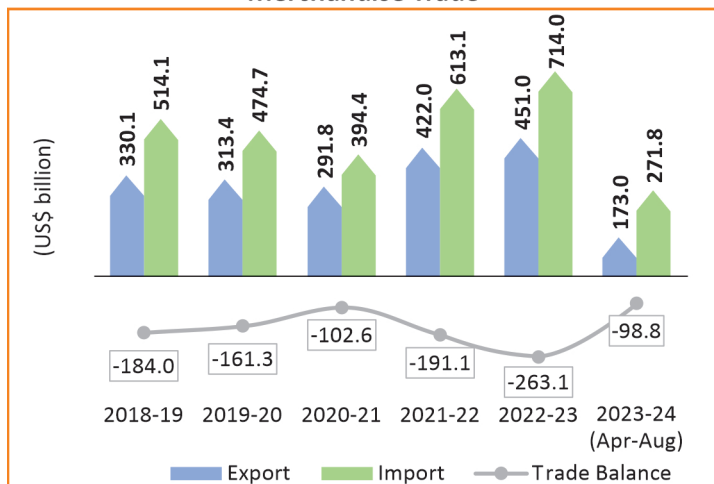
If the LC is restricted, then negotiation is also restricted. One may like to visit the Trade Finance Section of the Exim Mitra Portal where LC-related products (among various products) of select banks have been listed along with broad terms and conditions.

Regarding requirement of security, it depends upon the Bank's policy. Sometimes, a beneficiary of the LC may want to discount the bills with the LC issuing bank itself. In such cases, banks may discount bills drawn by beneficiary only if the bank has sanctioned regular fund-based credit facilities to the beneficiary. With a view to ensuring that the beneficiary's bank is not deprived of cash flows into its account, the beneficiary should get the bills discounted/ negotiated through the bank with whom he is enjoying sanctioned credit facilities.

Snippets on Indian Economy

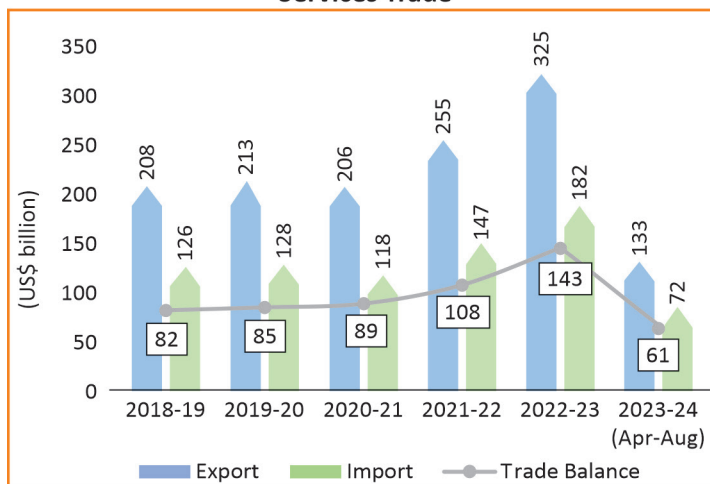
Contributed by: Research & Analysis Group

Merchandise Trade



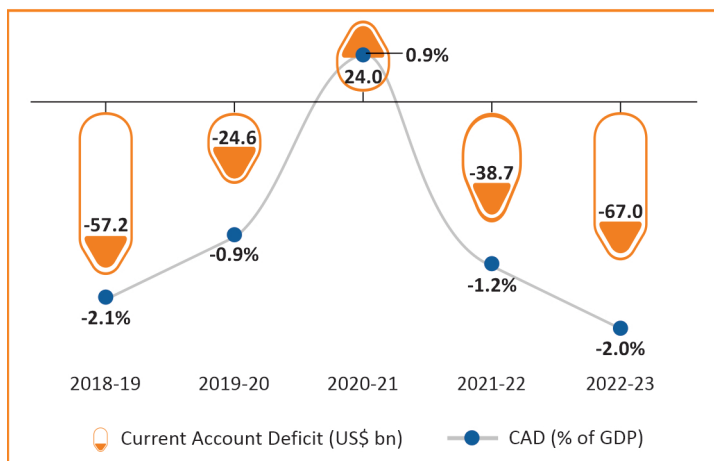
Source: Ministry of Commerce and Industry, GoI

Services Trade



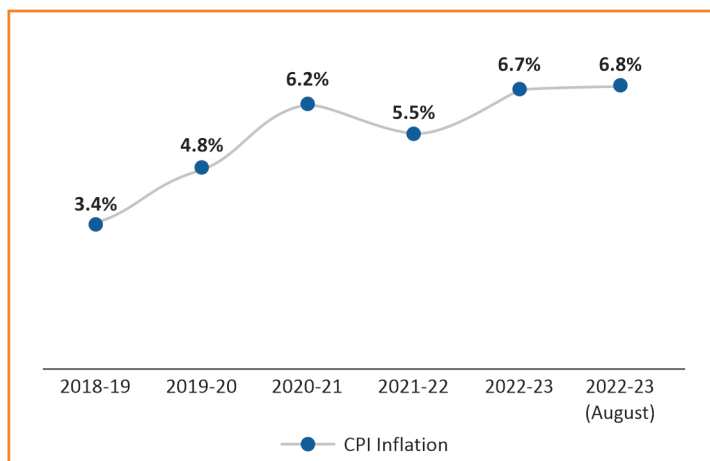
Source: RBI

Current Account Deficit



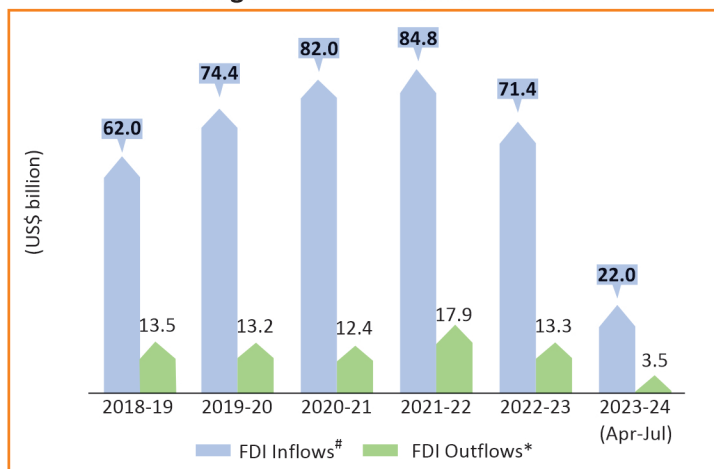
Source: RBI

Consumer Price Inflation



Source: Ministry of Statistics and Programme Implementation, GoI

Foreign Direct Investment Flows

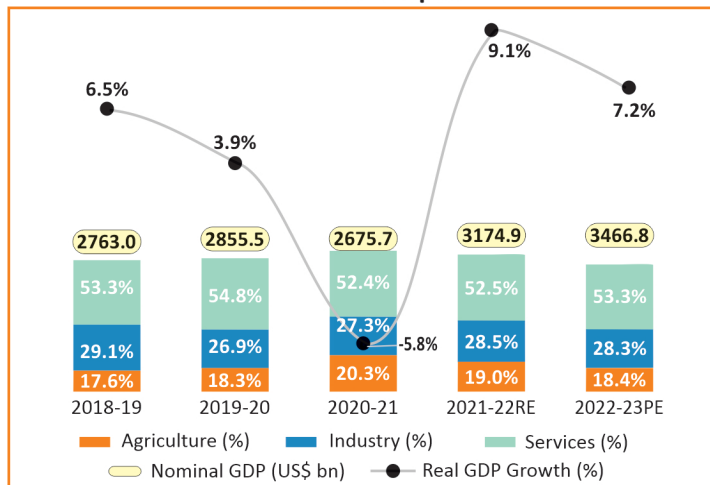


Note: * - FDI Outflows reflect actual figures and include equity, loans and guarantees invoked

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

Source: RBI and Ministry of Finance, GoI

Sectoral Output



Note: Figures in yellow represent Nominal GDP (US\$ bn); RE-Revised Estimate; PE-Provisional Estimates

Source: Institute of International Finance & MOSPI, GoI