

EXIMIUS: EXPORT ADVANTAGE

In this Issue

- Indian Solar Sector: Fostering Growth and Sustainable Development
- Impact of Union Budget on Exports from India
- India's Trade and Investment Relations with Australia: Recent Trends and Potential
- Empirical Studies in International Trade
- India-UK Bilateral Relations: Trade and Investment
- Strengthening Exports from Karnataka

A Quarterly Publication by:



Centre One Building, Floor 21,
World Trade Centre Complex,
Cuffe Parade, Mumbai - 400 005.
Tel.: 022 2217 2600
Email: ccg@eximbankindia.in
www.eximbankindia.in
www.eximmitra.in



Indian Solar Sector: Fostering Growth and Sustainable Development

India's Economic Survey has perhaps for the first time dedicated a whole section on Sustainable Development Goals (SDGs) and Climate Change, thereby exhibiting the increasing importance it is according to it. The section tracked the progress of the SDGs in India highlighting the progress of the various states, including SDG 7 which focusses on affordable and clean energy. Given India's track record in renewable energy, at COP 26, India has set a target to achieve a non-fossil based installed capacity of 500 GW by 2030.

The UNDP suggests that energy is by far the main contributor to the climate change as it promotes 73% of the human-caused greenhouse gases. Additionally, it is important to note that in the rural regions of the developing nations, a significant proportion of the population does not have the access to electricity. For example, a village is declared electrified if 10% of the households can access power, along with public institutions such as schools, the panchayat office, health centers, dispensaries, and community centers – this essentially calls for greater last mile connectivity of solar which can well be compensated through standalone solar facilities like rooftop solar, roof streetlights, amongst others. As a result, catering to technologies such as solar energy would not only facilitate enhancing the energy access and at the same time, can provide clean and more efficient energy to the world.

Emission Trends

A significant chunk of the global population especially the rural developing world still does not have access to the electricity. However, it may also be noted that as per UNDP, energy is the main contributor to the climate change as it contributes to almost 73% of the human-induced greenhouse gases (GHGs). This leaves a large scope for expanding the energy infrastructure, especially in the developing regions, with cleaner technologies such as the solar energy systems.

With respect to the emission trends, globally, the emissions went up from 27,698 MTCO₂ in 2000 to 40,389 MTCO₂ in 2018, thereby recording an average annual growth rate (AAGR) of 2.9%. The CO₂ emissions from India were registered at 2,307 metric tons (MTCO₂) in 2018, up from 890 MTCO₂ in 2000. During this period, the emissions from India have increased at an AAGR of 5.5%, much higher than the world average.

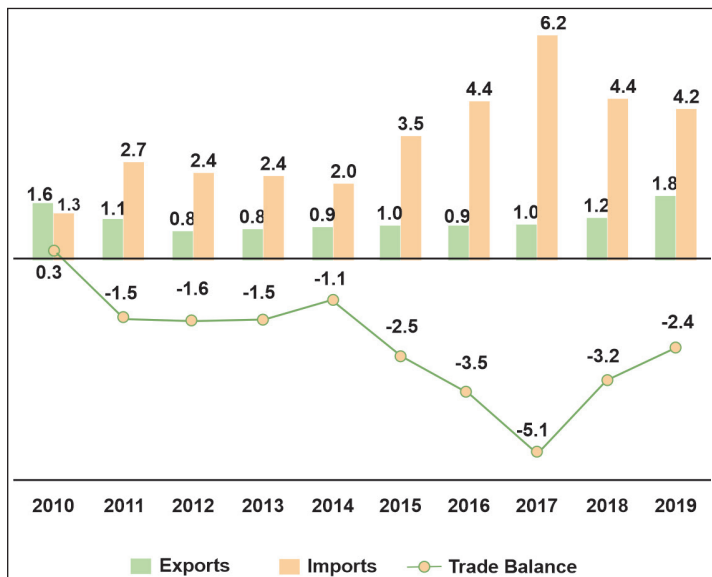
A worrying fact for India is that the share of India in the global emissions which was recorded at 3.2% in 2000, has increased almost every year since then and reached 5.7% in 2018. Nevertheless, as per the World Bank, in 2018, India's per capita emission were significantly less at 1.7 tCO₂ than the world's which was recorded at 4.4 tCO₂.

India's Solar Story: Dependency on Imports

India has had an interesting story with respect to the uptake in the solar energy in the country. As per the International Renewable Energy Agency (IRENA), the installed capacity of solar energy in India was recorded at 39.2 GW in 2020, up from just 0.1 GW in 2010, while registering an AAGR of almost 134%, during this period. India's share in the global solar capacity has also increased from mere 0.2% in 2010 to 5.5% in 2020.

However, there is a lot of debate on how indigenous India's success in solar is. India has a domestic PV module manufacturing capacity of only around 15 GW. India also continues to face competition from China on other raw materials such as wafers, cells, and poly silicon. India's dependence on imports of PV cells can be ascertained from the fact that its imports were worth US\$ 1.5 billion in 2020, while experiencing a US\$ 1.4 billion in trade deficit, exhibiting an 83% dependency on China. Overall, India's imports of the PV increased from US\$ 0.3 billion in 2010 to US\$ 2.5 billion in 2019. The trade balance for India, during the same period, changed from a surplus of US\$ 0.3 billion in 2010 to a deficit of (-) US\$ 2.4 billion in 2019.

Figure 1: India's Trade in Solar Equipment (US\$ billion)



Source: ITC Trade Map and India Exim Bank Research

The export competitiveness analysis through Revealed Comparative Advantage (RCA) reveals that India was not competitive in the exports of solar PV in 2019; however, in the exports of other solar related equipment such as static converters, and mirrors of base metals, India exhibited competitiveness in 2019.

Promoting the Solar Use in India

While India's solar energy capacity as on end December 2021 stands at an impressive 49.3 GW, it is still far (from its own set target of 100 GW by March 2023 under National Solar Mission.

This essentially would require India to review some of its strategy going ahead.

One of the initial challenges the sector faces is availability of finance given the ever-evolving solar industry. The first challenge to be addressed remains in the area of finance. The Covid-19 crisis has limited the resources for both the Central and State Governments. Therefore, it becomes important for the authorities to promote the new age instruments for giving encouragement to private sector in solar energy. These instruments could include green bonds, guarantees, amongst others. Further various municipalities in India, as like Ghaziabad Municipal Corporation, which was the first in India to do so, can also explore the possibility of issuing green bonds.

Further, an opportunity that hugely remains untapped in India is the off-grid systems. While the off-grid systems could be expensive, they are also the key to universal energy access. As long-term financing remains a challenge for solar, results-based financing (RBF) could be the key to enhanced off-grid solutions in India. RBF is a concept which is based on milestone completion. In India, Kerala State Electricity Regulatory Commission issued order in 2014 of Generation Based Incentive (GBI) for Off Grid Captive Solar Power Plants to meet the RPO targets.

The RPO compliance challenge also remains to the date in India. RPOs is probably one of the most important policy measures of India which can help India in fulfilling its solar energy targets. The RPO obligation for solar, set by the Ministry of Power was 6.75% in FY 19. With the recent orders, the target was set to 10.5% by FY 22, for all states and UTs. However, the targets set by the states' regulatory commissions reveal that their RPO targets are mostly falling short for FY 22. Only states such as Himachal Pradesh, Jharkhand, Karnataka, Manipur, Rajasthan, and Tamil Nadu, have their targets in compliance with new RPOs set by the Ministry of Power.

Finally, the traditional challenges such as the land availability remain in India, though with continuous improvements being registered. Innovative solutions such as floating PV, which are a huge success in countries such as Maldives, could be explored to address this challenge.

Way Ahead

India has an ambitious goal in the solar energy sector of installing a capacity of 100 GW by 2022. However, India also realizes that it has a total solar potential of almost 750 GW. As a result, India's goal should be to maximize this potential in the long run. In order to do so, India needs to overcome challenges by implementing various strategies as outlined. The implementation of these strategies will not only help India in achieving its target but would also provide the country with a chance to become self-sufficient in the solar PV technologies, and even export globally. ■

Impact of Union Budget on Exports from India

The Union Budget 2022–23, presented by the Hon'ble Finance Minister on February 1, 2022, was a growth-oriented budget, which builds on the countercyclical approach set out in the previous budget. The budget provided a blueprint for steering the economy towards a sustained high-growth trajectory over the next 25-years, leading up to "India @100". This twenty-five-years period has been termed as 'Amrit Kaal'. The Budget 2022-23 focused on four key themes that will be critical during this Amrit Kaal: (i) public investment for building modern infrastructure under PM Gati Shakti; (ii) inclusive development; (iii) productivity and investment, sunrise opportunities, energy transition, and climate action; and (iv) financing of investment.

Budget in Numbers

As per the revised estimates, fiscal deficit is estimated to reach 6.9% of the GDP in FY22, which is higher than the budgeted fiscal deficit of 6.8% for the year. The fiscal deficit widened despite revenue collections performing better than budget estimates, primarily due to a rise in government expenditure, especially capital expenditure. The capital expenditure projections have once again been stepped up sharply by 35.4% to ₹7.50 lakh crore in FY23, up from ₹5.54 lakh crore in FY22. Consequently, for FY23, the Government of India has budgeted the fiscal deficit to be 6.4% of the GDP. The larger focus on capital expenditure is expected to improve the quality of the fiscal deficit, with the share of the revenue deficit in the fiscal deficit projected to ease to 59.6% in FY23 from 68.4% in FY22. Besides, the Government of India has also reiterated its commitment to the path for fiscal consolidation and aims to reduce the fiscal deficit to 4.5% of GDP by 2025-26.

Impact on Exports

The focus of the government on infrastructure and logistics is expected to bode well for exports from the country. Currently, logistics costs in India are estimated at 14% of the GDP, while the global average stands around 8%. Higher logistics costs impact the competitiveness of exports from the country. Against this backdrop, the infrastructure push by the Government of India through initiatives such as PM-Gati Shakti, would strengthen trade enabling infrastructure, bring down the logistics cost and improve export competitiveness.

Besides, the Budget also called for 'One Station-One Product', which would complement the One District One Product (ODOP) initiative of the Government of India. Creating synergies between the ODOP and the new 'One Station One Product' concept can lead to formation of clusters, achievement of economies of scale, and improvement in export competitiveness.

Several custom duty changes have also been announced in the Budget with the aim of promoting domestic manufacturing. The Phased Manufacturing Programme (PMP) which was initially implemented for mobile phones and encouraged domestic value addition, has now been extended to other sectors such as hearable, wearable devices in the Budget. Under the PMP, customs duty rates are calibrated to provide a graded rate structure to facilitate domestic manufacturing. Targeting new, technology-intensive areas through the PMP will help orient India's exports basket towards relatively more sophisticated products that have greater resilience to commodity price movements.

The Government of India has also reviewed customs exemptions and nearly 350 exemption entries would be gradually phased out, which would benefit the local industry and promote capacity building. Concessional rates available on import of project imports and capital goods are also to be phased out, which could also help bolster the production of capital goods in India. Sufficient capacity building in high-tech segments such as capital goods can help increase project exports from the country, which have shown remarkable resilience even during global slowdown. Besides, the Budget also announced measures for simplification of the customs rate and tariff structure in a further attempt to encourage investments and strengthen linkages with global value chains.

Another important announcement has been with regard to replacement of the Special Economic Zones (SEZs) act with a new legislation. Reviewing the laws to make them more flexible and business friendly and including State Governments as partners would resuscitate the SEZ model of export promotion. To enable ease of doing business in SEZ units, the government also intends to undertake reforms in customs administration of SEZs, with a focus on higher facilitation and with only risk-based checks. Customs administration in SEZs would be fully IT driven and function on the Customs National Portal. The new measures could encourage greater investments and bode well for exports from SEZs.

Other measures like Ease of Doing Business 2.0 and the focus on sunrise sectors, technology intensive sectors are also likely to strengthen the exports sector. Ease of Doing Business 2.0 can significantly enhance the cost competitiveness of exporters. Focusing on sunrise and high-tech sectors would also place Indian manufacturing and exporters higher on the value chain, where it faces less competition from other low-cost suppliers. ■

India's Trade and Investment Relations with Australia: Recent Trends and Potential

Australia is the world's thirteenth largest economy with a nominal GDP of US\$ 1.4 trillion in 2020¹. Australia is a service driven economy with services contributing to 75% of the GDP while industry and agriculture contribute 22% and 3% respectively. Australia's growth is driven by robust export expansion, increased contribution of services sector, expansion of mining as a substantial industry and effective governance structure which resulted in a stable and transparent work environment. Australia is rich in minerals and is the world's largest producer of lithium and ranks globally among the top five producers of gold, iron ore, lead, zinc, and nickel. It also has the world's largest uranium and fourth largest black coal resources, respectively.

Australia's Trade

In the recent years, Australia's total merchandise trade has increased from US\$ 262.7 billion in 2006 to US\$ 456.8 billion in 2020. Merchandise exports increased from US\$ 123.3 billion in 2006 to US\$ 254.5 billion in 2020, on the other hand merchandise imports increased from US\$ 139.4 to US\$ 202.3 billion during the same period.

In 2020, almost 36% of Australia's exports headed to China which amounted to US\$ 90.5 billion. Japan was the second largest destination for Australian exports worth US\$ 19.1 billion (7.5% of total exports). In 2020, Australia's exports to India amounted to US\$ 7 billion, which was 2.8% of Australia's total exports in the same year. India was Australia's sixth most important export destination in 2020.

In 2020, China was the most important source of imports for Australia amounting to US\$ 57.6 billion (28.5% of its total imports during the year). USA followed China as the second largest source of imports for Australia, with imports amounting to US\$ 23.7 billion and a share of 11.7% in total imports. Australia imported goods worth US\$ 3.7 billion from India with India's share in Australia's global imports accounting for only 1.8% in 2020. Concomitantly, India was 14th most important source for Australia's import in the same year.

FDI and Investment Climate in Australia

According to UNCTAD's World Investment Report 2021, Australia was the 14th largest FDI recipient globally in 2020. FDI outflows from Australia have been moderate over the years with the country witnessing overall net inflow in terms of FDI.

Australia received a total envisaged investment of US\$ 250.5 billion from 4,614 projects during 2010-2020. Having recorded US\$ 54.7 billion in 2010, FDI inflows into Australia have averaged around US\$ 19.6 billion during the period 2011 to 2019. As a result of the

global pandemic, FDI inflows witnessed a significant moderation from US\$ 34.1 billion in 2019 to US\$ 19.6 billion in 2020.

A total outward direct investment of US\$ 115.9 billion was made by Australian entities during January 2010 to December 2020. FDI outflows from Australia which stood at US\$ 15.5 billion in 2005, increased sharply to US\$ 25.4 billion in 2008. FDI outflows during 2010-2020 averaged at US\$ 10.5 billion. As a result of the global pandemic, FDI outflows witnessed a severe blow reducing from US\$ 11.3 billion in 2019 to US\$ 3.9 billion in 2020.

India-Australia Trade Relations

India and Australia's GDP together amount to US\$ 4.1 trillion, accounting for 4.7% of the world GDP². With the evolving global scenario, Australia has come to look at India as an important partner in promoting regional security and stability.

In the recent times, India's total trade with Australia has remained more or less steady from US\$ 13.7 billion in 2010 to US\$ 13.5 billion in 2019. On account of the disruptions caused by the pandemic, bilateral trade witnessed a reduction to US\$ 10.7 billion in 2020. While exports have more than doubled from US\$ 1.7 billion in 2010 to US\$ 3.5 billion in 2020, imports have decreased from US\$ 12.1 billion to US\$ 7.3 billion during the same period. India has been persistently running trade deficit with Australia, which was the highest in 2011 at US\$ 11.3 billion before reducing to US\$ 3.8 billion in 2020.

India's major exports to Australia in 2020 were petroleum products (accounting for 24.2% of total exports in 2020) followed by pharmaceutical products (8.4%). Other major exports include natural or cultured pearls or stones (6.6%), machinery and mechanical appliances (5.1%), electrical machinery and equipment, among others.

As regards imports, India's top import items from Australia in 2020 were petroleum crude (76.5% of total imports), followed by inorganic chemicals and inorganic or organic compounds of precious metals (4.7%), natural or cultured pearls or stones (4.3%), and ores, slag and ash (2.1%). India thus, runs a trade deficit with Australia, which has reduced in the recent years following trade restrictions due to the global pandemic.

Opportunities for Enhancing Bilateral Trade between India and Australia

In order to enhance bilateral trade relations, and in particular to address India's rising trade deficit with Australia, it would be pertinent to identify and focus on potential items of exports from India to Australia.

¹ World Bank Global Economic Prospects 2020

² World Economic Outlook, October 2021

Among the major items in Australia's import basket, India has achieved only a marginal share for most items. Taking into consideration the huge import demand in Australia, India's export capability and comparative advantage, the potential commodities of exports from India could include, among others:

- Machinery and mechanical appliances (HS-84)
- Electrical machinery and equipment (HS-85)
- Vehicles other than railway or tramway (HS-87)
- Pharmaceutical products (HS-30)
- Natural or cultured pearls, precious or semi-precious stones (HS-71)
- Plastics and articles thereof (HS-39)
- Articles of iron or steel (HS-73)
- Articles of apparel and clothing accessories, not knitted or crocheted (HS-62)
- Articles of apparel and clothing accessories, knitted or crocheted (HS-61)
- Organic chemicals (HS-29)
- Aluminium and articles thereof (HS-76)

India's Bilateral Investment Relations with Australia and Investment Potential

During January 2010 to December 2020, while India received investment from Australia amounting to US\$ 3.2 billion, Indian FDI outflow to Australia amounted to US\$ 7.9 billion during the same period. Several Indian companies have made their presence in Australia across various sectors.

Australia is an attractive foreign investment destination. It is one of the easiest locations in the globe to start a business. According to Ease of Doing Business Rankings 2020 released by World Bank, Australia improved its position by four places to the 14th rank. Australia was ranked 3rd in ease of starting a business and 2nd in ease of getting credit amongst the OECD high income countries. Australia provides simplified business facilitation services in order to provide foreign investors a level playing field for commencement of their entity.

There are enormous opportunities for productive investments in key sectors of the Australian economy, which include, among others, renewable energy, critical mineral exploration, infrastructure and agri-business and technology. These are also sectors promoted by the Government of Australia to attract global investments into Australia.

Strategies for Closer Collaboration

Enhancing Bilateral Trade

India and Australia are important trade partners, with bilateral trade increasing steadily over the years, while the trade balance has traditionally been in Australia's favour. India recorded its highest

trade deficit with Australia of US\$ 11.3 billion in 2011. During this year, exports from India were mere US\$ 2.1 billion and imports were at US\$ 13.4 billion. Subsequently the deficit decreased till 2016 when it was recorded as low as US\$ 5.8 billion. Thereafter, the deficit again sharply increased in 2017 amounting to US\$ 10.5 billion before declining to US\$ 7.6 billion in 2019 and further to US\$ 3.8 billion in 2020. In order to address this widening trade gap, items of export potential from India, as identified in the study could be an immediate focus.

Enhancing Maritime Security

The Indo-Pacific is one of the major trade regions globally with immense potential. Being two major economies in the Indo-Pacific region, ensuring peace, security, stability, and prosperity in the Indo-Pacific region, would be a win-win situation for Australia and India who share similar concerns regarding the strategic and security challenges.

Signing of the Comprehensive Economic Cooperation Agreement (CECA)

India and Australia have been negotiating a Free Trade Agreement (FTA), since 2011. Early conclusion of an agreement, which is envisaged to be concluded by early December 2022, could bolster the economic relations between the two countries, while opening up immense opportunities for further closer collaboration in a number of areas. India and Australia are also expected to benefit from the forward linkages of a CECA, with exponential expansion in market size for the countries.

Inclusion in Asia-Pacific Economic Cooperation (APEC)

Asia-Pacific Economic Cooperation (APEC) is a regional economic forum established in 1989. The grouping aims at promoting balanced, inclusive, sustainable, innovative, and secure growth and by accelerating regional economic integration. Inclusion of India in APEC will open plethora of opportunities for India and the other member countries.

Partnership in Renewable Energy

As per the Renewable Energy Country Attractiveness Index (RECAI) rankings released in October, 2021, India was ranked 3rd and Australia was ranked 7th among the world's top 40 markets based on their capability to attract investment in renewable energy sector and the operational prospects. Taking into consideration Australia's rich natural resources and technical know-how, Indian companies could collaborate with their Australian counterparts in order to establish a forum for the promotion of joint research and investment in the renewable energy sector and for understanding the complementarities of the two countries in an effective manner.

A strong partnership driven by robust trade and investment links between Australia and India, which is an emerging superpower and growth driver in the Asian region, could auger well as a win-win proposition for both economies with immense opportunities for further collaboration in various fields of mutual interest. ■

Empirical Studies in International Trade

Export-Import Bank of India instituted the International Economic Research Annual (IERA) Award in 1989. The objective of the award is to promote research in international economics, trade, development and related financing, by Indian nationals at universities and academic institutions in India and abroad. The study titled '*Empirical Studies in International Trade*' is based on the IERA Award 2020 winning thesis by Dr. Sanjana Goswami, Assistant Professor of Economics at the Lee Kuan Yew School of Public Policy, National University of Singapore.

Economists have long recognized that free trade has the potential to raise living standards and that both the importing and exporting countries gain by engaging in trade. The growing body of empirical evidence supports the view of most theoretical trade models that trade reallocates resources within a country, and both destroys and creates jobs, with implications for income distribution. Evidence suggests that while the countries benefit overall, there are some losers as well. Trade's adverse effects appear to be highly geographically concentrated and long-lasting in developing and developed countries alike.

This study sheds light on these distributional effects of international trade by examining the effect of two large shocks – China's rise as an export powerhouse in the 2000s, also known as the 'China Shock', and the more recent Sino-American trade war of 2018 – on labour market outcomes. In the first part, the study analyses the effect of the China shock on occupational employment in the United States. In the second part, the study analyses the effect of tariffs imposed by the United States and China on regional employment in the United States. The China Shock captures the effect of the rise of import competition on employment, whereas the trade war tariffs capture the effect of a decline of import competition on employment. Both effects show distributional impacts of international trade.

Occupations differ along several characteristics such as their pay, degree of routineness, and required level of education. These differences should lead to heterogeneous responses of occupational employment levels to technology

or international trade shocks. For example, automation is more likely to replace highly routine occupations, and an international offshoring relationship with an unskilled-labour abundant country is more likely to replace low-skilled occupations in the source country. For the U.S., the greatest trade shock in the last few decades comes from the rise of China as the world's largest trader. In influential papers, Autor, Dorn, and Hanson (2013), Acemoglu, Autor, Dorn, Hanson, and Price (2016a), and Pierce and Schott (2016) find a large negative impact of Chinese import competition on U.S. employment. Contributing to this literature, the goal of this study is to estimate the impact of the 'China shock' on U.S. occupational employment from 2002 to 2014 by distinguishing occupations according to their wage, non-routineness, and education characteristics.

After sorting about 750 occupations from low to high wage, from routine to non-routine, and from low to high education, the first part of this study documents the decline in the share of lower-indexed occupations in total U.S. employment from 2002 to 2014, and an increase in the share of higher-indexed occupations during the same period. At the industry level, the composition of employment in the vast majority of the industries changes in favour of higher-indexed occupations. The empirical analysis confirms that Chinese import exposure is an important driver of these results, mainly through its large negative employment impact on lower-indexed occupations.

Tariffs on imports reduce import competition for domestic firms and in turn encourages more firms to enter the market or expand, therefore generating new jobs. On the other hand, retaliatory tariffs on exports hurt domestic firms and they may shrink or even exit and may therefore displace workers. Moreover, tariffs on imports of intermediate products make inputs more expensive and hurt domestic firms and may displace workers. A trade war imposes tariffs or quotas on imports and foreign countries retaliate with similar forms of trade protectionism. As it escalates, a trade war reduces international trade, and in turn has distributional effects on the labour market. The recent trade escalation prompted by the U.S. administration under President Donald Trump since

January 2018 is an unprecedented move, incomparable to any previous episodes of trade disputes since the Great Depression. The second part of this paper explores these distributional impacts by studying the short-run and long-run employment consequences of the U.S-China trade war.

Although the legal justifications for these trade wars range from national security (in the case of steel) to protection of intellectual property (in the case of China), the justification that President Trump put forward when talking to his political base was the protection of the American worker and American jobs. This study presents evidence that such a claim may have been credible prior to the events of the global financial crisis, but it does not hold in today's environment.

The short-term approach estimates the effects of changes in U.S. import tariffs, U.S. import tariffs that propagate downstream to buyers of intermediate inputs, and Chinese retaliatory tariffs on commuting zone-level employment growth. Using monthly data on employment, U.S-China trade and tariffs from January 2017 to March 2019, this study finds that Chinese retaliatory tariffs have had a statistically significant and negative effect on commuting zone-level employment growth, whereas U.S. import tariffs have had no effect. This suggests that commuting zones that are relatively more exposed to the export tariffs are disproportionately hurt, whereas commuting zones that are relatively more exposed to the import tariffs are not growing any differently than they were before the trade war.

The long-run approach imposes a hypothetical trade war on a well-studied phenomenon in the empirical international trade literature: the large job-reducing effects of surging imports from China, or the 'China shock', on the U.S. labour market (Autor, Dorn, and Hanson (2013), Acemoglu, Autor, Dorn, Hanson, and Price (2016a), etc) in addition to the job-creating effect of exports, which are also substantially large enough to almost offset the losses created by Chinese imports (Feenstra, Ma, and Xu, 2019). Using an industry-level specification that estimates the effect of the change in Chinese import competition, non-Chinese import competition, and U.S. export expansion on the change in manufacturing employment, counterfactual employment levels are calculated under three different scenarios of retaliation by China: (i) simple retaliation, which imposes identical restrictions on U.S. exports across all industries, (ii) political retaliation, which targets in particular those

industries that have a large proportion of Trump supporters, and (iii) responsible retaliation, which minimizes the impact of retaliation on global supply chains. This exercise is conducted for two time periods: 1991-2007, where the China shock had a large negative impact on manufacturing employment, and the post-recession period of 2010-2016, where the China shock no longer has an effect on manufacturing employment. A trade war in this empirical model simultaneously reduces both import and export exposure, based on the type of retaliation, thereby bringing back some jobs lost due to Chinese imports while killing some jobs gained due to U.S. export expansion.

To guide this empirical exercise, this study closely follows Acemoglu, Autor, Dorn, Hanson, and Price (2016a) and Feenstra, Ma, and Xu (2019). Using an instrumental variables approach, the former estimates the effects of Chinese import penetration on U.S. employment at both the industry and commuting-zone levels, while the latter expands the approach to consider also the employment effects of U.S. exports. While both papers find that Chinese import exposure is associated with employment losses in the U.S., Feenstra, Ma, and Xu (2019) find that "export exposure" has a countervailing effect that makes up for the Chinese-induced job losses during the 1991-2007 period. The counterfactual exercise for the 1991-2007 period finds that a uniform tariff by the U.S. along with no retaliation by China would bring back enough manufacturing jobs to almost reverse the effects of the China shock. No matter the type of retaliation strategy by China, had the U.S. taken a protectionist approach during this period by imposing import tariffs, manufacturing employment would have increased.

However, these results would no longer be true if the focus is on only the post-recession period of 2010-2016. In this case, the job-reducing effect of the China shock no longer exists. In fact, Chinese import penetration has a positive and insignificant effect on U.S. manufacturing employment. The counterfactual analysis for this period indicates that the trade war would lead to a net destruction of jobs.

These results combined suggest that the employment consequences of the U.S-China trade wars are negative in the short-run and are unlikely to be largely positive in the long-run either because of the shift in the nature of manufacturing production towards automation and offshoring in the past decade. ■

India-UK Bilateral Relations: Trade and Investment

With a gross domestic product (GDP) of US\$ 2.7 trillion in 2020 and a population of over 67 million, the UK is the fifth largest economy in terms of nominal GDP. The economy of the UK is quite diversified, with services sector accounting for 80% of the GDP value added and around 82% of employment, while manufacturing sector accounted for 9.6% of economic output and 7.3% of jobs in 2020.

Trade and Investments

The UK and India currently face an important opportunity to deepen the bilateral trade and investment relationship. The India-UK trade has grown steadily over the years. In 2020, the UK is the 14th largest trading partner for India. The total trade between India and the UK amounts to US\$ 12.5 billion in 2020, increasing from US\$ 11.6 billion in 2010. Also, with exports to the UK growing considerably faster than imports from the country, India has consistently maintained a merchandise trade surplus with the UK since 2004, which stood at US\$ 3.1 billion in 2020.

Exports: Overall, India's exports to the UK rose from US\$ 6.4 billion in 2010 to US\$ 7.8 billion in 2020. In 2020, the principal item of export to the UK from India was machinery and mechanical appliances (8.4% share in India's exports to the UK, followed by article of apparel and clothing accessories, knitted, or crocheted (7.6%), pharmaceuticals products (7.3%), article of apparel and clothing accessories, not knitted or crocheted (6.9%), pearls, precious stones, and metals (6.8%), electrical machinery and equipment (5.8%) and mineral fuels and oils (3.4%).

Imports: On the other hand, India's imports from the UK have decreased from around US\$ 5.2 billion in 2010 to US\$ 4.7 billion in 2020. In product terms, pearls, precious stones and metals, and machinery and mechanical appliances, dominate India's import basket from the UK, together accounting for as much as 36% of India's total imports from the UK. Other important import products include electrical machinery and equipment (8.3% of India's total imports from the UK), optical, photographic, cinematographic apparatus (5.9%), iron and steel (4.8%), inorganic chemicals (4.7%), ships, boats, and floating structures (4.5%), and aluminium and articles (4.5%).

India-UK Service Trade Relations

India holds strong services trade relation with the UK, which is near equal to the merchandise trade. India is 10th largest service trade partner to the UK - 20th largest export

destination, with a 1.3% share in the UK's global services exports and the 7th largest import supplier, with a 3.5% share in the UK's global services imports in 2020. The UK's total services trade with India increased from US\$ 9.4 billion in 2010 to US\$ 11.5 billion in 2020.

Exports: The services exports of the UK to India have increased steadily over the last decade, from US\$ 3.3 billion in 2010 to US\$ 4.3 billion in 2020. With the share of 59.1%, other business services accounts for the largest share in the UK's total services exports to India in 2020. Other major services exports include travel (11.2%), financial services (6%), transport (5.9%), telecommunication, computer, and information services (5.3%), insurance and pension services (3.6%) and charges for the use of intellectual property (3.3%), among others.

Imports: During 2010-2020, the total services imports from India have increased from US\$ 6 billion to US\$ 7.3 billion. Other business services account for almost three-fourth of the UK's services imports from India. Other major services imports of the UK from India include telecommunications, computers, and information services (12.8%), travel (5.2%), transport (4.1%) and financial services (1.7%).

India's Bilateral Investment with the UK

The UK has always remained a preferred investment destination for Indian investors and the trend continues despite Brexit. According to Financial Times' fDi Markets, during 2010-2020, capital investment of India in the UK stood at a cumulative amount of US\$ 12.3 billion, invested in 405 projects by 267 Indian companies, resulting in 39,307 jobs. In terms of capital investments, the largest share has been in the automotive OEM sector (37% of Indian investments to the UK), real estate (13.8%), automotive components (12.9%), software and IT services (6.6%), coal, oil and gas (6.5%), metals (4.8%), business services (4.2%) and hotel and tourism (3.1%).

On the other hand, the UK is currently the 6th largest FDI investor in India. According to Financial Times' fDi Markets, during 2010-2020 investment from the UK to India stood at a cumulative amount of US\$ 37.7 billion invested in 731 projects by 468 British companies and creating 174,247 jobs. While in terms of investments, the larger share has been in the sectors of metals (14.1%), renewable energy (11.4%), electronic components (10.9%), coal, oil, and gas (9.2%), and communications (8.1%), during 2010-2020.

Aligning India's Exports with the UK

The ongoing talks for FTA between the countries have set the stage for enhancing future bilateral partnership. However, an FTA will only be beneficial if there exists complementarity between the export supply of one country and the import demand of the other country. During the period 2010-2020, the complementarity index for Indian exports to the UK's imports ranges from 59.5 to 67.7, while the complementarity index for the UK's exports to India's imports ranges from 53.4 to 60.6. This indicates a substantial complementarity in India's exports and the UK's imports and vice versa.

Further, using the revealed comparative advantage analysis, India's exports to the UK have been classified into 4 groups based upon its competitiveness.

Product Champions: Out of the 732 items at the HS 6-digit level, 362 items fell into the category of the product champions (PCs). The combined exports of these items from India to the UK were US\$ 4.04 billion in 2019, representing approximately 45.9% of India's exports to the UK in 2019. Major product champions include turbojets, articles of jewellery, women's or girls' dresses of synthetic fibres, sandstone, and parts of machinery, among others.

Winners in Declining Sectors: The total number of products in winners in declining sectors category is 224, with India's exports amounting to US\$ 3.1 billion and constituting a share of 35.2% of India's exports to the UK in 2019. These are the product items in which India has attained a significant share in the UK's import basket, but the UK's import demand for these products has been falling in the last decade. Top items include medicaments, footwear with outer soles of rubber, babies' garments and clothing accessories of cotton, t-shirts, singlets and other vests of cotton, among others.

Underachievers: There exist 106 items in this category with India's exports worth US\$ 579.7 million to the UK. These products constitute a minimal share of 6.6% in India's total exports to the UK. These are the product items in which import demand in the UK market is rising, but India does not have the required competitiveness in the export of these items. These include motor cars, medium oils and preparations, telephones for cellular networks, bread, pastry, cakes, biscuits, and structures and parts of structures of iron or steel, among others.

Laggers in Declining Sectors: The high range of exports under the category of laggers in declining sectors highlight the

need for diversification to other sectors as well as industries which have greater scope for exports in the future.

Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the UK market, whilst India's exports also hold a comparative advantage in them. The sectors such as machinery and electrical equipment, apparels and pearls and precious stones are the top sectors holding the largest share in the product champion sectors of India to the UK. While in the long run, India needs to develop capabilities in the export of items in the underachievers category as import demand of these in UK market is rising, but India does not have the required competitiveness in the export of these items.

Policy Recommendations to Enhance India-UK Partnership

Post-Brexit, India and the UK have witnessed a new dynamism in its bilateral relationship, with the two countries signing the Enhance Trade Partnership (ETP) in February 2021. In the post-Brexit environment, India and the UK need to build on its solid trade and historical relationship to take the trade and investment to newer heights. A few policy catalysts that could help boost bilateral cooperation could include (i) expansion of trade based on identified commodities which hold export potential for India, (ii) focusing on negative list instead of positive list of products while signing FTA, as also considering the concessions that the UK has made under its FTA with India's competitors in the UK market, (iii) focusing on reducing the non-tariff barriers, (iv) moving up the value chain by ensuring that raw materials have lower duties except for any sensitive items, (v) enhanced cooperation for allowing temporary movement of people for the supply of services, (vi) promoting collaboration in digital technology, (vii) promoting investments from the UK through a liberal foreign investment policy through which foreign services supplier can easily establish operations in India and collaborate with Indian companies, (viii) improving logistical infrastructure, (ix) promoting equal exchange, (x) stimulating investments from companies involved in advanced manufacturing which would further support India's aim to localize the manufacturing and (xi) collaboration in various sectors including education sector, smart cities, fintech and waste management, among others. ■

Strengthening Exports from Karnataka

Over the last few decades, the state of Karnataka has been on the forefront of India's economic growth, transitioning from a primarily agrarian state to emerge as the Silicon Valley of India. With a share of 8% in 2018-19, Karnataka was the 5th highest contributor to India's GDP of ₹140.9 trillion, after Maharashtra (14.5%), Tamil Nadu (8.6%), Uttar Pradesh (8.4%) and Gujarat (8.1%). Remarkably, the per capita income in Karnataka has not only risen, but has also exceeded the national average during the period 2011-12 to 2019-20.

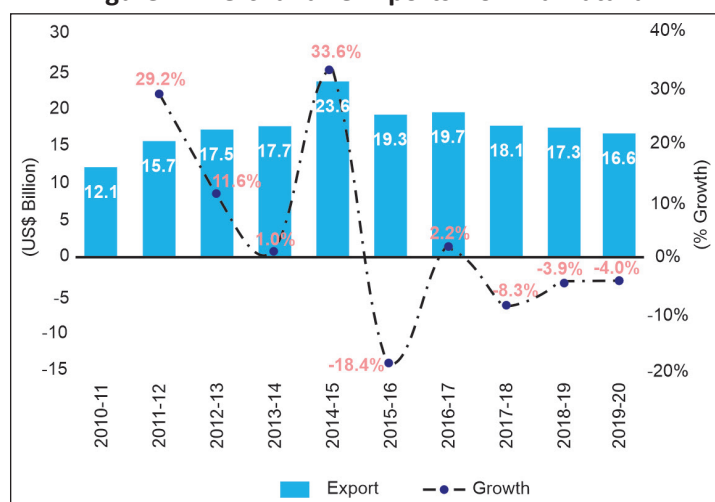
Karnataka has emerged as a technology, services, and knowledge hub of the country drawing a niche for itself. This largely gets explained by the plethora of job opportunities in the state, leading to migration of labour from across the country to Karnataka.

Exports from Karnataka

In the last two decades, Karnataka has emerged as a key player in the export of electronic and computer software, engineering goods, readymade garments, petrochemicals, gems and jewellery, agro and food processing products and chemicals, in addition to its traditional exports of coffee, silk, spices and handicrafts.

Merchandise exports from Karnataka in 2019-20 were valued at US\$ 16.6 billion, registering AAGR of 4.8% during 2010-11 to 2019-20. During the year, while the share of Karnataka's merchandise exports in the national exports constituted around 5.3% and the share of software and services exports was recorded at 39%.

Figure 2: Merchandise Exports from Karnataka



Source: DGCIS; India Exim Bank Research

Further, the top ten principal items from Karnataka contributed to around 56% of the state's total exports in 2019-20, as against 71% in 2014-15. The top exported principal item was 'petroleum products' with a contribution of 15% in the total exports in 2019-20. This was followed by 'RMG cotton' (8%); 'iron and steel' (7%); 'electronics instruments' (6%); and 'electronics components' (4%).

The top five export destinations for merchandise exports from Karnataka in 2019-20 represented around 40% of the total

merchandise exports from the State. These were the USA (20.6%), UAE (5.9%), China (4.7%), Germany (4.1%), and the Netherlands (4.0%). It is noted that diversification in terms of the state's export destinations increased from 2014-15 to 2019-20, with the top five export destinations accounting for 50% of the total merchandise exports in 2014-15 as against 40% observed in 2019-20.

As per India Exim Bank's Research, Karnataka's Export Product Concentration Index (EPCI) was valued at 0.03 for the merchandise exports from the state during 2019. Further, the EPCI for Maharashtra, Gujarat, and Tamil Nadu was recorded at 0.08, 0.01, and 0.05 respectively. This shows that within the three competing states, Karnataka's export product concentration was only higher than that of Gujarat.

Export Target for Karnataka

The Economic Survey 2018-19 and the Union Budget 2019-20 indicated the Government's goal of making India a US\$ 5 trillion economy by 2024-25. One of the key enablers for this would be the country's exports sector, with the Government targeting exports of goods and services to be at least 20% of the GDP, that is, US\$ 1 trillion by 2024-25.

Taking a cue from this, under an optimistic scenario, assuming that Karnataka's share in India's total merchandise exports remains the same at 5.2% as the latter touches US\$ 666.6 billion mark in 2024-25, the total merchandise exports from the state will have to grow at the same CAGR to reach US\$ 35.32 billion in 2024-25. Further, a base case scenario, the state may end up achieving approximately US\$ 21.04 billion of goods exports by 2024-25. Overall, Karnataka's export target can range from US\$ 21.04 to US\$ 35.32 billion in the next five years, depending upon different scenarios.

It is noted that while the merchandise exports have not been concentrated around select industries, they have performed significantly below the envisaged potential in the recent years. In order to attain the said targets – in both short and medium terms, a holistic strategy focused on the state's core competencies is required.

Way Ahead

To supplement the state's effort in realizing its envisaged merchandise export potential, the export infrastructure will have a critical role to play. A well-developed and resilient export infrastructure in the state, by improving regional connectivity helps in significant reduction in logistics costs to facilitate exports. Further, decrowding and developing the nearby centres could also help Karnataka realise its true potential.

Additionally, services exports is an important segment of Karnataka's economy. Targeting the exports of engineering, research and development services, tourism infrastructure, medical tourism, improving regional and international air connectivity could be some of the areas that Karnataka could focus on. ■

India Exim Bank Lines of Credit

Export-Import Bank of India (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, 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 the 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 February 28, 2022, has 309 Lines of Credit, covering over 66 countries in Africa, Asia, Latin America, Oceania and the CIS, with credit commitments of over US\$ 31.69 billion, available for

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

India Exim Bank, with the support of Government of India, has signed one LOC as given below during the period January-March 2022:

India Exim Bank has on behalf of the Government of India, extended one LOC of US\$ 500 million to the Government of the Socialist Republic of Sri Lanka for financing purchase of Petroleum products. The LOC Agreement to this effect, was signed by Mr. S. R. Attygalle, Secretary, Ministry of Finance, Government of the Socialist Republic of Sri Lanka and Mr. Gaurav Singh Bhandari, Chief General Manager, India Exim Bank, in the presence of the Minister of Finance of Sri Lanka, H.E. Mr. Basil Rajapaksa and the High Commissioner of India to Sri Lanka, H.E. Mr. Gopal Baglay, in Colombo on February 02, 2022. With the signing of the above LOC Agreement for US\$ 500 million, India Exim Bank, till date, has extended 10 LOC to the Government of the Socialist Republic of Sri Lanka, on behalf of the Government of India, taking the total value of LOCs extended to USD 2.18 billion. Projects covered under the LOCs extended to the Government of the Socialist Republic Sri Lanka includes supply of Petroleum products, Railway Projects, Defence and Infrastructure Projects.

For further information, please contact:

Mr. Gaurav Bhandari

Chief General Manager

Export-Import Bank of India

Office Block, Tower 1, 7th Floor, Adjacent Ring Road

Kidwai Nagar (East), New Delhi-110023

Telephone: +91 11 24607700

E-mail: eximloc@eximbankindia.in

Website: www.eximbankindia.in

Success Story



India Exim Bank's Government of India supported Line of Credit of US\$ 100 million to the Ecowas Bank for Investment and Development (EBID)

India Exim Bank has extended a Government of India supported LOC of US\$ 100 million to the Ecowas Bank for Investment and Development for financing various development projects in the 15 member countries of EBID. The credit agreement was signed on November 09, 2010.

Project Details:

Contract was signed between Ashok Leyland Limited and Ministry of Higher Education Scientific Research And Innovation, Burkina Faso and included under the LOC on January 30, 2017.

The scope of the Project includes acquisition of 135 buses for universities and other institutions of higher education, construction of two workshops, construction of covered parking lot, procurement of spare parts, etc in Burkina Faso.

The total cost of the Project was US\$ 20,000,000

Project was successfully completed on November 29, 2021. ■

The Quarter That Was

India Exim Bank Releases Forecast of India's Merchandise Exports for Q4 of FY2022

As part of its continued research initiatives, Export-Import Bank of India (India Exim Bank) has developed an in-house model to generate an Export Leading Index (ELI) for India to track and forecast the movement in India's exports on a quarterly basis.

For the fourth quarter (January-March) of 2021-22, India Exim Bank forecasted India's total merchandise exports to continue to cross the US\$ 100 billion mark, for the third consecutive quarter in a row, amounting to US\$ 111.3 billion, growing at 23%, and non-oil exports to amount to US\$ 95.2 billion, growing at 15.8%. This compares to US\$ 90.4 billion and US\$ 82.2 billion of total exports and non-oil exports, respectively, for the corresponding quarter of the previous year.

India Exim Bank Announces the Winner of IERA Award 2020

Dr. Sanjana Goswami was declared the winner of India Exim Bank's International Economic Research Annual (IERA) Award 2020 for her doctoral thesis titled "Empirical Studies in International Trade". India Exim Bank's IERA Award 2020 was announced by Ms. Harsha Bangari, Managing Director, India Exim Bank, at a webinar held on March 21, 2022. The award comprises prize money of ₹3.5 lakh and a citation. The webinar was graced by the Guest of Honour, Dr. D.M. Nachane, Former Chancellor, University of Manipur, Professor Emeritus and Former Director, Indira Gandhi Institute of Development Research, Mumbai. India Exim Bank's occasional paper based on Dr. Sanjana Goswami's Award-winning thesis was also released on the occasion.

India Exim Bank IERA Award represents the Bank's ongoing efforts at promoting research and analysis in the area of international economics, trade and development and related financing. Ms. Bangari, highlighted that the IERA Award, instituted in 1989, currently in its 32nd year, is given to Indian nationals for their outstanding doctoral dissertations in the area of international economics, trade, development and related financing from Indian or foreign universities.

India's Exim Bank Announces its ESG Framework

In its endeavour to align with the global Environmental, Social and Governance (ESG) considerations, and enhancing transparency and communication with its stakeholders, India Exim Bank set up its ESG framework to issue green, social or sustainable bond and loans. The Framework outlines India Exim Bank's intent to enter into sustainable financing transactions to finance projects that have a positive environmental and/or social impact while supporting

its business strategy. The Framework defines eligibility criteria in six green and four social areas, viz. renewable energy, sustainable water and wastewater management, pollution prevention and control, clean transportation, green buildings, energy efficiency, access to essential services and basic infrastructure, food security and sustainable food systems, MSME financing, and affordable housing.

As per the Framework, each sustainable financing transaction will adopt procedures for managing the use of proceeds, project evaluation and selection, management of proceeds and reporting. The use of proceeds of such bonds are required to be used exclusively to finance or re-finance, in whole or in part, new or existing eligible Green and/or social projects aligned to ICMA Principles. The Bank has also set up a Sustainable Financing Committee (SFC), including representations from the Bank's operating, compliance, and legal groups, to evaluate projects that may be eligible under this Framework.

India Exim Bank Organised a Roundtable Discussion on India Solar Sector

The Study on 'Indian Solar Sector: Fostering Growth and Sustainable Development', was launched during the webinar held on January 19, 2022. While delivering the Special Address, Ms. Gauri Singh, Deputy Director General, IRENA, stressed upon the significance of the solar energy in Indian scenario and the role it can play in achieving India's COP26 renewable energy targets. The webinar witnessed the participation from prestigious institutions such as International Solar Alliance, Indian Renewable Energy Development Agency, ADB, NDB, among others.

India Exim Bank Set for ARR

India Exim Bank is set for transactions in Alternate Reference Rates (ARR). With the cessation of LIBOR, the Bank is ready for conducting its daily operations in ARR. As a preliminary step, India Exim Bank has been continuously monitoring its exposures linked to LIBOR. The Bank has also set up an internal multi-disciplinary Steering Committee for LIBOR Transition, to ensure the smooth transition and systematic implementation of ARR into the Bank's Business. Subsequently, the Bank's Board also approved a policy framework to address the risks arising from LIBOR transition. Presently, the Bank is in advance stages of renegotiating and updating its underlying financial contracts and arriving at an ARR for continuation of the existing contracts and transactions. Further, to ensure the smooth transition, India Exim Bank has also adhered to the ISDA 2020 IBOR Fallbacks protocol. With this, the risk of transition to alternate benchmark for derivative contracts is expected to be minimal. ■

Country Scan

UAE



UAE's economic growth is expected to accelerate to 4.5% in 2022, from 3.3% in 2021, owing to the growth in global oil prices and the recovering economy. Private consumption is also expected to be strengthened by high domestic vaccination rates and the gradual return of foreign workers in 2022-23 as the UAE minimises internal movement restrictions. As the pandemic's lingering deflationary impact wanes and economic recovery strengthens, rising global food and energy prices, higher local property prices, and a continuing recovery in domestic demand even with monetary policy gradually tightening is expected to push inflation up to 3.5% in 2022 from 0.2% in 2021. Goods export revenue is expected to move largely in tandem with global oil prices and Emirati oil export volumes and partly with re-exports from Dubai. Services exports is likely to recover gradually, with international tourist arrivals increasing as global concerns over the pandemic ease in 2022. As a result, the current-account surplus is expected to peak at 14.6% of GDP in 2022 as compared to 12% in 2021.

Cambodia



Cambodia's economy is expected to grow by 6.6% in 2022, following growth of 1.6% in 2021. Low base effect is contributing in a big way for this high growth rate in 2022. Real GDP is expected to grow by an annual average of 6.8% in 2023-26, which is slower than the average growth rate of 7.1% in the five years preceding the pandemic (2015-19). Consumer price inflation is likely to strengthen in 2022 as the economy recovers and there is an upswing in domestic demand. Prices are expected to increase by an average of 3.8% in 2022, before decelerating to 1.5% in 2023. Inflation is expected to remain in the 2-3% range in 2024-26. Cambodia uses a crawl regime for the riel against the US dollar. The local currency is expected to continue to face depreciatory pressure in 2022 and 2023, owing to interest-rate increases in the US. The currency is expected to average CR4,108: US\$1 in 2022 and CR4,116: US\$1 in 2023. The current-account deficit is expected to narrow to 7% of GDP in 2022, from a huge 43.9% of GDP in 2021. There is likely to be moderate growth in exports of garments and footwear as demand strengthens in the US and the EU. Imports are expected to record a sharp decline as gold imports drop off. The services balance would remain in the red, with tourism receipts not expected to return to pre-pandemic levels until 2024.

Bolivia



Bolivia's economy is expected to expand by 5% in 2022, as rising global energy prices would benefit Bolivia's natural-gas exports. In the medium term, annual real GDP growth is expected to average 2.2% in 2023-26, which is lower than before the pandemic, owing to a structural decline in natural-gas and minerals output, along with fiscal constraints. Consumer price inflation is expected to increase to 3.7% in 2023 compared to 2.9% in 2022 because of increasing demand side pressures. The BCB is expected to maintain the boliviano's Bs6.91: US\$1 peg to the US dollar until mid of 2023. Bolivia's exposure to swings in commodity prices and fluctuating external demand from neighboring markets is a risk to the external balance. Higher gas prices is likely to lead to a dramatic improvement in terms of trade. The current account surplus is expected to narrow to an average of 2.1% of GDP during 2023-24. Current account is expected to turn to deficit, averaging at 0.3% of GDP in 2025-26.

Australia



The Australian economy is expected to grow by 3.3% in 2022. A very low level of unemployment and growth in real wages is likely to enable further household spending. Private investment is also expected to continue to drive economic growth through the renewable energy sector and more residential construction. However, the Ukraine crisis is likely to put an upward pressure on inflation in 2022, primarily through higher domestic fuel prices. Inflation is expected to average at 3.8%, which is likely to fall in the last quarter of 2022, brought down by restoration of global supply chains, a cooling of the housing market and the start of monetary policy tightening. The Australian dollar is expected to come under pressure from a more aggressive pace of monetary tightening by the Federal Reserve and heightened global investor risk sentiment. It is expected to average at A\$1.38:US\$1 in 2022. Australia is expected to benefit from higher commodity prices, as iron ore, coal and liquefied natural gas constitute more than one-half of Australia's total exports. The presence of rare-earth minerals is also likely to provide Australia a unique opportunity to expand its exports. However, the import bills are also expected to rise given the surge in oil prices. The current-account balance will continue to remain in surplus but it is expected to narrow from 3.5% of GDP in 2021 to 1.3% of GDP in 2022. ■

Currency Currents

Great British Pound



Back in June 2016, when the UK voted to leave the European Union, Great British Pound (GBP) plunged against the dollar, and it has been volatile since though it has never managed to surpass 1.50 against the dollar which was last seen in 2016. GBP traditionally tends to underperform in times of global market anxiety, GBP to Euro exchange rate's lowest points came not in the wake of the Brexit referendum in 2016 but rather following the financial crash of 2008 and the outbreak of Coronavirus fears in early 2020.

GBP/US\$ touched its lowest levels since November 2020 at 1.30 on March 14, 2022. It has fallen against most major currencies over the second week of March, with a 1.60% decline being registered against the Euro and a 0.86% fall coming against the dollar. GBP finds itself in an unsupportive global environment characterised by conflict in Ukraine, rising inflation and expectations for falling global growth. Given the continuing Russia-Ukraine tension and external inflationary pressures, the Pound's trend of weakness is likely to persist.

The closing rate of GBP/US\$ as on March 18, 2022, stood at 1.3180.

Thailand Baht



The Thailand's baht (THB) has been accepted by the Myanmar government, as an official currency for settling border trade starting March 2022. Thailand is the second country after China to permit its national currency to be exchangeable with the Myanmar kyat for border trade activities.

THB hit a seven-month high against US dollar in mid-February, as higher gold prices and continued foreign fund flows into stocks and bonds boosted the currency, while concerns surrounding Ukraine weighed on most other Asian currencies.

The tourism industry, which was recovering from the effects of the pandemic for the last two years, is now facing another threat from Russia-Ukraine tension. The risk is more prominent for Thailand which sees a major influx of tourists from Russia. Amid concerns that the current-account balance is likely to stay in deficit due to high oil prices and weak tourism revenues, THB is steadily depreciating.

The closing rate of US\$/THB as on March 18, 2022, stood at 33.29.

Russian Rouble



Russia's economy is facing the gravest crisis since the 1991 fall of the Soviet Union after the West imposed heavy sanctions on almost the entire Russian financial and corporate system following tensions in Ukraine. The West's attempt to cut off Russia which is one of the world's largest exporters of oil, gas, and metals has hit commodity markets and raised the spectre of spiralling inflation across the world. The measures include blocking some banks from the SWIFT international payments system, preventing Russia's central bank from using its foreign reserves, banning broadcasts of Russian state media and restricting Russian flights from European airspace. Russian Rouble (RUB) which has been on a declining trend since last month, has lost a third of its value in Moscow exchanges against US dollar, as the local economy buckles under the pressure of sanctions imposed across the world in retaliation to the invasion. As a result, RUB has become the worst performing currency this year. The currency has also witnessed illiquidity exhibited by wide bid/ask spreads.

The closing rate of US\$/RUB as on March 18, 2022, stood at 99.00 after touching a high of 150.00 on March 07, 2022.

Singapore Dollar



The spectre of higher inflation in Singapore driven mainly by rises in energy and food prices is being cited as a significant risk to the economy, as tensions rage in Ukraine. Despite being far away from Ukraine, the Government of Singapore has taken the rare step of imposing unilateral sanctions on Russia. The decision is rooted in Singapore's perceived leadership role among small countries and its long-time concerns and worries about the survival of such countries in the international system.

Singapore's dollar (SGD) consolidates near the weakest level in almost three months as concern eases that US is likely to impose sanctions on China, US\$/SGD touched 1.3687 on March 15, 2022, the lowest since December 2021.

US\$/SGD has been trading in the range of 1.3404 and 1.3687 during the period January 01 to March 18, 2022 and closed at 1.3547 on March 18, 2022. ■

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 about Registration-cum-Membership Certificate (RCMC) for New Merchant Exporters

While applying for an RCMC, an exporter must declare their primary line of business in their application and obtain an RCMC from the Council concerned with their main product. In case an export product is not covered by any Export Promotion Council/Commodity Board etc., an RCMC in respect thereof is to be obtained from Federation of Indian Exporters Organization (FIEO). In case of multi-product exporters (not registered with any Export Promotion Council) where the main product/service is undecided, the exporter has an option to obtain an RCMC from the FIEO.

Multi-product exporters having their head office/ registered office in the Northeastern States, can obtain their RCMC from Shellac and Forest Products Export Promotion Council (except for the products looked after by APEDA, Spices Board and Tea Board). Exporters of handicrafts and handloom products from the State of Jammu and Kashmir, can get their RCMC certificate from the Director of Handicrafts and Handlooms, Government of Jammu and Kashmir.

Information about EXIM Bank's Buyer's Credit

Buyer's Credit is our unique credit facility program that motivates Indian exporters to explore new geographies. Through this program, an overseas buyer can open a "letter of credit" in favor of an Indian exporter and can import goods and services from India on deferred payment terms. The Indian exporter enjoys reduced transaction costs and complexities of international trade transactions; while simultaneously getting to compete in the international market and continue to put their working capital to good use to scale up operations. Buyer's credit that EXIM bank provides can only be used for the export of Indian goods or services.

The bank also provides Buyer's Credit under NEIA for promoting India's project exports to traditional as well as new markets in developing countries which need deferred credit on medium or long-term basis. Under this unique financing program, credit is extended to overseas sovereign governments and government owned entities to Indian goods and services on deferred credit terms for a medium to long-term period.

Information about Import of Used Rails, Iron and Steel

As per Director General of Foreign Trade (DGFT), import of used rails comes under chapter 73 of ITC (HS), 2017 Schedule I – Import Policy. Import of used rails, including cut rails of all lengths, under *ITC(HS) Code 7302* is 'free' subject to following conditions and presentation of evidence:

- i. Pre-shipment inspection certificate as per the format in ANF 2L of FTP (2015-20)- from any of the inspection and certification agencies listed in Appendix 2G, to the effect that the consignment was checked for radiation level and rails do not contain radiation level (gamma and neutron) more than natural background. The certificate shall give the value of background radiation level at that place as also the maximum radiation level on the rails; and
- ii. A copy of the contract between the importer and the exporter stipulating that the consignment does not contain any radioactive contaminated material in any form.

As per Central Board of Indirect Taxes and Customs, basic customs duty for import of used railway track for HSN Code 73021050 is 15%. Import of used rails, including cut rails of all lengths, under ITC (HS) code 7302 is free subject to production of PSIC indicating permissible background radiation levels and contract stipulating absence of radioactive contamination (refer to ITC HS cond 1 to ch.73).

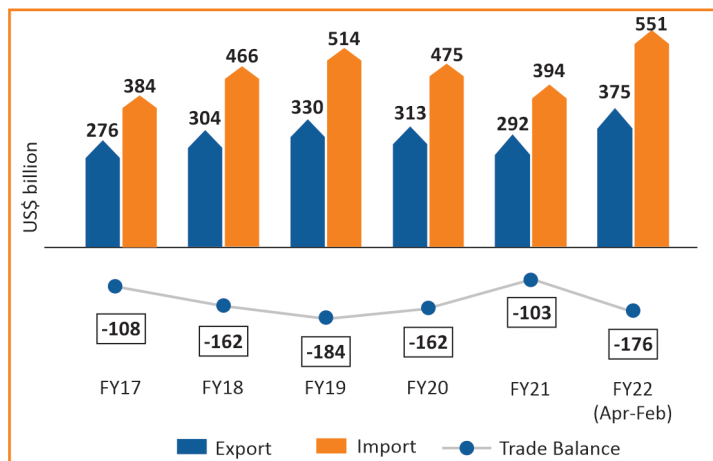
Information regarding Export of Milled/Flour Products to the UAE

Visit the website of APEDA, a mandated organization for export promotion and development for all processed food products including milled products. Flour products broadly fall under 4-digits HS Codes of 1101. One should carefully identify the exact HS code at 6-digit or 8-digit level from the DGFT database. Indian Trade Portal can also be visited to get information on the Export Policy of the product. Following are the steps:

- i. Enter the HS Code or the product (Flour) and click on the find button.
- ii. Select the product to be exported (according to your description) and click on the next button
- iii. Select the country you want to export (UAE).
- iv. Find the Export Policy for your product.

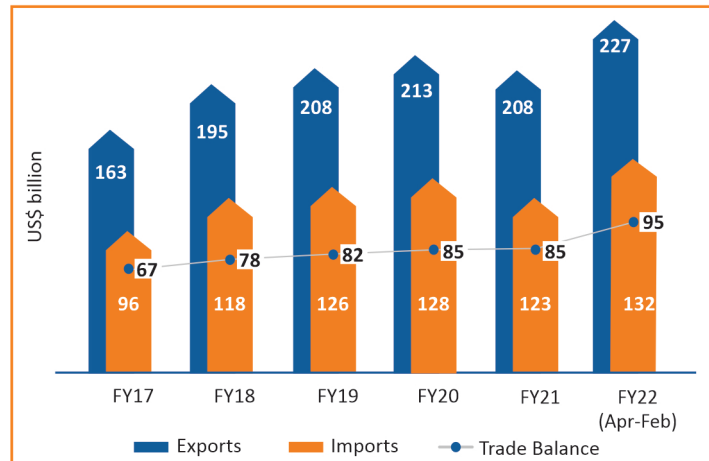
Snippets on Indian Economy

Merchandise Trade



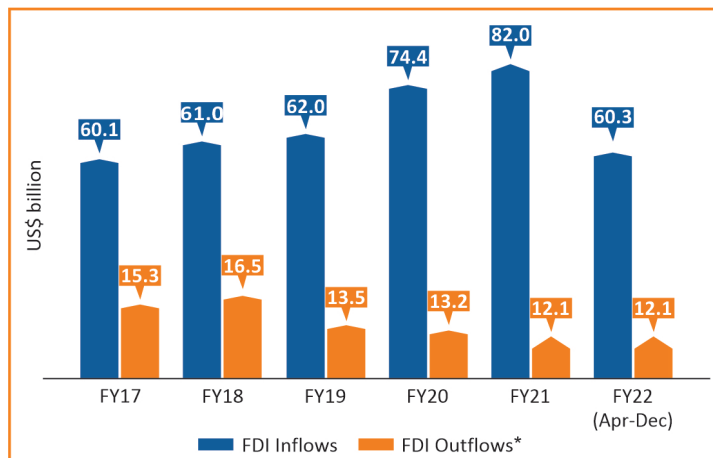
Source: Ministry of Commerce and Industry, GoI

Services Trade



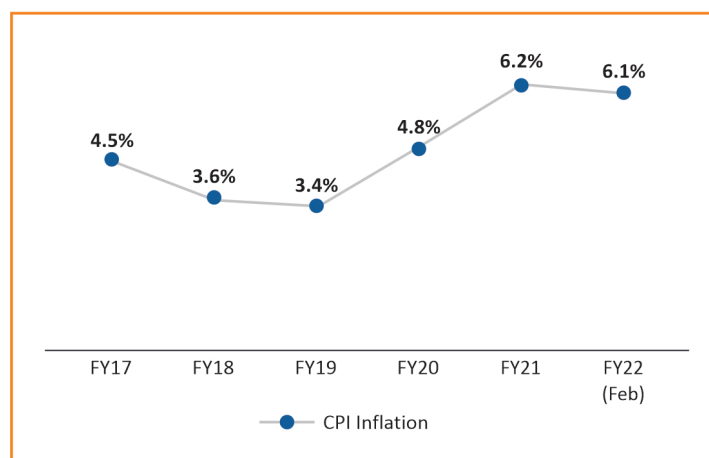
Source: Ministry of Commerce and Industry, GoI

Foreign Direct Investment Flows



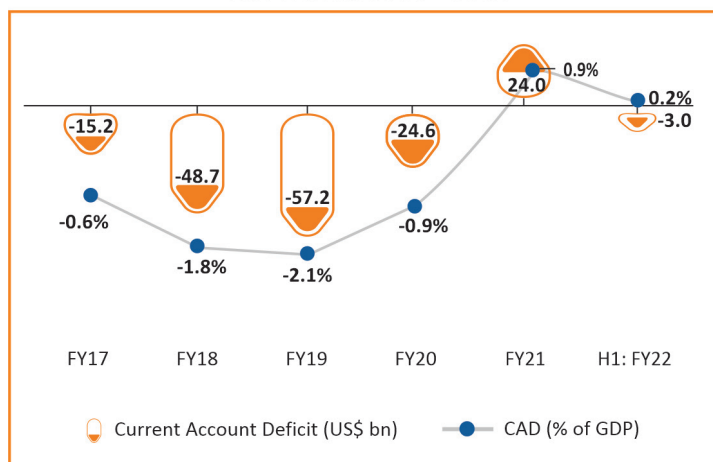
Note: * - FDI Outflows include equity, loans and guarantees invoked
Source: RBI and Ministry of Finance, GoI

Consumer Price Inflation



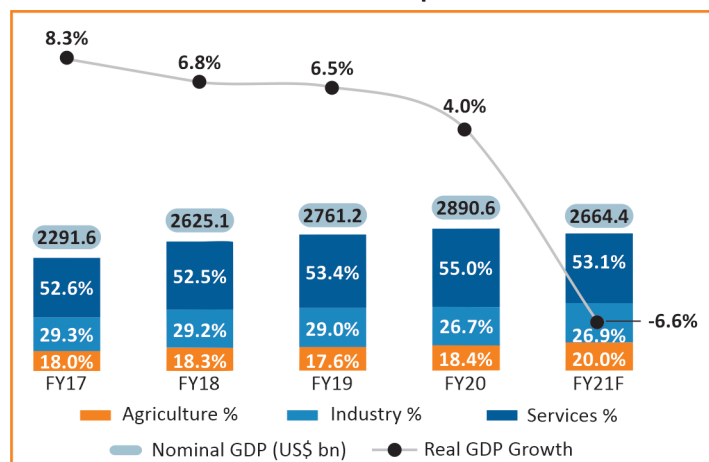
Source: Ministry of Statistics and Programme Implementation, GoI

Current Account Deficit



Source: RBI

Sectoral Output



Note: F-Forecast

Source: Institute of International Finance & MOSPI, GoI