

Chapter 3 - External Sector

INTRODUCTION

- COVID-19 pandemic has triggered the worst global recession in 2020 since the Great Depression; the adverse economic impact is, however, expected to be lesser than initially feared.
- The resulting economic crisis has led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with varying implications for current account balances and currencies of different countries.
- The changing nature of India's global trade manifested in terms of sliding exports of gems and jewellery, engineering goods, textile and allied products and improving exports of drugs and pharma, software and agriculture and allied products.

GLOBAL ECONOMIC ENVIRONMENT

- The spread of the pandemic led to associated suspension of economic activities, supply-chain disruptions, travel restrictions and volatility in international commodity prices. As a result, there was a wave of downward revisions to global output growth and trade volume.
- In sum, the global economy is still reeling under the impact of the unprecedented COVID-19 shock. Amidst this uncertain and shaky global economic environment, India's external sector has emerged as a key cushion for resilience. The comfortable external balance position of India has been supported by surplus current account balances over three consecutive quarters, resumption of portfolio capital inflows, robust FDI inflows and sustained build-up of foreign exchange reserves.

OTHER DEVELOPMENTS

- India's **forex reserves** at an all-time high of US\$ 586.1 billion as on January 08, 2021, covering about 18 months worth of imports.
- India experiencing a **Current Account Surplus** along with robust capital inflows leading to a BoP surplus since Q4 of FY2019-20
- **Balance on the capital account** is buttressed by robust FDI and FPI inflows.
- India to end with an **Annual Current Account Surplus** after a period of 17 years
- **Total merchandise imports declined** by (-) 29.1% to US\$ 258.3 billion during April-December, 2020 ; the pace of contraction eased in subsequent quarters, due to the accelerated positive growth in Gold and Silver imports and narrowing contraction in non-POL, non-Gold & non-Silver imports .Fertilizers, vegetable oil, drugs & pharmaceuticals and computer hardware & peripherals have contributed positively to the growth of non-POL, non-Gold & non-Silver imports
- Trade balance with China and the US improved as imports slowed
- **Net services receipts** amounting to US\$ 41.7 billion remained stable in April-September 2020.
- Resilience of the services sector was primarily driven by software services, which accounted for 49% of total services exports
- **Net private transfer receipts**, mainly representing remittances by Indians employed overseas, totaling US\$ 35.8 billion in H1: FY21 declined by 6.7% over the corresponding period of previous year.
- **Improvement in debt vulnerability indicators:** Ratio of forex reserves to total and short-term debt (original and residual) .Ratio of short-term debt (original maturity) to the total stock of

external debt. Debt service ratio (principal repayment plus interest payment) increased to 9.7% as at end-September 2020, compared to 6.5% as at end-March 2020

- **Rupee appreciation/depreciation:** In terms of 6-currency nominal effective exchange rate (NEER) (trade-based weights), Rupee depreciated by 4.1% in December 2020 over March 2020; appreciated by 2.9% in terms of real effective exchange rate (REER) .In terms of 36-currency NEER (trade-based weights), Rupee depreciated by 2.9% in December 2020 over March 2020; appreciated by 2.2% in terms of REER.
- Initiatives undertaken to promote exports: **Production Linked Incentive (PLI) Scheme. Remission of Duties and Taxes on Exported Products (RoDTEP).** Improvement in logistics infrastructure and digital initiatives

Trade Related Logistics

- The COVID-19 pandemic has underscored the need for a resilient logistics sector that can respond to emergencies and supply chain disruptions. Despite the sector being plagued by some structural issues such as highly fragmented ownership; few large players; lack of consolidation in operations; sub-optimal modal share with freight movement highly skewed towards road sector; lack of an integrated approach by user sectors (multiple line ministries and agencies); absence of consistent policies and regulations; etc.,
- India has made remarkable progress in logistics sector. India's rank has improved significantly in trading across borders parameter of '**Ease of Doing Business**' index from 146 in 2018 to 68 in 2020. The **Logistics Performance Index (LPI)**, released by the World Bank, assesses relative logistics efficiency of countries. On this index, India was ranked 44 out of 160 countries in 2018 vis-à-vis rank of 54 in 2014
- The **National Logistics Policy** is in an advanced stage of roll-out with a vision to develop a modern, efficient and resilient logistics services sector that builds on dynamic processes, technology and professional manpower to seamlessly integrate multiple modes of transportation and inventory management to provide more reliable, cost effective, greener, safer and equitable logistics solutions.

Some Infrastructure Initiatives which are at various stages of implementation are:

- a. **Bharatmala Pariyojana** is a new umbrella program for the highways sector that envisages building more than 80,000 Km of roads, highways, greenfield expressways, bridges with an investment of around US\$ 107 billion.
- b. **Sagarmala** aims at Port Modernization & New Port Development, Port Connectivity Enhancement, Port-linked Industrialization, Coastal Community Development and giving impetus to Coastal Shipping. 508 projects have been identified and 111 waterways have been declared National waterways, for which the work is ongoing in phases.
- c. **Multi-Modal Logistics Parks** shall act as hubs for freight movement enabling freight aggregation, distribution and multi-modal transportation. They would provide modern mechanized warehousing space and value-added services such as customs clearance with bonded storage yards, warehousing management services, etc.
- d. **Dedicated Freight Corridors (DFCs)** aims at reduction in unit cost of transportation with higher speed of freight trains and better turnaround of wagons. Around 70 per cent of freight is expected to shift to DFC, freeing up capacity on Indian Railways.
- e. **Trade Infrastructure for Export Scheme (TIES)** aims to assist creation of appropriate infrastructure for growth of exports from the States.

Some Digital/Technological Initiatives that are under development are:

- a. **Logistics Planning and Performance Monitoring Tool (LPPT)** shall allow real-time monitoring of operational performance and asset utilization of various logistics infrastructure such as ports, airports, various corridors comprising national and state highways, Inland Container Depots (ICDs), etc.
- b. **India Logistics Platform (iLOG)** - Several IT-based solutions have been deployed by government over the years such as Indian Customs EDI Gateway (ICEGATE) and Single Window Interface for Trade (SWIFT) developed for trade facilitation; Port Community System (PCS) for cargo handling at seaports; Freight Operations Information System (FOIS) by Indian Railways and VAHAN (National Vehicle Registration System) by Ministry of Road Transport and Highways.

India: Potential to be the pharmacy of the world

- Indian pharmaceutical industry is **third largest in the world**, in terms of volume, behind China and Italy and 14th largest in terms of value. India almost doubled its share in world pharma exports in a span of ten years from 1.4 per cent in 2010 to 2.6 per cent in 2019. India was at 11th position in terms of share in world pharma exports in 2019 with Germany, Switzerland and USA occupying the top three positions.
- India is the only country with largest number of US-FDA compliant pharma plants (more than 262 including APIs) outside of USA.
- COVID-19 has presented both an opportunity and a challenge for India to emerge as the 'pharmacy of the world'.
- The pandemic, however, exposed the excessive dependence of Indian pharmaceutical industry on China for sourcing **Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs)**.
- A well-defined strategy for broad based development of the industry needs to include the following components: (i) **Broaden base in terms of markets**, as well as product categories, (ii) **Restructure the current regulatory mechanism**, iii. **Greater R&D Expenditure**.

INDIA'S ENGAGEMENT WITH WTO

- India is one of the founding members of WTO, which has played an important part in the effective formulation of major trade policies. Increasing protectionism, inadequate members in the Appellate Tribunal for dispute resolution, increasing number of Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) etc. have resulted in member countries questioning the efficacy of WTO as an institution meant to ensure free trade and promote multilateralism.
- In the ongoing discussions on WTO reforms, India's proposal seeks to re-affirm the importance of development and promote inclusive growth. The broad elements of India's proposal include:
 - (i) Preserving the core values of the Multilateral Trading System;
 - (ii) Resolving the impasse in the Dispute Settlement System;
 - (iii) Safeguarding development concerns; and
 - (iv) Transparency and Notifications.
- During the WTO TRIPS Council meeting, held on 15-16 October, 2020, India and South Africa jointly proposed "**Waiver from Certain Provisions of the TRIPS Agreement for the Prevention, Containment and Treatment of COVID-19**" for a limited time period, with a view to ensure that the intellectual property rights do not become a barrier in the timely and

affordable access to medical products, including vaccines and therapeutics, and enable nations to deal effectively with the public health emergency arising out of COVID-19 pandemic.

- **'Appellate Body (AB) crisis'**. With fewer than three members to hear any appeal since 10th December, 2019, the AB is not able to function. In the wake of this crisis, around 23 WTO members have created a Multiparty Interim Arbitration (MPIA) mechanism that closely replicates the substantive and procedural aspects of appellate review under the AB. EU, China, Brazil, Australia, New Zealand are some of the key members of MPIA.
- **Agreement on Agriculture (AoA)**: As per the **Buenos Aires Ministerial Decision (MC11)** of December, 2017, WTO Members agreed to continue to engage constructively to frame disciplines on fisheries subsidies by the next Ministerial Conference (MC-12) in 2020. The negotiations are ongoing and are being conducted in the form of monthly cluster meetings under Negotiating Group on Rules (NGR) in the WTO.

WAY FORWARD

- The COVID-19 pandemic impacted external sector differently for different countries. While countries witnessed contraction in exports and imports, AEs suffered larger contraction and EMDEs, less, especially the East-Asian economies.
- In India, calibrated easing of lockdown restrictions narrowed contraction in both exports and imports with imports posting faster recovery leading to progressive expansion of merchandise trade deficit over the quarters of the current year.
- Improving trends in India's merchandise trade have been supplemented by equity capital inflows, robust FDI inflows and sustained build-up of foreign exchange reserves. The comfortable foreign exchange reserves give the much-needed space for enhanced domestic investments.
- The disruption of global manufacturing value chains due to the COVID-19 pandemic presents a tremendous opportunity for India to become one of the key nodes in the chain.
- Various export initiatives, as documented above – including those aimed at promoting ease of exporting – have been undertaken by the government and RBI and implementation of these initiatives would pave the way for the sustainable export performance in India going forward.