06

CHAPTER

External Sector

India's external sector continued to be resilient and strong in 2017-18 so far, with the Balance of Payments situation continuing to be comfortable with the Current Account Deficit at 1.8 percent of GDP in the first half (H1) of 2017-18, merchandise exports picking up with a growth of 12.1 percent in April-December 2017, net services receipts increasing by 14.6 percent, and net foreign investment growing by 17.4 percent in H1 of 2017-18 and the external debt indicators improving. Supportive measures in the budget, mid term review of the Foreign Trade Policy and suitable policy changes related to GST helped in overcoming the teething challenges while implementing these major reforms.

GLOBAL ECONOMIC ENVIRONMENT

International Developments

6.1 The global economy is gathering pace and is expected to accelerate from 3.2 per cent in 2016 to 3.6 percent in 2017 and 3.7 percent in 2018 which reflects an upward revision of the earlier projections by the IMF (Table 1). The upward revision in world growth is supported by better than expected results in the first half of 2017 in Euro Area, Japan, emerging Asia and Russia even though there are downward revisions in USA and UK. World trade volume is projected to increase from 2.4 percent in 2016 to 4.2 percent in 2017 and 4.0 percent in 2018. Commodity prices (Oil and Nonfuel) are also expected to grow, in contrast to previous years of decline. According to the IMF (October 2017), global recovery is not

Table 1 : Overview of the World output and Trade (Goods & Services) Projections

	Actuals	Projections		Difference from July 2017 WEO update	
	2016	2017	2018	2017	2018
World Output	**3.2**	**3.6**	**3.7**	**0.1**	**0.1**
World Trade Volume (goods and services)	**2.4**	**4.2**	**4.0**	**0.2**	**0.1**
Imports					
Advanced Economies	2.7	4.0	3.8	0.0	0.2
EMDEs	2.0	4.4	4.9	0.1	0.2
Exports					
Advanced Economies	2.2	3.8	3.6	-0.1	0.2
EMDEs	2.5	4.8	4.5	1.0	0.0

Source: **IMF, World Economic Outlook, October 2017.**

Note: **EMDEs- Emerging Market and Developing Economies.**

yet complete, as inflation is still below the target in most advanced economies and commodity exporters, particularly fuel exporters have been hit due to fall in oil prices. While short term risks are broadly balanced, medium-term risks are still tilted towards the downside.

INDIA'S BALANCE OF PAYMENTS DEVELOPMENTS

Overview of Balance of Payments

6.2 India's balance of payments situation, which has been benign and comfortable since 2013-14, continued to be so in the first half of 2017-18, despite some rise in current account deficit (CAD) in the first quarter, with a relatively lower CAD in the second quarter. India's CAD stood at US$ 7.2 billion (1.2 per cent of GDP) in Q2 of 2017-18, narrowing sharply from US$ 15.0 billion (2.5 per cent of GDP) in the preceding quarter. On a cumulative basis, India's CAD increased from US$ 3.8 billion (0.4 per cent of GDP) in H1 of 2016 -17 to US$ 22.2 billion (1.8 per cent of GDP) in H1 of 2017-18. The widening of the CAD was primarily on account of a higher trade deficit (US$ 74.8 billion) brought about by a larger increase in merchandise imports relative to exports. The surge in imports owed to the sharp rise in imports of gold, with its volume more than doubling as uncertainty over GST implementation resulted in front loading of purchases by jewellers in Q1. This, coupled with the rise in crude oil prices (Indian basket) resulting in increase in oil import bill, led to the increase in imports.

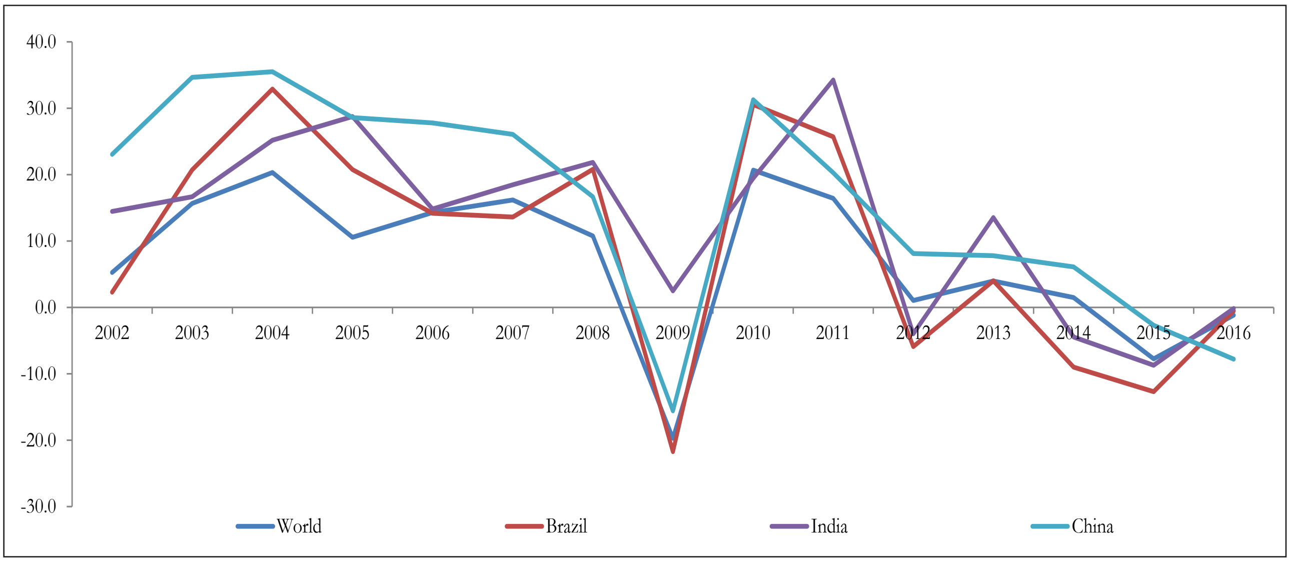
6.3 Among the other current account components of BoP, net invisibles receipts were higher in H1 of 2017-18, mainly due to the increase in net services earnings and private transfer receipts. While trade deficit widened in H1 of 2017-18 compared to H1 of 2016-17, the improvement in invisibles balance and the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the CAD leading to accretion in foreign exchange reserves in H1 of 2017-18.

Table 2: Trade Performance

	(Value in US$ billion)			(Growth rate (y-o-y) in per cent)				
	2016-17	2016-17 (Apr-Dec)	2017-18 (Apr-Dec)	2016-17	2017-18 (Apr-Dec)	2016-17 H1	2016-17 H2	2017-18 H1
Exports	**275.9**	**199.5**	**223.5**	**5.2**	**12.1**	**-1.3**	**11.9**	**10.8**
POL Exports	31.5	22.5	26.7	3.1	18.5	-15.0	25.7	16.3
Non POL Exports	244.3	177.0	196.8	5.4	11.2	0.7	10.3	10.1
Non-POL & Non Gems & Jwlry Exports	200.9	144.7	165.6	4.4	14.5	-1.9	10.8	13.4
Imports	**384.4**	**277.9**	**338.4**	**0.9**	**21.8**	**-13.3**	**16.9**	**25.9**
POL Imports	87.0	61.3	76.1	4.8	24.2	-18.1	36.8	17.8
Non POL Imports	297.4	216.6	262.2	-0.2	21.1	-11.8	12.2	28.2
Gold & Silver Imports	29.4	19.1	29.1	-17.3	52.0	-55.2	29.0	113.8
Non-POL & Non Gold & Silver Imports	268.0	197.5	233.2	2.1	18.1	-5.5	10.1	22.3
Trade Balance	**-108.5**	**-78.4**	**-114.9**	**-8.6**	**46.4**	**-36.7**	**29.9**	**71.8**

Source : **Based on data from D/o Commerce, Ministry of Commerce & Industry.**

Figure 1 : Non-Fuel Export Value growth of World and selected BRICS countries (per cent)



Source: **Based on data from ITC trade map.**

Current Account Developments in H1 of 2017-18

Merchandise

6.4 In H1 of 2017-18, merchandise imports (on Balance of Payments' basis) grew by 22.1 per cent vis-á-vis 11.3 per cent for exports. On Customs basis this growth was 25.9 per cent and 10.8 per cent respectively. Higher import growth owed to POL import growth at 17.8 per cent and gold and silver import growth at 113.8 per cent as per customs basis (Table 2).

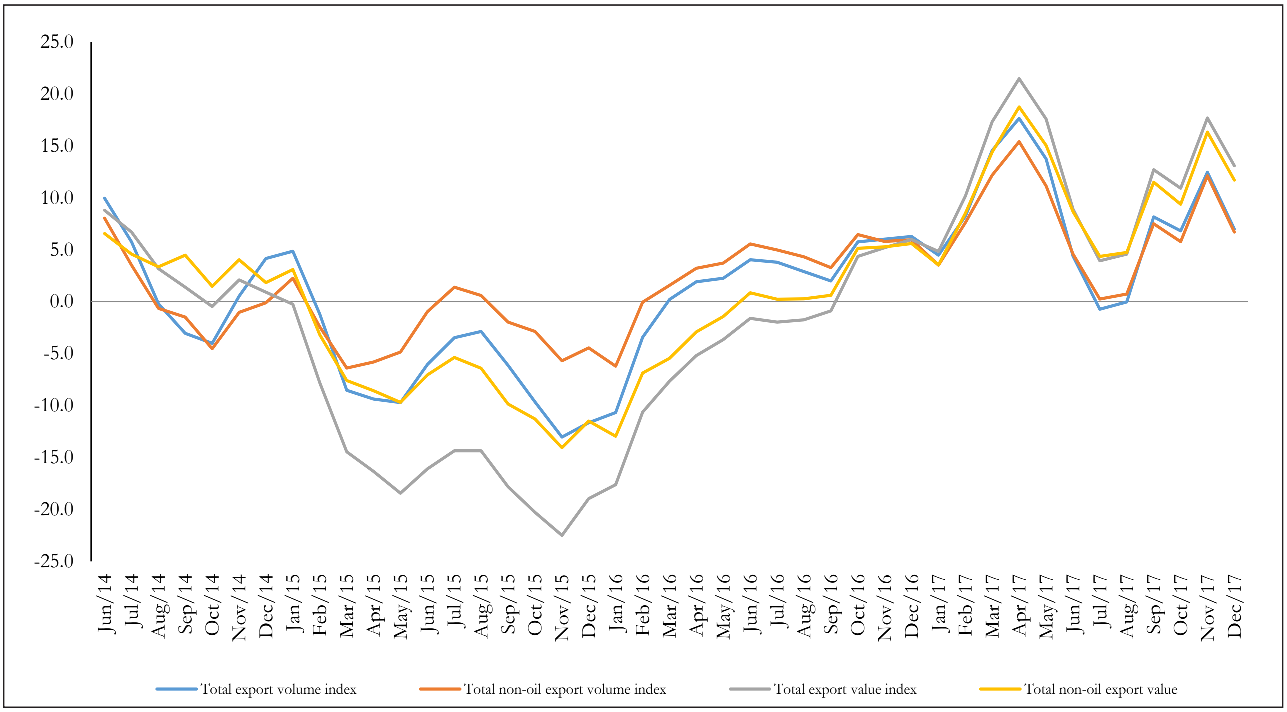
6.5 India's merchandise exports (on customs basis) had reached the level of US$ 314.4 billion in 2013-14. Following the global trend of decline in export growth, India's exports also declined during 2014-15 and 2015-16, by 1.3 per cent and 15.5 per cent respectively.

6.6 India's export growth continued to be negative in the first half of 2016-17 at -1.3 per cent. However, in the second half of 2016-17, it started recovering, resulting in exports reaching US$ 275.9 billion with growth of 5.2 per cent for the year 2016-17. In 2017-18 (April – December) export growth picked up further to 12.1 per cent. India's export growth (non-fuel) which has generally been higher than world export growth (non-fuel) moved to negative territory in 2014 and was lower or in tandem with world export growth (non-fuel) since then. Other BRICS countries also show similar trends (Figure 1).

6.7 India's positive export growth in 2016-17 owed to the positive growth of both POL and non POL exports at 3.2 per cent and 5.4 per cent respectively. In 2017-18 (April-December) export growth was 12.1 per cent, with POL and non POL growth at 18.5 per cent and 11.2 per cent respectively. India's export volume growth (3MMA), which moved to positive territory since March 2016, showed an upward trend till April 2017, but started decelerating though it was still broadly in positive territory. Since August 2017, it has again picked up and increased sharply in November 2017 in tandem with the sharp increase in export value growth. However, in December the growth rate of export volume and value index decelerated. Non-oil export volume index followed a similar trend (Figure 2).

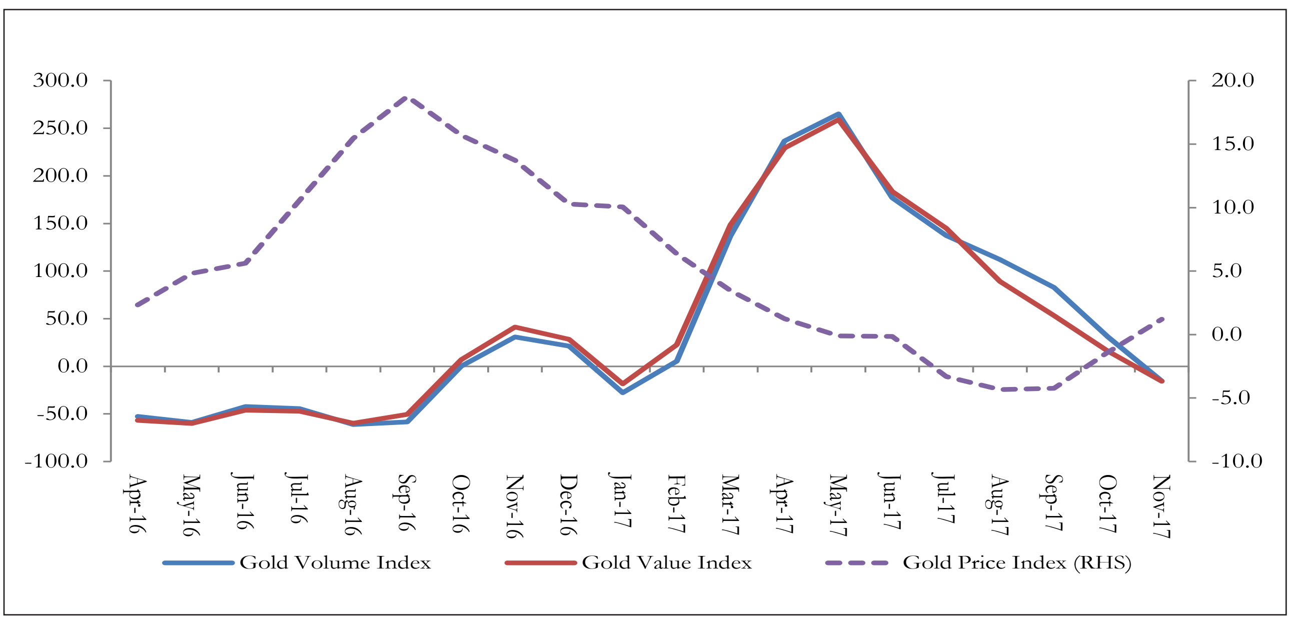
6.8 Merchandise imports also fell from a high of US$ 490.7 billion in 2012-13 to US$ 381.0 billion in 2015-16 and registered a mild increase of 0.9 per cent to US$ 384.4 billion in 2016-17. The increase in the value of imports in 2016-17, despite the decline in gold and silver imports by 17.3 per cent, was due to rise in POL imports and

Figure 2 : Growth in Value / Volume Index of Exports: 3MMA(%) 2013-14=100



Source: **In-house calculations. Monthly trade data of DGCI&S, World Bank monthly pink sheet for computing international price index in dollar and Ministry of Commerce & Industry for wholesale price index (WPI), RBI exchange rate to convert the rupee index to dollar index.**
Note: **3 MMA- 3 Months moving average reported at the end month.**

Figure 3: Growth in Import of Gold Volume/ Value & Gold Price, 3MMA (per cent) (2013-14=100)



Source: **Calculated from the DGCI&S Monthly data.**

a small increase in non POL and non-gold and silver imports which had fallen in 2015-16. In 2017-18 (April-December), imports grew by 21.8 per cent. Growth of POL import was 24.2 per

Figure 4: Growth in Value / Volume Index of Imports: 3MMA(%) (2013-14=100)

Source: **Same as for figure 2**

cent mainly due to the rise in crude oil prices. Non-POL imports registered a growth of 21.1 per cent due to the growth of 52.0 per cent in gold & silver imports, while non-POL and non-gold & silver imports grew by 18.1 per cent. Growth in value of gold imports has fallen since September 2017 due to decline in the growth of volume of gold imports. Gold import value index has been moving in tandem with gold volume index (Figure 3).

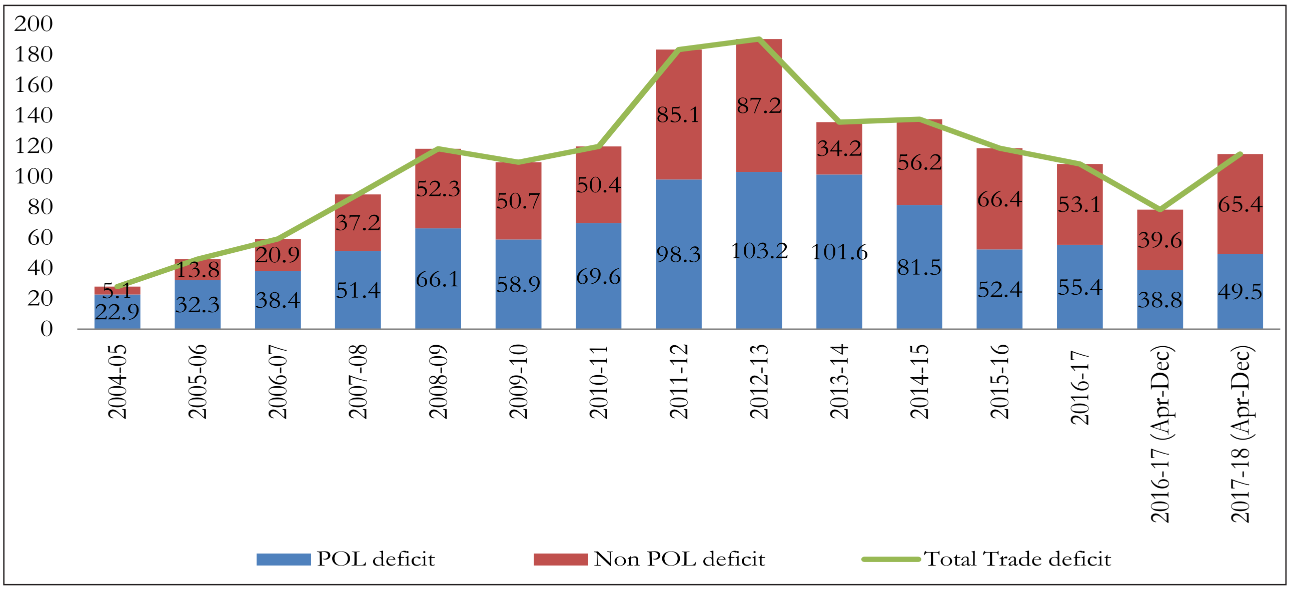
6.9 Growth of both total import volume index and non-oil non-gold import volume index (3MMA) which had picked up since January/ February 2017 started to decelerate from May 2017 though it continued to be in positive territory till December 2017 (Figure 4).

Trade Deficit

6.10 India's trade deficit (on custom basis) which had registered continuous decline since 2014-15, widened to US$ 74.5 billion in H1 of 2017-18 from US$ 43.4 billion in H1 of 2016-17. India's trade deficit was US$ 108.5 billion in 2016-17, with the reduction in both POL deficit and non POL deficit. In 2017-18 (April-December) trade deficit (on customs basis) shot up by 46.4 per cent to US$ 114.9 billion with POL deficit growing by 27.4 per cent and non-POL deficit by 65.0 per cent. (Figure 5)

6.11 Among India's trading partners, the top five countries with which India has negative bilateral trade balance are China, Switzerland, Saudi Arabia, Iraq and South Korea while the top five countries with which it has surplus trade balance are USA, UAE, Bangladesh, Nepal and UK. India has the highest trade deficit with China. Its share in India's total trade deficit increased from 20.3 per cent in 2012-13 to 47.1 per cent in 2016-17 and 43.2 per cent in 2017-18 (April-September) (Table 3). India's major items of imports from China are telephone sets including mobiles, automatic data processing machines, diodes & other semi-conductor devices, electronic devices, chemical fertilisers, etc. India's major items of exports to China are cotton yarn, copper, refined and copper alloys unwrought, PoL items, granite,

Figure 5 : POL and Non-POL Total Deficit (US$ billion)



Source: **Based on data from Department of Commerce.**

Table 3 : Bilateral Trade Surplus/Deficit (US$ billion)

		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 H1
Countries in which India has Trade Surplus	U S A	11.0	16.6	20.6	18.6	19.9	11.9
	U A E	-2.8	1.5	6.9	10.8	9.7	4.0
	Bangladesh	4.5	5.7	5.8	5.3	6.1	3.3
	Nepal	2.5	3.1	3.9	3.5	5.0	2.6
	UK	2.3	3.7	4.3	3.6	4.9	2.2
Countries in which India has Trade Deficit	China	-38.7	-36.2	-48.5	-52.7	-51.1	-32.1
	Switzerland	-31.0	-17.5	-21.1	-18.3	-16.3	-9.2
	Saudi Arabia	-24.2	-24.2	-16.9	-13.9	-14.9	-7.3
	Iraq	-18.0	-17.6	-13.4	-9.8	-10.6	-5.0
	South Korea	-8.9	-8.3	-8.9	-9.5	-8.3	-6.7
	Total Trade Deficit	**-190.3**	**-135.8**	**-137.6**	**-118.7**	**-108.5**	**-74.3**

Source: **Computed from Department of Commerce Data**

aluminium ores, other fixed vegetable fats & oils, cyclic hydrocarbons, cotton, polymers and iron ore. In the case of Switzerland, the trade deficit is mainly due to import of gold. This deficit has fallen in the last two years. Moreover, a part of it is used in exports. In the case of Saudi Arabia and Iraq, the deficit is due to crude oil imports, while for South Korea it is due to import of electrical machinery and equipments and iron and steel.

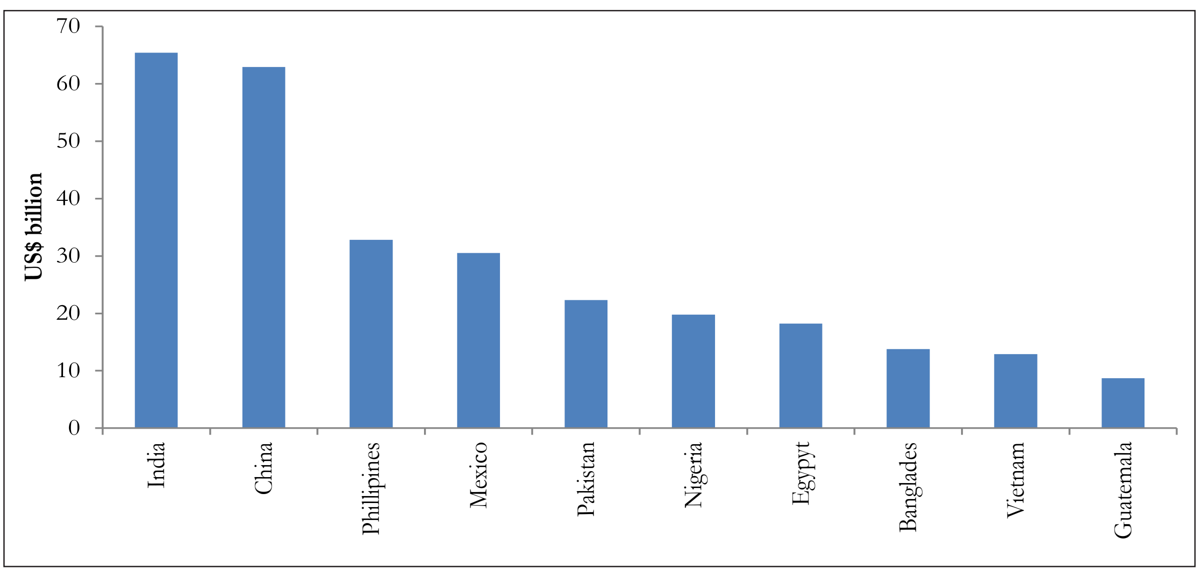
Invisibles

6.12 Net invisibles surplus fell from US$ 118.1 billion in 2014-15 to US$ 107.9 billion in 2015-16 and US$ 97.1 billion in 2016-17. However, in H1 of 2017-18 there has been an increase in net invisibles surplus to US$ 52.5 billion from US$ 45.6 billion in H1 of 2016-17, with increase observed both in net services and net private transfers.

6.13 Net services receipts increased by 14.6 per cent on a y-o-y basis during H1 of 2017-18, primarily on account of the rise in net earnings from travel and telecommunications, computer & information services. Net travel receipts more than doubled, as foreign tourist arrivals increased significantly during H1 of 2017-18. Notwithstanding uncertainties in the Indian IT industry from tougher visa policies in some countries, software exports recorded a growth of 2.3 per cent in H1 of 2017-18. Private transfer receipts, mainly representing remittances by Indians employed overseas, increased by 10.0 per cent to US$ 33.5 billion in H1 of 2017-18 over the corresponding period of the previous year.

6.14 India has remained one of the major recipients of cross border remittances and according to the World Bank (October 2017), India will remain a top remittance recipient country in 2017, followed by China, the Philippines, and Mexico. However, the private transfers (gross) inflows to India declined by 6.1 per cent in 2015-16 and 6.5 per cent in 2016-17. This was due to constrained labour market conditions in the source countries, particularly GCC (Gulf Cooperation Council) countries, largely caused by the fall in international crude oil prices. Gross private transfer inflows fell to US$ 65.6 billion and US$ 61.3 billion in 2015-16 and 2016-17 respectively from US$ 69.8 billion in 2014-15. According to the World Bank, (October 2017), the number of Indian workers emigrating to Saudi Arabia (India's third largest remittance sender) dropped from 3.0 lakhs in 2015 to 1.6 lakh in 2016; and to the United Arab Emirates (India's largest inward remittance contributor) from 2.2 lakh in 2015 to 1.6 lakh in 2016. Total Indian workers outflow fell from 7.8 lakh in 2015 to 5.1 lakh in 2016. Among the structural factors, tightening norms of hiring foreign workers in USA, labour market adjustment in GCC countries and rising anti-immigration sentiments in many source countries pose considerable downside risk.

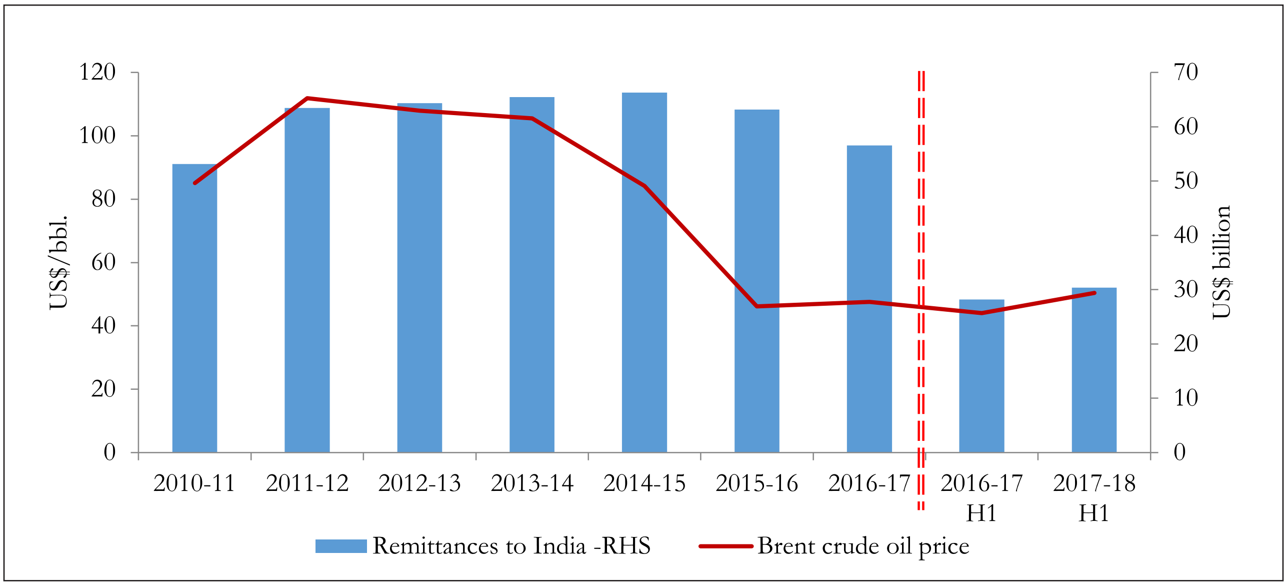
Figure 6 : Top Remittance Receivers in 2017



Source: **World Bank Report on Migration and Remittances, October 2017.**

Note: These are Provisional Estimates for 2017.

Figure 7 : Net-Remittances to India vis-a-vis-Brent Crude Oil Price



Source : **World Bank Pink Sheet data for Brent Crude oil price and RBI for Net Remittances**

6.15 As per the Balance of Payment data, gross private transfer inflows increased to US $ 33.5 billion in H1 of 2017-18 from US $ 30.4 billion in H1 of 2016-17. Going forward, with recovery in the global economy, remittance flows to India are expected to increase by 4.2 per cent in 2017 amounting to US$ 65.0 billion from US $ 62.7 billion in 2016 (World Bank, October 2017). The rise in crude oil prices could also help in the increase in remittances as the movement of the latter has close correspondence with the movement of the former (Figure 7).

6.16 Net outflow on account of investment income which have been increasing in the last two years continued to rise in H1 of 2017-18 amounting to US$ 15.3 billion from US$ 14.9 billion H1 of 2016-17.

Capital/financial account of BoP in H1 of 2017-18

6.17 Notwithstanding a decline in FDI inflows in H1 of 2017-18, net foreign investment recorded a growth of 17.4 per cent owing to a sharp rise in portfolio investment to India. Moderation in FDI flows in Q2 2017-18 led to a cumulative decline in FDI flows by 6.3 per cent in H1 of 2017-18 over its level during the corresponding period of the previous year. However, foreign portfolio investment (FPI) increased by a whopping 78.0 percent, from US$ 8.2 billion in H1 of 2016-17 to US$ 14.5 billion in H1 2017-18, reflecting the positive outlook about growth potential of domestic economy. Among other forms of capital flows, banking capital recorded a net inflow of US$ 6.3 billion with increase in overseas borrowings and liquidation of foreign assets by banks, while net repayment of external commercial borrowings resulted in an outflow of US$ 1.5 billion in 2017-18 H1. With net capital flows remaining higher than the CAD, there was net accretion to India's foreign exchange reserves (on BoP Basis) to the tune of US$ 20.9 billion in H1 of 2017-18 as compared to the US$ 15.5 billion in H1 of 2016-17 (Table 4).

COMPOSITION OF TRADE

6.18 Export growth in 2016-17 was fairly broad based with positive growth in major categories except textiles & allied products, and leather & leather manufactures. In 2017-18 (April - November) among the major sectors, there was good export growth in engineering goods and Petroleum crude and products; moderate growth in chemicals & related products, and textiles & allied products; but negative growth in gems and jewellery (Table 5).

Table 4: Balance of Payments

(US$ million)

Sl No	Item	2012-13	2014-15	2015-16	2016-17	2016-17 H1	2017-18 H1(P)
1	2	3	4	5	6	7	8
I	**Current Account**						
1	Exports	3,06,581	3,16,545	2,66,365	2,80,138	1,34,029	1,49,211
2	Imports	5,02,237	4,61,484	3,96,444	3,92,580	1,83,476	2,24,003
3	Trade Balance (1-2)	-1,95,656	-1,44,940	-1,30,079	-1,12,442	-49,448	-74,792
4	Invisibles (net)	1,07,493	1,18,081	1,07,928	97,147	45,580	52,548
	A. Services	64,915	76,529	69,676	67,455	32,040	36,706
	B. Income	-21,455	-24,140	-24,375	-26,291	-14,363	-14,257
	C. Transfers	64,034	65,692	62,627	55,983	27,903	30,098
5	Goods and Services Balance	-1,30,741	-68,411	-60,402	-44,987	-17,408	-38,086
6	Current Account Balance (3+4)	-88,163	-26,859	-22,151	-15,296	-3,868	-22,244
II	**Capital Account**						
	Capital Account Balance	89,300	89,286	41,128	36,482	20,016	42,141
	i. External Assistance (net)	982	1,725	1,505	2,013	605	691
	ii. External Commercial Borrowings (net)	8,485	1,570	-4,529	-6,102	-3,402	-1,514
	iii. Short-term credit	21,657	-111	-1,610	6,467	-493	4,575
	iv. Banking Capital(net) of which:	16,570	11,618	10,630	-16,616	-6,754	6,340
	Non-Resident Deposits (net)	14,842	14,057	16,052	-12,367	3,465	1,948
	v. Foreign Investment(net) of which	46,711	73,456	31,891	43,224	29,035	34,088
	A. FDI (net)	19,819	31,251	36,021	35,612	20,881	19,570
	B. Portfolio (net)	26,891	42,205	-4,130	7,612	8,154	14,518
	vi. Other Flows (net)	-5,105	1,028	3,242	7,495	1,026	-2,038
III	**Errors and Omission**	2,689	-1,021	-1,073	364	-668	1007
IV	**Overall Balance**	3,826	61,406	17,905	21,550	15,481	20,903
V	**Reserves change [increase (-) / decrease (+)]**	-3,826	-61,406	-17,905	-21,550	-15,481	-20,903

Source: **Reserve Bank of India**
P: Preliminary

6.19 Sector-wise, import of Petroleum, Oil and Lubricants (POL) increased by 4.8 per cent in 2016-17 and 24.2 per cent in 2017-18 (Apr-December), mainly due to an increase in international crude oil price (Indian Basket) from US$ 46.2 /bbl in 2015-16 to US$ 47.6 /bbl in 2016-17 and to US$ 53.6 / bbl in 2017-18 (April-December). Among the other important import items, low or negative growth was registered in most of them in 2016-17, except electronic goods; ores & minerals and agriculture and allied products. Capital goods imports grew marginally, though the transport equipments sub-category registered high growth (Table 6). In 2017-18 (April- November) all major sectors registered positive growth with the capital goods imports, which are needed for industrial activity, registering a 11.3 per cent growth.

Table 5 : Sector wise share and growth rate of exports

Rank		Share (per cent)			Growth rate (per cent)		
		2015-16	2016-17	2017-18 (Apr-Nov) (P)	2015-16	2016-17	2017-18 (Apr-Nov) (P)
1	Engineering goods	23.1	24.4	25.9	-17.0	11.1	22.4
2	Gems and Jewellery	15.0	15.7	14.4	-4.8	10.5	-3.8
3	Chemicals and related products **	14.7	14.2	14.5	0.6	1.6	11.9
	of which						
	Drug & pharmaceutical	6.2	5.8	5.4	9.9	-1.2	-0.7
4	Textiles & allied products	13.7	13.0	11.8	-3.2	-0.5	3.8
	of which						
	Textiles	5.6	5.2	4.9	-8.5	-2.3	5.9
	Clothing	8.1	7.8	6.9	0.8	0.7	2.4
5	Petroleum crude & products	11.7	11.4	11.8	-46.2	3.1	17.6
6	Agriculture and allied products *	9.9	9.5	9.7	-17.6	0.3	15.0
7	Electronic goods	2.2	2.1	2.0	-5.3	0.0	4.5
8	Marine products	1.8	2.1	2.7	-13.5	23.8	29.5
9	Ores and minerals	0.8	1.2	1.0	-16.4	61.6	12.9
10	Leather & leather products	2.1	1.9	1.9	-10.3	-4.4	0.9
	Total exports including others	100.0	100.0	100.0	-15.5	5.2	11.2

Source: **Computed from D/o Commerce database. P : Provisional**

Notes: ***: including plantation. **: including plastic and rubber products**

TRADE POLICY

6.20 Two important developments on the trade policy front during the year relate to the mid-term review of Foreign Trade Policy(FTP) and the recent multilateral negotiations of WTO in December 2017. Besides these, there were some developments on the trade logistics front and anti-dumping measures.

FTP- Mid Term Review and subsequent trade related policies

6.21 In the mid-term review of FTP released on 5th December 2017, some additional measures have been taken to help India's trade sector. Besides, on 15th December 2017, a special package for employment generation in leather and footwear sector was approved by the Government which is also likely to help exports from this sector (Box 1).

Table 6 : Sector wise share and growth rate of imports

Rank	Sector	Share (per cent)			Growth rate (per cent)		
		2015-16	2016-17	2017-18 (Apr-Nov) (P)	2015-16	2016-17	2017-18 (Apr-Nov) (P)
1	Petroleum Oil and Lubricants	21.8	22.6	22.0	-40.0	4.8	21.9
2	Capital goods	21.1	20.9	19.2	-2.5	0.1	11.3
	of which						
	Machinery	8.7	8.5	8.3	3.7	-1.4	16.8
	Base metals	6.5	5.6	6.0	-8.7	-12.8	26.5
	Transport equipment	4.0	5.1	3.3	0.7	27.1	-18.3
3	Gems and Jewellery	14.8	14.0	16.8	-9.4	-4.9	53.6
	of which						
	Gold	8.3	7.2	7.8	-7.7	-13.4	46.4
	Pearls and semi precious stones	5.3	6.2	7.6	-11.2	18.6	47.7
	Silver	1.0	0.5	0.8	-17.3	-50.9	90.0
4	Chemicals and related products **	13.3	12.4	12.7	-4.2	-5.8	16.3
	of which						
	Organic chemicals	2.5	2.6	2.6	-15.2	2.7	23.8
	Fertilizers	2.1	1.3	1.3	9.1	-37.8	-5.0
5	Electronic goods	10.5	10.9	11.4	8.6	4.8	29.7
6	Agriculture & allied Products*	5.7	6.3	5.6	7.7	11.4	11.4
7	Ores and minerals	5.4	5.6	6.6	-23.2	4.6	55.6
	of which						
	Coal, Coke & Briquettes, etc.	3.6	4.1	4.8	-23.2	15.3	58.1
	Total imports including others	100.0	100.0	100.0	-15.0	0.9	22.4

Source: **Computed from D/o Commerce database P : Provisional;**

Note *** : including marine products and plantation; **: including plastic and rubber products**

Box 1 : Highlights of the Mid Term Review of Foreign Trade Policy and subsequent trade related policies

- MEIS (Merchandise Exports from India Scheme) incentives for two sub-sectors of Textiles i.e. Ready Made Garments and Made Ups increased from 2% to 4% involving additional annual incentives of Rs. 2743 crore.
- Across the board increase of 2% in existing MEIS incentive for exports by MSMEs / labour intensive industries amounting to Rs. 4576 crore.
- To provide an impetus to the services trade, the SEIS (Service Export from India Scheme) incentives have been increased by 2% for notified services such as Business, Legal, Accounting, Architectural, Engineering, Educational, Hospital, Hotels and Restaurants amounting to Rs. 1140 crore.
- The validity period of the Duty Credit Scrips has been increased from 18 months to 24 months to enhance their utility in the GST framework. GST rate for transfer/sale of scrips has been reduced to zero from the earlier rate of 12%.
- New trust based Self Ratification Scheme introduced to allow duty free inputs for export production under duty exemption scheme with a self-declaration. Under this scheme, instead of getting a ratification of the Norms Committee for inputs to be used in the manufacture of export products, exporters will self-certify the requirement of duty free raw materials/ inputs and take an authorization from DGFT. The scheme would initially be available to the Authorized Economic Operators (AEOs).
- Contact@DGFT service for Complaint Resolution has been activated on the DGFT website (www.dgft.gov.in) as a single window contact point for exporters and importers for resolving all foreign trade related issues.
- To focus on improving Ease of Trading across Borders for exporters and importers, a professional team envisaged to handhold, assist and support exporters with their export related problems, accessing export markets and meeting regulatory requirements.
- New Logistics Division created in the Commerce Department to develop and coordinate implementation of an Action Plan for the integrated development of the logistics sector, by way of policy changes, improvement in existing procedures, identification of bottlenecks and gaps and introduction of technology in this sector.
- For clarity, a negative list of capital goods which are not permitted under the EPCG (Export Promotion on Capital Goods) scheme has been notified.
- The concept of Domestic Tariff Area (DTA) sale from Export Oriented Units (EoUs) on concessional and full duty has been removed and hence, the limit on entitlement of DTA sale has also been removed. Consequently, restriction on DTA sale of motor cars, alcoholic liquors, books and tea has been removed.
- Second Hand Goods imported for the purpose of repair/ refurbishing/re-conditioning or re-engineering have been made free, thereby facilitating generation of employment in the repair services sector.
- Issue of working capital blockage of the exporters due to upfront payment of GST on inputs has been addressed. Under advance authorization Export Promotion for Capital Goods (EPCG) Scheme, 100% EoU's, exporters have been extended the benefit of sourcing inputs/capital goods from abroad as well as domestic suppliers for exports without upfront payment of GST. Further an e wallet will be launched from 1st April 2018 to make these schemes operational from 1st April, 2018.
- The Union Cabinet Committee on 15th December 2017, approved the special package for employment generation in leather and footwear sector. The package involves implementation of Central Sector Scheme "Indian Footwear, Leather & Accessories Development Programme" with an approved expenditure of Rs. 2600 crore over the three years from 2017-18 to 2019-20. The scheme would lead to development of infrastructure for the leather sector, address environment concerns specific to the leather sector, facilitate additional investments, employment generation and increase in production. The Special Package has the potential to generate 3.24 lakhs new jobs in 3 years and assist in formalization of 2 lakh jobs as cumulative impact in Footwear, Leather & Accessories Sector.

Source : **Based on inputs from Department of Commerce**

MULTILATERAL NEGOTIATIONS

6.22 The Eleventh Ministerial Conference (MC11) of World Trade Organisation (WTO) ended without a Ministerial Declaration or any substantive outcome, though the unanimous view was that it was extremely well-conducted with complete openness and transparency and the process afforded everyone ample opportunity to express their views.

6.23 In the run-up to MC11, decisions were expected on a permanent solution on food security and other agriculture issues. Unfortunately, the strong position of one of the member against agricultural reforms based on current WTO mandates and rules, led to a deadlock without any outcome on agriculture or even a work programme for the next two years. However, the existing mandates and decisions ensure that work will go forward and members will continue to work on issues such as the permanent solution on public stockholding for food security purposes, agricultural Special Safeguard Mechanism and agricultural domestic support. Some of the other decisions that were taken included a Work Programme on disciplines on Fisheries Subsidies with a view to arriving at a decision by MC12. It was also decided to continue with the non-negotiating mandate of the existing Work Programme on E-commerce. Ministerial Decisions on new issues like Investment Facilitation, MSMEs, gender and trade, which lacked a mandate or consensus, were not taken forward.

6.24 During the Ministerial Conference (MC11), India stood firm on its stand on the fundamental principles of the WTO, including multilateralism, rule-based consensual decision-making, an independent and credible dispute resolution and appellate process, the centrality of development, which underlies the Doha Development Agenda (DDA), and special and differential treatment for all developing countries.

TRADE RELATED LOGISTICS

6.25 The Indian logistics industry is estimated to be worth around US$ 160 billion in 2016-17 and has grown at a compound annual growth rate (CAGR) of 7.8 per cent over the past five years. Considering the impact of implementation of the Goods and Services Tax (GST), the Indian logistics market is expected to reach about US$ 215 billion in 2019-20, growing at a CAGR of 10.5%. Improved logistics have huge implications on increasing exports, as a 10% decrease in indirect logistics cost can contribute to around 5-8% of extra exports. India has improved its ranking in the "Logistics Performance Index" (LPI) from 54 in 2014 to 35 in 2016 (Table 7). However, compared to countries like Singapore (rank 5), South Africa (20), Taiwan (25) and China (27), India has some way to go.

Table 7 : Logistics Performance Index: India's ranking

	2007	201 0	2012	2014	2016
Overall LPI Ranking	**39**	**47**	**46**	**54**	**35**
Efficiency of Customs and Border Management	47	52	52	6 5	38
Quality of Trade and Transport Infrastructure	42	47	56	58	36
Ease of Arranging Competitively Priced Shipments	40	46	54	44	39
Competences and quality of Logistics Services	31	40	38	52	32
Ability to Track and Trace Consignments	42	52	54	57	33
Timeliness of Deliveries	4 7	56	44	51	42

Source : **World Bank LPI Statistics (2016).**

Box 2 : Logistics: Challenges and suggested Action Plan

Some key challenges

- High cost of logistics – impacting competitiveness in domestic & global market
- Unfavorable modal mix (Roadways 60%, Railways 30%) and inefficient fleet mix
- Under-developed material handling infrastructure and fragmented warehousing
- Multiple regulatory/policy making bodies with procedural complexities including cumbersome and duplicate processes.
- High dwell time and lack of seamless movement of goods across modes.

Suggested Action Plan

- Formulation of National Integrated Logistics Policy to bring in greater transparency and enhance efficiency in logistics operations
- Develop integrated IT Platform as a single window for all logistics related matters. This portal will have linkages with the IT systems of Railways, Road transport & Highways, Shipping, Civil Aviation, CBEC, State Transport departments, etc. and act as a Logistics marketplace
- Usher in ease of documentation, faster clearance, digitization.
- Bring down logistics cost to less than 10% of GDP by 2022
- Faster clearances for setting up of logistics infrastructure like Multi-modal logistic parks (MMLPs), Container Freight Station (CFS), Air Freight Station (AFS) & Inland Container Depot (ICD).
- Introduce professional standards and certification for service providers
- Promote introduction of high-end technologies like high-tech scanning equipment, RFID, GPS, EDI, online Track & Trace systems in the entire logistics network.
- Improve Logistics skilling in the country and increase jobs in Logistics sector to 40 million by 2022.

***Source:* Based on inputs from Logistics Division, Department of Commerce**

ANTI-DUMPING MEASURES

6.26 Complaints of dumping have been rising in the aftermath of the global slowdown. India conducts anti-dumping investigations on the basis of applications filed by the domestic industry with prima facie evidence of dumping of goods in the country, injury to the domestic industry and causal link between dumping and injury to the domestic industry. In 2016, 300 anti-dumping investigations were initiated by all countries with India leading at 69 investigations followed by USA (37) and Argentina (25) (Table 8).

6.27 During 2017-18 (upto December-end), DGAD initiated anti-dumping investigations into the import of 24 products, issued preliminary findings in 3 anti-dumping investigations, final findings in 35 anti-dumping investigations, and final findings in one anti-circumvention of anti dumping duty investigation. Products wherein anti-dumping duty has been imposed fall in the products group of Chemicals & Petrochemicals, Products of Steel & other metals and Rubber or Plastic Products. The countries involved in these investigations are China, Iran, Saudi Arabia, USA, EU, Japan, Canada, Russia, Indonesia, Georgia, Thailand, Norway, Turkey, Bangladesh, South Korea, Ukraine and Taiwan, with major products found to have been dumped from China.

FOREIGN EXCHANGE RESERVES

6.28 India's foreign exchange reserves reached US$ 409.4 billion on end-December 2017. Foreign exchange reserves grew by 14.1 percent on a y-o-y basis from end-December 2016 (US$ 358.9 billion) to end-December 2017 (US$ 409.4 billion) and it grew by 10.7 percent from end-March 2017 (US$

370.0 billion) to end-December 2017. The foreign exchange reserves increased further to US$ 413.8 billion on January 12, 2018. The level of foreign exchange reserves can change due to change in reserves on BoP basis as well as valuation changes in the assets held by the Reserve Bank of India. On the balance of payments basis (i.e., excluding valuation effects), the foreign exchange reserves increased by US$ 20.9 billion during H1 of 2017-18 as compared with an increase of US$ 15.5 billion during H1 of 2016-17. The foreign exchange reserves in nominal terms (including the valuation effects) increased by US$ 30.3 billion during H1 of 2017 as compared to an increase of US$ 11.8 billion during the same period of preceding year. Valuation gain, that mainly reflect the depreciation of the US dollar against major currencies, amounted to US$ 9.3 billion during H1 of 2017 as against a loss of US$ 3.7 billion during the same period of the preceding year (Table 9). The import cover of India's foreign exchange reserves was 11.1 months at end-September 2017 as compared with 11.3 months at end-March 2017. Within the major economies running current account deficit, India is among the largest foreign exchange reserve holder and sixth largest among all countries of the world.

EXCHANGE RATE

6.29 During 2017-18 (up to December 2017), the rupee generally traded with an appreciating bias against the US dollar, barring intermittent depreciation in September and October 2017. The rupee strengthened by 2.5 per cent to a level of Rs.64.24 per US dollar during December, 2017 from the level of Rs.65.88 per US dollar during March 2017 on the back of significant capital flows, both foreign portfolio flows and FDI. Improved macroeconomic conditions coupled with reforms initiated by the Government were mainly responsible for the buoyant capital flows. The rupee was one of the least volatile EM currencies during April-December 2017 and traded in the range of 63.63 to 65.76 per US dollar.

6.30 On an average, the rupee has appreciated so far against most other major currencies besides the US dollar (April – December, 2017). The

Table 8 : Investigations Initiated by some major users of Anti-Dumping Measures

Country	India	USA	EU	Brazil	Argentina	Australia	China	All Countries including others
2009	31	20	15	9	28	9	17	217
2010	41	3	15	37	14	7	8	173
2011	19	15	17	16	7	18	5	165
2012	21	11	13	47	12	12	9	208
2013	29	39	4	54	19	20	11	287
2014	38	19	14	35	6	22	7	236
2015	30	42	12	23	6	10	11	229
2016	69	37	14	11	25	17	5	300
1995-2016	839	606	493	403	348	316	234	5286

Source: **WTO**

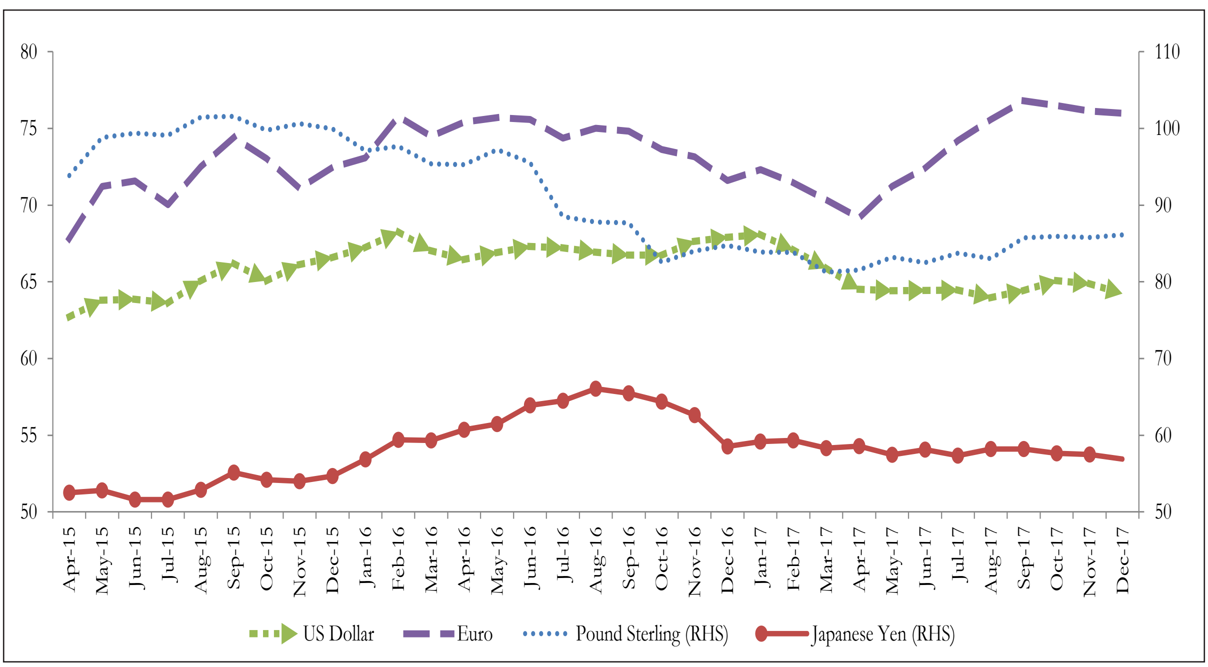
Table 9: Summary of Changes in Foreign Exchange Reserves (US$ billion)

Year	Foreign Exchange reserves at the end of financial year (end March)	Total Increase (+)/ decrease (-) in reserves	Increase(+) / decrease (-) in reserves on a BoP basis	Increase/decrease in reserves due to valuation effect
2007-08	309.7	110.5	92.2	18.3
2008-09	252.0	-57.7	-20.1	-37.6
2009-10	279.1	27.1	13.4	13.7
2010-11	304.8	25.8	13.1	12.7
2011-12	294.4	-10.4	-12.8	2.4
2012-13	292.0	-2.4	3.8	-6.2
2013-14	304.2	12.2	15.5	-3.3
2014-15	341.6	37.4	61.4	-24.0
2015-16	360.2	18.5	17.9	0.6
2016-17	370.0	9.8	21.6	-11.8
2016-17 (H1)	372.0*	11.8	15.5	-3.7
2017-18 (H1)	400.2*	30.3	20.9	9.3

Source: **Reserve Bank of India (RBI)**

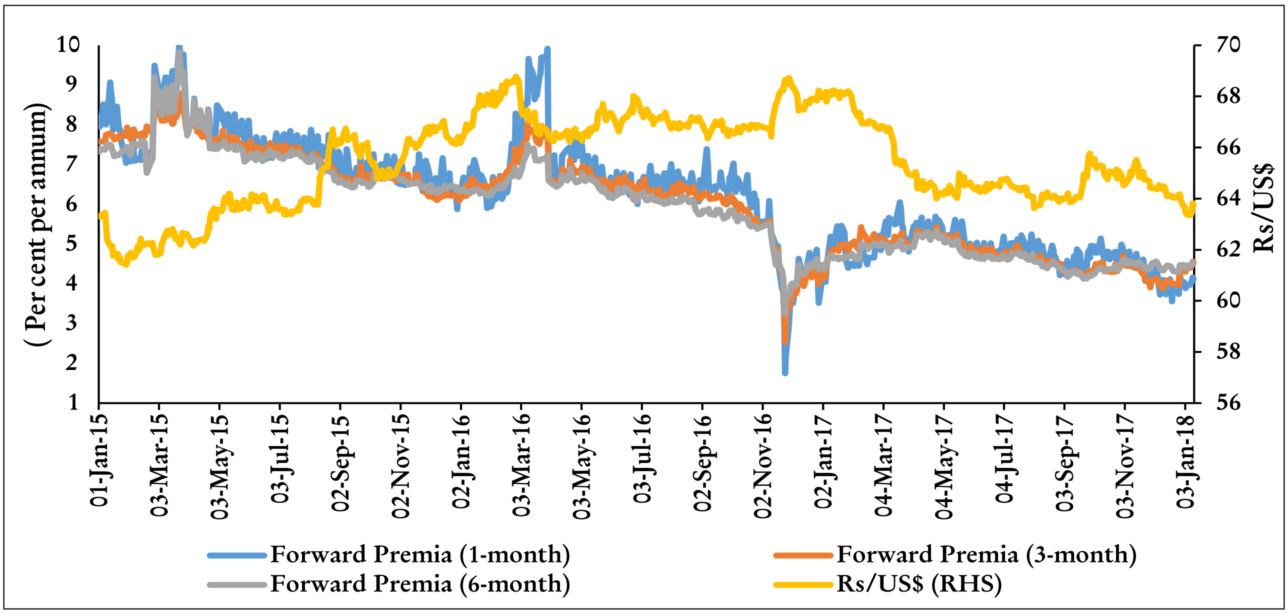
Note *** : end - September**

Figure 8: Movement of Rupee against US Dollar, Euro, Pound Sterling and Japanese Yen



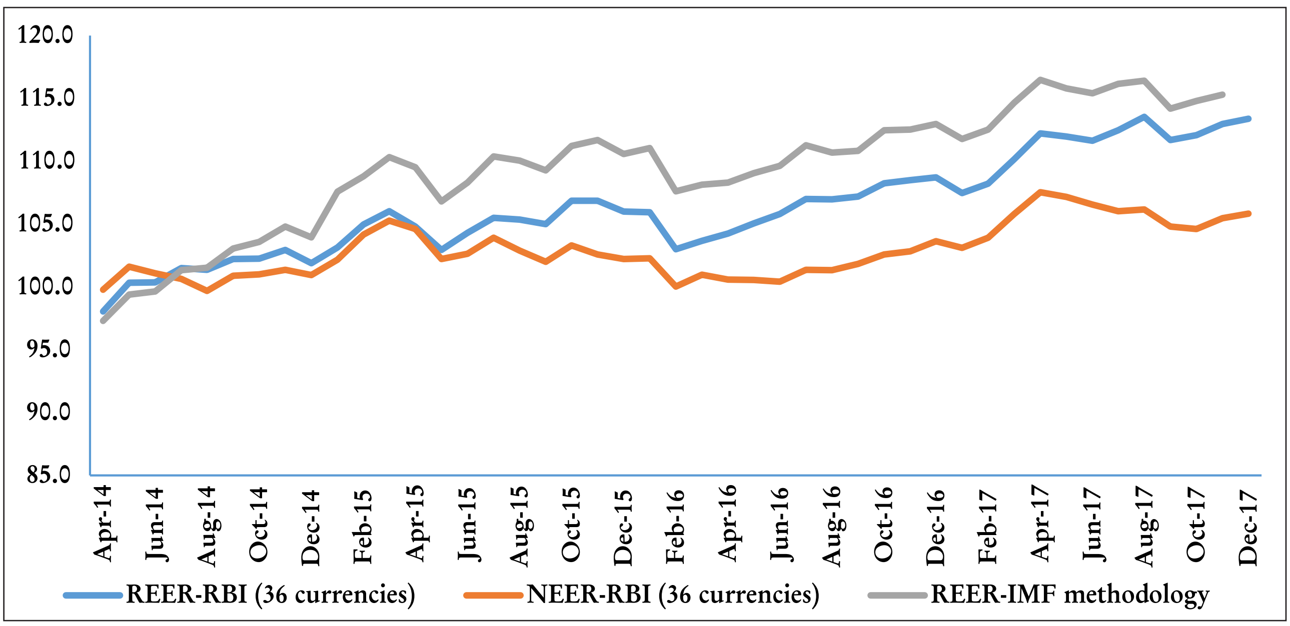
Source: **Based on RBI data.**

Figure 9 : Movement of Forward Premia and Reference Rate (Spot)



Source: **RBI.**

Figure 10 : Movement of Indices in REER, NEER: (2014=100)



Source: **RBI, Note: REER-IMF is calculated by using the methodology adopted by IMF.**

rupee appreciated by about 6.0 per cent against the pound sterling, 0.2 percent against the Euro and 9.2 per cent against the Japanese Yen during the period April-December, 2017 over the same period of the last fiscal year (Figure 8).

6.31 The forward premia generally exhibited a softening trend during 2017-18 so far (up to January 11, 2018), barring intermittent hardening in September 2017 and January 2018, mainly due to narrowing of interest rate differential between India and the US on the back of policy rate cut by the RBI and increase in the US Fed fund rate. The 6-month forward premia, which stood at 4.9

Table 10: India's Key External Debt Indicators (per cent)

Year	External Debt (US$ billion)	Growth in External Debt (%)	Total External Debt to GDP	Debt Service Ratio	Concessional Debt to Total External Debt	Foreign Exchange Reserves to Total External Debt	Short term External Debt# to Foreign Exchange Reserves	Short term External Debt# to Total Debt	Short term debt (Residual Maturity) to total debt	Short term debt (Residual Maturity) to foreign exchange reserves
2012-13	409.4	13.5	22.4	5.9	11.1	71.3	33.1	23.6	42.1	59.0
2013-14	446.2	9.0	23.9	5.9	10.4	68.2	30.1	20.5	39.7	58.2
2014-15	474.7	6.4	23.9	7.6	8.8	72.0	25.0	18.0	38.5	53.5
2015-16	485.1	2.2	23.5	8.8	9.0	74.3	23.1	17.2	42.7	57.4
2016- 17 R	471.8	-(2.7)	20.2	8.3	9.3	78.4	23.8	18.6	41.5	52.9
End-September2017 P	495.7	5.1	*	*	9.1	80.7	23.2	18.7	41.7	51.7

Source: **RBI** ***Notes:*** **R: Revised; P: Provisional** ***# Short term debt is based on original maturity.***

Debt Service Ratio is the proportion of gross debt service payments to current account receipts (net of official transfers)

per cent at end-March 2017 declined to 4.5 per cent on January 11, 2018 and moved in the range of 4.2 per cent to 5.3 per cent during this period (Figure 9).

6.32 In terms of the NEER (trade weighted) rupee appreciated by 3.6 percent and 4.3 per cent against a basket of 6 and 36 currencies respectively in April-December 2017-18. However, the former depreciated by 2 per cent while the latter marginally appriciated by 0.03 per cent in December, 2017 from their level in March, 2017.

6.33 In terms of the real effective exchange rate (trade weighted) against a basket of 36 currencies, the rupee appreciated by 5.2 per cent in April-December 2017 over the corresponding period of 2016-17. Following the IMF methodology of the REER, there was appreciation of 4.5 per cent during the April-November 2017. Though the rupee continued to be broadly stable, the appreciation of REER indicates that India's exports might have become slightly less competitive (Figure 10).

EXTERNAL DEBT

6.34 India's External Debt stock increased by 5.1 per cent to US$ 495.7 billion at end-September 2017 from end-March, 2017, while it increased by 2.1 per cent from end-June, 2017. The long-term debt increased by 5.0 per cent at end-September 2017 over March 2017, though its share was more or less the same at 81.3 per cent compared to 81.4 per cent. The increase in long term debt was primarily due to the increase in foreign portfolio investment in the debt segment of domestic capital market included under commercial borrowings. Short term debt grew by 5.4 per cent primarily due to increase in trade related credits. Share of Government (sovereign) debt in total debt increased to 21.6 percent end-September 2017 from 19.4 per cent at end-March 2017, mainly due to other Government external debt component reflecting the increased level of foreign portfolio investments in Government securities.

6.35 Foreign exchange cover to total external debt improved to 80.7 per cent at end-September 2017 as compared to 78.4 per cent at end-March 2017, with the ratio of short term debt by original maturity to foreign exchange reserves falling to 23.2 per cent at end-September 2017 from 23.8 per cent at end-March 2017. The ratio of short term debt by residual maturity to foreign exchange reserves fell to 51.7 per cent from 52.9 per cent during the same period. The share of short term debt by residual maturity in total external debt, which is useful in assessing liquidity requirements to service contractual obligations within a year was more or less the same at 41.7 per cent at end-September 2017 compared to 41.5 per cent at end-March 2017. (Table 10). Valuation loss due to depreciation of US Dollar against other currencies in September 2017 over March 2017 was at US$ 1.4 billion implying that excluding valuation effect, external debt would have been lower at US$ 494.3 billion instead of US$ 495.7 billion.

6.36 International comparison of external debt situation based on World Bank data shows that among the top 20 developing debtor countries in 2016, India's external debt stock to Gross National Income (GNI) ratio at 20.4 percent was the second lowest after China's 12.8 per cent. In terms of the foreign exchange reserves cover to external debt, India's position is the fifth highest and India's debt service rate is the eight lowest. As per the World Bank data, though India is the third largest debtor country among developing countries (after China and Brazil), India's share of short term debt to total debt is only 18.6 percent and 18.3 per cent in 2017Q1 (end-March) and 2017 Q2(end-June) compared to China's 59.0 per cent and 60.1 per cent respectively. India is not among the top debtor countries in the world (including developed and developing) with 26th position at end-June 2017.

Conclusion

6.37 The prospects for India's External Sector in this and coming year look bright with world trade projected to grow at 4.2 percent and 4 percent in 2017 and 2018 respectively from 2.4 percent in 2016; trade of major partner countries improving and above all India's export growth also picking up. The downside risks lie in the rise in oil prices. However, this could also lead to higher inflow of remittances which have started picking up. The supportive policies like GST, logistics and trade facilitation policies of the government could help further.