Economy This Week (14th Dec to 20th Dec 2020)

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1. US puts India on watch list (BS 17/12/20)

- The US treasury has labelled Switzerland and Vietnam as currency manipulators.
- The monitoring list has 10 countries now including India. Others are China, Japan, Korea, Germany, Italy, Singapore and Malaysia.
- The treasury pointed out that India and Singapore had also intervened in the market in a sustained manner but did not meet other requirements to be designated as a currency manipulator.
- The designation of 'currency manipulator' does not bring any immediate sanctions but will rattle the financial markets.
- The US had removed India from the watch list in 2019.

2. Cabinet clears ₹ 3500 Cr subsidy for sugar exports (LM 17/12/20)

- This assistance will be directly credited into the bank accounts of the sugarcane farmers on behalf of the mill owners.
- The pending dues have emerged as an additional factor which is adversely affecting the rural incomes.
- As per a PTI report, in the marketing season of 2019-20 (October-September), the government has provided a lump sum export subsidy of ₹ 6268 Cr and exported 5.7 mn tn of sugar.

3. Govt plans $60 bn investment to bolster gas infrastructure (TH 18/12/20)

- The government has planned to invest $60 bn for creating gas infrastructure (including pipeline, LNG terminals and City Gas Distribution - CGD) till 2024 and the share of gas in the energy mix is expected to rise to 15% by 2030.
- Gas currently accounts for about 6.2% of the energy mix.
- This is being done in order to usher in a gas-based economy.

- The coverage of CGD projects is being expanded to 232 geographical areas spread across 400 districts, covering 53% of the country's geography and 70% of the population.
- In order to promote usage of clean energy for transportation, 1000 LNG fuel stations are being planned across the country.
- The petroleum reserves at Visakhapatnam, Padur and Mangaluru are at full capacity at 5.33 mn tn. In addition to this the construction at Chandimal, Padur with a capacity of 6.5 MT has begun.

4. Non-tariff measures gain currency (LM 18/12/20)

- The government has been increasing non-tariff measures on imports to help the local producers.
- Preferred ways are:
    - Impose quality controls
    - Shift the items from free import category to restricted category, which would require licenses
- In the last couple of months, the government has imposed restrictions on the import of tyres, televisions, household refrigerators and freezers (this will come into force from 1st January 2022).
- In the case of the last one, the importers will have to comply with norms of the Bureau of Indian Standards (BIS).
- In addition to these, quality norms have already been imposed on imports of toys.
- Such measures are complementing other policy measures such as higher import tariffs and incentives for domestic manufacturers (Production Linked Incentive Scheme). Both of these put together can provide a 16% cost advantage for the domestic manufacturers (10% and 6% because of import duties and PLI respectively).

5. An export thrust would call for a rupee strategy (LM 18/12/20)

- Recently, the US has listed India in the currency watch list. It was placed under the same category in 2018 and was taken out of it in 2019 and again has been listed this year.
- India has a current account surplus (CAS) of $20 bn in the first quarter of FY21 and RBI's intervention in the forex market has weakened the rupee.
- In a free-floating currency, the exports and imports should have affected the exchange rate of currencies but in the present situation, the Indian rupee is getting affected by more capital flows. This is happening during the time when the western economies are flush with liquidity and the investments are flowing into India in search of better returns, while the Indian exports have been weak.
- In this background, the central banker has been intervening in the market to arrest rupee appreciation and this has attracted the suspicion of the US.
- For the last decade, India's stated policy has been to intervene in the market only to arrest the exchange rate volatility. The central banker has not tried to keep the rupee rate artificially very low so that our exports are boosted. Our exports on the contrary have been affected and are facing competition in the international market. The increased forex reserves are on account of dollars bought by RBI for stabilising the rupee.

- All of this does not mean that we must make the rupee cheaper.
    - Our returns on these foreign currencies are very low as most of this is invested in low yield bonds.
    - With more foreign capital inflows, rupee infusion into the market increases and this increases the concerns of inflation. If this has to be controlled, RBI has to sell the bonds in the market which pushes up the yields, increases interest rates.

6. India to trim reliance on China (FE 18/12/20)

- The government, in order to reduce the dependence on China, has identified 1068 products (including 168 important ones).
- This comes after India has been demanding greater market access for its exports in China and concern over the reliability of China with the pandemic disrupting the supply chains.
- The key products include auto parts, consumer electronics, electrical machinery, select steel and aluminium products, etc.
- The commerce ministry has already identified alternative sources and is exploring the options.
- It is also in sync with the recent decision of India to join Japan and Australia and increase the supply chain partnership.
- Along with this India is promoting domestic manufacturing by promoting Production Linked Incentive scheme in 13 sectors (incentives worth ₹ 2 lakh Cr over the next five years).
- Despite signing many protocols (for promoting exports of rice, fish meal, fish oil, tobacco leaves, chilli meal), India’s exports to China have not grown meaningfully in the last couple of years. For FY20, the total bilateral trade stood at $82 bn and of this, India’s exports were worth $17 bn. Although the trade deficit between India and China has reduced drastically from $63 bn in FY18 to $49 bn in FY20, the trade deficit with Hong Kong has increased rapidly.
- India imports manufactured products and components in critical segments from China such as consumer electronics, capital goods, consumer hardware, active pharmaceutical ingredients, fertilisers, electrical machinery, etc. It, on the other hand, exports low-value primary goods, raw materials and intermediary goods such as iron ore, copper, cotton, spices, etc.