Chapter 7

International Trade

The 2008 global financial crisis and subsequent slowdown in the world economy has clearly demonstrated that tremors originating in one corner of the world can quickly reach other parts, among others via the trade channel. The 2008 crisis left world trade (both merchandise and services) shattered with a steep fall to a negative 19.8 per cent in 2009. For five years before the crisis (2003–2007) world trade value grew at a robust 16.6 per cent (compound annual growth rate—CAGR) and for five years after the crisis (2009-2013) it grew at a subdued 9.9 per cent. Mirroring the global trend, India's exports (merchandise and services) which also had robust growth of 30.1 per cent in the five pre-crisis years (2003-2007) decelerated to 16.0 per cent in the five post-crisis years (2009-2013). Though the outlook is now better, the situation is still fragile for both world and Indian trade with the deep scars left by the 2008 crisis still visible.

World Trade

7.2 World trade volume growth which decelerated in 2012 to 2.8 per cent after the recovery in 2011 to 6.1 per cent, has shown signs of recovery again, albeit slow, with a growth of 3.0 per cent. There seems to be a reversal of roles with the advanced economies that performed badly in the aftermath of the crisis on the trade front showing better signs of recovery than the emerging market and developing economies (EMDEs), many of which are also entangled in one domestic crisis or the other (Table 7.1).

(per cent change)

	Actuals		Projections	
	2012	2013	2014	2015
World trade volume (goods and services)	2.8	3.0	4.3	5.3
Imports				
Advanced economies	1.1	1.4	3.5	4.5
EMDEs	5.8	5.6	5.2	6.3
Exports				
Advanced economies	2.1	2.3	4.2	4.8
EMDEs	4.2	4.4	5.0	6.2

***Source*:** International Monetary Fund (IMF), World Economic Outlook, April 2014.

Table 7.1 : Trends in Growth in Trade Volumes

India's Merchandise Trade

7.3 India's merchandise trade has been growing in importance over the years with the share in world exports and imports increasing, though gradually, from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.7 per cent and 2.5 per cent respectively in 2013. India's ranking in the top merchandise exporters and importers in the world has also improved from 31st in 2000 to 19th in 2013 in exports and from 26th to 12th for imports in the same years, as per the World Trade Organization (WTO). There has also been marked improvement in India's total merchandise trade to GDP ratio from 21.8 per cent in 2000-01 to 44.1 per cent in 2013-14.

India's Export Growth

7.4 In the last five years, India's export growth has seen ups and downs, being in negative territory twice: in 2009-10 as an aftershock of the 2008 crisis and in 2012-13 as a result of the euro zone crisis and global slowdown. India's exports were US$ 312.6 billion against a target of US$ 325 billion during 2013-14, though they grew by a positive 4.1 per cent as compared to the negative growth of 1.8 per cent during the previous year.

There was a mild revival in export growth in 2013-14 after the decline to -1.8 per cent in 2012-13.

7.5 Monthly export growth rates have seen many ups and downs in 2013-14. After being in double digits continuously for four months from July to October 2013, they decelerated to single digit for three months from November 2013 to January 2014, remained in negative territory in the next two months, and ended with a positive but low growth of 4.1 per cent for the full year. In April 2014, export growth was slightly better at 5.3 per cent and with the 12.4 per cent growth in May 2014, double-digit growth is back after a gap of six months, though it is on a low base.

Trade Quantum and Unit Value

7.6 In 2012-13, while export growth in US dollar terms was negative, in rupee terms it decelerated from 28.3 per cent in 2011-12 to 11.5 per cent in 2012-13 mainly due to deceleration in the growth of unit value of exports by 14.2 percentage points (Table 7.2). The export quantum growth decelerated marginally by 1.0 percentage point. The deceleraton in unit value growth of exports in turn was because of the fall in unit value growth of exports of chemicals and related products and deceleration in unit value growth of some items like mineral fuels, lubricants and related materials, and miscellaneous manufactured articles. The deceleration in quantum growth of exports was on account of the fall in growth of machinery and transport equipment and manufactured goods classified chiefly by materials.

7.7 Imports in rupee terms also decelerated in 2012-13 to 13.8 per cent from 39.3 per cent in the previous year due to the high deceleration in unit value of imports by 66.9 percentage points, despite the quantum index of imports improving from a negative 20.9 per cent in 2011-12 to a positive in 6.1 per cent in 2012-13. The high deceleration in unit value of imports was due to the deceleration in unit value of almost all items except beverages and tobacco and

Contrary to general belief, there was no decline in import of capital goods in quantity terms in 2012-13.

Table 7.2 : Trade Performance: Quantum and Unit Value Indices

(per cent change)

	Exports				Imports				Terms of trade	
	Rupee terms	US$ terms	Quantum	Unit value	Rupee terms	US$ terms	Quantum	Unit value	Net	Income
2001-02	2.7	-0.6	0.8	1.0	6.2	2.9	4.0	2.8	-2.1	-1.8
2002-03	22.1	20.3	19.0	2.9	21.2	19.4	5.8	14.3	-9.8	7.4
2003-04	15.0	21.1	7.3	7.5	20.8	27.3	17.4	3.1	3.6	11.2
2004-05	27.9	30.8	11.2	14.9	39.5	42.7	17.2	18.9	-3.5	7.3
2005-06	21.6	23.4	15.1	6.1	31.8	33.8	16.0	14.0	-6.0	8.2
2006-07	25.3	22.6	10.2	13.7	27.3	24.5	9.8	15.1	-1.3	8.8
2007-08	14.7	29.0	7.9	5.1	20.4	35.5	14.1	1.9	2.6	10.7
2008-09	28.2	13.6	9.0	16.9	35.8	20.7	20.2	13.8	2.5	11.7
2009-10	0.6	-3.5	-1.1	1.0	-0.8	-5.0	9.9	-10.0	12.3	11.1
2010-11	35.2	40.5	15.2	13.8	23.4	28.2	8.0	13.0	1.1	16.1
2011-12	28.3	21.8	8.9	20.2	39.3	32.3	-20.9	74.9	-31.5	-25.4
2012-13	11.5	-1.8	7.9	6.0	13.8	0.3	6.1	8.0	-1.6	6.3
2013-14	15.9	4.1	NA	NA	1.7	-8.3	NA	NA	NA	NA

Source : Computed based on the data of the Directorate General of Commercial Intelligence and Statistics (DGCI&S).
Note : Quantum and unit value indices of exports and imports are with a new base (1999-2000=100).
NA : Not Available.

miscellaneous manufactured articles, while the slight improvement in quantum of imports was due to growth in quantum of chemicals and related products; machinery and transport equipment; and miscellaneous manufactured articles. Thus, contrary to general belief, there was no decline in import of capital goods in quantity terms. The fall in value of capital goods imports could therefore be either due to fall in import price of capital goods or shift to import of low unit valued capital goods.

7.8 The growth in net barter terms of trade in 2012-13, the ratio of the unit value index of exports to the unit value index of imports, though still negative at -1.6 per cent improved compared to the -31.5 per cent in 2011-12. This was due to high deceleration in unit value index of imports by 66.9 percentage points and relatively low deceleration in unit value index of exports by 14.2 percentage points. Income terms of trade reflecting the capacity to import improved with growth at 6.3 per cent owing to the improvement in net barter terms of trade and the 7.9 per cent growth in quantum of exports which decelerated by only one percentage point over 2011-12.

Net barter and income terms of trade improved in 2012-13 compared to 2011-12.

Export Performance of India and the EDEs

7.9 The share of the emerging and developing economies (EDEs) in world merchandise exports has increased from 25.4 per cent in 2000 to 42.3 per cent in 2012 (Table 7.3). Nearly 60 per cent of this increase is on account of the BRICS (Brazil, Russia, India, China, and South Africa) countries whose share increased from 7.6 per cent to 10.1 per cent. Within BRICS, the largest increase is in China's share, followed by Russia, India, and Brazil. The share of the four newly industrialized Asian economies (NIAEs) has fallen by 1 percentage point. This is mainly on account of the relatively higher CAGR of the EDEs at 13.9 per cent during 2000-10 compared to the NIAEs at 8.4 per cent. This is in sharp contrast to the 1990s when the export growth of the NIAEs was higher than that of the EDEs.

In sharp contrast to the 1990s, in the 2000s the export performance of the EDEs was better than that of the NIAEs.

Table 7.3 : Export Growth and Share in World Exports: India and Select Countries

	Value (US$ billion) 2012	CAGR		Growth rate		Share in world exports (%)				Change in share 2012/ 2000
		1990-99	2000-12	2012	2013 (Jan-Sept)	1990	2000	2012	2013 (Jan.-Sept.)	
EDEs	7660	7.2	13.8	3.3	2.0	19.9	25.4	42.3	42.9	17.0
of which										
China	2049	13.6	19.2	7.9	8.0	1.8	3.9	11.3	11.8	7.4
Russia	529	NA	14.4	1.4	-1.4	NA	1.7	2.9	2.8	1.3
Mexico	371	14.4	6.9	6.1	2.1	1.2	2.6	2.1	2.1	-0.6
India	297	7.9	17.6	-2.0	4.7	0.5	0.7	1.6	1.7	1.0
Malaysia	227	12.4	7.2	-0.3	-1.3	0.9	1.5	1.3	1.2	-0.3
Brazil	243	4.8	13.1	-5.3	-1.6	0.9	0.9	1.3	1.3	0.5
Thailand	228	10.9	10.5	0.8	-1.0	0.7	1.1	1.3	1.2	0.2
Indonesia	189	8.0	9.2	-6.0	-5.2	0.7	1.0	1.0	1.0	0.0
South Africa	87	1.4	9.3	-9.9	-5.0	0.7	0.5	0.5	0.5	0.0
NIAEs	1700	8.4	8.2	-0.1	NA	7.7	10.4	9.4	NA	-1.0
Korea Republic	548	9.2	10.1	-1.3	1.3	1.9	2.7	3.0	3.0	0.3
Hong Kong	443	8.7	6.8	3.3	3.3	2.4	3.2	2.4	2.5	-0.7
Singapore	408	9.0	9.5	-0.3	-0.6	1.5	2.2	2.3	2.2	0.1
Taiwan	301	6.8	6.1	-2.3	NA	1.9	2.3	1.7	NA	-0.7
World	18092	5.6	9.1	0.1	1.2	100.0	100.0	100.0	100.0	—

Source: Computed from IMF, International Financial Statistics, April 2014.
Note : NA: Not Available.

7.10 This tectonic shift in trade shares in the 2000s and early 2010s is mainly on account of China's trade which also witnessed the highest growth rate of 20.3 per cent and to a lesser extent the three BRICS countries - Russia, India, and Brazil. While in 2012 the growth rates of most of the EDEs and NIAEs except China and Mexico, were low or negative, in 2013 (January-September), only China with 8.0 per cent followed by India with near 5.0 per cent had good growth.

7.11 As per the WTO data, in the first quarter of 2014, except the EU and Singapore, export growth rates of all other major countries are negative as in the case of China(-3.8 per cent), Hong Kong (-1.8 per cent), Indonesia (-1.8 per cent), Japan (-3.9 per cent), Thailand (-1.0 per cent), South Africa (-4.2 per cent), and Russia (-1.8 per cent); or low as in the case of the US (2.5 per cent), Malaysia (3.6 per cent), and Australia (2.0 per cent).

7.12 The 2014 Q1 import growth rates also present a similar picture with negative growth in Indonesia (-6.3 per cent), Malaysia (-1.5 per cent), Thailand (-15.4 per cent), and Australia (-3.1 per cent) and low growth in the US (2.0 per cent), China (1.7 per cent), and Hong Kong (1.0 per cent). Only the EU (5.2 per cent), Japan (5.6 per cent), and Singapore (4.2 per cent) had relatively good growth.

Export Composition and Sectoral Performance

7.13 Noticeable compositional changes have taken place in India's export basket between 2000-01 and 2013-14 with the share of petroleum, crude, and products increasing by nearly five times to 20.1 per cent, catapulted by its 33.5 per cent growth (CAGR) (Table 7.4).

Table 7.4 : Commodity Composition of India's Exports

	Percentage share		CAGR 2000-01 to 2012-13	Growth rate[a] 2013-14
	2000-01	2013-14		
I Primary products	16.0	15.6	16.9	4.7
(a) Agri & allied products	14.0	13.8	17.0	5.1
(b) Ores and minerals	2.0	1.8	16.5	1.4
II Manufactured goods	78.8	63.7	15.1	4.6
(a) Textiles incl. RMG	23.6	9.7	8.0	14.6
(b) Gems & jewellery	16.6	13.1	15.9	-5.2
(c) Engineering goods	15.7	19.8	19.1	8.8
(d) Chemical & related products	10.4	13.2	19.5	5.9
(e) Leather & leather mnfrs	4.4	1.8	8.0	16.7
(f) Handicrafts including carpet handmade	2.8	0.4	-0.3	10.9
III Petroleum, crude & products	4.2	20.1	33.5	3.0
Total Exports	100.0	100.0	17.2	4.1

Source : Computed from DGCI&S data.
Note : [a]Growth rate in US dollar terms

7.14 While there has been a small fall in share of primary products, there was a 15.1 percentage point fall in share of manufactured goods. Among the four major items under manufactured goods, the shares of gems and jewellery and textiles (including RMG) fell, with the fall in the latter to 9.7 per cent being more than half. Two major manufactured goods items, engineering goods and chemicals and related products, gained in shares, due to their nearly 20 per cent CAGR. The fall in export shares of manufactured goods between 2000-01 and 2013-14, is mainly on account of the fall in export shares of these items to a major destination like the USA. Among these items, the shares of exports of textiles and gems and jewellery to the US fell while those of chemicals and related items and engineering goods increased. In the case of the EU, the shares of textiles, engineering goods, and chemicals and related products increased while those of gems and jewellery and leather declined. In the case of China, the shares of textiles and engineering goods increased and that of chemicals and related products decreased. Thus not only has there been a composition change, there has also been a directional change in India's exports.

7.15 The recent sectoral performance of exports (Table 7.5) shows that while many sectors were in the negative growth zone in 2012-13, in 2013-14, except gems and jewellery and electronic goods all other major sectors have moved to positive growth territory. In the first two months of 2014-15 (P), there was further improvement in the performance of engineering goods (21.7 per cent), petroleum products (14.0 per cent), marine products (40.1 per cent), and textiles (13.2 per cent).

Growth	2012-13	2013-14(P)
Positive	1. Petroleum products 2. Chemicals 3. Agri & allied prdts 4. Leather & mnfrs 5. Marine products	1. Petroleum products 2. Engineering goods 3. Chemicals 4. Agri & allied prdts 5. Textiles 6. Leather & manufactures 7. Marine products 8. Ores & minerals
Negative	1. Engineering goods 2. Gems & jewellery 3. Textiles 4. Electronic goods 5. Ores & minerals	1. Gems & jewellery 2. Electronic goods
Overall	-1.8	4.1

Source : Based on DGCI&S data.
Note : P=Provisional

Table 7.5 : Sectoral Performance of Major Exports

Many labour-intensive export sectors performed relatively well in 2013-14.

7.16 One interesting feature of the sectoral performance of exports is that many labour-intensive export sectors have performed relatively well in 2013-14. Textile exports grew by 14.6 per cent in 2013-14. The EU and USA accounted for nearly half of India's total textile exports and growth of our textile exports to these markets was 13.5 per cent and 7.0 per cent respectively in 2013-14. Another development is India's growing textile exports to China with China's share increasing from around 2 per cent in 2010-11 to 5 per cent in 2012-13 and further to 7 per cent in 2013-14. Export growth of another labour-intensive sector, leather and leather manufactures, was high at 16.7 per cent. Nearly 72 per cent of total leather exports was to the EU and USA in 2013-14 with a growth of 15.4 per cent and 27.2 per cent respectively. Growth of exports of handicrafts including carpets was also in double digits at 10.9 per cent, though its share in total exports was only 0.4 per cent in 2013-14.

7.17 One development in India's export sector is the growing foreign value addition and declining domestic value addition. The process of fragmentation of the production process across countries and continents is increasingly becoming an important feature of economic globalization, especially for developing economies like India. Notably, more and more intermediate parts and components are produced in subsequent stages or processes across different countries and then exported to other countries for further production. This development needs to be taken note of while analysing trade performance and the contribution of trade to domestic employment and income generation (Box 7.1).

India's Import Growth

7.18 Import growth decelerated sharply from 32.3 per cent in 2011-12 to 0.3 per cent in 2012-13 and fell to a negative -8.3 per cent in 2013-14, owing to fall in non-oil imports by 12.8 per cent. Among the major items of import, the value of petroleum, oil, and lubricants (POL), which constituted 36.7 per cent of total imports in 2013-14,

Box 7.1 : Estimating Domestic Value Added and Foreign Content of India's Exports

The import content of India's exports increased steadily from 11 per cent to 22 per cent during 1995 to 2011. The rise in import content (or foreign value added) was relatively greater for merchandise exports, from 11 per cent to 26 per cent during the same period (Table 1). At individual commodity level, the largest increase in import content in exports took place in ships and boats (almost 60 percentage points) followed by petroleum products and fertilizer (more than 20 percentage points).

Table 1 : Domestic and Foreign Value Added Shares in Merchandise and Total Exports of India

	Share	1995	1998	2000	2003	2005	2007	2009	2011
Merchandise exports	Domestic value added	88.83	87.78	84.34	82.94	75.96	74.62	72.74	74.28
	Foreign value added	11.17	12.22	15.66	17.06	24.04	25.38	27.26	25.72
Total exports	Domestic value added	89.49	88.4	85.32	85.26	79.81	78.57	76.61	78.02
	Foreign value added	10.51	11.6	14.68	14.74	20.19	21.43	23.39	21.98

Source: Computation based on input-output tables taken from World input-output database (WIOD).

The share of foreign value added in India's exports at 24 per cent in 2008, however, was lower than the 33 per cent for China, 38 per cent for Malaysia and Thailand, 42 per cent for the Philippines, 43 per cent for Korea, 46 per cent for Vietnam, and 48 per cent for Taiwan. Thus, in terms of degree of integration in global value chains, India lags behind most of the important East Asian emerging economies though countries like South Africa, Indonesia, and Brazil are behind India. Although there was a rise in exports in gross terms during the period 1998 to 2007, a downward trend is observed in domestic value added share in gross exports in almost all disaggregated commodities. Traditional export-oriented sectors like textiles, leather and leather products, drugs and medicines, food processing, and automobile and ancillaries witnessed a fall in domestic value added shares over the years. The domestic value added share fell by 5 percentage points for cotton textiles, 4 percentage points for readymade garments, 13 percentage points for silk textiles, and 8 percentage points for drugs and medicine. During 1998 to 2011, domestic value added in total exports has declined substantially for China and India by 10 percentage points and marginally for Brazil by 4 percentage points. For Indonesia, a reverse trend is observed where domestic value added in exports has increased (by 6 percentage points).

Source: Based on study by Dr Deb Kusum Das et.al , ICRIER, 'Estimating Domestic Value Added and Foreign Content of India's Exports', sponsored by the Department of Economic Affairs, Ministry of Finance, GoI.

grew marginally by 0.7 per cent. This marginal growth was on account of moderate quantity growth (Figure 7.1) of POL (2.6 per cent) despite the moderation in crude oil prices with the average price of crude oil (Indian basket) falling to US$ 105.5/bbl in 2013-14 from US$ 108.0/bbl in 2012-13.

7.19 The other major item of import is gold, the import of which declined from 1078 tonnes in 2011-12 to 1037 tonnes in 2012-13 and further to 664 tonnes in 2013-14, on the back of several measures taken by the government. In value terms, gold and silver imports fell by 40.1 per cent to US$ 33.4 billion in 2013-14.

7.20 Capital goods is the other major import category. As in 2012-13, capital goods imports had negative growth in 2013-14 also of -14.7 per cent, which is a cause for concern (Table 7.6). Within capital goods, import growth of machinery except electrical and machine tools and transport equipment fell by more than 10 per cent in 2013-14. However, the quantum of capital goods imports has actually increased in 2012-13 as indicated earlier.

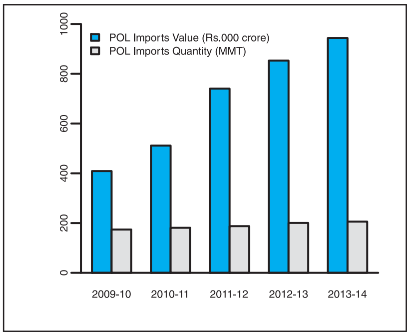

Figure 7.1 : POL Imports

Gold imports fell sharply in 2013-14 on the back of several measures taken by the government.

	Commodity group	Percentage share 2000-01	Percentage share 2013-14	CAGR 2000-01 to 2012-13	Growth rate[a] 2013-14
I.	Food and allied products	3.3	3.2	21.5	-15.9
	of which				
	1 Cereals	0.0	0.0	16.0	3.8
	2 Pulses	0.2	0.4	29.1	-25.5
	3 Edible Oils	2.6	2.1	19.6	-16.9
II.	Fuel	33.5	40.4	21.9	0.4
	of which				
	4 POL	31.3	36.7	21.6	0.7
III.	Fertilizers	1.3	1.4	24.0	-28.0
IV.	Capital goods	10.5	11.9	23.0	-14.7
	of which				
	5 Machinery except elec. & machine tool	5.9	5.2	20.6	-14.5
	6 Electrical machinery	1.0	1.0	20.4	-2.0
	7 Transport equipment	1.4	3.3	30.6	-12.8
V.	Others	52.5	38.4	18.5	-14.4
	of which				
	8 Chemicals	5.9	5.7	19.2	4.3
	9 Pearls, precious semi-precious stones	9.7	5.3	13.7	5.7
	10 Gold & silver	9.3	7.4	23.0	-40.1
	11 Electronic goods	7.0	6.9	20.0	-1.5
	Total imports	**100.0**	**100.0**	**21.0**	**-8.3**

Source **:** Computed from DGCI&S data.
Note **:** [a]Growth rate in US$ terms.

Table 7.6 : Commodity Composition of India's Imports

Value of capital goods imports fell sharply in both 2012-13 and 2013-14.

Trade Deficit

7.21 The sharp fall in imports and moderate export growth in 2013-14 resulted in a sharp fall in India's trade deficit by 27.8 per cent. In absolute terms, trade deficit fell to US$ 137.5 billion from US$ 190.3 billion during 2012-13. However, there was not much change in the POL deficit which was hovering at around US$100 billion in the last two years. With the fall in imports of both gold and capital goods, non-POL deficit fell sharply to US$ 35 billion in 2013-14 from US$ 87.2 billion in 2012-13.

Direction of Trade

7.22 In 2013-14, there was good growth of exports to North America (9.1 per cent) and Africa (7.2 per cent), low growth to Europe (4 per cent) and Asia (1.7 per cent), and negative growth to Latin America (-20 per cent) and the CIS and Baltics (-4.7 per cent). While export growth to the US was 8.3 per cent, it was just 2.2 per cent to the EU 27 as a result of the slowdown in the EU. Exports to the UAE fell to a negative -16 per cent. Exports to Asia still constitute around 50 per cent of India's exports. While India's exports to ASEAN (Association of South East Asian Nations) grew by a small 0.5 per cent, exports to South Asia grew robustly with high growths to all the four major SAARC (South Asian Association for Regional Cooperation) countries, Sri Lanka, Bangladesh, Nepal and Pakistan, besides Bhutan. There was also good export growth to China and Japan at 9.5 per cent and 11.7 per cent respectively. Region-wise, imports from all five regions declined, with the highest decline of -19.3 per cent in imports from Europe.

India's export growth to South Asia was robust with high growth to the major SAARC countries.

7.23 The share of the top 15 trading partners of India in India's trade at 58 per cent in 2013-14 was more or less the same as in earlier years. The top three trading partners of India are China, the USA, and the UAE, with the top slot shifting between the three. Export-import ratios reflecting bilateral trade balance (Table 7.7) show that among its top 15 trading partners, India had bilateral trade surplus with four countries, namely the USA, UAE, Singapore, and Hong Kong, in 2013-14 with high increase in the export-import ratio with the USA. India's bilateral trade deficit with Switzerland declined sharply from US$ 31.1 billion in 2012-13 to US$ 17.6 billion in 2013-14 owing to a fall in gold imports. India has high and rising bilateral trade deficit with China, which however fell by 6.6 per cent in 2013-14. Given the growing importance of these two Asian giants, India needs to formulate a comprehensive trade strategy for China keeping in view India's export potential in China (Box 7.2).

Table 7.7 : India's Trade Share and Export-Import Ratio with Major Trading Partners

Rank	Country	Share in total trade				Export/Import ratio[a]			
		2010-11	2011-12	2012-13	2013-14 (P)	2010-11	2011-12	2012-13	2013-14 (P)
1	China	9.50	9.15	8.32	8.63	0.36	0.33	0.26	0.29
2	USA	7.30	7.31	7.76	8.06	1.26	1.49	1.43	1.76
3	UAE	10.72	9.14	9.54	7.82	1.03	0.98	0.93	1.05
4	Saudi Arabia	4.04	4.75	5.53	6.39	0.23	0.18	0.29	0.33
5	Switzerland	4.11	4.57	4.21	2.78	0.03	0.03	0.03	0.09
6	Germany	3.00	2.95	2.73	2.66	0.57	0.51	0.51	0.59
7	Hong Kong	3.18	2.94	2.55	2.63	1.10	1.24	1.55	1.74
8	Indonesia	2.52	2.71	2.55	2.60	0.57	0.45	0.36	0.33
9	Iraq	1.56	2.48	2.59	2.55	0.08	0.04	0.07	0.05
10	Singapore	2.73	3.17	2.67	2.53	1.38	2.02	1.82	1.85
11	Kuwait	1.96	2.20	2.23	2.39	0.18	0.07	0.06	0.06
12	Belgium	2.32	2.20	1.97	2.24	0.67	0.69	0.55	0.59
13	Nigeria	2.08	2.20	1.87	2.23	0.19	0.18	0.23	0.19
14	Qatar	1.16	1.73	2.07	2.19	0.06	0.06	0.04	0.06
15	Korea	2.29	2.16	2.19	2.18	0.36	0.34	0.32	0.34
	Total of 15 countries	58.46	59.64	58.78	57.89	0.54	0.49	0.48	0.53
	Total	**100.00**	**100.00**	**100.00**	**100.00**	**0.68**	**0.63**	**0.61**	**0.69**

Source : Computed from DGCI&S data.

Note : [a] A coefficient of export and import ratio between 0 and 1 implies that India's imports are greater than exports and if the coefficient is greater than one, India exports more than it imports.

P: Provisional.

Box 7.2 : Potential for India's Exports to China

India's trade to China has increased from US$ 2.3 billion in 2000-01 to US$ 68.9 billion in 2013-14. The share of China in India's total trade increased from 2.5 per cent in 2000-01 to 8.6 per cent in 2013-14 and India's share in China's total trade increased from 0.7 per cent in 2001 to only 1.6 per cent in 2013. India's imports from China grew at a CAGR of 31.2 per cent which is higher than 24.9 per cent CAGR of exports to China.

Though India's current exports to China constitute a small proportion of China's overall imports (around 1 per cent share), the total bilateral export potential of India was estimated at US$ 28.4 billion in 2008 and expected to increase to US$ 53.4 billion in 2012 (Table 1). Actual exports from India to China were US$ 14.9 billion in 2013-14. The export potential of India was nearly three times the actual bilateral export to China in 2008 and increased further to three and a half times in 2012 owing to the decline in India's exports to China in 2012. China is one of the important market destinations where India's export potential has not been adequately realized. India's large trade potential is yet to be tapped in diversified sectors of the Chinese market ranging from primary and labour-intensive products to various levels of technology-intensive products.

Contd....

Box 7.2 : Potential for India's exports to China (*Contd...*)

Table 1 : Export Potential to China: Major Items during 2004-12

Sec	Description of items	Export potential in 2012 (US$ million)	Share 2004	Share 2007	Share 2012	CAGR 2008-12
5	Mineral products	19520	7.6	9.7	36.6	14.9
16	Machinery & mechanical appliances	13828	43.2	55.9	25.9	-3.8
6	Products of chemicals	3952	9.1	5.8	7.4	11.1
17	Vehicles, aircraft and vessels	3391	5.4	4.3	6.4	16.7
7	Plastics & articles thereof	2647	7	5.4	5	9.7
18	Optical, photograph & cinematography	2385	6	4.5	4.5	12.3
15	Base metals & articles of base metal	2352	7.8	7	4.4	2.8
11	Textiles & textile articles	1493	4.9	2.3	2.8	18.6
	Total exports	53357	100	100	100	6.9

Source: Author's estimation based on *Comtrade, online accessed on 25 October 2013.*
Note : Export potential is estimated based on 'modified trade creating effect', an extension of Viner's model. It is estimated at 6-digit HS, using bilateral trade flow.

The major potential items of exports to China other than mineral products are machinery and mechanical appliances and products of chemicals where around one-third of India's bilateral export potential lies. India's export potential is highly concentrated in certain sectors with nearly seven major sectors accounting for around 90.2 per cent in the medium term, with most of them being in the manufacturing sector. A comprehensive Indo-China trade strategy which also takes note of India's domestic concerns like dumping of cheap Chinese goods could be mutually beneficial.

Source: Based on study by Dr S.K.Mohanty (2013), 'Examining Diversification of India's Exports to Developing Countries in a Global Economy Partially Affected by Recession', sponsored by the DEA, MoF, GoI.

India's Services Trade

7.24 In commercial services trade, India was the sixth largest exporter with 3.4 per cent share of world exports and seventh largest importer with 3.0 per cent share of world imports in 2012. The 2008 global financial crisis gave a big jolt to India's service exports. In the five years prior to 2008 (i.e. 2003-04 to 2007-08) service export growth (CAGR) at 35.4 per cent was faster and way above the merchandise export growth at 25.8 per cent. In the five years post crisis (2008-09 to 2012-13), service export growth at 8.3 per cent was below the 12.8 per cent merchandise export growth. In 2012-13, service exports at US$ 145.7 billion showed a lower growth of 2.4 per cent compared to the 14.2 per cent in the preceding year. They improved slightly in 2013-14 with a 4 per cent growth (Table 7.8), the same as

Table 7.8 : India's Service Exports

Commodity group	Percentage share 2002-03	Percentage share 2013-14	CAGR 2002-03 to 2013-14	Growth rate 2012-13	Growth rate 2013-14
Travel	16.0	11.8	16.6	-2.5	-0.4
Transportation	12.2	11.5	19.1	-5.0	0.3
Insurance	1.8	1.4	17.2	-15.4	-4.8
GNIE	1.4	0.3	4.8	20.1	-14.9
Miscellaneous	68.6	75.0	20.8	4.9	5.6
Software services	46.2	45.8	19.7	5.9	5.4
Non-software services	22.4	29.1	22.7	3.4	5.9
of which:					
Business services	3.9	18.8	38.3	9.8	0.1
Financial services	3.3	4.4	23.1	-17.1	34.4
Communication services	3.9	1.6	10.4	5.4	43.0
Total service exports	100.0	100.0	19.8	2.4	4.0

Source : Reserve Bank of India (RBI).
Note : GNIE stands for government not included elsewhere.

merchandise export growth. While export of software services with 45.8 per cent share and non-software with 29.1 per cent share grew by 5.4 per cent and 5.9 per cent respectively, all other major categories had negative or very low growth.

7.25 Service imports which grew by a small 3.2 per cent in 2012-13 fell to a negative -2.8 per cent in 2013-14 with all major categories registering negative growth. Net services has been a major source of financing India's growing trade deficit in recent years, financing around 38 per cent of merchandise trade deficit on an average during 2006-7 to 2012-13. While in 2012-13, net services financed 33.2 per cent of merchandise trade deficit, during 2013-14, with moderate growth in service exports and fall in service imports, net services financed 49.4 per cent of merchandise trade deficit.

Trade credit: Indian scenario

7.26 Trade credit is a critical component of trade. A 1 per cent increase in trade credit of a country leads to a 0.4 per cent increase in real imports of that country according to a WTO study.

7.27 The gross inflow of short-term trade credit (up to one year) to India reached ` 6,02,400 crore during end March 2014, which represented a year-on-year decline of 9.7 per cent. Inflow of trade credit during 2013-14 at US$ 100.2 billion was 18.4 per cent lower than in 2012-13, while growth in outflow of trade credit was at 4.0 per cent. As a result, there was a net outflow of US$ 5 billion under trade credit in 2013-14 as compared to a net inflow of US$ 21.7 billion in 2012-13.

7.28 After a low growth in 2012, export credit grew to 14.2 per cent in 2012-13. In 2013-14 it decelerated to 10.5 per cent. Export credit as a percentage of net bank credit, which has been declining continuously over the years, fell from more than 9 per cent as on 23 March 2001 to 3.8 per cent as on 21 March 2014 (Table 7.9). The government and the RBI have taken several measures to facilitate availability of trade credit to exporters (Box 7.3).

Outstanding as on	Export credit (` crore)	Variations (per cent)	Export credit as per cent of NBC
23 Mar. 2001	43321	10.7	9.3
28 Mar. 2008	129983	23.9	5.5
22 Mar. 2013	207618	14.2	3.9
21 Mar. 2014	229429	10.5	3.8

***Source*:** RBI.
***Notes* :** NBC = Net Bank Credit.
Data pertains to all scheduled commercial banks excluding regional rural banks availing of export credit refinance from the RBI.

Table 7.9 : Export Credit

Trade Policy

Recent Trade Policy Measures

7.29 The government has taken many policy measures to boost exports in the Foreign Trade Policy announced on 18 April 2013, besides the one announced in the Union Budget 2013-14, as has the RBI in its monetary and credit policies (Box 7.3).

Box 7.3 : Some Select Recent Trade Policy Measures

Budget related

- Duty on specified machinery for manufacture of leather and leather goods including footwear reduced to 5 per cent from 7.5 per cent.
- Duty on pre-forms, precious and semi-precious stones reduced to 2 per cent from 10 per cent.
- Export duty on de-oiled rice bran oil cake withdrawn.
- Concessions to aircraft maintenance, repair, and overhaul (MRO) industry.

Contd...

Box 7.3 : Some select recent trade policy measures (*Contd....*)

- For readymade garments industry, zero excise duty at fibre stage for cotton and a duty of 12 per cent at the fibre stage for spun yarn made of manmade fibre. Handmade carpets and textile floor coverings of coir and jute totally exempted from excise duty.
- Ships and vessels exempted from excise duty. No countervailing duty (CVD) on imported ships and vessels.

Credit related

- All-in-cost ceiling which was revised from 200 basis points (bps) over six-month LIBOR to 350 bps over six-month LIBOR on 15 November 2011 to be applicable till 30 June 2014.
- For availing of trade credit, the period of trade credit should be linked to the operating cycle and trade transaction.
- The enhanced period for realization and repatriation to India of the full export value of goods or software exports was brought down from 12 months to nine months from the date of export. The units located in special economc zones (SEZ) should realize and repatriate full value of goods/software/services to India within a period of 12 months from the date of export.

Foreign Trade Policy Measures in 2013-14

- The Rupee Export Credit Interest Rate Subvention Scheme extended to 101 tariff lines of the engineering sector and six tariff lines of the textiles sector. The validity of the scheme was also extended to 31 March 2014. The rate of interest subvention also increased from 2 per cent to 3 per cent w.e.f. 01.08.2013.
- Around 130 new products added for duty credit @ 2 per cent or 5 per cent of f.o.b. value of exports which included engineering, electronics, chemicals, pharma, and textiles.
- Around 57 new products and two new countries have been added under the Market Linked Focus Product Scheme (MLFPS). The MLFPS extended till 31 March 2014 for export to the USA and EU in respect of items falling in Chapters 61 and 62 (textiles and clothing). It is further extended from 1.4.2014.
- Incremental Exports Incentivization Scheme has been extended for the year 2013-14 with 53 Latin American and African countries added to the list w.e.f. 1.4.2013.
- Scrips of the Focus Product Scheme (FPS), Focus Market Scheme (FMS), and Vishesh Krishi and Gram Udyog Yojana (VKGUY) can now be used for payment of service tax.
- Three new towns have been declared as towns of export excellence (TEE). These are Gurgaon (textiles), Morbi (ceramic tiles and sanitaryware), and Thoothukudi (Marine).
- Around 160 new products including 153 hi-tech products added for duty credit @ 2 per cent of f.o.b. value of exports on 10.07.2013 (effective from 15.08.2013).
- Thirteen products have been added under the MLFPS, allowing 2 per cent additional benefit.

Policy for Promoting State-wise Exports

7.30 State-wise performance of exports (Table 7.10) shows the domination of only two states with Gujarat at the top followed by Maharashtra. Tamil Nadu and Karnataka are a distant third and

Table 7.10 : Export Performance of Top Indian States

		Value (US$ million)	Share			Growth rate
		2013-14	2011-12	2012-13	2013-14	2013-14
1	Gujarat	73498	21.3	20.4	23.5	19.7
2	Maharashtra	71661	22.4	22.1	22.9	7.9
3	Tamil Nadu	26937	9.1	9.0	8.6	-0.7
4	Karnataka	17821	5.1	5.8	5.7	1.7
5	Andhra Pradesh	15353	5.2	4.8	4.9	7.3
6	Uttar Pradesh	13309	3.5	3.6	4.3	21.6
7	Haryana	10657	3.0	3.2	3.4	9.2
8	West Bengal	10496	2.9	3.1	3.4	11.3
9	Delhi	9329	2.7	2.9	3.0	8.8
10	Punjab	7063	1.9	2.2	2.3	8.8
11	Rajasthan	5915	2.2	2.3	1.9	-15.2
12	Madhya Pradesh	4374	1.2	1.4	1.4	4.6
13	Kerala	4285	2.7	3.2	1.4	-55.1
14	Odisha	4005	1.1	1.1	1.3	25.4
	Total Exports	312610	100.0	100.0	100.0	4.1

Source : DGCI&S.
Note : Includes only those states with a share of at least 1 per cent in India's exports in 2013-14.

fourth. In 2013-14, with a high export growth rate of nearly 20 per cent, Gujarat relegated Maharashtra to second place. Among the other states, Uttar Pradesh, West Bengal, and Odisha had double-digit export growth. Kerala's export share fell by more than half owing to negative export growth of 55 per cent. This was mainly due to the fall in spice exports.

7.31 The state-wise exports given in Table 7.10 are only indicative as there are some weaknesses in the data. The figures are compiled as per the reporting from customs with no validation done at the DGCI&S end. Only one state of origin code can be given by the exporter in a single shipping bill. In case of shipping bills with multiple invoices containing items originating from more than one state, there is no provision for making different entries. In the customs daily trade returns (DTRs) the non-reporting of state of origin (STON) is considerable and exporters have a tendency to report the state to which they belong/ the state to which the port (through which the export has taken place) belongs/ the state from where they 'procured' the goods as the state of origin for those particular goods instead of the actual state of origin. The problem is acute in the case of non-manufacturing exporters, who only know the place of procurement and not the place of production of the goods. These weaknesses need to be rectified to improve the quality of data.

7.32 The central government also encourages states to export through the Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) scheme which is based on export performance of states. The outlay for the ASIDE scheme has two components: state component (80 per cent of the total outlay) and central component (20 per cent of the total outlay). For the financial year 2013-14, ₹ 745.1 crore (RE) has been allocated under the ASIDE scheme.

SEZs

7.33 In a span of about eight years since the SEZ Act and Rules were notified in February 2006, formal approvals have been granted for setting up of 566 SEZs, of which 388 have been notified. A total of 184 SEZs are exporting at present. Of the total employment of 12,83,309 persons as on 31 March 2014 in SEZs as a whole, 11,48,605 persons is incremental employment generated after February 2006 when the SEZ Act came into force. This is apart from the employment generated by the developers for building infrastructure. Physical exports from the SEZs increased from ₹ 4,76,159 crore in 2012-13 to ₹ 4,94,077 crore in 2013-14, registering a growth of 4.0 per cent in rupee terms. The total investment in SEZs till 31 March 2014 is approximately ₹ 2,96,663 crore including ₹ 2,73,379 crore in the newly notified SEZs set up after the SEZ Act 2005. In SEZs, 100 per cent FDI is allowed through the automatic route.

Anti-dumping Measures

7.34 In 2013, 283 anti-dumping investigations were initiated by all countries with Brazil overtaking India, initiating more than double the investigations (Table 7.11). In 2013, both Brazil and the USA were ahead, relegating India to third place in intiating anti-dumping investigations.

Table 7.11 : Investigations Initiated by Top 10 Users of Anti-Dumping Measures 1995-2013

		1995	2002	2004	2008	2011	2012	2013	1995-2013
1	Brazil	5	8	8	24	16	47	54	334
2	United States	14	35	26	16	15	11	39	508
3	India	6	81	21	55	19	21	29	702
4	Australia	5	16	9	6	18	12	20	267
5	Argentina	27	10	12	19	7	13	19	312
6	Canada	11	5	11	3	2	11	17	183
7	Indonesia	-	4	5	7	6	7	14	110
8	China	-	30	27	14	5	9	11	211
9	Colombia	4		2	6	4	2	11	67
10	South Africa	16	4	6	3	4	1	10	227
	All countries	157	311	220	218	165	209	283	4519

Source : WTO.

WTO Negotiations and India

7.35 The Ninth Ministerial Conference of the WTO held in Bali, Indonesia, from 3 to 7 December 2013 strengthened the credibility of the WTO as an institution. The outcome ensured that the development dimension remains the central focus in the Doha Round. It reaffirmed India's leadership role amongst the developing countries and demonstrated its constructive approach in negotiations. India played a key role in arriving at a breakthrough and shaping the agreement. India ensured an outcome which secures its supreme national interests. It was made amply clear that while being fully prepared to engage, India will never compromise on fundamental issues pertaining to food security, livelihood security, and the welfare of its poor (Box 7.4).

Box 7.4 : India and the WTO Conference at Bali: Major Issues

Trade Facilitation (TF)

An important development in Bali was the countries entering into TF agreement. India's persistent efforts, along with those of other like-minded countries, eventually resulted in either elimination of unwarranted parts of the negotiating text or suitable modifications therein to resolve implementation difficulties. The Bali Ministerial Decision has established a preparatory committee to perform such functions as may be necessary to ensure the expeditious entry into force of the TF agreement. India has initiated inter-Ministerial consultations for drafting India's notifications on category of commitments required under the agreement.

Ministerial Decision Relating to Public Stockholding for Food Security Purposes

The G-33 (a group of 46 developing countries in the WTO including India) decided to bring the issue of procurement of foodgrains from subsistence farmers for public stockholding for food security into the agenda for the Bali Ministerial Conference. India's consistent position in the WTO has been that matters pertaining to livelihood, food security, and rural development are of vital importance. Special and differential treatment is a must for developing countries as provided under the provisions of the WTO. It is also in complete conformity with the commitment of member states in other multilateral fora like the United Nations (UN) and the Food and Agriculture Organization (FAO) where the fight against poverty and hunger is accorded highest priority. India emphasized that an interim solution cannot be a temporary solution nor can it be terminated until a negotiated permanent solution is in place. It was made clear that without a satisfactory decision on food security, India considered the Bali Package as lacking in horizontal balance and would, therefore, not be able to support it. The outcome on the food security proposal provides an opportunity to begin correcting some of the imbalances in the trade rules which are part of the historical legacy of imbalance in the WTO.

Duty Free Quota Free Market Access for Least Developed Countries (LDC)

One of the elements of the Hong Kong Ministerial Declaration of December 2005 was to extend duty free quota free (DFQF) access to the LDCs. The Ministerial decision taken at the Ministerial Conference in Bali in December 2013 on this issue states that countries that have not provided such access for at least 97 per cent of products 'shall seek to' improve the number of products covered. India became the first developing country to extend

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Box 7.4 : India and the WTO Conference at Bali: Major Issues (*Contd...*)

this facility to LDCs when it announced a Duty Free Tariff Preference (DFTP) Scheme for LDCs in 2008. The scheme was announced to give support to the LDCs in their trade initiatives and granted duty-free access on about 85 per cent of India's total tariff lines and preferential access (Positive List) on about 9 per cent of tariff lines. Only 6 per cent tariff lines were under the Exclusion List. Moreover, to fully meet the obligations under the Hong Kong Ministerial Mandate of 2005 as well as to meet the requests from some of the LDCs for additional product coverage under the duty-free list and simplification of the rules of origin procedures, the government has, of late, come out with an expanded version of the Scheme. Effective from 1 April 2014, the DFTP Scheme will provide duty-free market access on 96.4 per cent of India's tariff lines and 2 per cent of the lines would be enjoying preferential duties. Only 1.6 per cent of the tariff lines have been retained in the Exclusion List, with no duty concessions. The new expanded Scheme will also bring in several procedural simplifications with reference to the Rules of Origin. At present, 31 out of 48 LDCs have become beneficiaries of the scheme. Out of this, 21 LDCs beneficiaries are from Africa.

Bilateral and Regional Cooperation

7.36 So far, India has signed 10 free trade agreements (FTAs) and 5 preferential trade agreements (PTAs) and these FTAs/PTAs are already in force. At present, India is in the process of negotiating 18 FTAs (Box 7.5).

Box 7.5 : India's Regional Trading Arrangements: Recent Developments

India-EU Bilateral Trade and Investment Agreement (BTIA): Negotiations commenced in June 2007 in the areas of goods, services, investment, sanitary and phyto-sanitary measures, technical barriers to trade, trade facilitation and customs cooperation, competition, intellectual property rights (IPRs), and geographical indications (GIs). Fifteen rounds of negotiations and a number of inter-sessional and Chief Negotiator-level meetings have been held till date. A Ministerial review meeting was held on 15 April 2013 at Brussels.

India-ASEAN Comprehensive Economic Cooperation Agreement (CECA)-Services and Investment Agreement: Conclusion of negotiations on Agreement on Services and Investment was announced at the ASEAN-India Commemorative Summit on 20 December 2012. Cabinet approved and ratified the Agreements on 19 December 2013. The ASEAN Secretariat has been asked to inform the dates for formal signing of the Agreements.

India-Thailand CECA: Early Harvest Scheme on 82 items implemented. The 29th round of the Trade Negotiating Committee (TNC) was scheduled on 16-18 December 2013, but was cancelled by Thailand on account of internal disturbances. Date for the next round is yet to be fixed.

India-EFTA BTIA: The 13th and final round of this BTIA with the European Free Trade Association (EFTA) was held on 25-29 November 2013. The areas covered include trade in goods and services, investment, IPRs, sanitary and phyto- sanitary measures, rules of origin, trade facilitation, and customs cooperation.

India-New Zealand FTA/CECA: The ninth round of negotiations was held in Wellington, New Zealand, on 29-30 July 2013 followed by inter-sessional discussion on 9-10 December 2013 in New Delhi. The areas covered include, goods, services, investment and related issues.

India-Israel FTA: Eighth round of negotiations was held in Israel from 24-26 November 2013. The areas covered include trade in goods, rules of origin, customs procedure, and movement of natural persons.

India-Chile PTA: So far, five meetings of the Joint Administration Committee / rounds of negotiation have been held to discuss the expansion of the PTA. Official-level meeting was held between the two countries in February 2014 to discuss the issues of the India-Chile PTA. The areas covered include, trade in goods, rule of origin, SPS, and TBT.

India-Canada FTA: The eighth round was held in Ottawa, Canada, in June 2013. The next round will be held in New Delhi. The areas covered include, trade in goods, trade in services, rules of origin, SPS, and TBT.

India-Australia FTA/CECA: Five rounds of negotiations have so far been held. The fifth round was held in Canberra, Australia, in May 2013. The areas covered include trade in goods and services, investment, and IPR-related issues.

Regional Comprehensive Economic Partnership (RCEP) Agreement: The RCEP Agreement is between ASEAN + six FTA Partners (Australia, China, India, Japan, South Korea, and New Zealand): Based on the Declaration of the Leaders during the ASEAN Summit in November 2012, negotiations for a comprehensive economic partnership between the 10 ASEAN member states and its six FTA partners commenced in May 2013. The fourth round was held at Nanning, China, from 31 March-4 April 2014. The next round of negotiations is scheduled to be held in Singapore on 22-27th June 2014.

Challenges and Outlook

Challenges

7.37 India's merchandise exports share in world exports increased from 0.5 per cent in 1990 (after which economic reforms were introduced in India) to only 1.7 per cent in 2013, whereas China's share increased from 1.8 per cent to 11.8 per cent during the same period. Thus there is a yawning gap between India and China in the share of world merchandise exports. The gap is narrower in service exports (Figure 7.2).

India's exports should grow consistently by around 30 per cent annually to reach a respectable ballpark figure of at least 4 per cent share in world exports in the next five years.

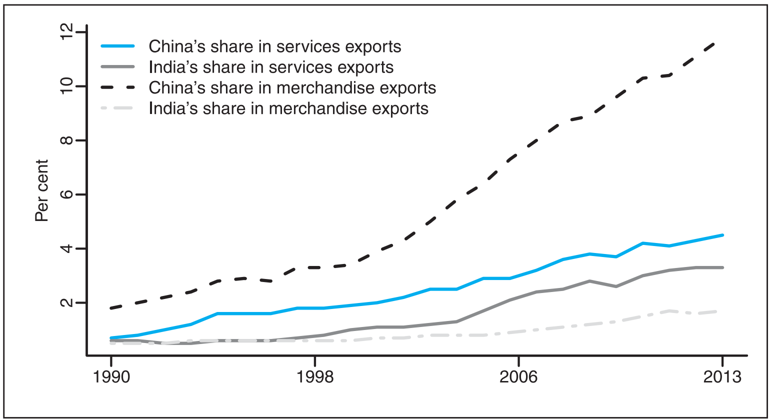

Figure 7.2 : Exports Share in World: China and India Comparison

7.38 India should aim to increase its share in world merchandise exports from 1.7 per cent in 2013 to a respectable ballpark figure of at least 4 per cent in the next five years for which exports should grow by a CAGR of around 30 per cent. This is not impossible as during 2003-04 to 2007-08, India's exports grew consistently by above 20 per cent annually with 29 and 31 per cent growth in two years. Achieving this in the medium term is the big challenge for which some basic steps need to be taken like product diversification, building export infrastructure, focusing on useful FTAs/regional trade agreements (RTAs)/CECAs, addressing the inverted duty structure, rationalizing export promotion schemes, and taking steps for trade facilitation (Box 7.6).

Box 7.6 : Some Major Issues in India's Merchandise Trade Sector

India's export sector is yet to take off in terms of share in world exports, though it has had bouts of high growth at different stretches of time. Some important issues in this sector are the following:

Product diversification: While there has been market diversification and compositional changes in India's export basket, not much of demand-based product diversification has taken place. In the top 100 imports of the world at four-digit HS level in 2013, India has only five items with a share of 5 per cent and above. Even in this, except for diamonds (21.0 per cent) and articles of jewellery (11.2 per cent), with double-digit shares, the other three items have only around 6-7 per cent share. Most of the items in the top 100 world imports include the three Es—electronic, electrical, and engineering items—and some textiles items. Though the gain in shares of engineering goods in recent years is a positive sign, India lags behind many other competing countries. Special attention needs to be given to the electronics hardware sector which virtually collapsed with the signing of the Information Technology Agreement (ITA)-1 by India at a time when India's semiconductor sector was at a nascent stage of development, while that of newly industrialized countries (NICs) and developed countries had already taken off. Till now our focus was on exporting what we can (or supply based), now we have to shift to items for which there is world demand and we also have basic competence. A demand-based export basket diversification approach with a perceptible shift to the three Es could lead to greater dividends for India.

Export infrastructure: Export infrastructure, particularly ports-related infrastructure, which affects trade, needs immediate attention. Even the best of our ports do not have state-of-the-art technology as in Singapore, Rotterdam,

Contd...

Box 7.6 : Some Major Issues in India's Merchandise Trade Sector (*Contd...*)

and Shanghai. Port infrastructure issues include poor road conditions and port connectivity, congestions, vessel berthing delays, poor cargo handling techniques and equipment, lack of access for containerized cargo, and frequent EDI server down or maintenance, resulting in multiple handlings, increased lead time, high transaction costs, and thus loss of market competitiveness. Export infrastructure should be built on a war footing. Just as drastic changes have been brought about in India's airports and metro rail, sea ports should be the immediate priority.

Focus on useful regional trading blocks: Some FTAs/RTAs/CECAs of India have led to an inverted duty structure-like situation with import duty on some finished goods being nil or lower than the duty on raw materials imported from other countries. Besides, the domestic sector involving livelihood concerns has also been affected by some of them. India's push towards regional and bilateral agreements should result in meaningful and result-oriented FTAs /RTAs/ CECAs. So a reality check of existing RTAs//FTAs/CECAs is needed by evaluating the performance of the items for which duty concessions have been given along with the impact on domestic production. India should also ready itself to face new threats like the Transatlantic Free Trade Agreement (TAFTA) between the US and EU which intends to create the world's largest free trade area, protect investment, and remove unnecessary regulatory barriers. Meanwhile there is also need to have some new useful RTAs/FTAs/ CECAs, for some of which negotiations have already started. More involvement of stakeholders could also help in ironing out differences.

Inverted duty structure: An inverted duty structure is making Indian manufactured goods uncompetitive against finished product imports in the domestic market as finished goods are taxed at lower rates than raw materials or intermediate products. This discourages domestic value addition. This inversion is not solely because of basic customs duty but also other additional duties. The regional/ bilateral FTAs with countries like Japan and South Korea and ASEAN, have added to a new inverted duty-like situation with some final goods of these partner countries having nil or low duty while materials for these items from other countries have higher duty. Inverted duties are found in different sectors. This needs to be avoided and there should be the right balance between different stakeholders.

Export promotion schemes: There are multiple and overlapping export promotion schemes with many focus markets and focus products with items and markets getting added each year in the foreign trade policy. One thing that is visible even from the short select list of trade policy measures (See Box 7.3) is the multiplicity of schemes and concessions that are also periodically extended. There is need to rationalize the export promotion schemes to a bare minimum which can also reduce transaction costs and trade litigations. Also many rates of concession should not be there. Even for duty drawback schemes, there should be limited rates instead of having different rates even for similar items. This will make things simpler and avoid discretionary decisions. Wherever tariffs are low or can be reduced, export incentives should be withdrawn as the transaction costs would be higher than the benefits owing to duty concessions.

SEZs: A clear signal needs to be given for Indian SEZs as fresh investments are slowing down in recent years and the greenfield SEZs have not really taken off full swing. While the new manufacturing zones (NMZ) are being planned, a lot of investment has already been made in SEZs waiting to be tapped to the full potential. There are also areas where SEZs are worse off than domestic tariff area (DTA) units as in the case of non-applicability of FTA concessions when SEZs sell in DTAs.

Trade facilitation: Greater trade facilitation by removing the delays and high costs on account of procedural and documentation factors, besides infrastructure bottlenecks is another major challenge. As per the World Bank and International Finance Corporation (IFC) publication *Doing Business 2014*, India ranks 134 in ease of doing business with Singapore at first place and China at 96. In trading across borders India ranks 132, Singapore 1, and China 74. India needs 9 export documents compared to 3 in Singapore and 8 in China. Time to export is 16 days in India and 6 in Singapore. The number of import documents needed is 20 for India and 4 for Singapore. Cost of exports per container is US$ 1170 in India, US$ 460 in Singapore, and US$ 620 in China and cost of imports per container is US$ 1250 in India, US$ 440 in Singapore, and US$ 615 in China. There are also inter-ministerial delays. The present move towards integration of related ministries is a step in the right direction, though a lot more needs to be done. Policy announcement and issue of notification should happen simultaneously.

Intertwining of domestic and external-sector policy: While a stable agri export policy is needed, any domestic shortage or excess affects exports. Similarly external shortages/ excesses affect the domestic sector. So a smooth intertwining of domestic and external-sector policies particularly for agriculture is needed. Advanced economic and market intelligence to avoid major mismatches is also necessary.

These issues, if addressed, could lead to exponential gains for India's exports.

***Source*:** Based on Dr H.A.C. Prasad, Dr R. Sathish, and Salam Shyamsunder (forthcoming), Working Paper of Department of Economic Affairs, MoF on 'India's Merchandise Exports: Some important issues and policy suggestions'.

OUTLOOK

7.39 The IMF's World Economic Outlook of April 2014 has projected world trade volume to grow from the 3.0 per cent in 2013 to 4.3 per cent in 2014 and 5.3 per cent in 2015 with a marked improvement in export and import growth of advanced countries. However the picture on the ground is not so optimistic with the Baltic dry index (BDI), a good proxy of the robustness of world trade, being in the red. It is in one of the lowest phases since the 2008 global financial crisis with sub 1000 indices for most days since 14 April 2014, compared to the peak of 11,793 in May 2008 (Figure 7.3). The pick-up in India's exports in April-May 2014, after five months of low/negative growth, though a positive sign, is partly due to the low base.

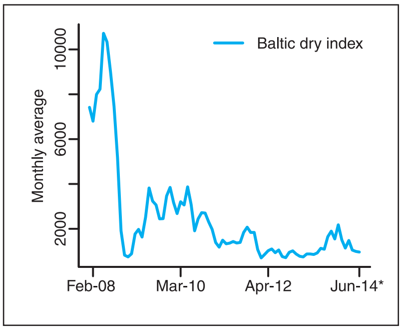

Figure 7.3 : Baltic Dry Index (Monthly Average)

7.40 The quarterly and monthly export and import growth performance of the world and major trading countries is also not very encouraging. The good world export and import growth in Q3 and Q4 of 2013 did not continue. In Q1 2014 it decelerated to 1.8 per cent and 1.9 per cent respectively from the 4.3 per cent and 2.1 per cent growth in the previous quarter. Except the EU and Singapore, the 2014 Q1 export growth of all other important countries is negative or low. In the case of import growth also which indicates the demand for exports of other countries including India, the situation is almost similar. Even the monthly import growth rates available for some countries for April and May 2014 show no improvement. Thus world trade and India's exports are still fragile, the recent good performances notwithstanding. There is also the downside risk of external shocks like the latest increase in oil prices owing to the Iraq crisis.

While merchandise world trade and India's exports are still fragile the recent good performance notwithstanding, the signals in India's services exports are mixed.

7.41 Services growth to a large extent depends on global growth and trade. The depressing performance of the Baltic dry index is likely to be reflected in shipping, transport, port, and insurance and related services. The prospects for IT services, however, seem bright with Gartner projecting a 3.1 per cent increase in IT spending worldwide in 2014 and NASSCOM also projecting a 13-15 per cent growth in India's IT-business process management (BPM) service exports in 2014. The robust growth in foreign tourist arrivals of 10.6 per cent coupled with the 11.4 per cent growth in foreign exchange earnings in the first two months of 2014-15 also augurs well for the Indian tourist sector. Thus the signals in India's service exports are mixed.