Merchandise Trade

6.14 The performance of merchandise exports and its broad components into exports of agricultural & allied products and manufactured goods, during the period 1980-2000, as per the DGCI&S data, is given in Table 6.4.

TABLE 6.4

Growth of Exports 1980-2000

	Growth Rates*		Percentage Share	
	1980-81 to 1991-92	1992-93 to 1999-00	1980-81 to 1991-92	1992-93 to 1999-00
1. Agricultural & Allied Products	3.3	8.1	24.2	18.3
2. Manufactured goods	10.1	10.6	62.0	76.6
3. Total Exports	7.4	10.1	100.0	100.0

***Annual average.**

Exports in 1999-00 exhibited a sharp turnaround with a growth rate, in US Dollar value, of 13.2 per cent as against a decline of 5.1 per cent in 1998-99. Buoyancy in world demand and revival of world trade reflecting East Asian recovery, bottoming out of some global commodity prices, coupled with trade policy initiatives taken by the Government, inter alia, contributed to this export increase. A stable domestic macroeconomic environment including low inflation and a relatively stable exchange rate in real effective terms, may have also contributed to this turnaround in exports in 1999-00.

6.15 The buoyancy in exports has been further strengthened with exports continuing to be on the upswing in the current financial year so far. During the first nine months of the current financial year, April-December, 2000, exports in

US Dollar value have increased by 20.4 per cent as compared to a rise of 10.3 per cent during the corresponding period last year. This strong performance has been facilitated by an anticipation of a more robust global economy, resurgence in world trade and improvements in world commodity prices in 2000. Besides various facilitating export promotion measures, strong performance in key sectors like textiles, engineering goods, chemicals, gems and jewellery, leather & leather manufactures, ores & minerals and petroleum products have also contributed to this strengthening of exports. The depreciation of the Rupee in the current financial year so far may have also strengthened the competitiveness of India's exports in global markets. The increase in exports in the current financial year is all the more credible as it has been achieved despite partial withdrawal of income tax concessions announced in the 2000-01 Union Budget.

6.16 The uptrend in world merchandise exports and the recovery in crisis-affected emerging Asian economies have contributed to the recent pick up in our exports. The global economy grew by 3.4 per cent in 1999 and this growth was projected to strengthen to 4.7 per cent in 2000. Resurgence in world trade is expected to follow this global economic recovery with growth in world trade volumes projected to accelerate to 10 per cent in 2000 from 5.1 per cent in 1999 and 4.3 per cent in 1998. World merchandise exports, in value terms, increased by 3 per cent in 1999 as against a decline of 1.6 per cent in 1998. The recovery in exports from developing countries was even stronger with exports rising by 5.7 per cent as compared with a decline of 6.2 per cent in 1998 (Table 6.5). Reflecting continuing buoyancy in world trade, there has been a further increase of 13.6 per cent in world merchandise exports and 23.6 per cent in exports from developing countries during the first nine months of 2000. The economic recovery in the East Asian countries has resulted in reduction of current account surplus of these countries. Thus, in the Asian and Pacific region, the large current account surplus of US $ 94.7 billion in 1998 contracted to US $ 69.5 billion in 1999, reflecting primarily the pick up in import demand following economic recovery. Such import expansion has aided the recent upsurge in our exports.

6.17 Imports into the advanced economies, which are India's major trading partners, have also accelerated reflecting both a robust demand and also movements in cross country exchange rates. The growth rate of

TABLE 6.5

Exports of Selected East Asian Countries

(In US $ billion)

Country	1995	1996	1997	1998	1999	2000@
China	148.80	151.20	182.88	183.59	195.2	182.3
	(22.9)	(1.6)	(21.0)	(0.4)	(6.3)	(32.8)
Malaysia	73.9	78.3	78.7	73.3	84.5	81.7
	(25.6)	(6.0)	(0.5)	(-6.9)	(15.2)	(19.6)
Indonesia	45.4	49.8	53.4	48.8	48.7	39.8
	(13.4)	(9.7)	(7.3)	(-8.6)	(-0.4)	(30.1)
Singapore	118.3	125.0	125.0	109.9	114.7	113.3
	(22.1)	(5.7)	(-0.02)	(-12.1)	(4.4)	(22.4)
Thailand	56.4	55.7	57.4	54.5	58.4	63.0
	(24.4)	(-1.3)	(3.0)	(-5.1)	(7.3)	(18.9)
India	30.6	33.1	35.0	33.4	36.3	35.1
	(22.4)	(8.1)	(5.7)	(-4.5)	(8.6)	(16.9)
Developing Countries	1633.8	1756.7	1862.4	1746.6	1845.4	1808.7
	(20.6)	(7.5)	(6.0)	(-6.2)	(5.7)	(23.6)
World	5103.6	5322.5	5505.8	5416.9	5577.2	4767.1
	(19.6)	(4.3)	(3.4)	(-1.6)	(3.0)	(13.6)

@ : Data in respect of Thailand is upto November, 2000 whereas for Malaysia, Singapore and India is upto October, 2000, for Indonesia upto August 2000 and for others upto September 2000.

Figures within brackets show the percentage change over previous year.

Source: International Financial Statistics, February 2001.

TABLE 6.6
Imports of India's Major Trading Partners

(In US $ billion)

Country	1995	1996	1997	1998	1999	2000@
U.S.A	770.9	822.0	899.0	944.4	1059.4	1045.4
	(11.8)	(6.6)	(9.4)	(5.0)	(12.2)	(20.4)
Japan	335.9	349.2	338.8	280.5	311.3	345.6
	(22.0)	(4.0)	(-3.0)	(-17.2)	(11.0)	(23.2)
U.K	265.3	287.4	306.6	314.0	318.0	252.9
	(17.3)	(8.3)	(6.7)	(2.4)	(1.3)	(7.9)
Germany	464.3	458.8	445.6	471.4	473.1	457.1
	(20.5)	(-1.2)	(-2.9)	(5.8)	(0.4)	(5.5)
Industrial Countries	3432.0	3553.3	3631.9	3724.3	3915.3	3580.4
	(18.3)	(3.5)	(2.2)	(2.5)	(5.1)	(11.4)
Developing Countries	1731.5	1861.3	1965.6	1792.1	1836.1	1608.9
	(21.7)	(7.5)	(5.6)	(-8.8)	(2.5)	(22.7)
World	5163.5	5414.6	5597.6	5516.4	5751.3	4802.4
	(19.4)	(4.9)	(3.4)	(-1.4)	(4.3)	(15.2)

@: Data for UK, World & Developing countries pertains upto September, 2000, USA & Industrial countries upto October, 2000 and Japan and Germany upto November, 2000.

Figures within brackets show the percentage change over previous year.

Source: International Financial Statistics, February 2001.

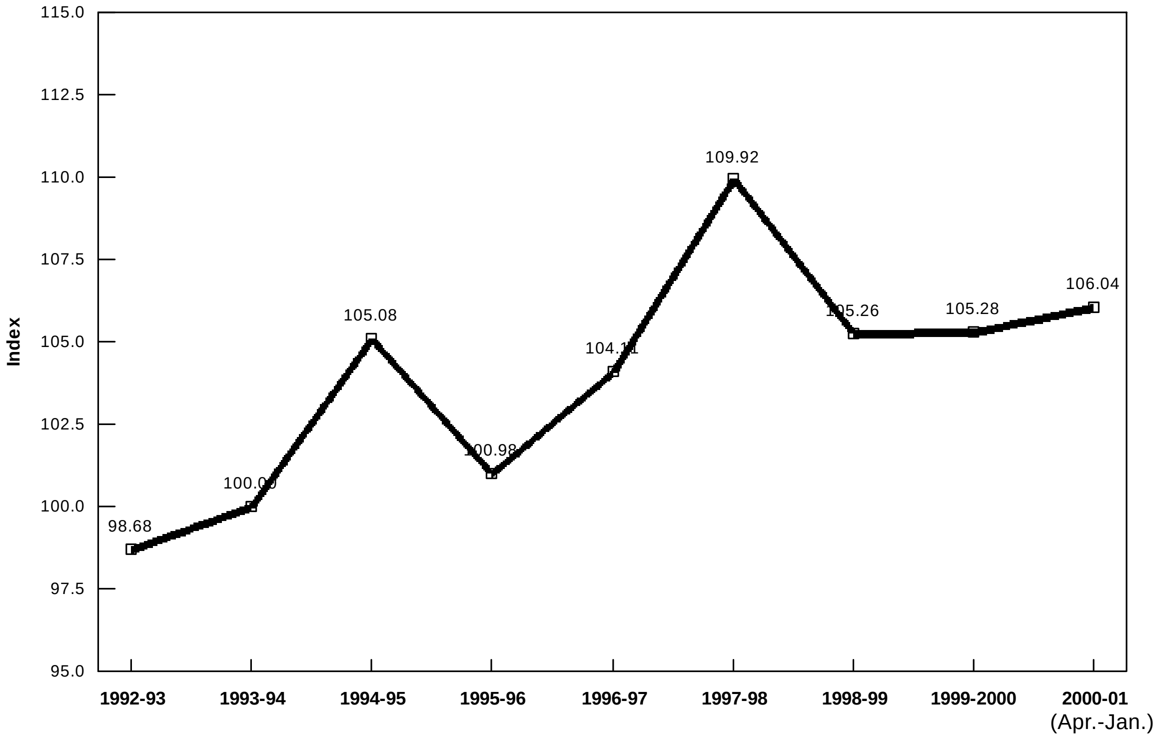
merchandise imports (in US Dollar value) of advanced economies accelerated to 5.1 per cent in 1999 as compared to 2.5 per cent in 1998 (Table 6.6). Similarly, world merchandise imports increased by 4.3 per cent in 1999 as against a decline of 1.4 per cent in 1998. There has been further recovery in imports into the advanced economies with a growth of 11.4 per cent and in world merchandise imports by 15.2 per cent in the first nine months of 2000. Imports by major countries like USA, UK, Japan and Germany also reveal further recovery in import growth during 2000. Such recovery in import demand from our major destination countries has also contributed to the revival and growth of India's exports.

6.18 Despite revival of world trade, exports of developing countries like India continue to be threatened by the emerging protectionist sentiments in some sectors in the guise of technical standards, environmental and social concerns. Non trade barriers like anti-dumping duties, countervailing duties, safeguard measures and sanitary and phytosanitary measures have affected market access for exports from the developing countries. Indian products which have been affected by such barriers in the recent past include exports of floriculture products, textiles, pharmaceuticals, marine products and basmati rice to the European Union, and mushroom and steel exports to the USA. Market access is also affected by the tariff differential in imports by the developed countries, with average tariff on developing countries imports being higher than on imports from the developed countries. Amongst the domestic factors that continue to hamper our export growth, infrastructure constraints, high transaction costs, SSI reservations, inflexibilities in labour laws, quality problems, quantitative ceilings on agricultural exports and constraints in attracting FDI in the export sector, remain problematic. Of particular importance is the existence of small scale industry reservations and lack of flexibility in labour laws. A significant number of products that India has a comparative advantage in are reserved for small scale industries. It is, therefore, difficult for Indian exporters of such items (e.g. toys, clothing, shoes, transistor radios, leather goods and the like) to upgrade their quality and to attain economies of scale.

6.19 The exchange rate of the Rupee in real effective exchange terms was broadly stable in 1999-00 (Figure 6.1). There has, however, been some appreciation in the current year so far. The downward movement in the nominal value of the Rupee has been only modest compared

Fig. 6.1

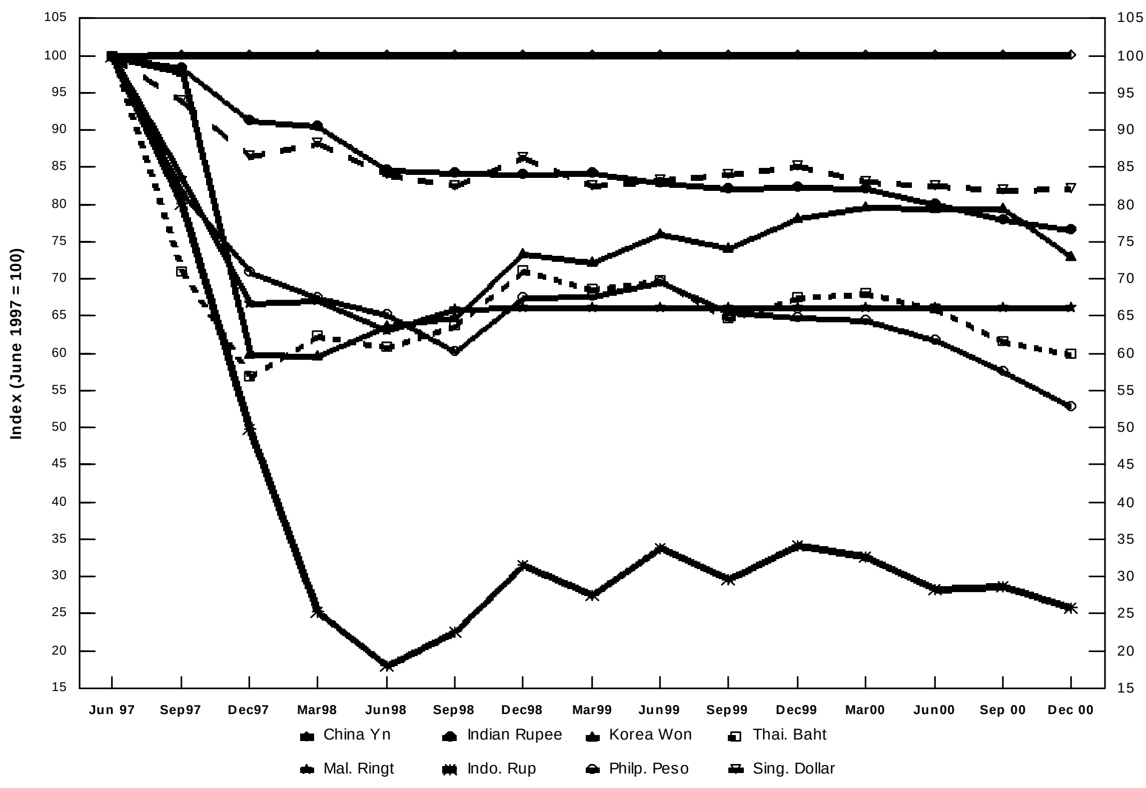
10-Country REER index with base 1993-94=100



Note : An increase (decrease) in index means appreciation (depreciation) of rupee.

Fig. 6.2

Indices of exchange rate of South East-Asian Currencies and Indian Rupee against US $ (montly average)-US $ per local currency



Note : An increase (decerease) in index means appreciation (depreciation) of local currency against the US dollar.

to some of the East Asian currencies. The cumulative nominal depreciation of the Rupee since the onset of the East Asian crisis in July 1997 has been of the order of 23.4 per cent upto December, 2000 as compared to a depreciation of 74.3 per cent of the Indonesian Rupee, 33.8 per cent of Malaysian Ringgit, 26.9 per cent of Korean Won, 47.1 per cent of the Phillipines Peso, 40.1 per cent of the Thailand Baht and 17.8 per cent of Singapore Dollar (Figure 6.2). Therefore, a straight comparison of currency movements since 1997 would seem to indicate that our exports continue to be adversely impacted from a price competitive point of view. However, more recent trends in the exchange rate of the Rupee seem to have partly restored this parity of our exports.

6.20 Import growth also showed a strong recovery in 1999-00, growing in US Dollar value, by 11.4 per cent as compared to a rise of only 2.2 per cent in 1998-99. The increase in imports was fuelled by a sharp rise of 63.8 per cent in imports of petroleum crude and products during 1999-00 in contrast to a decline of 21.6 per cent in 1998-99 due mainly to a hardening of international crude oil prices. Growth in Non-POL imports, however, remained subdued in 1999-00 , recording a low growth of 2.1 per cent as compared to an increase of 8 per cent in 1998-99. This moderation in Non-POL imports was largely due to decline in imports of food and allied products, capital goods, gold and silver and other intermediate goods like iron & steel and non ferrous metals. Non-POL non gold & silver imports recorded an increase of 4.6 per cent in 1999-00 as compared to 2.5 per cent in 1998-99 probably indicating a moderate revival in industrial activity during the year.

6.21 Overall import growth in the current financial year so far continues to be moderate with imports during April-December, 2000 increasing by 9.0 per cent as compared to a higher growth of 10.7 per cent in the corresponding period of last year. The rise in imports is accounted for by the continued surge in petroleum crude & products imports, which have increased sharply by 78.2 per cent reflecting continued strength of international crude prices. The spurt in POL imports has, however, been offset by a reduction in non-POL imports which have declined by 8.3 per cent, reflecting a weak domestic demand and subdued industrial activity. Excluding oil and gold & silver, imports have recorded a decline of 4.4 per cent during April-October. 2000 as against an increase of 2.8 per cent during the corresponding period of last year notwithstanding the ongoing elimination of quantitative restrictions on a wide range of imports.

6.22 The surge in imports of petroleum crude and products in 1999-00 and in the current year so far has increased the share of POL imports in total imports from 15.1 per cent in 1998-99 to 22.2 per cent in 1999-00 and further to 32.6 per cent during the first nine months of the current financial year. While part of this surge is explained by changed composition of POL imports from petroleum products to petroleum crude pursuant to increased domestic refining capacity, bulk of this rise in imports reflect the increase in international oil prices as also the relative stagnation in domestic oil production. International crude oil prices (UK Brent) increased threefold from a monthly average of around $10 per barrel in February, 1999 to around $28 per barrel in March, 2000 due to production cuts effected by OPEC during the year. Despite restoration of such production cuts, these prices continued to spike further in the first half of the current financial year on concerns about low inventories and tight supplies and stood at around $33 per barrel in November, 2000. Oil prices, however, have since moderated and currently (end January/ beginning February, 2001) rule at around $27 per barrel. To facilitate hedging of foreign exchange risks from such volatility of oil prices, the Government has decided to let oil companies trade in futures. To procure crude oil at lower prices, the Government is also pursuing an innovative barter deal under the UN sponsored “oil for food” programme proposing to exchange our surplus wheat stocks with crude oil from Iraq.

6.23 The imports of gold & silver (excluding imports through passenger baggage) declined by 13.2 per cent in 1999-00 after recording sharp increases during the past couple of years. This decline reflected a combination of factors such as measures to liberalize bullion trade, the hike in gold import duties, uncertainty in the world gold market during 1999-00 and introduction of the Gold Deposit Scheme in the third quarter of 1999-00 to reduce dependence on imports. The demand for these imports continue to remain subdued in the first seven months of the current financial year with imports declining by 14.3 per cent during April-October, 2000. A total quantity of 4 tonnes of gold was mobilized under the Gold Deposit Scheme upto March 2000 which further amounted to 5.3 tonnes by end October, 2000.

6.24 Despite strong recovery in exports, the trade deficit, which reflects excess of imports over exports, increased moderately by 4.8 per cent from $ 9.2 billion in 1998-99 to $ 9.6 billion in 1999-00. Notwithstanding the surge in petroleum crude oil imports, the trade deficit has been contained in the current financial year so far due to the sharp upsurge in exports and decline in non-POL imports. Thus, the trade deficit during April-December, 2000 at $ 5.9 billion was 28.4 per cent lower than the deficit of $ 8.2 billion during the corresponding period of last year.