

Merchandise Trade

6.15 After exhibiting a sharp turnaround in 1999-00, export growth accelerated, in 2000-01. According to the data published by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), export growth in 2000-01 almost doubled with a growth rate (in US Dollars) of 21.0 per cent as compared with an increase of 10.8 per cent in 1999-00. Bulk of the rise was contributed by a volume increase in exports. This acceleration in exports reflected buoyant global demand coupled with improvements in world commodity prices in 2000 and the revival of world trade following the Asian crisis. Besides various export facilitating measures announced by the Government, significant gains in selected sectors like textiles, engineering goods, electronic goods, chemicals, leather & leather manufactures, ores & minerals and petroleum products also contributed to this strengthening of exports. The exchange rate of the rupee remained relatively stable in real effective terms during 2000-01 suggesting a broad retention of the competitiveness of India's exports in global markets.

6.16 The upswing in exports has, however, been sharply reversed in the current financial year with exports during the first nine months, April-December 2001 increasing by a meager 0.6 per cent as compared with a rise of 20.8 per cent in the corresponding period of last year. A marked deceleration in world output and trade and a slowdown of the domestic economy seem to have contributed to this contraction in export growth. Slackening of global demand, global downturn in IT and softening of commodity prices in 2001 pose downside risks to India's exports in

2001-02. The tragic events of 11th September, 2001 and its aftermath in Afghanistan have further clouded the outlook for global trade and growth prospects. Domestic factors like the recent appreciation of the Rupee in real effective exchange terms may also affect the competitiveness of exports. A rebound in agricultural production in 2001-02 is likely to be offset by continued sluggishness in manufacturing, thus impacting on the overall supply response of our exports during the year.

6.17 Several corrective measures have been taken by the Government to reverse this downturn in exports in the current financial year. These include reduction in export credit rate, both pre-shipment and post-shipment, increased duty drawback rates on more than 300 export products, abolition of Duty Entitlement-Passbook Scheme (DEPB) value caps on more than 400 export items and announcement of a special financing package for selected large value exports which have high value addition and are internationally competitive. Beyond these short term measures, a Medium Term Export Strategy was unveiled by the Government on January 30, 2002 (Box 6.2). The strategy takes into account the current global situation and outlines policy measures required to achieve a quantum increase in exports over the next five years. Further, to boost exports of farm items, quantitative/packaging restrictions on exports of various agricultural items were removed in February, 2002.

6.18 The export upsurge in 2000 was aided by an expansion in world merchandise exports, which surged by 12.5 per cent in value terms, more than thrice the growth rate recorded in

BOX 6.2 Medium Term Export Strategy

The Medium Term Export Strategy aims at increasing India's share in world exports from the existing level of 0.6 per cent to one per cent in the next five years, implying a compound annual growth rate (CAGR) of 11.9 per cent (in Dollar terms) over the Tenth Five Year Plan, 2002-07. In absolute terms, this translates into a rise in exports from \$44.56 billion in 2000-01 to a targeted level of \$80.48 billion in 2006-07. The medium term product group-wise projections proposed in the Strategy are as follows:

Product Group-wise export projections

Commodities	Actual exports in 2000-01 (\$ million)	Projected exports in 2006-07 (\$ million)	CAGR for 2002-07
1. Plantations	692	780	2.00*
2. Agriculture & allied	3869	5182	5.00*
3. Marine products	1394	1913	5.41
4. Ores & Minerals	1159	1552	5.00*
5. Leather & Manufactures	1951	2614	4.99*
6. Gems & Jewellery	7384	14328	11.67
7. Sports Goods	68	78	2.00*
8. Chemical & allied products	6265	11443	10.80
9. Engineering goods	5835	9564	8.96
10. Electronic goods	1141	1676	6.96
11. Project goods	27	36	5.00*
12. Textiles	12060	18311	7.23
13. Petroleum products & others	1893	13344	39.39

Projection are based on past trend (CAGR for 1996/97-2000-01) Textiles include handicrafts and carpets

* Assumed CAGR for some items based on their immediate past performance and estimation for the future

The Strategy combines an analysis of both demand and supply sides to help evolve a comprehensive approach. It examines both the import baskets of our major trading partners (USA, Japan and European Union) and India's export basket and arrives at **focus products** and **focus markets** for India. The existing country-commodity matrix (15 country by 15 commodity) has, therefore, been expanded to include 25 countries and 220 export commodities for special focus. Identification of focus items is based on promoting items with high potential in world demand besides existing high export items and selection of focus markets is based on a mix of large existing and emerging markets to balance growth and risk. The document further outlines indicative sector-wise strategies for identified potential sectors. The export strategy, therefore, attempts to provide direction by focusing not only on products in which we have a revealed comparative advantage but by also identifying products which have real comparative advantage based on the potentialities.

The document outlines the key strategic policies and issues which will impact our ability to effectively adopt these product market strategies in the new world trade order. These include maintaining price competitiveness of our exports, strengthening trade-defence mechanism, provision of WTO compatible subsidies (non actionable), attracting higher FDI for export oriented industries, introduction of a comprehensive VAT system to make tax rebates to exporters transparent and comprehensive, further reduction in transaction costs, upgradation of export infrastructure, need for careful and well thought out trade agreements (Free Trade Agreements and Preferential Trade Agreements), strengthening and upgrading the production potential and export-orientation of the SSI sector by developing SSI export industry in a de-reserved future, flexibility in labour policy, enhancement of export credit, greater participation and involvement of states in trade negotiations, further encouragement to setting up of SEZs by making the incentive package more attractive, merging of all market assistance programmes under a single Market Development Programme, improved dissemination of information and extension of regional focus approach to other regions like Africa etc. It further underlines the need for a radical strategy to promote services exports in which India has a comparative advantage.

The export strategy attempts at mapping out the new potentials that need to be explored and gives a road map for the export sector in the medium term. By way of institutional set up, setting up of a Core Group/Action Committee, within the Department of Commerce, has been recommended to monitor implementation of the strategy and for suitable data dissemination.

1999, due to a strong rise in export volume and small increase in export prices measured in US Dollars. This expansion of world trade/output was driven by factors like high growth in IT sector, a rise in world energy demand, recovery in international oil prices and fading of contractionary forces linked to financial crisis. The resurgence in trade from developing countries was even sharper, with exports surging by 23.9 per cent as compared to a growth of 6.6 per cent in 1999 (Table 6.4). Robust increases in exports of the East Asian economies have also contributed to this expansion in exports. However, global merchandise exports in the first half of 2001 have reversed sharply, declining by 0.3 per cent, reflecting a steep decline in world trade, which is projected to rise by only 2 per cent in 2001. The deceleration is sharper for developing countries with all the major East Asian countries witnessing declines/deceleration in their exports.

6.19 Imports into the advanced economies, which are India's major trading partners, had also accelerated in 2000 reflecting both robust demand and also movements in the cross country

exchange rates. The growth rate of merchandise imports (in US Dollar value) of advanced economies accelerated to 10.1 per cent in 2000 as compared to 5.3 per cent in 1999 (Table 6.5). Similarly, world merchandise imports increased by 12.5 per cent and 4.1 per cent respectively. This trend has, however, been reversed in the current year with imports into the advanced economies contracting by 1.9 per cent in the first half of 2001. Similarly, world imports in 2001 so far have also remained sluggish with all the major countries like USA, Japan, UK and Germany witnessing a contraction in their import demand following the slowdown in world economy. Such a synchronized decline in import demand from major destination countries has made the trade outlook more bleak and is likely to impact our export growth in the current financial year.

6.20 The weakening of global demand and slackening of trade growth in 2001 is likely to result in greater competition for our exports from our main competitor countries. The slowdown may also encourage an increasing recourse to non tariff barriers (NTBs). The semi annual reports

TABLE 6.4
Exports of Selected East Asian countries

(In US \$ Billion)

Country	1997	1998	1999	2000	2001@
China	183 (21.0)	184 (0.4)	195 (6.3)	249 (27.7)	125 (9.2)
Malaysia	79 (0.5)	73 (-6.9)	84 (15.2)	98 (16.2)	23 (2.0)
Indonesia	53 (7.3)	49 (-8.6)	49 (-0.4)	62 (27.7)	10 (-28.1)
Singapore	125 (-0.1)	110 (-12.1)	115 (4.4)	138 (20.2)	92 (-7.9)
Thailand	57 (3.0)	54 (-5.1)	58 (7.3)	69 (18.2)	54 (-4.2)
India	35 (5.7)	33 (-4.5)	36 (6.7)	42 (18.8)	26 (7.2)
Developing Countries	1886 (6.4)	1770 (-6.1)	1887 (6.6)	2339 (23.9)	1108 (-0.8)
World	5529 (3.6)	5441 (-1.6)	5626 (3.4)	6332 (12.5)	3097 (-0.3)

@: Data in respect of Thailand is upto October, 2001, for Singapore upto September, 2001, for India upto July 2001 for Malaysia & Indonesia upto March, 2001 and for others upto June, 2001.

Figures within brackets show the percentage change over previous year

Source: International Financial Statistics, January, 2002

TABLE 6.5
Imports of India's Major Trading Partners

(In US \$ Billion)

Country	1997	1998	1999	2000	2001@
U.S.A	899 (9.4)	944 (5.0)	1059 (12.2)	1258 (18.7)	897 (-3.4)
Japan	338 (-3.0)	280 (-17.2)	311 (11.0)	380 (21.9)	266 (-4.1)
UK	307 (6.7)	314 (2.4)	318 (1.3)	334 (5.2)	220 (-2.3)
Germany	446 (-2.9)	472 (5.8)	473 (0.4)	498 (5.1)	414 (0.7)
Industrial countries	3632 (2.2)	3727 (2.6)	3923 (5.3)	4317 (10.1)	2781 (-1.9)
Developing countries	1992 (5.6)	1818 (-8.7)	1850 (1.7)	2174 (17.5)	1085 (3.3)
World	5624 (3.4)	5545 (-1.4)	5773 (4.1)	6491 (12.5)	3216 (1.1)

@: Data for Germany pertains upto October 2001, USA & Japan upto September, 2001 whereas for UK and industrial countries are upto August 2001 and for others upto June 2001.

Figures within brackets show the percentage change over previous year

Source: International Financial Statistics, January 2002

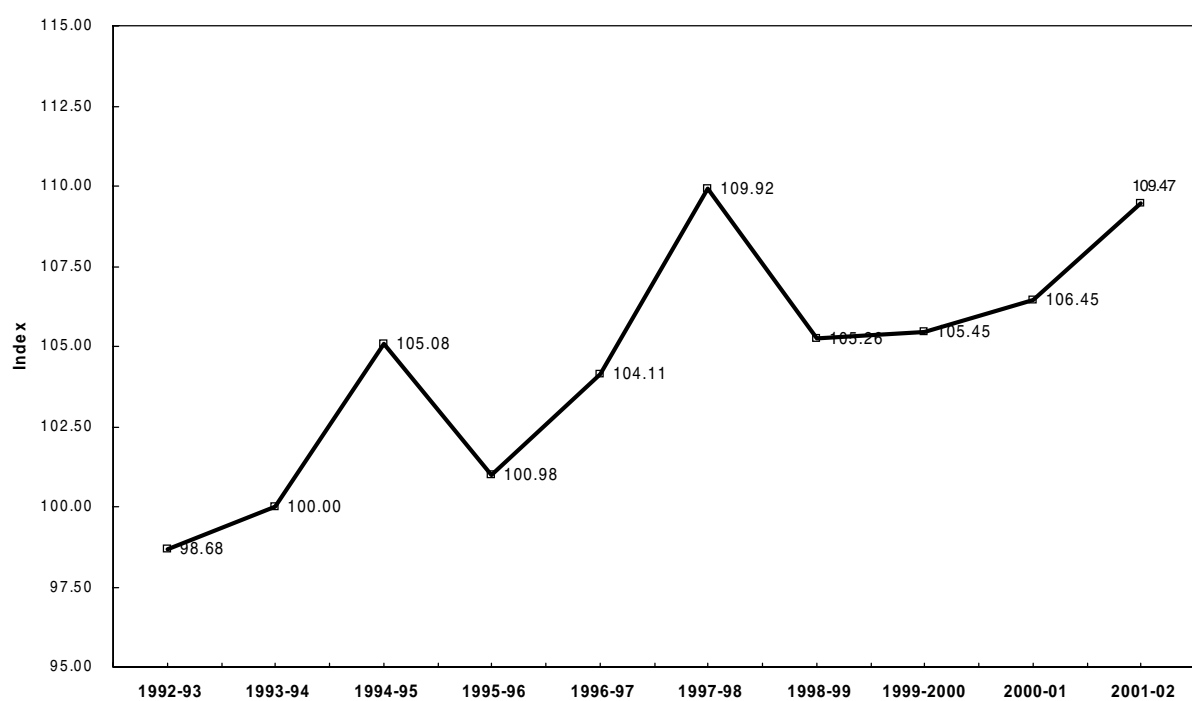
on anti dumping put out by the WTO Secretariat, reveal that 134 anti dumping investigations were initiated during the first half of 2001 as against 93 in the corresponding period of last year. A majority of these investigations (88 in all) were initiated by developed countries, with China, Korea, Taiwan and India topping the list of countries subjected to such investigations. Base metals (iron, steel, aluminum), plastics and textiles were the most affected sectors. Such use of NTBs, both direct and indirect (including measures like health & safety regulations, technical regulations, environment controls, customs valuation procedures, marks of origin, labour laws etc.) and other restrictions add to uncertainty in trade. According to the interim findings of a recent study by the Department of Commerce, commodities affected by such barriers include meat, rice, milk & milk products, tea, marine products, textile products, engineering goods, chemicals & allied products, electronic products and leather products and footwear. Domestic factors continuing to hamper our export growth include infrastructure constraints, high transaction costs, SSI reservations, inflexibilities in labour laws, quality problems, quantitative ceilings on agricultural exports and

constraints in attracting foreign investment in the export sector.

6.21 The exchange rate of the rupee remained broadly stable, appreciating only marginally, in real effective terms during 2000-01, depreciating in nominal terms by about 5.1 per cent against the US Dollar but strengthening against other major currencies. The appreciation of the Rupee in real effective exchange terms has, however, picked up in the current financial year (Figure 6.1) affecting the competitiveness of our exports. The downward movement in the nominal value of the rupee in the recent past has been only modest compared to some of the East Asian currencies. The cumulative depreciation of the Rupee since March 2000 has been of the order of 9.2 per cent upto November 2001 as compared to a depreciation of 29.4 per cent for the Indonesian Rupiah, 22.3 per cent for the Philippines Peso, 14.7 per cent for the Thailand Baht, 13.0 per cent for the Korean won and 11.4 per cent for the Singapore Dollar. The Malaysian Ringgit and the Chinese Yuan were stable during this period. Such a comparison of currency movements in the recent past would seem to indicate that our exports continue to be adversely impacted from a price competitiveness point of view.

Fig 6.1

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



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

(Apr.-Dec.)

6.22 Import growth in 2000-01 was sluggish, with an increase in Dollar value of 1.7 per cent as compared with a growth of 17.2 per cent in 1999-00. The sluggishness in imports was primarily on account of a fall in non-oil imports, which declined by 5.9 per cent in 2000-01 as compared with a rise of 3.0 per cent in the preceding year. However, oil imports increased by 24.1 per cent in 2000-01, on top of a rise of 97.1 per cent in 1999-00, mainly owing to international oil prices. The contraction in non oil imports was largely due to decline in imports of food and allied products, fertilizers, capital goods and other intermediate goods like chemicals, iron & steel, non ferrous metals, pearls, precious and semi precious stones etc. Non oil non gold & silver imports recorded a decline of 6.7 per cent in 2000-01 as against an increase of 4.6 per cent during 1999-00, indicating a slowing down of domestic demand during the year.

6.23 Import growth in the current financial year so far continues to be subdued with imports in dollar value increasing by only 0.3 per cent during April-December, 2001 as compared with a growth of 9.2 per cent during the corresponding

period of last year. The rise in imports is accounted for by increased non oil imports, which have expanded by 7.5 per cent, thus hinting at some revival of domestic demand. Oil imports, on the other hand, have contracted by 14.6 per cent during the first nine months of the current financial year due to softening of international crude oil prices. With a revival of demand for gold & silver, imports excluding oil and gold & silver have recorded a growth of 5.7 per cent during April-October, 2001 as against a decline of 5.9 per cent during the corresponding period of last year.

6.24 Imports of crude petroleum and products have increased steeply from \$6.4 billion in 1998-99 to \$15.6 billion in 2000-01 enhancing the share of these imports in total imports to 31 per cent in 2000-01. While there has been some expansion in domestic refining capacity during this period, most of the rise in these imports in the recent past has been on account of the rise in international crude oil prices. International crude oil prices (UK Brent) had increased from a level of around \$10 per barrel during February 1999 to around \$33 per barrel during November 2000 due to production cuts effected by OPEC

and tight supplies during this period. Crude oil prices during the current financial year have, however, slumped since September 2001 despite supply cuts effected by the OPEC countries. Worsening economic outlook, faltering global energy demand and a lack of agreement on supply cuts between OPEC and non OPEC countries have contributed to this current slump in oil prices. International crude oil prices currently rule at around \$19-20 per barrel as compared with more than \$27 per barrel during February 2001. Such low levels of crude prices, if sustained, would provide a welcome relief to our import bill, help in containing the trade deficit and reducing oil pool deficit and would also help in smoothening policy changes, if any, in this sector.

6.25 Import of gold & silver (excluding imports through passenger baggage) was sluggish in 2000-01 on account of subdued domestic demand and uncertainty in the world gold market. To contain the incentives for smuggling, the Union Budget 2001-02 has lowered the duty on gold imports from Rs 400 per 10 grams to Rs 250

per 10 grams. Following a recovery in rural incomes, demand for these imports have picked up in the first seven month of the current financial year, increasing by 16.6 per cent during April-October, 2001. The volatility in international prices post September 2001 may, however, impact on demand for the metal in the second half of the current financial year.

6.26 Merchandise trade in 2000-01 was thus marked by a strong performance on the export front and a sluggish growth in imports. A very high growth in POL imports was offset by a decline in Non-POL imports, thus effecting a significant improvement in trade deficit which reflects excess of imports over exports. The trade deficit, therefore, declined sharply by 53.5% from \$12.8 billion in 1999-00 to \$6.0 billion in 2000-01. The ratio of exports to imports, consequently improved from 74.1% in 1999-00 to 88.2% in 2000-01. Given the deceleration in both exports and imports in the current financial year, the trade deficit has narrowed by 1.5 per cent from \$5877 million during April-December 2000 to \$5790 million during April-December 2001.