Merchandise trade

6.14 World merchandise trade by volume shrank by 1.5 percent in 2001, after a growth of 11.0 percent in 2000 and an average growth of 6.5 percent in the 1990s. The fall appears to be due to the economic slowdown in the major industrial country markets and East Asian economies, with a major reason being the slump in the technology sector. World trade prices also declined for both fuel and non fuel commodities. These recessionary trends seem to have been compounded by the adverse impact of 'September 11' events in the USA on trade and services. Thus, dollar value of world merchandise exports declined by 3.5 percent in 2001, with exports from developing countries decreasing faster than world average (Table 6.4). World exports continue to be sluggish in the first seven months of 2002. However, Indian export performance has fared better than the world and developing countries averages in both these years, resulting in a marginal increase in its world share in 2001. The share of India's exports in world trade, which stood at 2.2 percent in 1948, had declined continuously to 1.3 percent in 1953, 1.0 percent in 1963, 0.5 percent in 1973 and 1983, improving marginally to 0.6 percent in 1993, stands currently at 0.7 percent in 2001. This is compared to a share of 4.3 percent for China, 2.4 percent for Korea, 1.4 percent for Malaysia, 1.1 percent for Thailand and 0.9 percent for Indonesia. Despite optimism on reversal of economic downturn, growth in volume of world trade is expected to recover to around 2 percent in 2002. Downsides to prospects of economic recovery in advanced countries include fragility of US recovery, exchange rate misalignments among major currencies and a pervasive uncertainty in the wake of global security concerns.

6.15 Imports into the advanced economies, which are India's major trading partners, also declined in 2001 reflecting both weakened global economic activity and lower international prices in dollar terms. World merchandise imports (in US dollar value) decreased by 3.1 percent in 2001 with import demand declining from all the major countries like USA, UK, Japan and Germany (Table 6.5). Such shrinking of economic activity in developed countries had a direct impact on exports from developing countries like India in 2001-02. While merchandise imports of developing countries have picked up, growth of imports of advanced economies continues to decline in 2002.

6.16 The international trading environment in 2001 was characterized by continued significant protection to trade in industrial products (tariff peaks and escalations) affecting the market access of developing countries like India. For example, a study of tariff barriers that apply to top 20 product categories exported by India to the USA by value show that tariff rates on a number of textile products, which represent almost 20 percent of the total value of US imports from India, were in excess of 10 percent as against a simple average tariff on India's merchandise imports of less than 5 percent. The slow pace of elimination of restrictions on textiles and clothing, the rising trend in the use of trade defense instruments and the continued use of subsidies, particularly in agriculture, also characterized the trading regime in 2001. According to the WTO, exports from India are currently subject to 40 anti-dumping and 13 countervailing measures, mainly for agricultural products, textiles and clothing products and chemical and related products. Product regulation and standards have also become a growing issue for market access in goods. Also noteworthy is the increasing proliferation of regional trading arrangements that impact our trade as some of them have resulted in trade diversion. An illustrative list of non tariff measures adversely impacting market access of Indian exports would include: quantitative restrictions, unilateral changes in rules of origin, repeated anti-dumping investigations and increasing tendency to enter into bilateral pacts for conferring selective liberalization of quotas for textiles; insistence by some trading partners on use of Vapour Heat Treatment (VHT) procedure for fruits exports; plant quarantine procedure for exports of meat and milk products; different regulations on use of pesticides and pesticide

Table 6.4 : Exports of selected East Asian countries

(in US $ billion)

Country	1998	1999	2000	2001	2002@
China	184	195	249	267	171
	(0.4)	(6.3)	(27.7)	(6.9)	(15.4)
Malaysia	73	84	98	88	69
	(-6.9)	(15.2)	(16.2)	(-10.3)	(4.7)
Korea	132	144	172	150	133
	(-2.8)	(8.6)	(19.9)	(-12.7)	(5.1)
Singapore	110	115	138	122	92
	(-12.1)	(4.4)	(20.2)	(-11.6)	(-0.5)
Thailand	54	58	69	65	57
	(-5.1)	(7.3)	(18.2)	(-5.7)	(4.4)
India	33	36	42	43	35
	(-4.5)	(6.7)	(18.8)	(2.3)	(7.4)
Developing Countries	1772	1894	2347	2255	1355
	(-6.1)	(6.9)	(23.9)	(-3.9)	(2.1)
World	5436	5636	6340	6121	3610
	(-1.7)	(3.7)	(12.5)	(-3.5)	(-0.4)

@: Data in respect of Thailand and Korea pertain up to October 2002, for Malaysia, India and Singapore up to September 2002 and for China, Developing countries and World up to July 2002.

Figures within brackets show the percentage change over previous year.

Source: International Financial Statistics, January 2003.

residues for exports like grapes, gherkins, tea and spices; and chemical and dye content requirements for exports of leather product.

6.17 The weakening of global demand and slackening of trade growth since 2001 have impacted on India's export growth performance. According to the data published by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), exports (in dollar value) declined by 1.6 percent in 2001-02, as against a growth of 21.0 percent in 2000-01 and an average rise of 8.6 percent in the 1990s. Growth in volume of exports

Table 6.5 : Imports of India's major trading partners

(in US $ billion)

Country	1998	1999	2000	2001	2002@
U.S.A	944	1059	1259	1179	883
	(5.0)	(12.2)	(18.9)	(-6.4)	(-1.3)
Japan	280	311	380	349	276
	(-17.2)	(11.0)	(21.9)	(-8.0)	(-6.0)
UK	314	318	334	321	219
	(2.4)	(1.3)	(5.2)	(-4.0)	(1.1)
Germany	472	473	498	486	404
	(5.8)	(0.4)	(5.1)	(-2.4)	(-0.4)
Industrial countries	3727	3923	4335	4149	3034
	(2.6)	(5.4)	(10.3)	(-4.3)	(-3.0)
Developing countries	1818	1848	2194	2176	1302
	(-8.8)	(1.6)	(18.7)	(-0.8)	(2.5)
World	5545	5777	6529	6324	3687
	(-1.4)	(4.2)	(13.0)	(-3.1)	(-1.3)

@ Data for Japan and Germany pertain up to October 2002, for USA and industrial countries up to September 2002 and for UK, World and Industrial countries up to July 2002.

Figures within brackets show the percentage change over previous year.

Source : International Financial Statistics, January 2003.

decelerated sharply from 23.9 percent in 2001-02 to 3.8 percent in 2001-02 and unit price of exports declined, resulting in a 2.4 percent loss in net terms of trade during the year. Besides various domestic impediments to export growth, including infrastructure constraints, high transaction costs, SSI reservations, inflexibilities in labour laws and constraints in attracting foreign investment in the export sector, slowdown in domestic manufacturing sector seem to have also impacted on the supply response of exports during the year. Further, while annual average exchange rate of the rupee, in nominal effective terms, depreciated in 2001-02, the exchange rate in real effective terms witnessed appreciation, thus affecting the export performance during the year.

6.18 Export growth, despite some deceleration during August to October 2002, has been robust in 2002-03, growing (in dollar value) by 20.4 percent in April-December, 2002 as against a decline of 2.2 percent in corresponding previous period. Although the trend is in line with a world economic recovery, the buoyant performance assumes significance given the slower than expected recovery in global economy and trade. An anticipated rise in international commodity prices in 2002 and the recovery of the domestic manufacturing sector is likely to aid this upturn in exports in the current year. Depreciation of the rupee, in nominal and real effective terms and introduction of various export promotion measures by the Government, seem to have strengthened exports of major commodities like gems & jewelry, textiles, engineering goods, chemicals & related products and ores & minerals during the year. Downside risks to exports in 2002-03, however, remain from a moderation of global recovery prospects and lower than expected demand outlook for domestic economy due to deficient monsoon. This underscores the importance of hastening the pace of domestic reforms, especially on various domestic impediments to export growth concomitantly with further tariff reforms, to strengthen the country's competitiveness in global trade.

6.19 Imports growth (in dollar value) was stagnant in 2001-02, as in the previous year, at 1.7 percent despite an increase of 5.1 percent in volume terms. The growth rate in value terms was moderated by a decline in POL imports by 10.5 percent on account of softening of international crude oil prices. Non POL imports increased by 7.2 percent in 2001-02 as against a decline of 5.9 percent in the preceding year, with growth being mainly contributed by enhanced imports of food & allied products, capital goods and imports of other raw material and intermediate goods. Import growth has, however, picked up in the current financial year, especially after September 2002, with imports increasing by 14.5 percent in April-December, 2002 as compared with a decline of 0.2 percent in corresponding previous period. This strengthening has been aided by a 19.5 percent increase in POL imports and higher non-POL imports by 12.6 percent. With decline in demand for gold & silver, imports excluding oil and gold & silver, have recorded a growth of 15.7 percent in April-October, 2002 as against a modest increase of 6.5 percent in corresponding previous period. This rise in non-oil non-gold imports coupled with other indicators like pick up in industrial production, non-food bank credit, buoyant business surveys indicate an upturn in domestic demand during the current financial year.

6.20 Moderation in international crude oil prices from an average (Dubai variety) of $26.1 per barrel in 2000 to $22.7 per barrel in 2001 resulted in lower imports by 10.5 percent in 2001-02. POL imports have picked up in the current financial year by 19.5 percent, given enhanced volume of imports and buoyant international prices, averaging around $25.0 per barrel in April-December 2002. The prices have hardened further since January 2003, given the continued production cuts affected by OPEC, the geopolitical uncertainty in West Asia and the impact of shutdown in Venezuela. International crude oil prices currently (first week of February 2003) rule around $29 per barrel, as compared with a monthly average of $18.9 per barrel during February 2002 and may rise further in the eventuality of another gulf war (price had risen to around $32 per barrel in September/October 1990 during the last Gulf war), the volatility in international crude oil prices, thus, continuing to pose downside risk to imports. Given its resilience, the economy, however, is capable of absorbing any such external shocks.

6.21 Gold & silver imports (excluding imports through passenger baggage) declined in 2000-01 by 2.2 percent on account of subdued domestic demand and uncertainty in the world gold market. A weak world economy, rise in dollar price of gold and price volatility have affected gold demand adversely in the current year. The volatility in international gold prices may be partly due to falling stock markets, continued tension in Middle East, and crucially, moves by major miners to reduce their forward sales of the metal. The decline in import of gold & silver in the current financial year so far, by around 15 percent, is on account of lower demand for the metal due mainly to higher/volatile gold prices, weak rural income due to deficient monsoon and a less buoyant domestic economy. Security build up in the Middle East, a weak dollar, and falling stock markets are seen supporting gold close to six year price high at around $350 per ounce.

6.22 Overall trade deficit, which reflects excess of imports over exports, widened by 26.9 percent in 2001-02 mainly because of a decline in exports. However, despite a rise in imports, robust export growth has resulted in a narrowing of trade deficit in the current financial year so far. Trade deficit has decreased by 13.2 percent, from $6643 million in April-December 2001 to $ 5767 million in April- December 2002.