

Direction of trade

6.31 Exports to OECD, OPEC and other developing country regions increased in 2002-03 by 22.0 per cent, 31.9 per cent and 32.0 per cent, respectively, resulting in rise in their shares in total exports to 50.0 per cent, 13.1 per cent and 30.8 per cent, respectively. Exports to all the major countries in OECD region registered increases, reflecting some recovery in demand in this region. Prevalence of high international crude oil prices and the consequent gains in terms of trade have increased the share of India's trade with the OPEC region in India's total trade. Growth was strong in exports to Asia and Latin American regions, growing by 40.7 per cent and 35.9 per cent respectively. Exports to Eastern Europe, declined in 2002-03, mainly because of lower exports to Russia. The growth of exports to all these regions, however, slowed down in April-February 2003-04 (except for OPEC and Eastern Europe). While the share of exports to OECD countries declined to 46.6 per cent, the share of exports to European Union was broadly maintained by an increase of 17.8 per cent in exports to these countries, probably reflecting the exchange rate developments during this period. The sourcing of imports in 2002-03 showed lower shares from regions like OECD, OPEC and Eastern Europe, with gains in the share of other developing countries, mainly from Asia. Given the robust growth in imports in 2003-04, share of imports from OPEC, Eastern Europe and other developing countries increased to 7.2 per cent, 1.5 per cent and 19.9 per cent respectively, while the share of OECD region declined to 37.7 per cent in April-February 2003-04.

6.32 ASEAN countries, with which India has a trade deficit, account for around 9 per cent of India's total trade. Exports to this region registered a rise of 33.7 per cent in 2002-03, with imports increasing by 17.4 per cent. While exports continued to grow by 22.0 per cent in April-February 2003-04, imports accelerated by 43.8 per cent, because of higher imports from Indonesia, Malaysia, Singapore and Thailand. Given the closer interaction of India's major trading partners like China, Japan and Korea with ASEAN and the immense trade

potential of this region, India's stakes with ASEAN+3 block has been rising. In fact ASEAN +3 (China, Japan and Korea) countries have emerged as India's dominant trading partners, accounting for 19.7 per cent of India's total merchandise trade, compared to trade share of 19.0 per cent for EU and 12.8 per cent for North America in April-February 2003-04. The signing of India-ASEAN Framework Agreement on Comprehensive Economic Cooperation, consistent with the country's "Look East Policy", is likely to further facilitate growth in trade with this region. Trade with SAARC region countries, which currently constitutes around 3 per cent of India's total trade, was also buoyant with exports rising by 52.4 per cent and imports by 14.0 per cent in April-February 2003-04, due mainly to robust trade with Bangladesh, Nepal and Sri Lanka. The agreement on setting up of SAFTA by the SAARC members is expected to aid further growth of trade with this region.

6.33 Sino-India trade continued to be robust, with China acting as the driver of intra-regional trade in Asia. In 2002-03, while India's exports to China more than doubled (increasing by 107.5 per cent), imports sourced from China were higher by 37.1 per cent. The robust growth continued in 2003-04, with exports to China growing by 47.4 per cent and imports sourced from China rising by 42.9 per cent in the first eleven months of fiscal 2003-04. In 2003-04 (April-February), China's share in India's total trade has thus risen from 1.9 per cent in 2000-01 to 4.5 per cent for exports, and from 3.0 per cent to 5.2 per cent for imports. The recent increase in exports was accounted for mainly by Iron and steel, iron ore, plastic and linoleum products, and machinery and instruments. Imports from China were buoyed up mainly by higher imports of electronic goods, chemicals, medicinal & pharmaceuticals products, coal, coke and briquettes and silk yarn and fabrics. Thus, in 2003-04, overtaking countries like the UK and Belgium, China has emerged as India's highest trading partner, after the USA and UAE (Table 6.11). The recent granting of tariff concessions to India by China under the Bangkok Agreement is likely to provide a further boost to such bilateral trade. Another

Table 6.11: India's major trading partners, 2000-2004

(Percentage share in total trade (exports+imports))

Country	2000-01	2001-02	2002-03	2002-03	2003-04
				April-February	
1. USA	13.0	12.2	13.4	13.4	11.6
2. UK	5.7	5.0	4.6	4.7	4.4
3. Belgium	4.6	4.4	4.7	4.7	4.1
4. Germany	3.9	4.0	4.0	3.9	3.9
5. Japan	3.8	3.8	3.2	3.3	3.1
6. Switzerland	3.8	3.4	2.4	2.3	2.7
7. Hong Kong	3.7	3.2	3.1	3.1	3.4
8. UAE	3.4	3.6	3.8	3.8	5.0
9. China	2.5	3.1	4.2	4.1	4.9
10. Singapore	2.5	2.4	2.5	2.5	2.9
11. Malaysia	1.9	2.0	1.9	2.0	2.1
Total (1 to 11)	48.6	47.2	47.9	47.8	48.1

country whose share in India's trade increased significantly in 2003-04, contributed by strong growth in exports and imports, is UAE, which is now the second largest trade partner of India after USA.

6.34 Greater diversification of markets has been an important factor in sustaining export growth. Recent measures taken in this direction included the expansion of the "Focus Africa" programme to include the remaining 11 countries of the region and the launching of "Focus CIS" Programme from April 1, 2003. The enlargement of EU from May 1, 2004 is likely to facilitate greater market access for Indian exports to the ten accession countries (Box 6.2). A significant development to diversify trade and economic cooperation was the impetus provided to the movement towards free trade/regional trading arrangements by signing of Framework Agreement for Economic Cooperation between India and the ASEAN and bilateral agreement between India and Thailand, with similar agreement with Singapore being currently under negotiation. These Framework Agreements include provisions relating to free trade agreements in goods, services and investments and are aimed at strengthening India's trade and economic cooperation with its Southeast Asian neighbours. Bilateral agreements with Bangladesh, Afghanistan, Myanmar, South

Africa and Mercosur (Argentina, Brazil, Paraguay and Uruguay) are currently under consideration. Joint study Groups (JSG) have been formed to work out the modalities for Framework Agreements with Mauritius and China. The January 2004 agreement on setting up of a SAFTA (South Asian Free Trade Area) by the SAARC member countries, is also likely to provide a fillip to trade growth with this region. Further, India along with Bhutan, Myanmar, Sri Lanka, Thailand and Nepal have signed the Framework Agreement on the BIMST-EC Free Trade Area in February 2004, with the objective to strengthen and enhance economic, trade and investment cooperation among the member countries and to progressively liberalize and promote trade in goods, services and investment cooperation. Such regional arrangements can help integrate developing countries like India into the world economy by providing immediate gains in trade and investment, particularly for geographically contiguous regions. These may also underline the need for expediting internal reforms if the benefits are to be maximized. However, if such arrangements are to act as building blocks to the multilateral trading system, coherence and compatibility of such agreements with the multilateral trading system also needs to be ensured.