

## Direction of trade

6.32 Export growth to OECD region and other developing country regions slowed down in 2003-04 to 12.3 per cent and 28.3 per cent, respectively, from 22.0 per cent and 32.0 per cent, respectively in 2002-03. Notwithstanding such a decline in exports to the OECD countries, the share of exports to European Union was broadly maintained. Exports to all the major countries in the EU region (France, Germany, Italy, the Netherlands and the UK) registered high growth, reflecting some recovery in demand in this region. Among developing countries, export to Asia and Africa regions grew strongly by 32.2 per cent and 23.2 per cent respectively, resulting in increased shares of exports to these regions. Overall exports to Latin America region remained subdued as exports to Brazil and Mexico, major destinations for India, declined in 2003-04. Exports to Eastern Europe witnessed a turnaround, mainly due to higher exports to Hungary and Romania, with the region retaining its share in total exports. In 2003-04, while the high international crude petroleum prices resulted in a rise in the share of the OPEC region in India's imports, the consequent gains in terms of trade for the OPEC also led to an increase in the region's share in India's exports. Exports to Asian countries maintained their rising profile with robust export growth of 26.1 per cent to the ASEAN region in 2003-04. Imports sourced from the ASEAN region also grew by 44.3 per cent, taking the two-way trade to 9.3 per cent of India's total external trade in 2003-04. Export growth to OECD region, developing country region, OPEC and Eastern Europe accelerated in April-October 2004, and the share of these regions in total Indian exports were 46.2 per cent, 33.0 per cent, 15.2 per cent, and 1.4 per cent, respectively.

6.33 The sourcing of imports in 2003-04 showed higher share from regions like OPEC, Eastern Europe and other developing countries (especially from Asia), with the share of OECD region remaining broadly unchanged. Given the robust growth in imports in 2004-05, share of imports from OPEC and Eastern Europe increased to 8.3 per cent and 1.7 per cent respectively, while the share of OECD region and other developing countries moderated to 33.9 per

cent and 19.8 per cent respectively in April-October 2004.

6.34 Trade with the ASEAN continues to be buoyant in the current year with exports registering a growth of 50.0 per cent and imports a rise of 21.1 per cent in April-October 2004, mainly because of higher trade with Indonesia, Malaysia, Thailand and Singapore. Given the potential of higher trade with China, Japan and South Korea, 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 19.9 per cent of India's total merchandise trade, comparing with a trade share of 19.0 per cent for EU and 12.9 per cent for North America in 2003-04. To facilitate growth of trade with this block, India has already signed an ASEAN Framework Agreement on Comprehensive Economic Cooperation in 2003. Joint Study Groups have also been set up to explore the feasibility of comprehensive economic partnership agreements with China, Japan and South Korea, and to examine the potential complementarities between India and these countries in expanded trade and economic cooperation.

6.35 Trade with SAARC region countries was also buoyant with exports to the region growing by 47.8 per cent and imports sourced from it rising by 24.8 per cent in 2003-04. However, export growth to this region slowed down to 10.1 per cent in the first seven months of the current financial year, mainly due to lower exports to Bangladesh and Bhutan. But, growth in imports from SAARC region at 37.5 per cent continue to be robust. Exports to Pakistan have surged by almost three and a half times in April-October 2004, around half of the increase being accounted for by sharp rise in exports of dyes/intermediates and coar tar chemicals and plastic and linoleum products.

6.36 China has emerged in 2003-04 as India's third highest trading partner, after the US and UAE, overtaking countries like UK and Belgium (Table 6.11). If China and Hong Kong are taken together, then these two account for 8.4 per cent of India's trade, making China-Hong Kong the second highest trading partner for India. While India's exports to China

increased by 49.6 per cent in 2003-4 (which is over and above a growth of 107.5 per cent in 2002-03), imports sourced from China were higher by 45.2 per cent in 2003-04. The robust growth continued in 2004-05, with exports to China growing by 73.1 per cent and imports sourced from China rising by 69.3 per cent in first seven months of 2004-05. Between 2000-01 and 2004-05 (April-October), China's share in India's trade has thus risen from 1.9 per cent to 4.7 per cent for exports and from 3.0 per cent to 6.2 per cent for imports. The increase in exports to China was accounted for mainly by iron and steel, iron ore, plastic and linoleum products, and machinery and instruments. Higher imports from China, on the other hand, were because of electronic goods, chemicals, medicinal & pharmaceutical products, coal, coke and briquettes and silk yarn and fabrics. Another country whose share in India's trade has increased significantly in 2003-04, contributed by strong growth in exports, is United Arab Emirate (UAE), which is now the second largest trading partner of India, after the US.

6.37 While attaching prime importance to fair and rule based multilateral trading system, India has been pursuing an aggressive policy on bilateral trade agreements, looking at comprehensive economic partnerships and not just free trade agreements. Such agreements provide a useful platform for

expanding the country's economic space and providing preferential market access for Indian exports. India has signed a number of regional/ bilateral trade agreements in order to capture such benefits of regionalization and globalization of trade.

6.38 During the year, with SAARC, India continued to engage in transforming the Preferential Tariff Area (PTA) into a Free Trade Area (FTA), which would come into existence from January 1, 2006. Besides, an Early Harvest Programme (EHP) in BIMST-EC, which covers countries on the rim of the Bay of Bengal, negotiations with ASEAN countries collectively and with countries like Singapore individually, are nearing completion. Negotiations for PTAs with MERCOSUR group of Latin American countries have been completed and talks on an agreement with SACU (South Africa Customs Union) are on the anvil. India signed a protocol on 30 August 2004 to implement the Early Harvest Scheme (EHS) under the Framework Agreement of free trade Area between India and Thailand signed in 2003. The launch of the implementation of EHS provides for the elimination of tariffs on a common list of 82 items over a period of two years. Earlier in August 2004, India's initiative towards forging larger RTAs was extended by signing an India and Gulf Cooperation Council (GCC) Framework Agreement on economic cooperation.

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

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

Country	2000-01	2001-02	2002-03	2003-04	2003-04	2004-05
					April-October	
1. USA	13.0	12.2	13.4	11.6	12.2	11.1
2. UK	5.7	5.0	4.6	4.4	4.4	3.7
3. Belgium	4.6	4.4	4.7	4.1	4.1	3.8
4. Germany	3.9	4.0	4.0	3.9	3.8	3.5
5. Japan	3.8	3.8	3.2	3.1	3.2	2.6
6. Switzerland	3.8	3.4	2.4	2.7	3.3	3.0
7. Hong Kong	3.7	3.2	3.1	3.4	3.6	2.8
8. UAE	3.4	3.6	3.8	5.1	4.2	5.5
9. China	2.5	3.1	4.2	5.0	4.3	5.6
10. Singapore	2.5	2.4	2.5	3.0	2.5	3.3
11. Malaysia	1.9	2.0	1.9	2.1	2.1	1.9
<b>Total (1 to 11)</b>	<b>48.6</b>	<b>47.2</b>	<b>47.9</b>	<b>48.2</b>	<b>47.6</b>	<b>46.8</b>

Source : DGCI&S, Kolkata