Merchandise Trade

6.15 India's merchandise exports (in dollar terms and customs basis), by continuing to grow at over 20 per cent per year in the last 3 years since 2002-03, have surpassed targets. In 2004-05, export growth was a record of 26.2 per cent, the highest since 1975-76 and the second highest since 1950-51(Appendix table 7.1(B)). Supported by a buoyant world economy (5.1 per cent) and import volume (10 per cent) growth in 2004, there was an upswing in India's exports of primary commodities and manufactures, and Indian exports crossed US$80 billion in 2004-05. The good performance of exports (growth of 18.9 per cent) continued in April-January 2005-06, despite the slightly subdued growth of global demand, and floods and transport disruptions in the export nerve centres of Mumbai and Chennai.

6.16 While volume growth dominated export performance till 2002-03, there is an increasing contribution of higher unit values in recent years (Table 6.4 and Appendix Table 7.6). This change, evident in the last two years, coincided with a rising share of high value gems and jewellery items, gradual shift to garments from fibres and fabrics, and the sharp rise in prices of non-fuel primary items like ores and minerals, iron and steel and non ferrous metals. The net terms of trade which have been witnessing a continuous decline since 1999-00, showed a sharp rise in 2003-04 mainly due to the rising export unit values. Growth of exports in dollar terms was faster than the same in rupee terms with the continued appreciation of the rupee between 2003-04 and early 2005. Export volume growth, which was subdued in 2003-04, picked up in 2004-05. With a rise in both export volume and unit value, export's purchasing power to import measured by the income terms of trade, which has been improving consistently during the 1990s (except 1996-97) improved further in 2003-04. However, in 2004-05, there was a sharp deterioration in both net and income terms of trade mainly due to the sharp rise in import unit value of crude petroleum, gold and other primary commodities.

6.17 India moved one notch up the rankings in both exports and imports in 2004 to become the 30th leading merchandise exporter and 23rd leading merchandise importer of the world. The momentum in export growth continued, though at a decelerated pace, in 2005-06. After a fall in November 2005, export growth rebounded in December 2005. Overall exports in April-January 2005-06 was US$ 74.9 billion, vis-à-vis the target of US$ 92 billion for 2005-06 as a whole.

6.18 Both external and domestic factors have contributed to the satisfactory performance of exports since 2002-03. While improved global growth and recovery in world trade aided the strengthening of Indian exports, firming up of domestic economic activity, especially in the manufacturing sector, also provided a supporting base for strong sector-specific exports. Various policy initiatives for export promotion and market diversification seem to have contributed as well. The opening up of the economy and corporate restructuring have enhanced the competitiveness of Indian industry. India's impressive export growth has exceeded world export growth in most of the years since 1995; but, since 2003, it has lagged

Table 6.4 : Performance of the foreign trade sector
(Annual percentage change)

Year	Export Growth			Import Growth			Terms of Trade	
	Value (in US dollar terms)	Volume	Unit Value	Value (in US dollar terms)	Volume	Unit Value	Net	Income
1990-00	7.7	10.6	8.4	8.3	12.4	7.2	1.5	11.7
1990-95	8.1	10.9	12.6	4.6	12.9	7.6	5.0	16.5
1995-00	7.3	10.2	4.3	12.0	11.9	6.9	-2.0	7.0
2000-01	21.0	23.9	3.3	1.7	-1.0	8.2	-4.5	18.3
2001-02	-1.6	3.7	-1.0	1.7	5.0	1.1	-2.1	1.5
2002-03	20.3	21.7	0.3	19.4	9.5	10.7	-9.4	10.3
2003-04	21.1	6.0	8.5	27.3	20.9	-0.1	8.6	15.1
2004-05	26.2	13.2	8.9	39.7	8.8	25.7	-13.0	-2.0
2005-06*	18.9			26.7				

***April-January**
Source : DGCI&S

Table 6.5 : Export growth and share in world exports of selected countries									
	Percentage growth rate				Share in world exports				Value (US $ billion)
Country	1995-01	2003	2004	2005*	2001	2003	2004	2005*	2004
1. China	12.4	34.5	35.4	32.1	4.3	5.9	6.6	7.2	593.0
2. Hong Kong	3.6	11.9	15.6	11.4	3.1	3.0	2.9	2.8	259.0
3. Malaysia	6.6	6.5	26.5	12.1	1.4	1.3	1.4	1.4	125.7
4. Indonesia	5.7	5.1	11.2	44.6	0.9	0.9	0.8	0.8	71.3
5. Singapore	4.1	15.2	24.5	14.8	2.0	1.9	2.0	2.0	179.6
6. Thailand	5.9	17.1	20.0	12.9	1.1	1.1	1.1	1.1	96.0
6. India	8.5	15.8	25.7	21.0	0.7	0.8	0.8	0.8	71.8
8. Korea	7.4	19.3	30.9	18.1	2.5	2.6	2.8	2.8	254.0
9. Developing countries	7.9	18.4	27.1	21.2	36.8	38.8	40.7	42.4	3685.1
10. World	5.5	15.9	21.2	14.9	100.0	100.0	100.0	100.0	9049.8

Source: IFS statistics, IMF. *** January-August, 2005**

behind the export growth of developing countries taken together, mainly because of China's explosive export growth. India's share in world merchandise exports, after rising from 0.5 per cent in 1990 to 0.8 per cent in 2003, has been stagnating at that level since then with marginal variation at the second decimal place (Table 6.5 and Appendix table 7.5). This is a cause for concern. Foreign Trade Policy (FTP) 2004-09 envisages a doubling of India's share in world exports from 0.75 per cent to 1.5 per cent by 2009. To achieve this target, Indian exports may need to exceed US$150 billion by 2009 as world exports are also growing fast.

6.19 The world economy in 2004 had recorded its strongest growth in more than a decade, providing the foundations for a volume expansion of world exports and imports by 9 per cent and 10 per cent, respectively, powered by the growth in trade of manufactures at 10 per cent. The strong growth in world trade in 2004 was more in nominal terms, with value of world merchandise growth registering a rise of 21 per cent. This was mainly due to the price increase in primary commodities following a sharp rise in demand particularly for fuels and other mining products, and a rise in Europe's dollar prices and nominal trade values from the depreciation of the US dollar by 9 per cent vis-à-vis a basket of European currencies. After the estimated markedly lower expansion of 6.5 per cent for 2005, according to the WTO, with a moderate recovery of the world economy in 2006, volume of world merchandise trade is likely to accelerate to 7 per cent in 2006.

6.20 While high growth in global output and demand, especially in the major trading partners of India, helped, it was the pick up in domestic economic activity, especially the consistent near double-digit growth in manufacturing, that constituted the main driver of the recent export surge. In 2004-05, India's manufacturing exports grew by 21 per cent and had a share of around 74 per cent in total exports. Vis-à-vis the US dollar, the Indian rupee, which had started strengthening from June 2002 onwards, appreciated by around 2.2 per cent on an annual average basis in 2004-05. As per the revised Real Effective Exchange Rate (REER) of the RBI, which is a six-currency-trade-based-weights index providing a better reflection of India's trade competitiveness, rupee appreciated by 2.5 per cent in 2004-05, on an annual basis. While the appreciation of the rupee remained around the benchmark over the long horizon and orderly and smooth, the adjustment cost to industry appears to have been limited with productivity gains. Furthermore, in more recent times, though the REER (six currency index) for November 2005 reflects an appreciation of above 7 per cent, the rupee started to depreciate in nominal terms from August 2005.

6.21 Further productivity gains in the export sector require a deepening of domestic reforms, and an accelerated removal of infrastructure bottlenecks, including export infrastructure. Infrastructure remains the single most important constraint to export growth. Achievement of the ambitious export target set in Foreign Trade Policy (2004-09) requires a projected augmentation of the installed capacity of ports by 140 per cent. Indian ports, which handle over 70 per cent of India's foreign trade even in value terms, have a turn-around time of 3-5 days as against only 4-6 hours at international ports like Singapore and Hong Kong. As for internal transport, while there has been a perceptible improvement in the national highways, secondary roads need to be improved and the issue of delays caused at inter-state check points need to be addressed. As trade grows and the number of consignments increases, there is a need not only for improved trade infrastructure, but also for streamlining trade data infrastructure to remove any data anomalies and provide the basis for appropriate policy formulation. Exporters need to place more emphasis on non-price factors like product quality, brand image, packaging, delivery and after-sales service. A more aggressive push to FDI in export industries will not only increase the rate of investment in the economy but also infuse new technologies and management practices in these industries.

6.22 Availability of adequate export credit at competitive rates continued to remain an important policy consideration of Government. Export credit as a proportion of the net bank credit declined from 9.8 per cent in March 24, 2000 to 6.8 per cent in March 18, 2005, as against the stipulated level of 12 per cent (Table 6.6). While this may partly reflect the strength of the Indian export sector, which may be availing less export credit, it may also be a reflection of the relatively higher cost of export credit in India compared to other countries.

6.23 Growth in India's merchandise imports in 2004-05 at 40 per cent in dollar terms was the highest since 1980-81 (Appendix table 7.1B). This surge in growth in 2004-05 was mainly due to the steep rise in price of crude petroleum and other commodities with value of POL imports increasing by 45.1 per cent. While volume growth in import of POL was subdued at 6.4 per cent, largely in response to the price increase, larger imports filled the gap between growing demand and stagnant domestic crude oil production. In 2004-05, lower tariffs, a cheaper US dollar, a buoyant manufacturing sector and high export growth boosted non-oil imports by 39 per cent, particularly capital goods, intermediates, raw materials and imports needed for exports. Buoyant growth of imports of capital goods at 21 per cent, on top of the 40 per cent growth in 2003-04, reflected the higher domestic investment and firming up of manufacturing growth. A significant contributor to the rise in non-POL imports was the 59.6 per cent growth of gold and silver on the back of a 59.9 per cent growth in 2003-04, due to the high international gold prices. The duty reduction on imported gold from Rs.250 to Rs.100 per 10 gram and liberalization of such imports as per trade facilitation measures announced in January, 2004 could also have provided a fillip. Non oil, non bullion imports increased by 31 per cent in 2004-05, compared to a rise of 28.5 per cent in 2003-04.

6.24 In the current year, imports continued to grow, though at a decelerated pace. The 26.67 per cent growth in imports in April-January 2005-06 was contributed by the growth in POL imports of 46.91 per cent. This was mainly due to the rise in prices, as quantity growth was only 1.6 per cent in April-November 2005. While non-oil imports increased by 18.81 per cent in April-January 2005-06, non-oil non-bullion imports increased by 30.8 per cent in April-October 2005-06 (on top of a 29.9 per cent increase in the corresponding period of the previous year), indicating the economy's growing absorptive capacity for imports. Gold and silver import growth accelerated during the same period, owing to the firming up of international gold prices which reached a high of US$510 per troy ounce in December 2005. Gold prices rose further to US$570.9 per troy ounce on February 2, 2006.

6.25 Unlike in 2003-04, the surge in POL imports in 2004-05 and 2005-06 (April-November) was dominated by the price impact (Figure 6.2). International crude oil (Brent variety, per barrel) prices, trending upwards since 2002, on average, rose from US$27.6 in 2002-03 to US$28.9 in 2003-04, US$42.1 in 2004-05, and further to US$56.64 per barrel in April-November 2005 with a peak of US$67.33 on August 12, 2005. The stiffening of global crude oil prices was contributed by a combination of heightened demand, limited spare capacity and geopolitical threats to the existing capacity. Crude oil prices have since moderated and was ruling at US$60.76 per barrel as on Febuary 9, 2006. The surge in crude oil prices has sharpened the focus on the adverse impact of such volatility on domestic prices and the need to minimize such impact. Given India's relatively high oil intensity and increasing dependence on imported crude oil, efforts are being made to diversify sourcing of such imports away from the geopolitically sensitive regions. Another development has been the decision to build up strategic oil reserves, equivalent of about 15 days requirement, to minimize the impact of crude price volatility in the short term. In a related initiative, India is coordinating with large oil importing countries in Asia, in exploring possibilities for evolving an Asian products marker, in place of an Asian premium, which would reduce the premium paid by Asian countries and thus, to some extent help in controlling the country's oil import bill.

Table 6.6 : Export credit

Outstanding as on	Export credit (Rs crores)	Variations (Per cent)	Export credit as per cent of NBC
March 24, 2000	39118	9.0	9.8
March 23, 2001	43321	10.7	9.3
March 22, 2002	42978	-0.8	8.0
March 21, 2003	49202	14.9	7.4
March 19, 2004	57687	17.2	7.6
March 18, 2005	65914	14.3	6.8
March 18, 2005*	67467	NA	NA
October 28, 2005*	71826	6.5	NA

Note : Data relate to select banks accounting for 90 per cent of bank credit

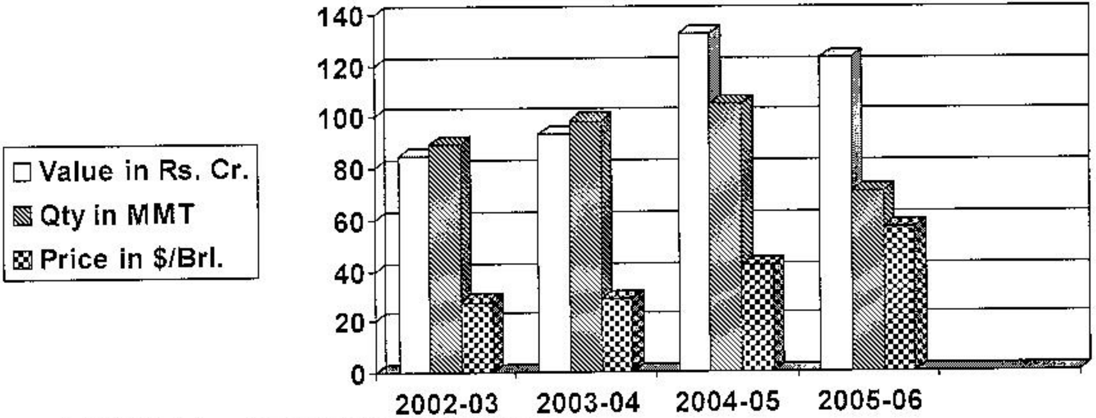
*** Pertains to 52 banks**

Source : Reserve Bank of India

6.26 With a widening trend in recent years, the trade deficit reached a high of US$28.6 billion (as per customs data) in 2004-05, and this high was surpassed by a record US$33.8 billion in April-January 2005-06 itself. While this is a cause for concern, it may reflect a lag between export growth and growth in import of capital, intermediate and basic goods. With a slowdown in imports in November, December, 2005 and January 2006, growth in trade deficit has decelerated from 71 per cent in April-September 2005 to 69 per cent in April-November 2005 and further to 54 per cent in April-December 2005 and 48 per cent in April-January 2005-06. One notable feature in the recent past is the deficit in non-oil balance; in surplus in 2003-04, it turned negative with a deficit of US$5.6 billion in 2004-05 and US$5.8 billion in April-October, 2005, considerably higher than the deficit of US$1.1 billion in April-October, 2004. This may again reflect the growing industrial and export demand, which will materialize only with a lag.

Fig. 6.2

Growth in POL imports



Note : 1. 2005-06 data pertains to April-November 2005
2. Average price in US$ for Brent Crude per barrel