Composition of merchandise trade

6.27 Export growth in 2004-05 continued to be broad-based with good performance in most of the sectors. Manufactured exports, with a share of 73.7 per cent in total merchandise exports, continued to grow at 21 per cent. The most notable feature was the 91 per cent growth in exports of petroleum products, with a perceptible increase in its share in total exports. It reflected not only the rise in POL prices, but also India's enhanced refining capacity developed with a supportive tariff structure [Table 6.7 and Appendix Tables 7.3(A) and 7.3(B)]. Exports of primary products grew by 29.4 per cent with rapid growth in exports of ores & minerals, induced by strong international demand and higher prices. Within manufacturing, high performers were: engineering goods (mainly manufactures of metals, machinery and instruments, transport equipment and primary, semi-finished iron & steel and non-ferrous metals); gems and jewellery; and chemicals and related products (including basic chemicals, pharmaceuticals and cosmetics, plastics and linoleum, rubber, glass and other products and residual chemicals and allied products). Despite the new opportunities that opened up with the phasing out of textiles quotas, textiles exports showed a disappointing negative growth. In agriculture exports, besides traditional items like cereals, cashew nuts, spices and rice and pulses, non-traditional items like poultry and dairy products and fruits and vegetable seeds registered high growth.

6.28 Export performance in April-October 2005 continued to be broad-based, with manufactures in the lead, and engineering goods, gems and jewellery, and chemicals and related products registering good performance. The growth of petroleum products, though impressive, was slightly subdued possibly due to the fire at Mumbai High and transport disruptions due to floods. Primary products growth moderated somewhat due to slowdown in demand from China for ores and minerals, though its growth was still impressive. One notable feature was the growth in project goods by more than 200 per cent (see Box 6.4).

6.29 In textiles, with the quota regime giving way to free market at the global level at the beginning of 2005, there is a lot of expectation from the Indian textile industry (Box 6.5). So far, while China's performance exceeded expectations, India's performance has not been satisfactory. Following the supportive measures announced in Budget 2005-06, textiles exports showed a revival with a growth of 10.5 per cent in April-October, 2005. But, China's growth of textiles exports was double at 21 per cent in the comparable period of April-November, 2005. While export growth was somewhat better in readymade garments (16 per cent) and to the US (25 per cent in April-November, 2005), it was far below the corresponding growth of Chinese exports to the US of 51 per cent. The low scale intensity of textiles manufacturing has deprived India the opportunity to make the best

Table 6.7 : Commodity composition of exports, April-October 2004-05

Commodity Group	Percentage share				Growth rate*			
			April-October				April-October	
	2003-04	2004-05	2004	2005	2004	2005	2004	2005
I. Primary products	16.4	16.8	14.8	16.1	17.3	29.4	39.7	17.0
Agriculture & allied	12.4	10.5	11.2	9.9	11.9	7.4	27.0	8.8
Ores & minerals	4.0	6.3	4.9	5.4	18.2	97.1	81.1	35.9
II. Manufactured goods	76.9	73.7	74.1	72.4	20.0	20.8	20.2	20.5
Textiles including ready made garments	15.6	12.1	13.2	11.8	21.5	-2.2	9.3	10.5
Gems & jewellery	16.6	17.1	17.4	17.9	16.8	29.9	20.8	26.9
Engineering goods	19.3	20.6	20.2	20.1	30.2	31.8	36.6	23.1
Chemical & related products	11.9	12.1	11.8	11.1	22.7	25.1	30.1	15.9
Leather & manufactures	2.3	1.9	2.1	1.7	15.7	6.1	16.9	6.3
Handicrafts	0.8	0.5	0.5	0.5	-4.8	-26.4	-19.6	11.6
III. Petroleum, crude & products	5.6	8.4	8.7	11.1	38.1	90.5	89.4	57.7
TOTAL EXPORTS (I+II+III)	**100.0**	**100.0**	**100.0**	**100.0**	**21.1**	**26.2**	**28.3**	**23.5**

Source : DGCI&S, Kolkata *** In US$ terms;**

Box 6.4 : Project Exports from India : Performance and Potential

From a modest beginning in the late 1970s, project exports have evolved over the years to reflect the country's technological maturity and industrial capabilities; give visibility to Indian technical expertise and project execution capability; and create entry points for other Indian firms for supplies, consultancy and manpower exports. Exports of projects and services including construction and industrial turnkey projects and consultancy services increased from US$629 million in 1998-99 to US$911 million in 2004-05, and crossed US$956 million in April-October, 2005 itself.

Destination of project exports has undergone a change between 1999-00 and 2004-05, with the share of West Asia (mainly Oman, UAE and Iraq) increasing from 28.4 per cent to 63.9 per cent, North Africa (mainly Sudan) increasing from 9.1 per cent to 28.5 per cent, South Asia falling from 41.5 per cent to 5.7 per cent, and South East Asia falling from 15.8 per cent to 0.9 per cent. In 2004-05, turnkey contracts had the major share (57.2 per cent), followed by construction contracts (36.4 per cent), and consultancy contracts (6.4 per cent).

There is a growing realisation across Asia and Africa that the experience of Indian companies is more appropriate to their project needs, especially in hydro-power, irrigation, transportation and water supply systems. Indian exporters need to make inroads into the lucrative markets in West Asia, including Iraq and Libya, which are showing signs of revival. There is need to obtain a major share of all funded projects in SAARC region through intensive marketing; to forge strategic alliances with leading European companies to target multilaterally funded projects in CIS countries, and with companies in Latin America to participate in projects funded by Inter-American Development Bank (IADB); to use the Comprehensive Economic Cooperation Agreements (CECAs) to promote such exports; and to secure sub-contracts from major European/American/Japanese companies.

The challenges for Indian project exports include: relatively lower ability to compete with many other countries, including developed ones and China, in the absence of competitive credit; lack of experience in handling barter deals and counter-trade practices; and low levels of effective and strategic tie-ups with reputed international consultancy firms and quality accreditation. Some important initiatives have been taken to promote project exports. Government of India (GoI) Lines of Credit, since 2003 routed through Exim Bank, and with GoI guarantee for repayment of principal and payment of interest, facilitate offer of competitive credit. Bid Intervention Service by Exim Bank, on behalf of Indian companies, seeks redressal in case of discriminiation against Indian companies in multilateral tenders. Exim Bank has so far intervened in 32 bid intervention cases, of which 19 were successful with contracts ultimately going in favour of Indian companies.

Box 6.5 : Textile Sector in the Post-Quota Era

Textiles and clothing (T&C) sector is India's largest industry, accounting for nearly 20 per cent of the economy's industrial output, direct employment of 35 million workers, and for around 12 to 16 per cent of the total export earnings. India has a share of 5 per cent and 4 per cent in global exports of textiles and clothing, respectively, compared with China's 18 per cent and 35 per cent, respectively.

The Uruguay Round of trade negotiations resulting in the Agreement on Textiles and Clothing, provided for the sector's integration into the framework of GATT over a period of 10 years ending on 31st December 2004. Studies undertaken during the integration period had concluded that the major beneficiaries of quota elimination would be India and China. In the event, China, with a share of about one sixth of the total world exports of T&C, has performed well and far better than India. US trade data shows that India's exports to the US during the period January-September 2005 grew by 25.17 per cent, which was higher than that of Pakistan (10.86 per cent) and Bangladesh (19.81 per cent), but much lower than that of China (58.60 per cent). In January-May 2005, China's T&C to the EU of products liberalised in January, 2005 surged by 80 per cent, compared to India's modest 10.5 per cent. Similarly, US data for the first six months of 2005 show that exports of T&C of liberarlised product lines from China surged by 242 per cent.

The revaluation of the Chinese Yuan by around 2.05 per cent has helped India in becoming price competitive vis-à-vis China in some items like girls skirts, women/girls shorts and blouses, and men's shirts, but the impact of the revaluation has been limited. China enjoys substantial advantage on account of huge capacities across the entire textile value chain with economies of scale, flexible labour laws, cheap power, low interest rates, efficient and sound infrastructure, and cluster-oriented integrated industrial structures. Other competing developing countries, including Pakistan and Bangladesh have taken fiscal and other policy initiatives such as duty free import of capital goods, and flexible labour laws. Bangladesh is also benefiting from its status as a Least Developed Country (LDC).

A number of steps were taken to prepare the T&C sector in India for the post-quota period, but the opportunities unleashed have not materialized in full because of reservation of certain items for small-scale sector until recently, absence of labour market flexibility and an effective exit policy, which has prevented development of scale economies, longer lead time, and infrastructural and administrative bottlenecks, including delays at customs. Greater FDI in the T&C sector from major textile importers like the EU and the US can catalyse the sector. There is also need to increase productivity, to apply the prowess gained in the new economy sectors like IT to this old economy sector, and to redress the problem of lackluster growth in the synthetic segment, where world demand is high, but India's output of fibres and fabrics have fallen in the current year.

of her comparative advantage in labour. Some of the major problems plaguing the sector, like reservation for the small scale sector, have been addressed. Nevertheless, substantial investment, both domestic and foreign, is needed to achieve a quantum jump in textiles exports.

6.30 Growth of exports of gems and jewellery, a major contributor to India's exports, accelerated in April-October 2005, with USA the largest market accounting for 25 per cent of such exports from India. While exports of engineering goods, comprising transport equipment, machinery and parts and manufactures of metals, remained key drivers, there was a significant loss of growth momentum compared to the previous year. Among engineering exports, there was a sharp deceleration in primary and semi-finished iron and steel, with strong domestic demand and a slowdown in demand from countries like Germany and UAE, though demand from China continued to be strong. With buoyant Japanese demand, there was a turnaround in marine product exports with growth of 16 per cent compared to the decline a year ago. Among agricultural items, export growth was impressive in items like rice and pulses and in non-traditional items like poultry and dairy products, meat and preparations, and fruits and vegetable seeds. Exports of coffee grew satisfactorily, while that of raw cotton grew at over 187 per cent.

Table 6.8 : Share of Major Exports of India in World Exports

(Items with one per cent share and above)

HS rev.1	Product	2000	2004
03	Fish, crustaceans, molluscs, aquatic invertebrates, nes	3.4	2.4
05	Products of animal origin, nes	1.2	1.4
07	Edible vegetables and certain roots and tubers	1.3	1.1
08	Edible fruit, nuts, peel of citrus fruit, melons	2.1	1.4
09	Coffee, tea, mate and spices	5.8	4.7
10	Cereals	2.3	3.1
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	1.7	1.5
13	Lac, gums, resins, vegetable saps and extracts nes	11.9	8.0
14	Vegetable plaiting materials, vegetable products nes	4.4	6.1
15	Animal,vegetable fats and oils, cleavage products, etc	1.2	1.2
23	Residues, wastes of food industry, animal fodder	2.4	3.1
25	Salt, sulphur, earth, stone, plaster, lime and cement	2.7	3.3
26	Ores, slag and ash	1.9	10.7
28	Inorganic chemicals, precious metal compound, isotopes	0.6	1.0
29	Organic chemicals	1.2	1.7
32	Tanning, dyeing extracts, tannins, derivatives, pigments etc	1.5	1.6
41	Raw hides and skins (other than furskins) and leather	1.8	2.4
42	Articles of leather, animal gut, harness, travel goods	4.1	3.5
46	Manufactures of plaiting material, basketwork, etc.	0.1	2.0
50	Silk	11.3	11.1
52	Cotton	6.6	4.9
53	Vegetable textile fibres nes, paper yarn, woven fabric	4.5	3.5
55	Manmade staple fibres	2.0	2.4
57	Carpets and other textile floor coverings	7.5	10.7
58	Special woven or tufted fabric, lace, tapestry etc	2.4	1.4
61	Articles of apparel, accessories, knit or crochet	2.1	2.3
62	Articles of apparel, accessories, not knit or crochet	3.6	2.9
63	Other made textile articles, sets, worn clothing etc	6.3	7.0
64	Footwear, gaiters and the like, parts thereof	1.4	1.7
67	Bird skin, feathers, artificial flowers, human hair	1.7	3.0
68	Stone, plaster, cement, asbestos, mica, etc articles	1.9	2.7
71	Pearls, precious stones, metals, coins, etc	6.5	7.4
72	Iron and steel	0.9	1.3
73	Articles of iron or steel	1.2	1.0
83	Miscellaneous articles of base metal	0.5	1.0

Source : NCTI based on UN-ITC Trade Map data.

6.31 Efforts at export diversification continued. However, India has a share of one per cent and above in world exports in only 35 out of a total of 99 commodity categories at the two digit (Harmonised System (HS) Revision 1) level, with a reasonable share in only a few items (Table 6.8). Recently, world exports of items like scientific instruments have increased tremendously to equal the value of textiles exports, but in these new areas, India's export contribution continues to be low. Among the top 150 items of world exports at the four digit level, in 2004, India had significant shares only in four items, and a share of more than one per cent in only 28 items. The items with large potential, in which India has not yet made a mark while China has already established itself, include many electronic and electrical items, processed food items, scientific instruments and apparatus, toilet papers and handkerchiefs, electro-medical appliances, furniture and toys.

6.32 Manufacturing constitutes around 74 per cent of India's merchandise exports, and there is enormous scope for accelerating such exports. Export of manufactures played a crucial role in the export performance of most of the emerging market economies. Between 1965 and 1985, exports of manufactures from the Republic of Korea grew at an average annual rate of around 35 per cent, which was more than double the pace of growth in world exports of manufactures. Bringing manufacturing to the central stage can help in increasing merchandise exports at rates substantially above the world average, to reach a higher share in world exports. The setting up of the National Manufacturing Competitiveness Council (NMCC) to prepare a strategy for the revival of the manufacturing sector should help in accelerating the export of manufactured items.

6.33 With high 'value added,' the quality of India's exports was somewhat different from that of China, which continued to include a large portion of imported inputs, the so called exports from China to China as per the UNCTAD Trade & Development Report, 2005. India's share in world agricultural exports continued to be low at 1.1 per cent in 2004. India, which has been spearheading the WTO negotiations on agriculture on behalf of the developing countries, needs to quickly take steps to increase supply of agricultural items for world market to make use of the possible opportunities, as a result of WTO negotiations. A three-pronged approach covering more and concerted initiatives to review and implement the relevant standards domestically; recourse to bilateral and multilateral avenues to remove barriers to agricultural exports; and expanding the supply base of exportable agricultural items can help. The Integrated Food Law which is in the offing may be a good step forward.

6.34 The consistent rise in imports, in both 2004-05 and April-October, 2005, is attributable to not only the over 40 per cent growth of POL imports with a share of around 30 per cent in India's import basket, but also to other items like gold and silver, capital goods and export related items (Table 6.9). While the increase in the price of the Indian basket, for example, by over 44 per cent in April-November 2005, contributed to the growth in POL imports, and the rising international bullion prices contributed to the growth in gold and silver imports, the rise in imports of capital goods and export related imports was due to the rising industrial demand and exports, which was also reflected in the high growth of capital goods production.

6.35 Non-electrical machinery, transport equipment, manufactures of metals and machine tools were the main contributors of the rise in capital goods imports. After five successive years of decline, project goods imports, which reflect the technological maturity and industrial capabilities of a country, made a rebound in 2004-05, with the growth accelerating in the current year. This augurs well for the industrial sector and infrastructure sectors of the economy. Among bulk goods, imports of fertilizer, metalliferrous ores and scraps, and iron and steel registered steep rise during April-October 2005. Fertiliser import growth, which witnessed a turnaround in 2003-04 after three

Table 6.9 : Imports of principal commodities

Commodity	Percentage Share				Growth Rate*			
			April-October				April-October	
	2003-04	2004-05	2004	2005	2003	2004	2004	2005
POL	26.3	27.3	30.2	31.8	16.6	45.1	56.8	41.4
Pearl, precious & semi-precious stones	9.1	8.6	7.9	8.1	17.6	32.1	12.6	36.4
Capital goods	12.7	11.5	9.6	10.3	40.3	20.9	23.3	44.2
Electronic goods	9.6	8.9	9.3	8.2	34.0	30.0	33.3	17.9
Gold & silver	8.8	10.0	9.4	9.0	59.9	59.6	31.5	34.1
Chemicals	7.4	6.0	6.2	5.6	39.9	31.7	31.9	19.7
Edible oils	3.2	2.1	2.6	1.6	40.1	-8.1	-11.9	-15.3
Coke, coal and briquettes	1.8	2.6	2.8	2.0	13.7	97.5	99.5	-3.2
Metaliferrous ores & metal scrap	1.7	2.2	2.2	2.6	24.9	84.8	72.1	57.0
Professional instruments and optical goods	1.6	1.4	1.4	1.3	8.6	21.0	15.2	26.8
Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**27.3**	**39.7**	**36.9**	**34.3**

***In US Dollar terms**

years of decline, accelerated further in 2004-05 and April-October, 2005. While the turnaround in 2003-04 in fertilizer imports was due to price increases, the increase in 2004-05 and April-October, 2005 was caused by higher volumes induced by falling prices, and reflected robust demand by the agriculture sector. Import of food and allied products declined with a fall in imports of edible oils, in both value and volume terms, in 2004-05 and April-October, 2005, with higher domestic output. The very high growth in iron and steel imports — due to both volume and price increase in 2004-05, and mainly due to volume increase in the current year with a fall in international steel prices in the last few months — reflected rising demand in a buoyant economy.