Merchandise Trade:

6.20 India's merchandise exports (in US dollar terms and on customs basis), which have been growing continuously at a high pace of more than 20 percent since 2002-03, continued its momentum and grew by 23.4 per cent to cross the US$100 billion mark in 2005-06. Exports during 2006-07, which gained momentum after a slow start, reached US$89.5 billion in April-December, 2006 with growth of 36.3 per cent on provisional to provisional (POP) basis (growth rates comparisons for April-December of the current year is on POP basis, unless stated otherwise).

6.21 Export performance was dominated by volume growth till 2002-03. There was a reversal of this trend in 2003-04, with increasing contribution of higher unit value in export performance. Subsequent years witnessed a surge both in terms of volume and unit value. During 2005-06, for exports, while volume increased by a record 45.4 percent (mainly in items like petroleum products, chemicals & related products and machinery & transport equipment), the unit value increased by 20.4 per cent (mainly in petroleum products, minerals & ores, machinery & transport equipment and footwear) (Table 6.4). However, notwithstanding these favourable developments on the export front, there was a sharp deterioration in both net and income terms of trade. The net terms of trade, which measures the unit value index of exports as a proportion of unit value index of imports, deteriorated as the unit value index of imports rose by 49 per cent (mainly due to a sharp rise in the price of crude petroleum by over 40 per cent, and of gold and other metals). Even gross terms of trade, which measures the volume index of imports as a ratio of volume index of exports, fell with a decline in the quantum of imports (particularly gold) while quantum of exports increased.

6.22 India's share in world merchandise exports, after remaining unchanged at 0.8 per cent between 2003 and 2004, reached 1.0 per cent in 2005, and remained there in the first eight months of 2006 (Table 6.5). This increase was due to India's exports growing at more than double the rate of growth of world exports since 2005. China has been a stellar export performer for years; for the first time, in 2005 and the first eight months of 2006, India's export growth surpassed that of China.

6.23 India's significant export growth in recent years was on account of a host of favourable external developments and domestic policy initiatives. Improved global growth and recovery in world trade aided the growth of Indian exports. The opening up of the economy and corporate restructuring has enhanced the competitiveness of Indian

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	30.8	17.6	8.9	42.7	14.7	21.6	0.5	5.0
2005-06	23.4	45.4	20.4	33.8	-1.6	49.0	-27.4	-33.2
2006-07*	36.3	-	-	36.3	-	-	-	-

***April-December, 2006**
Source : DGCI&S, Kolkata

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Table 6.5 : Export growth and share in world exports of selected countries

	Country	Percentage growth rate				Share in world exports				Value (US $ billion)
		1995-01	2004	2005	2006*	2001	2004	2005	2006*	2005
1.	China	12.4	35.4	28.5	25.8	4.3	6.6	7.4	7.8	762.0
2.	Hong Kong	3.6	15.6	11.6	8.6	3.1	2.9	2.8	2.6	289.0
3.	Malaysia	6.6	26.5	12.1	15.1	1.4	1.4	1.4	1.4	140.9
4.	Indonesia	5.7	11.2	18.2	17.4	0.9	0.8	0.8	0.9	84.6
5.	Singapore	4.1	24.5	15.6	34.5	2.0	2.0	2.2	2.3	229.6
6.	Thailand	5.9	20	14.6	20.0	1.1	1.1	1.1	1.1	110.0
6.	India	8.5	25.7	30.0	40.4	0.7	0.8	1.0	1.0	99.5
8.	Korea	7.4	30.9	11.8	13.7	2.5	2.8	2.7	2.7	284.0
9.	Developing countries	7.9	27.1	21.8	23.1	36.8	40.7	43.8	44.8	4530.3
10.	World	5.5	21.2	13.9	16.4	100.0	100.0	100.0	100.0	10355.3

Source : IFS statistics, IMF. * January-August, 2006

industry. There is a far greater export-orientation of domestic manufacturers, and corporate sector has been pursuing new growth strategies in response to economic reforms. Firming up of domestic economic activity, especially resurgence of the manufacturing sector, provided a supporting base for strong sector-specific exports. Trade policy reforms, continued trade promotion, market diversification and trade facilitation efforts seem to have paid good dividends. The nominal effective exchange rate (NEER) measuring the value of country's currency relative to the currencies of principal trading partners is a proximate indicator of its competitiveness in international trade. The NEER-5 (base 2000=100) which is a 5 currency export-weighted index, depreciated on a yearly basis till 2004-05, and after a bout of appreciation in 2005-06, depreciated steadily in 2006-07 till August 2006.

6.24 Reaching the 1.5 per cent targeted share of world exports by 2009, and maintaining and further accelerating the current dynamism in exports on a long term basis require a deepening of domestic reforms: reducing constraints like infrastructure bottlenecks, outdated/inflexible labour laws, SSI reservations, and high transaction costs; and a calibrated policy of phasing out export incentive schemes coupled with lowering of basic customs duties. Exporters, in turn, 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 foreign direct investment (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, and thereby increase exports.

6.25 Indian banks, particularly the Export-Import Bank of India (Exim Bank), are financing different stages of exports (see Box 6.4). Availability of adequate export credit at competitive rates continues to be an important determinant of export performance. However, export credit as a proportion of net bank credit (NBC) has gone down steadily in the current decade (Table 6.6). While this may partly

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	14.5	7.4
March 19, 2004	57687	17.2	7.6
March 18,2005	69059	19.7	6.3
March 31, 2006	86207	24.8	5.7
December 22, 2006*	97763	13.4	5.6

Note : [1] Data upto March 2004 relate to select banks accounting for 90 per cent of bank credit

[2] March 18, 2005 onwards, data pertain to all scheduled banks excluding RRBs availing export credit refinance from the RBI.

*** Over the corresponding figure as on March 31, 2006 (variation)**

Source : Reserve Bank of India (RBI)

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Box 6.4 : Export finance

Pre-shipment and post-shipment credits are the customary banking credit facilities for exports. Traditional exports (such as tea), with foreign exchange from such exports realised typically within 180 days from shipment, require finance which is short-term in nature. Non-traditional exports, covering products such as capital goods, services, and project exports, however, require deferred credit over the medium (1-5 years) and long term (beyond 5 years and up to 10 years). Commercial banks, with their liability structure short-term in character, concentrate on traditional, short-term export finance. Export credit of scheduled commercial banks amounted to Rs. 65,914 crore at end-March 2005. Export-Import Bank of India (Exim Bank), with its medium/long term liability structure, concentrates primarily on medium to long-term export finance, besides working capital. Exim Bank also provides refinance and rediscounting facilities to commercial banks so that short-term exports are not affected by lack of finance. Exim Bank's lending has steadily increased over the years. In 2005-06, Exim Bank's approved loans increased by over 29 per cent to Rs. 20,489 crore.

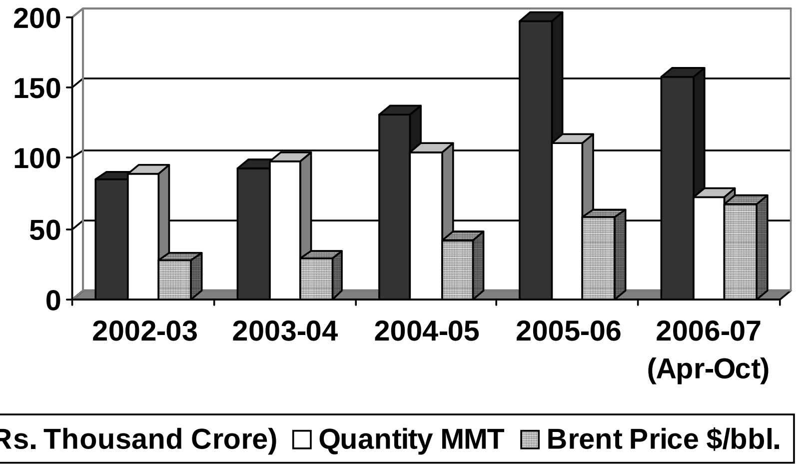
Exim Bank provides finance at various stages of the export cycle — import finance, product development, production, marketing, pre-shipment and post-shipment — as well as for overseas investment. It has a range of export credit programmes, such as supplier's and buyer's credit, for Indian companies executing contracts overseas for projects, products, as well as services. The Exim Bank also extends guarantee facilities to facilitate Indian companies in executing export contracts and extends lines of credit, on its own or at the behest of the Government of India, to overseas governments, or to agencies nominated by them, or to financial institutions overseas for encouraging imports from India on deferred payment terms. Exim Bank's import lines of credit provide financing for import of capital goods and related services particularly for enhancing export production capabilities of small and medium sized export oriented units.

reflect the growing strength of the Indian export sector, which may be availing of less export credit, it may also be a reflection of the relatively higher cost of export credit in India compared to other countries.

6.26 Merchandise imports grew by 33.8 per cent to US$149.2 billion in 2005-06. This high growth in imports in value terms was primarily due to the high POL prices. While volume growth of POL imports declined marginally from 6.4 per cent in the previous year to 6.1 per cent in 2005-06, with the price of Indian basket of crude oil increasing by 42.1 per cent (Figure 6.1), POL imports during 2005-2006 increased by 47.3 per cent to US$44 billion. Growth of non-POL imports in 2005-06 was 28.8 per cent. With high international price of gold and silver, there was a rapid deceleration in growth of import of gold and silver from 62.6 per cent to 1.5 per cent between 2004-05 and 2005-06. Non-POL non-bullion import grew by 39.0 per cent in 2005-06. Apart from the high price of gold, subdued global demand for

Fig. 6.1

POL Imports



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gems & jewellery affected the import of items related to export of gems & jewellery i.e. pearls, precious & semi-precious stones, the import of which declined by 3.1 per cent.

6.27 In the current year, imports continued to grow, though at a slightly decelerated pace due to the fall in gold and silver imports. The 36.3 per cent growth in imports in April-December 2006 was substantially contributed by the growth in POL imports at 39.2 per cent due to high crude oil prices. While the trend of negative growth of gold and silver imports, which started in October 2005, continued even in the first few months of the current year, there has been a reversal in this trend from August 2006 with a very high growth of around 182 per cent in September 2006. This was due to the softening of international gold prices which fell from a high of $675.4 per troy ounce in May 2006 to $598.2 per troy ounce in September 2006, coupled with the festival demand both for domestic consumption and for exports. With gold and silver import growth at 15.5 per cent in April-December 2006, non-POL import growth also picked up to 18.7 per cent. Non-POL non-bullion import growth was at 19.1 per cent.

6.28 Trade deficit reached a record high of US$46 billion (as per customs data) in 2005-06 and US$41.7 billion in the first nine months of the current year. With rapid growth in non-POL imports, even the non-POL trade balance turned negative to US$(-)5.3 billion in 2004-05, and more than doubled in 2005-06 to US$(-)14.0 billion. Non-POL trade deficit in the first seven months of the current year at US$ (-)9.6 billion was higher than such deficit of US$ (-) 7.6 billion in the first seven months of the previous year.

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