External debt

6.81 At the end of March 2007, India's external debt stock stood at US$ 169.6 billion (Rs. 7,40,099 crore), reflecting an increase of US$ 31.5 billion over the year, of which US$ 3 billion was contributed by the valuation change arising out of the weakening of the US dollar against major international currencies and the Indian rupee. There was a further increase of US$ 20.9 billion during the first half of 2007-08, of which US$ 7 billion was on account of valuation change. The total external debt of the country stood at US$ 190.5 billion (Rs. 7,57,967 crore as per revised figures, which include suppliers' credits up to 180 days under short-term external debt) at the end of September 2007 (Table 6.23). Increases in external commercial borrowings, non-resident Indian deposits and short-term debt contributed to the rise in total external debt. Of the total external debt at end-September 2007, long-term debt at US$ 159.7 billion accounted for 83.8 per cent. Correspondingly, short-term debt accounted for 16.2 per cent (US$ 30.8 billion) of the total external debt. The component-wise break-up of total external debt is depicted here under (Figure 6.12).

6.82 Component-wise, commercial borrowings accounted for the highest share of 27.2 per cent in total external debt outstanding at end-September 2007. As a proportion of the total external debt, non-resident Indian deposits accounted for 22.9 per cent of the total debt at end-September 2007, followed by multilateral debt at 19.5 per cent and bilateral debt at 8.7 per cent. Export credit and rupee debt accounted for 4.5 per cent and 1.1 per cent, respectively. In respect of short-term debt, the coverage is now made more comprehensive, with the inclusion of (i) suppliers' credits up to six months and (ii) investment by Foreign Institutional Investors (FII) in short-term debt instruments.

6.83 The short-term external debt, defined to include all loans and credits with an original maturity of one year or less, did not so far cover (i) suppliers' credits maturing in less than six months in India's external debt statistics, as such loans and credits were mainly import-related, and

Table 6.23 India's external debt

Components	End-March			End-Sept.
	(US $ billion)			
	2005 R	2006 R	2007 R	2007 QE
1	2	3	4	5
Long-term debt	115.3	118.5	143.4	159.7
Short-term debt	17.7	19.6	26.2	30.8
Total external debt	**133.0**	**138.1**	**169.6**	**190.5**
	(Rs. crore)			
Long-term debt	5,04,274	5,28,840	6,25,111	6,34,668
Short-term debt	77,528	87,287	1,14,988	1,23,299
Total external debt	5,81,802	6,16,127	7,40,099	7,57,967
Debt sustainability indicators	(Ratio as per cent)			
External debt to GDP	18.5	17.2	17.9	-
Short-term debt to total External debt	13.3	14.2	15.5	16.2
Short-term debt to foreign currency assets	13.1	13.5	13.7	12.8
Debt service ratio	6.1[a]	9.9[b]	4.8	4.5
Concessional Debt to Total Debt	**30.9**	**28.6**	**23.3**	**21.4**

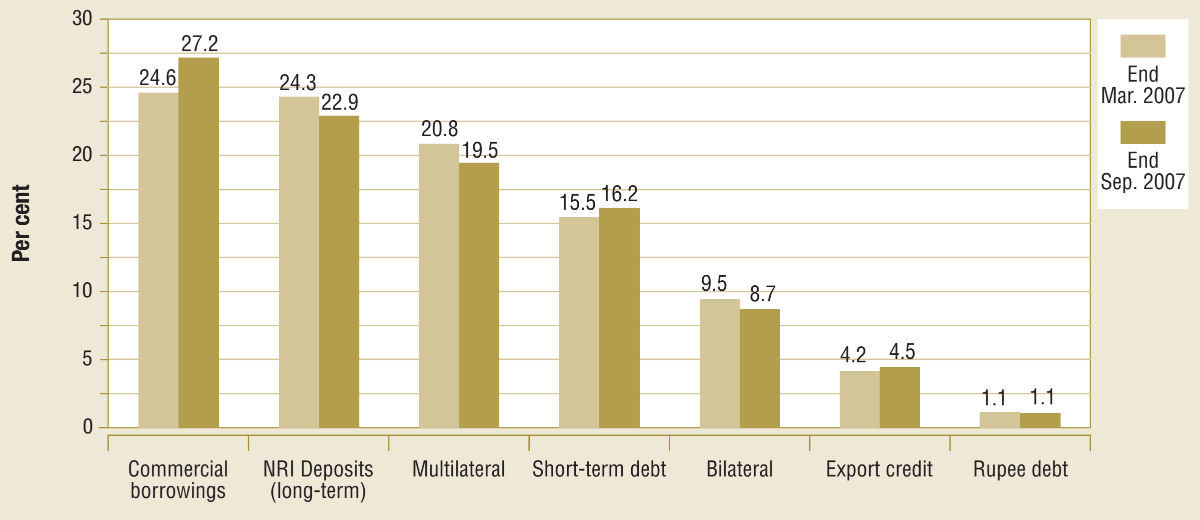
[a] Works out to 5.7 per cent with the exclusion of pre-payment of US$ 381 million.

[b] Works out to 6.3 per cent, with the exclusion of India Millennium Deposits (IMDs) repayments of US$ 7.1 billion and pre-payment of US$ 23.5 million.

Note: NRO deposits are included under NRI deposits from 2005-06 onwards . Suppliers' credits up to 180 days and FII investment in short-term debt instruments are included under short-term external debt since 2004-05.

R: Revised QE: Quick Estimates - : Not computed for the broken year

Figure 6.12 Composition of external debt as at end-march 2007 and end-september 2007



since payments for such imports were normally allowed up to six months which rendered the estimation of the credit element embedded in imports somewhat difficult, and (ii) investment by FIIs in Treasury Bills and other debt instruments of up to one year maturity for want of details.

6.84 A number of committees such as the high-level Committee on Balance of Payments (1993), Technical Group on External Debt (1998 and 2006), World Bank Project Report on Short-term Debt (2000) and Committee on Fuller Capital Account Convertibility (2006) recommended that suppliers' credits up to 180 days be included in short-term debt data. Furthermore, the growing volume of such credits on the back of burgeoning imports, the significance of short-term debt in terms of being an important variable in measuring a country's vulnerability to liquidity risks, best international practices, and a cross-country experience underscored the importance of inclusion of such trade credits in measuring short-term debt. Accordingly, the RBI, which monitors India's short-term debt on a regular basis, evolved an estimation procedure to work out trade-related credits up to six months' maturity by taking into account the difference between the date of shipment and the date of payment for imports. The external debt statistics released for end-September 2007 therefore contain the new series on short-term debt beginning quarter ended March 2005. However, suppliers' credits of this variety prior to this period were estimated to be relatively small.

6.85 Similarly, FII investment in debt securities, comprising investment in G-secs, Treasury Bills and corporate bonds, was not disaggregated into long-term and short-term as similar details were not available. Instead such investments were lumped together and shown under long-term securitized borrowings. Internationally recommended procedure and inter-country comparison (Box 6.5) suggested that FII investment in debt instruments could be appropriately classified according to maturity. As Securities and Exchange Board of India has since made available the break-up of FII investment by maturity, according to which FII investment can be classified as long-term and short-term in the new series beginning March 2005, this has been included in the data released for end-September 2007.

6.86 The total external debt at end-September 2007 considered in terms of sovereign debt (US$ 51.3 billion) and private debt (US$ 139.2 billion) was in the ratio of 26.9:73.1. Total multilateral and bilateral debt, which are accumulated for the most part out of the loans received by the Government of India for development purposes under external assistance programme, accounted for 28.2 per cent.

6.87 Notwithstanding the increase in external debt in absolute terms, the major indicators of debt sustainability showed gradual improvement over the last few years (Figure 6.13).

6.88 According to the Global Development Finance Online Database of the World Bank, among the top 10 debtor countries of the developing

Box 6.5 Short-term suppliers' credits and FII investment in debt securities – Recommended practice and cross-country experience

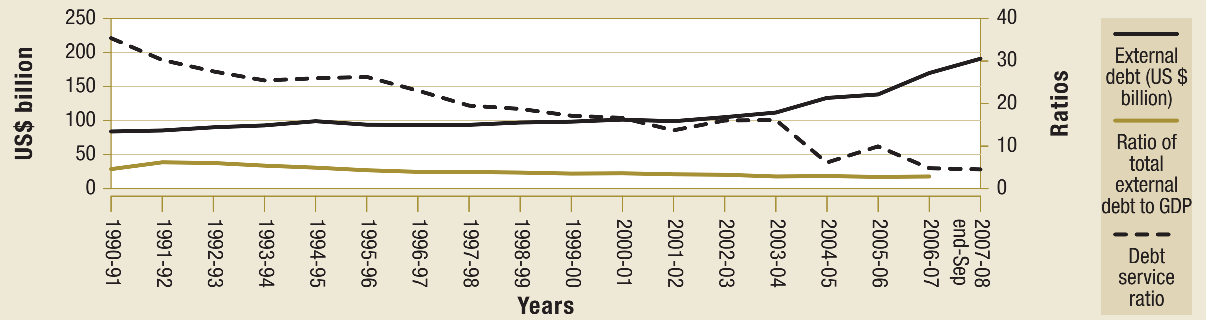
Recommended practice

The IMF recommended methodology for compilation and presentation of external debt statistics is articulated in the "External Debt Statistics: Guide for Compilers and Users, IMF 2003". The Guide recommends that external debt should be compiled and presented with explicit maturity breakdown – short-term and long-term – in order to provide a clear picture of emerging vulnerabilities to solvency and liquidity risks.

Cross-country experience

- *Suppliers' credits:* Cross-country experience shows that no uniform treatment is accorded to short-term trade-related credits. While the majority of industrialized countries is reported to have been included in all the varieties of trade-related credits, experience varies across the emerging economies. A BIS survey (2002) indicated that out of the sample of 32 countries, six countries including India and China did not appear to have a comprehensive coverage of such trade credits. The latest observation made from IMF's SDDS website and other country sources reveal that China includes delayed import payments of more than 180 days and above US$ 2,00,000 in short-term external debt. While Malaysia excludes trade credits of one year or less from short-term debt, Indonesia appears to include only trade credits of more than six months under short-term debt.
- *FII investment:* A number of countries, which allow FII investment in debt papers, compile and present such investment broken down by maturity. These include Ireland, Greece, Hungary, the Philippines and Lithuania. It is, however, noted that while many countries have significant external government debt reported under the long-term debt securities, very few countries report external government debt under the short-term debt securities (money market instruments), the main reason being that FII investments are not significantly channelled into this category of assets. An internal survey of select emerging economies indicates that most of the countries covered under the survey (Argentina, Brazil, Hong Kong, Korea, Singapore and Thailand) classify foreign portfolio investment in debt securities separately under long-term and short-term external debt.

Figure 6.13 India's external debt, ratio of external debt to GDP and debt service ratio



world, India's position was *fifth* in 2006 in terms of the quantum of external debt, after China, Russian Federation, Turkey and Brazil (Table 6.24). India had the second lowest debt service ratio among the top 10 debtor countries amongst the developing economies.

6.89 India's external debt to Gross National Income (GNI) ratio at 17.9 per cent in 2006 was the second lowest after China. The element of concessionality in India's external debt portfolio was the second highest after Indonesia. The ratio of India's short-term debt to forex reserves at 13.2 per cent in 2006 was the second lowest among the top 10 debtor countries.

Trade direction and composition

6.90 A comparison of the commodity-wise growth of major exports to the United States, the European Union and other countries shows the possible effect of a U.S. slowdown on India's exports of both primary and manufactured exports in 2006-07 and the first half of 2007-08. The appreciation of the rupee vis-à-vis the dollar was also a factor since the last quarter of 2006-07. The effects can be seen most clearly in exports of manufactured goods, which decelerated sharply to the United States and marginally to the European Union (last 5 columns of Table 6.25). In contrast there was a marginal acceleration in manufactured exports to the "rest of

Table 6.24 International comparison of top 10 debtor countries, 2006

Sl. No.	Country	External debt (US $ million)	Ratio of concessional debt to total debt (per cent)	Ratio of short-term debt to total debt (per cent)	Ratio of short-term debt to forex reserves (per cent)	Ratio of external debt to GNI (per cent)	Debt service ratio (per cent)
1.	China	322,845	10.9	53.7	16.0	12.0	3.1[a]
2.	Russian Federation	251,119	0.6	16.1	13.3	26.2	13.1
3.	Turkey	207,854	2.0	20.4	66.7	51.7	39.1[a]
4.	Brazil	192,053	1.3	10.6	23.7	18.5	44.8[a]
5.	**India**	**169,629**	**23.3** *(second highest)*	**15.5** *(fourth lowest)*	**13.2** *(second lowest)*	**17.9** *(second lowest)*	**4.8** *(lowest)*
6.	Mexico	160,700	0.9	4.6	9.6	19.3	18.9
7.	Indonesia	130,956	27.1	25.2	76.8	37.6	-
8.	Poland	125,831	0.9	17	44.1	38.7	24.8
9.	Argentina	122,190	1.1	28.7	109.4	58.6	31.8
10.	Hungary	107,677	1.1	13.9	69.2	102.2	33.6

Source: Data for India are as published by national authorities for 2006-07 and those for other countries are as at end-December 2006 as available on World Bank's Global Development Finance Online Database.
GNI: Gross National Income. -: Not available.
[a] Debt-Service pertains to 2005.

Table 6.25 Composition of exports by major markets

Commodity Group		Percentage share				CAGR	Growth rate[a]			
				April-September		2000-1 to			April-September	
		2000-01	2006-07	2006-07	2007-08	2004-05	2005-06	2006-07	2006-07	2007-08
Total exports	USA	100.0	100.0	100.0	100.0	10.3	26.1	8.7	14.7	4.7
	EU	100.0	100.0	100.0	100.0	14.2	27.6	15.0	16.3	20.8
	Others	100.0	100.0	100.0	100.0	20.4	21.2	29.2	34.9	19.7
Manufactured goods	USA	90.6	92.5	92.6	89.8	10.3	23.6	12.9	20.5	1.5
	EU	86.8	83.4	84.6	82.0	13.6	20.0	19.9	19.5	17.1
	Others	70.9	58.2	57.4	58.0	18.3	18.0	17.0	16.6	20.9
Textile incl. RMG	USA	33.5	21.3	21.5	19.6	-2.1	38.6	1.5	10.7	-4.7
	EU	29.2	21.6	22.6	17.6	6.0	41.2	3.5	9.0	-5.9
	Others	19.8	7.5	7.7	7.2	3.8	-3.3	11.0	104.8	11.8
Gems & jewellery	USA	13.2	25.2	24.2	24.8	34.7	8.0	8.8	9.2	7.0
	EU	11.5	7.6	8.0	8.3	5.0	33.5	1.7	4.0	24.5
	Others	13.9	11.4	11.4	12.1	24.5	11.5	0.3	-5.8	26.3
Engineering goods	USA	16.0	24.2	25.4	23.4	16.9	21.0	35.7	54.5	-3.8
	EU	14.0	25.2	24.3	27.2	16.4	68.3	46.1	33.7	35.0
	Others	17.2	22.4	21.7	22.3	29.1	13.6	35.9	52.2	23.3
Chemicals and related products	USA	11.1	9.6	8.8	9.1	0.6	38.1	24.1	30.8	7.6
	EU	9.7	11.0	11.1	10.7	11.6	47.3	24.2	26.2	15.9
	Others	12.5	11.7	11.6	10.6	25.1	8.0	16.7	28.7	8.9
Leather & leather manufactures	USA	13.1	1.7	1.7	1.6	-30.8	11.7	0.6	-5.1	-3.8
	EU	11.4	7.2	7.4	7.0	2.9	22.0	14.6	12.2	15.7
	Others	1.6	1.0	1.0	0.9	18.7	-8.1	11.3	3.6	12.5
Handicrafts (incl. Carpet-handmade)	USA	5.0	2.8	2.9	2.1	-3.1	30.6	-3.1	-0.1	-24.9
	EU	4.4	2.1	2.4	1.5	-1.6	21.8	7.0	13.4	-25.3
	Others	0.8	0.3	0.3	0.3	-9.2	56.8	15.3	-1.2	41.7
Primary products	USA	9.4	6.0	6.4	5.8	5.3	9.4	-3.5	-2.3	-4.9
	EU	13.1	9.1	9.3	8.7	7.8	13.6	13.0	13.2	13.6
	Others	19.8	19.2	16.6	16.5	20.9	20.9	23.2	21.9	19.3
Petroleum products and coal	USA	0.0	1.5	1.0	4.4	234.9	277.4	-60.8	-73.1	351.4
	EU	0.0	7.5	6.1	9.3	0.0	206.0	-19.4	-12.8	84.2
	Others	7.9	20.5	23.5	23.5	33.5	41.1	91.9	144.2	19.5

[a]Growth rate in US dollar terms.

the world" (world - US & EU) in the first half of 2007-08. Disaggregated data for India's exports to the United States shows that textiles, leather and manufacturers and handicraft exports performed poorly in 2006-07 and all subcategories including engineering goods and chemicals have decelerated in the first half of 2007-08. In the case of EU, the sharp deceleration in textiles and poor performance in handicrafts was substantially offset by reasonable growth in other manufactures in 2006-07 and the first half of 2007-08. Leather and leather manufactures exports have performed well in the case of exports to the world, EU and other countries, though they registered a negative growth to the United States. Handicrafts' shares have been steadily declining and the high growth of more than 30 per cent in 2005-06 was just a blip in an otherwise declining trend in this decade, a trend which may have been accentuated by rupee appreciation. Thus there seems to be a greater co-relation between the demand in partner country and the bilateral exchange rate on the one hand, and India's bilateral exports at a disaggregated level than is visible for total Indian exports to the world, on the other.

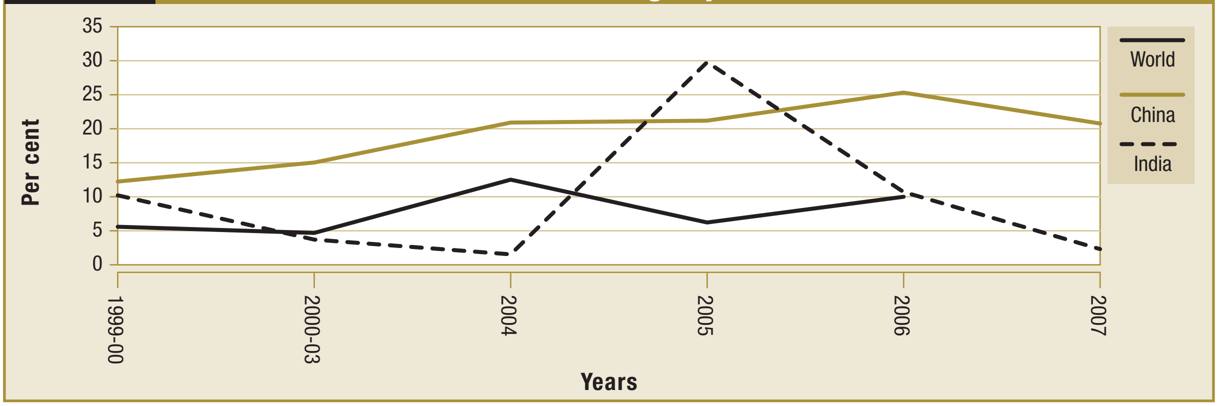
6.91 There is also a compositional change in the export basket to these major markets. While the share of manufactures in India's export basket has declined due to the relative rise in the share of exports of petroleum products, this trend has not affected the composition of India's export basket to the United States. The rise in the share of petroleum products exports to the United States (4.4 per cent) has been less sharp than that to the world (13.6 per cent).

Textiles and clothing

6.92 The 1 per cent growth of textiles and clothing (T&C) exports and the negative growth in major markets like the United States and the European Union in the first half of 2007-08 are matters of concern. In this sector, important in terms of both output and employment, China and India were considered to be the main beneficiaries of the dismantling of the textiles quota system in 2005. Though the growth in our T&C exports to the world accelerated sharply to 30 per cent in 2005, it reverted back to the trend levels in 2006 with a disappointing 10.5 per cent. China in contrast continued to raise its already high share of global T&C exports, with growth accelerating from 21 per cent in 2005 to 25 per cent in 2006, despite restrictive quotas by the United States and EU on China (Figure 6.14).

6.93 Though the 0.7 per cent point increase in India's share of global T&C exports between 2004 and 2006 was modest compared to the 6.3 percentage point increase of China (Table 6.26) it was significantly more than some other gainers, including Indonesia which raised its share by 0.2 percentage points and Pakistan by 0.1 percentage point. However, as per the WTO, Bangladesh and Vietnam performed very well in the U.S. and Europe markets in 2006. The growth rate of China and Indonesia was faster than that of India in 2006. A possible structural change in the direction of world textiles and clothing trade is indicated by a number of factors including, declining intra-NAFTA trade, stagnating intra-EU trade and loss of market share of advanced developing countries in East

Figure 6.14 Growth rate of textiles and clothing exports



Source: Till 2006, WTO and for 2007, calculated from World Trade Atlas data.

Note: Growth rate for the year 2007 for India, is from January to May 2007 and for China, January to November 2007.

Table 6.26 Textiles & clothing exports: India and its competitors

	Share in world exports (%)			Growth rate (%)	
	2004	2005	2006	2005	2006
World	100.0	100.0	100.0	5.9	9.7
China	20.9	23.8	27.2	20.9	25.0
Hong Kong, China	8.6	8.5	8.0	4.4	2.9
India	3.0	3.7	3.7	29.6	10.5
Turkey	3.9	3.9	3.7	7.3	3.0
Korea, Republic of	3.1	2.7	2.3	-8.8	-5.2
Pakistan	2.0	2.2	2.1	16.8	6.4
Taipei, Chinese	2.6	2.3	2.1	-6.0	-1.0
Indonesia	1.6	1.7	1.8	14.7	11.9
Bangladesh	1.5	1.7	N.A.	22.6	NA
Mexico	2.1	2.0	1.6	-1.2	-9.8
Thailand	1.4	1.4	1.3	4.6	4.1

Source: WTO.

Asia. In addition, there has been a decline in exports of major developing suppliers in Central America and the Mediterranean region, which process textiles originating from developed countries. These changes have not affected the rising shares of China and some small Asian countries in the global textile market.

6.94 Indonesia, Vietnam, Cambodia and Bangladesh have outperformed India in 2006 in both the United States and EU clothing markets, while China and Pakistan have outperformed only in the United States. However, Hong Kong grew faster in the EU clothing market and part of China's exports are routed through it. India's clothing exports to Japan have grown at 29 per cent in 2005 and 23 per cent in 2006 the highest and third highest rate (after Myanmar and Tunisia), respectively, among top 20 suppliers. In the case of textiles, though China, Pakistan and Vietnam's exports to both the United States and EU have grown faster than India's in 2006, for the last two it was merely a recovery from negative growth in the previous year (Table 6.27). However, India's textiles exports to Japan have made little progress since 2004. Thus India's comparative export

Table 6.27 Textile and clothing imports of major importers by sources-growth rate (percentage)

Textiles	2005	2006	Clothing	2005	2006
USA from			**USA from**		
World	9.0	4.0	World	6.0	4.0
China	32.0	15.0	Mexico	-9.0	-13.0
India	14.0	11.0	China	47.0	15.0
Pakistan	15.0	12.0	Indonesia	20.0	27.0
Mexico	4.0	0.0	India	33.0	5.0
Bangladesh	-3.0	-3.0	Vietnam	6.0	18.0
Vietnam	-11.0	28.0	Bangladesh	20.0	23.0
Malaysia	-11.0	10.0	Cambodia	20.0	25.0
			Pakistan	9.0	13.0
EU (25) from			**EU (25) from**		
World	-2.0	5.0	World	5.0	8.0
EU (25)	-4.0	2.0	China	43.0	12.0
China	25.0	21.0	Turkey	4.0	2.0
Turkey	3.0	11.0	Bangladesh	-5.0	31.0
India	3.0	9.0	India	27.0	16.0
Pakistan	-12.0	13.0	Hong Kong	-13.0	46.0
Romania	5.0	22.0	Indonesia	-10.0	18.0
Egypt	2.0	11.0	Bulgaria	2.0	12.0
Bangladesh	1.0	27.0	Pakistan	-12.0	13.0
Vietnam	-7.0	33.0	Vietnam	8.0	50.0
			Thailand	-9.0	12.0
			Sri Lanka	-2.0	21.0
			Cambodia	-8.0	17.0
Textiles and clothing, January-November 2007					
USA from					
India			2.01		
China			20.5		

Source: WTO and calculated from World Trade Atlas.

performance in textiles and clothing in different markets in 2006 is mixed.

6.95 In 2006-07 and 2007 (April-September), India's textiles and clothing exports grew only by 5.7 per cent and 1.2 per cent, respectively, while that of China grew by 21.4 per cent in 2007 (January-November). In 2007 (January-November), while U.S. imports of textiles and clothing from the world grew by only 3.8 per cent, affecting imports of T&C from India which grew by only 2 per cent, imports of T&C from China continued to grow at a robust 20.5 per cent.

6.96 Reasons for India's recent sluggish export performance in textiles and clothing include:

(i) Slowdown in demand from some major importers.

(ii) The depreciation of the US dollar, resulting in an appreciation of the rupee vis-à-vis competitor countries that were partially or wholly pegged to the US dollar.

(iii) *Labour laws and scale economies:* Countries like China have historically had high labour flexibility in their export zones and/or export-oriented units. Even Bangladesh had high labour flexibility. This has allowed them to achieve large scale in terms of the labour force employed in each manufacturing facility and to reap the benefit of scale economies and use of the latest/most advanced machinery from developed countries. India, in contrast, because of fragmentation of units and small scale (to avoid labour laws applicable to employees above 100 and procedural biases and rigidities), has purchased relatively less of such advanced machinery.

(iv) *Logistical delays and costs:* Though the national highways are improving, this is not true of connectivity to all sources and destinations. The recent introduction of competition into railway container transport will gradually improve services. However, the traditional monopoly of railway freight services and internal container depots results in inordinate delays and costs that are not acceptable to importers. The turnaround time in major ports of India and movement of cargo between ships and source/destination within India is still plagued by monopolistic bureaucratic structures with little accountability and incentives for efficient service delivery to the exporter/importer.

(v) High cost of power in India which is 1.5-2 times higher than in competing nations.

6.97 Textile industry has a market size of US$ 52 billion and accounts for 26 per cent of the manufacturing sector, 20 per cent of industrial production and 18 per cent of industrial employment. It contributes 15 per cent to gross export earnings and 4 per cent to national GDP. Its market size potential for the industry is envisaged at US$ 115 billion by 2012. It provides direct employment to about 35 million persons. Besides, another 50 million people are engaged in allied activities. The textiles industry is estimated to create 12 million job opportunities — 5 million direct jobs in textile industry and 7 million jobs in allied sectors during the Eleventh Five Year Plan, 2007-12.

6.98 To tide over any difficulties emanating from the unexpectedly steep upsurge in rupee value, the Government announced relief to exporters with focus on labour-intensive, high value-added sectors like textiles (Box 6.6).

Export diversification

6.99 In 2006, India had a global export share of 1 per cent or more in only 36 out of a total of 99 commodities at the two-digit level. In these 36 items, India had a significant world export share of 5 per cent or more only in eight items. Five of these have had an increase of global share by 0.5 per cent point or more between 2002 and 2006, while three have lost global share (Table 6.28). The former are carpets and other textile floor coverings, lac, gums, resins, vegetable saps and extracts not elsewhere specified (n.e.s.); ores, slag and ash; other made textile articles, sets, worn clothing; vegetable plaiting materials and vegetable products n.e.s. The latter are silk, pearls, precious stones, etc.; and cotton.

6.100 A comparison of the top 59 items of world imports at three-digit SITC (Rev. 2) level with a share of 0.5 per cent and above with similar exports of India and China shows the following:

(i) The CAGR (2006/2001) for these top 59 world imports is high and generally above 10 per cent.

Box 6.6

Adjustment assistance for textiles industry

The measures taken to tide over the effect of unexpected appreciation include:

- Revision in drawback rates and Duty Entitlement Pass Book (DEPB) rates.
- Additional subvention of 2 per cent (besides the 2 per cent subvention given earlier) in pre-shipment and post-shipment credit to textiles including ready-made garments and carpets but excluding man-made fibre.
- Concessional customs duty on items relating to textiles sector like textile machinery items of spinning, weaving, processing and ready-made garment at 5 per cent and 10 per cent as against normal customs duty of 12.5 per cent.
- Reduction in customs duty on intermediates for PSF and PFY, viz., polyester chips, DMT, PTA & MEG from 7.5 per cent to 5 per cent and on paraxylene (a raw material for PTA) from 2 per cent to nil.
- De-reservation of the hosiery and knitwear from the SSI sector.
- More than doubling of disbursements for more than triple the number of applicants in 2006-07 under the Technology Upgradation Fund Scheme (TUFS).
- Approval for the two flagship schemes, the TUFS and the Scheme for Integrated Textile Parks (SITP) for continuation in the Eleventh Five Year Plan and substantial scaling up of the TUFS in 2006-07

(ii) In the top 59 items of world imports in 2006, India had a share of 1 per cent and above in 17 items, with significant shares of 4 per cent and above in only 4 items, while China had a share of 1 per cent and above in all but 6 items and significant shares of 4 per cent and above in 35 items;

6.101 The ranking of these items by the gap between China's world export share and India's, with a cut-off at 7.3 per cent (the gap in total export shares) can help in identifying potential avenues for diversification. Table 6.29 reveals a number of labour-intensive items like outer garments, sound recording equipment, toys, games and sporting goods, ADP machines, household equipment, furniture and television receivers. Other potential areas for diversification include, optical instruments, telecom equipment, electrical machinery and heating and cooling equipment. The top items in world imports with high CAGRs include passenger motor cars, telecommunications equipment, medicinal and pharmaceutical items, automatic data processing machines, electrical appliances and machinery and furniture.

Direction of trade

6.102 The directional pattern of India's trade has changed during the decade. Trade with the top 12 trading partners increased by over 11.2 percentage

Table 6.28 Share of India's major exports (with ≥ 1% share) in world exports and change in share
(only items with either 5 per cent share in 2006 or increase in share of 0.5 per cent are shown here)

HS rev.1	Product	2002	2005	2006	Change
57	Carpets and other textile floor coverings	7.3	9.6	11.1	3.8
26	Ores, slag and ash	4.1	6.4	6.8	2.7
14	Vegetable plaiting materials, vegetable products n.e.s.	3.9	5.7	6.4	2.5
67	Bird skin, feathers, artificial flowers, human hair	2.0	3.7	3.8	1.9
46	Manufactures of plaiting material, basketwork, etc.	0.3	0.1	2.0	1.7
23	Residues, wastes of food industry, animal fodder	1.4	3.8	3.0	1.5
79	Zinc and articles thereof	0.2	0.5	1.7	1.4
13	Lac, gums, resins, vegetable saps and extracts n.e.s.	10.0	11.4	11.3	1.3
68	Stone, plaster, cement, asbestos, mica, etc articles	2.0	2.3	2.8	0.8
63	Other made textile articles, sets, worn clothing etc.	6.1	7.1	6.8	0.7
41	Raw hides and skins (other than furskins) and leather	2.2	2.4	2.8	0.6
29	Organic chemicals	1.3	1.8	1.9	0.6
64	Footwear, gaiters and the like, parts thereof	1.3	1.6	1.8	0.5
50	Silk	12.9	12.3	10.2	-2.7
71	Pearls, precious stones, metals, coins, etc.	7.6	8.2	6.4	-1.2
52	Cotton	5.9	6.3	5.4	-0.5

Source: Calculated from NCTI data based on UN-ITC Trade Map Data, 2006.

Table 6.29 World Imports with 0.5 per cent share and large gap between shares of India and China in 2006

Rank in World imports	Product	Product Name	World imports Value (US$ billion)	World imports CAGR 2006/2001 (%)	World imports Share in world imports (%)	Share in world exports 2006 (%) India	Share in world exports 2006 (%) China	Share of India minus China
34	845	Outer garments and other articles, knit	80.7	7.6	0.7	1.7	38.8	-37.1
45	763	Gramophones, dictating, sound recorders, etc.	65.5	17.2	0.6	0.0	34.5	-34.5
28	894	Baby carriages, toys, games and sporting goods	91.5	9.0	0.8	0.2	33.5	-33.3
42	851	Footwear	72.4	8.7	0.6	1.6	34.2	-32.6
8	752	Automatic data processing machines	302.7	8.7	2.6	0.1	31.3	-31.2
35	843	Outer garments, women's, of textile fabrics	78.3	8.9	0.7	4.5	30.1	-25.6
39	775	Household type, electrical & non-electrical equipments	73.8	12.8	0.6	0.2	25.1	-24.9
46	871	Optical instruments and apparatus	63.0	38.8	0.5	0.0	24.7	-24.7
59	846	Undergarments knitted or crocheted	52.8	9.5	0.5	4.4	27.9	-23.5
6	764	Telecommunications equipment and parts	395.0	14.1	3.4	0.1	20.2	-20.1
20	821	Furniture and parts thereof	116.8	12.7	1.0	0.4	19.6	-19.2
54	771	Electric power machinery and parts thereof	56.8	9.8	0.5	1.2	20.0	-18.8
36	761	Television receivers	76.4	22.7	0.6	0.1	17.1	-17.0
11	759	Parts of and accessories suitable for 751 or 752	218.2	9.3	1.9	0.1	15.7	-15.6
24	893	Articles of materials described in division 58	101.8	12.1	0.9	0.6	13.6	-13.0
14	778	Electrical machinery and apparatus, nes	158.8	11.1	1.3	0.3	12.7	-12.4
27	699	Manufactures of base metal, n.e.s.	96.2	13.4	0.8	0.8	12.0	-11.2
38	741	Heating & cooling equipment and parts	74.3	12.7	0.6	0.5	11.0	-10.5
52	716	Rotating electric plant and parts	58.7	11.2	0.5	1.1	10.9	-9.8
41	773	Equipment for distributing electricity	72.5	12.7	0.6	0.6	10.2	-9.6
13	772	Electrical appliances such as switches, relays, etc.	160.7	12.7	1.4	0.4	9.7	-9.3
51	673	Iron and steel bars, rods, angles & shapes	58.7	20.5	0.5	1.2	9.6	-8.4
55	678	Tubes, pipes and fittings, of iron or steel	56.5	19.8	0.5	2.3	10.0	-7.7
40	672	Ingots and other primary forms, of iron or steel	72.6	22.9	0.6	2.3	9.8	-7.5
		Total of items with 0.5% share in world exports	**9676.3**	**13.8**	**81.8**	**0.9**	**8.2**	**-7.3**

Source: Prepared from NCTI data based on UN-ITC Trade Map Data, 2006.

points since 2001-02 to 53.8 percentage of total in 2006-07. The share of the United States, the largest trading partner, declined by 2.5 percentage points to 9.8 per cent in 2006-07, while that of the United Kingdom and Belgium declined by 1.9 and 2 percentage points, respectively (Table 6.30). China became the second largest partner in 2006-07 with its share increasing by 5.2 per cent points over the decade. China's trade share during April-September 2007 is ahead of the United States.

6.103 With rising POL prices, and India's rising exports of refined POL products, the United Arab Emirates (UAE) and Saudi Arabia have emerged as the third and fourth largest trading partners of India. There is a perceptible change in the share of India's trade with Iran and Nigeria (due to rise in import of mineral fuel and oil, etc.) and Australia (due to rise in import of precious stones, metals, mineral fuel and oil, and ores), while the share of Singapore after increasing in some years has moderated.

6.104 Despite India's large overall trade deficit, there was a large (but declining) trade surplus with the United States and UAE, and a small surplus with the United Kingdom and Singapore till 2006-07. The surplus with the first three countries continued in 2007-08. The largest trade deficits are with Saudi Arabia, China and Switzerland. The trade deficit with China has increased further in April-September 2007.

6.105 In terms of export destination, the United States continued to be the principal destination accounting for 14.9 per cent of India's total exports in 2006-07, followed by UAE (9.5 per cent), China (6.6 per cent), Singapore (4.8 per cent) and U.K.

Table 6.30 India's trade and export/import ratio with major trading partners

Trd Rnk	Country	Share in total trade (per cent) 2001-02	2002-03	2005-06	2006-07	April-September 2006-07	April-September 2007-08	Export/Import ratio[a] 2001-02	2006-07	April-September 2006-07	April-September 2007-08
1	USA	12.3	13.5	12.8	9.8	9.7	8.9	2.7	1.5	1.9	1.5
3	UAE	3.6	3.8	6.2	6.6	7.1	7.4	2.7	1.4	1.4	1.2
7	UK	5.0	4.6	4.3	3.1	3.1	3.0	0.8	1.3	1.4	1.2
5	Singapore	2.4	2.5	4.2	3.7	4.2	3.6	0.7	1.1	1.3	0.9
12	Belgium	4.4	4.7	3.6	2.4	2.4	2.5	0.5	0.8	0.8	0.8
6	Germany	4.0	4.0	4.6	3.7	3.7	3.6	0.9	0.3	0.5	0.5
10	Australia	1.8	1.6	2.7	2.5	2.6	2.7	0.3	0.1	0.1	0.1
11	Nigeria	0.7	0.5	0.5	2.5	2.9	2.3	6.5	0.1	0.1	0.1
9	Iran	0.6	0.8	0.9	2.9	3.1	3.2	0.9	0.2	0.2	0.3
8	Switzerland	3.4	2.4	3.3	3.1	2.8	3.5	0.1	0.1	0.1	0.0
2	China	3.1	4.2	8.4	8.3	7.7	8.9	0.5	0.5	0.4	0.3
4	Saudi Arabia	1.4	1.3	1.6	5.1	5.6	5.3	1.8	0.2	0.2	0.2
	Total (1 to 12)	**42.6**	**43.7**	**53.0**	**53.8**	**55.0**	**54.8**	**1.0**	**0.6**	**0.6**	**0.5**

Source: Computed from DGCI&S data.

a The coefficient of export import ratio between 0 and 1 implies that India's imports are greater than exports and if the coefficient is greater than one, India exports more than what it imports.

(4.4 per cent). Region-wise, over half of India's exports in April-September 2007 were to Asia (including ASEAN), up from around 40 per cent in 2001-02. During this period exports to Africa grew by 33.9 per cent, to Asia (including ASEAN) by 16.5 per cent, to Europe by 23.2 per cent and to the United States by only 5 per cent. India's merchandise exports to South Asian countries increased by 16.6 per cent in 2006-07 compared to the 20.5 per cent growth in 2005-06. Growth in exports to Iran, Saudi Arabia, Belgium and Japan was good. Exports to Singapore have declined by 13.1 per cent in April-September 2007.

6.106 In 2006-07, Asia and ASEAN continued to be the major source of India's imports accounting for 57.5 per cent of total imports. Country-wise, imports from China recorded high growth of 60.1 per cent over and above the 53.1 per cent growth in the previous year. Growth of imports from EU-27 (with a share of 18.3 per cent) was high at 33.8 per cent. Growth of imports from North America (with a share of 7.4 per cent) was also high at 36.1 per cent. In recent years, India witnessed a major change in its direction of trade in general and with China in particular. India's export to China, in US dollar terms, was growing at the rate of 20.4 per cent and 22.7 per cent for the years 2005-06 and 2006-07, respectively. The main items of exports to China are iron ore, primary and semi-finished iron and steel, non-ferrous metals, plastic and linoleum products, dyes, intermediate coal tar chemicals, drugs, pharmaceuticals and petroleum products. Of these items, the share of iron ore, plastic linoleum products, and primary and semi-finished iron and steel has been declining, while the shares of dyes, intermediate coal tar chemicals, and petroleum products have been increasing.

6.107 India's imports from China has increased at a faster rate of 53.1 per cent and 60.1 per cent in 2005-06 and 2006-07, respectively. The principal items of imports are electronic goods, machinery except electrical and electronic, organic chemicals, iron and steel, coal coke and briquettes, etc. Of these items, the share of machinery has increased from 4.5 per cent in 2003-04 to 10.6 per cent in 2006-07. Similarly, the share of iron and steel increased from 0.8 per cent to 8.5 per cent for the same period, while the share of electronic goods, organic chemicals and inorganic chemicals are declining. India's export policy with respect to China needs to be carefully planned as the current exports are tilted towards a single item, i.e., iron ore (44 per cent share in April-September 2007-08) which needs to be conserved for future development. The other major item is non-ferrous metals (6 per cent share). Besides the demand for these items may fall once the major sports activities like Olympics come to an end in 2008. Thus there is a need for diversification in India's exports to China.