

## DIRECTION AND COMPOSITION OF TRADE

6.102 The directional pattern of India's trade has changed during the decade. Trade with the top 16 trading partners increased by over 3.6 percentage points since 2003-04 to 58.9 percentage share of total in 2007-08. The share of the United States, the largest trading partner, declined by 1.5 percentage points to 10.1 per cent in 2007-08, while that of the United Kingdom and Belgium declined by 1.6 and 2 percentage points, respectively (Table 6.26). The share of China, the second largest partner in 2007-08 increased to 9.2 per cent in 2007-08 from 4.9 per cent in 2003-04. China became the largest trading

partner of India in April-February 2008 with trade share of the United States falling drastically by 2 percentage points compared to 2007-08

6.103 With rising POL prices resulting in higher import values 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. In 2008-09 (April-February), the share of UAE, Hong Kong, Korea Republic, Belgium, Indonesia, South Africa and Brazil has increased.

6.104 Though India had a large overall trade deficit, it had a trade surplus with the United States, UAE, United Kingdom, Hong Kong, Belgium, Italy and

Table 6.26 : India's trade and export/import ratio with major trading partners

Sl. Countries No.	Share in total trade (percent)						Export/import ratio <sup>a</sup>		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (Apr-Feb)	2006-07	2007-08	2008-09 (Apr-Feb)
1. China PRP	4.9	6.5	7.0	8.3	9.2	8.6	0.5	0.4	0.3
2. USA	11.6	10.6	10.6	9.8	10.1	8.2	1.6	1.0	1.2
3. UAE	5.1	6.1	5.1	6.6	7.0	8.1	1.4	1.2	1.0
4. Saudi Arabia	1.3	1.4	1.4	5.1	5.6	5.6	0.2	0.2	0.2
5. Germany	3.8	3.5	3.8	3.7	3.6	3.6	0.5	0.5	0.6
6. Singapore	3.0	3.4	3.5	3.7	3.7	3.3	1.1	0.9	1.1
7. UK	4.4	3.7	3.6	3.1	2.8	2.6	1.3	1.4	1.0
8. Hong Kong	3.3	2.8	2.6	2.3	2.2	2.6	1.9	2.3	1.1
9. Korea RP	2.5	2.3	2.5	2.3	2.1	2.5	0.5	0.5	0.4
10. Japan	3.1	2.7	2.6	2.4	2.5	2.3	0.6	0.6	0.4
11.. Belgium	4.1	3.6	3.0	2.4	2.1	2.2	0.8	1.0	0.8
12. Indonesia	2.3	2.0	1.7	2.0	1.7	2.0	0.5	0.4	0.4
13. Italy	2.0	1.9	1.7	2.0	1.9	1.8	1.3	1.0	0.9
14. South Africa	1.7	1.6	1.6	1.5	1.5	1.6	0.9	0.7	0.3
15. France	1.7	1.8	2.5	2.0	2.1	1.3	0.5	0.4	0.9
16. Brazil	0.4	0.8	0.8	0.8	0.8	0.9	1.5	2.7	2.2
Total (1 to 16)	55.3	55.0	54.1	58.1	58.9	57.1	0.8	0.7	0.6

Source : Computed from DGCI&S data.

<sup>a</sup> The coefficient of exports and 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.

Brazil in 2007-08. During 2008-09 (April-February), India had a trade surplus with US, UK, Singapore, Brazil and Hong Kong with a sharp decline in the case of Hong Kong. The largest trade deficits were with Saudi Arabia and China as indicated by the export-import ratio (Table 6.26). One notable feature is the stabilization of India's export-import ratio at above 2 per cent with Brazil.

6.105 In terms of export destination, the United States continued to be the principal destination accounting for 12.0 per cent of India's total exports in 2008-09 (April-February), followed by UAE (10.8 per cent), China (5.1 per cent), Singapore (4.8 per cent), Hong Kong (3.7 per cent) and U.K. (3.6 per cent). Region-wise, over half of India's exports were to Asia (including ASEAN), up from around 40 per cent in 2001-02. During 2008-09 (April-February), exports to Asia (including ASEAN) grew by 6.9 per cent, to Europe by 10.2 per cent and to the United States by (-) 1.6 per cent. India's merchandise exports to South Asian countries declined by 5.2 per cent.

6.106 In 2008-09 (April-February), Asia and ASEAN continued to be the major source of India's imports accounting for 61.7 per cent of total imports. Country-wise, imports from UAE and China recorded high growth of 39.1 per cent and 13.3 per cent respectively. Growth of imports from EU-27 (with a share of 13.5 per cent) was at 12.3 per cent and from North America (with a share of 6.7 per cent) at 27.0 per cent.

6.107 A comparison of the commodity-wise growth of major exports to the United States, the European Union and other countries in the last year's Economic Survey had clearly shown the possible effect of a U.S. slowdown on India's exports in 2006-07 and the first half of 2007-08. Though the manufactured sector is the dominant sector in India's exports to all destinations, India's export basket to the United States is more dominated by manufactures compared to European Union and more so with respect to Others. Primary products have a share of 6.6 per cent, 7.8 per cent and 18.4 per cent in India's export basket to the United States, European Union

and Others respectively in 2008-09 (April-February). The share of petroleum, crude & products was low at 0.9 per cent in India's export basket to U.S. while it had a share of 11.5 per cent and 21.5 per cent in India's export basket to EU and Others.

6.108 Table 6.12 clearly shows that the U.S. slowdown which had affected India's exports in 2006-07 and 2007-08 worsened in 2008-09 (April-February) due to the global recession originating in the United States resulting in negative growth of India's exports to the United States at (-)1.6 per cent. In the case of EU and Other countries, India's export growth was robust in 2007-08, but in 2008-09 (April-February), the slowdown is visible on India's export growth, with export growth to EU and Other countries at 11.5 per cent and 6.6 per cent respectively. Unlike in 2007-08, the impact of global recession on India's exports to the United States was mainly in manufactured

goods, while primary products including agricultural products performed well though ores and minerals showed negative growth. In the case of EU and Others, the impact was more marked in the case of primary products than manufactures. India's export growth of textiles to the United States which had started decelerating in 2006-07 and turned slightly negative in 2007-08 continued this trend even during 2008-09 (April-February). In the case of India's exports to EU, textile exports growth which had decelerated in 2006-07 had actually picked up in 2007-08, but again decelerated to 0.9 per cent in 2008-09 (April-February). In the case of Others, textile export growth accelerated in 2006-07 and 2007-08 but decelerated slightly in 2008-09. Gems and jewellery sector was worst hit by the recent global recession. Gems and jewellery exports of India to the United States in 2008-09 (April-February) were

### Box 6.9 : Export of gems and jewellery

Gems & jewellery (G&J) sector which has been identified as one of the thrust sectors under special focus initiatives under the Foreign Trade Policy 2004-09, continued to be one of the leading sectors in terms of its contribution to foreign exchange earnings and employment generation and accounted for about 12 per cent of India's total merchandise exports in 2007-08. This sector consists of three subsectors, namely cut and polished diamonds; gold jewellery; and colour gemstones & other items with share in exports at around 70, 22 and 8 per cent respectively in 2007-08. USA, Hong Kong, UAE, Belgium & Israel are the major markets for G&J exports, with Hong Kong being the largest market of G&J exports from India accounting for about 26 per cent of India's G&J exports in 2007-08.

The G&J industry is extremely global in nature - given the geographic dispersion of the value chain - from mining of gold, diamonds, and platinum in Africa, Canada, Australia, and Russia to polishing and jewellery manufacturing in India, China, and Turkey and marketing in the United States, European Union, Japan, Middle East countries and the emerging markets of China and India. The current global financial crisis, along with other developments like volatile prices of precious metals, etc. has impacted the export performance of the industry.

The sector has seen ups and downs in the recent past. While G&J export growth fell in 2006-07 due to U.S. slowdown, it recovered in 2007-08. It was however affected again by the global financial crisis resulting in a decline of 3.7 per cent during the period 2008-09 (April-February). The major impact was from the U.S. market where G&J exports of India registered a high negative growth of 18.5 percent in 2008-09 (April-February) over and above a low export growth in 2007-08. As per latest data of the Gems and Jewellery Export Promotion Council (GJEPC), overall exports of G&J increased by 1.45 per cent in US dollar terms (13.52 per cent in rupees term) in 2008-09. The marginal positive growth was mainly due to trading activity with reduction of import duty on cut and polished diamonds and other inputs. Export of cut and polished diamonds gold jewellery from DTA and coloured gemstones fell by 8.24 per cent, 27.77 percent, and 3.68 percent respectively. Main reasons for the poor performance of gems and jewellery exports are fall in consumer demand across the world, build up of inventories due to lack of sufficient demand and liquidity problems. The Government is constantly monitoring the situation and has taken a number of steps to address the impact of the crisis which, among others, include removal of import restrictions on worked corals, allowing personal carriage of gold in primary form up to 10 kilograms in a financial year subject to RBI and customs guidelines for authorized person of G&J units in EOU, expanding the list of nominated agencies for the purpose of import of precious metals, etc.

While the current global economic crisis is likely to continue for the next year as well, better export performance once the existing economic downturn passes by would depend on among others, the following; forward integration of diamond processing sector to jewellery manufacturing, where the value addition achieved is the highest; moving up the value chain by the jewellery manufacturing sector to more high-end jewellery with bigger size diamonds and precious stones in addition to daily wear jewellery with smaller diamonds; developing new and emerging markets like China, CIS countries, Middle East, Far East and Latin American countries, besides retaining the share in existing markets; developing and establishing "Indian Brands" overseas; making India a gem and jewellery trading hub; adopting latest quality standards; promoting traditional handmade jewellery in the international market, and investment in exploration and mining of diamonds and precious metals in overseas countries.

highly negative at (-)18.5 per cent, while it was slightly negative in the case of India's exports to EU and decelerated to single digit in the case of India's exports to others (Box 6.9).

6.109 In 2008-09 (April-February), engineering goods export growth was robust in all the three markets. chemicals and related product export growth was reasonably good to U.S. and EU markets despite the deceleration, while it was low in the case of others. Leather and leather manufactures exports of India showed varied performance, with acceleration to 14.3 per cent to U.S. after a negative growth for the past few years. It decelerated sharply to EU market to 3.8 per cent and showed negative growth in Others. Handicrafts including carpet handmade which has been showing negative export performance in the U.S. market in the last few years, turned highly negative in the first nine months of 2008-09. In the EU market it was negative only in 2007-08 and in 2008-09 (April-December). In the Others also it turned highly negative in 2008-09 (April-February) after a buoyant performance in 2007-08. Thus the impact of the global recession was more marked in the case of India's exports to U.S. than EU and Others particularly in sectors like textiles, gems and jewellery, handicrafts including carpets and ores and minerals. Engineering goods and chemicals and related products exports which were not affected till 2008-09 (April-February) registered negative growth in January-March 2009 as per the latest data on imports from India of some countries like China and the United States. For example, China's imports from India for the above period of inorganic and organic chemicals registered (-)8.3 per cent and (-)29 per cent growth respectively, while machinery and

electrical machinery registered (-)13 per cent and (-)0.4 per cent growth respectively. In the United States, imports from India's major items under chemicals like pharmaceuticals registered negative growth of (-)49 per cent though organic chemicals showed a small positive growth of 5 per cent. Major engineering items imported from India by U.S. like machinery other than electrical and electrical machinery registered growths of (-)7 per cent and 1 per cent respectively. While iron and steel products grew by only 9 per cent, iron and steel registered negative growth of (-)68 per cent.

### Export diversification

6.110 In 2007, India had a global export share of 1 per cent or more in 44 out of a total of 99 commodities at two digit HS level, but a significant share of 5 per cent or more only in eight items (as in 2006). Only one of these items, namely cotton had an increase in global share by 1.11 per cent point or more in 2007 over 2006. Four items lost global shares which include silk; carpets and other textiles floor coverings; other made textile articles, sets, worn clothing, etc; and coffee, tea, mate and spices. In the remaining 36 items 15 items lost their share in 2007 over 2006 (Table 6.27).

6.111 Though India has been diversifying its exports, there is plenty of scope to diversify into sectors where global demand is high and increasing (Box 6.10). Countries closely integrated with the global trading system have joined the process of exporting dynamic products by continuously restructuring their production bases with efficiency, improved productivity and constantly improving their global share in exports.

**Table 6.27 : Share of India's major exports in world exports**

HS rev 1		(in per cent)		
		2006	2007	Change
50	Silk	11.48	10.66	-0.82
13	Lac, gums, resins, vegetable saps and extracts nes	10.20	10.25	0.05
57	Carpets and other textile floor coverings	9.46	8.78	-0.68
52	Cotton	7.58	8.69	1.11
71	Pearls, precious stones, metals, coins, etc.	6.67	6.82	0.15
63	Other made textile articles, sets, worm clothing etc.	6.24	5.76	-0.48
9	Coffee, tea, mate and spices	5.34	5.28	-0.05
67	Bird skin, feathers, artificial flowers, human hair	4.69	5.07	0.37
53	Vegetable textile fibres nes, paper yarn, woven fabric	4.03	4.79	0.75
55	Manmade staple fibres	3.53	4.15	0.62
17	Sugar and sugar confectionery	2.56	3.72	1.16

Source : Calculated from NCTI data based on UN-ITC Trade Map Data, 2007.

**Box 6.10 : Global demand and India's exports of dynamic products**

Dynamic products are drivers of global exports growing rapidly with greater share in world trade. They are mainly technology-intensive manufactured exports and are more insulated against external shocks. Dynamic products are identified here based on the twin criteria of size of the market share and growth rate of items at four digit HS level.

The export products of the world (out of top 100 items) with a CAGR of 12 per cent for the period 1999-2001 (average exports) to 2004-06 (average exports) and share of 0.2 per cent are 42 in number. These are termed as world's dynamic export products here. For these items if matching exports of India with similar criteria of 12 per cent CAGR and 0.2 per cent share are taken then there are 21 such items.

These matching dynamic exports of India in the top dynamic export of the world include besides petroleum products, medicaments, medical and surgical instruments, iron and steel products, air or vacuum pumps, items of polymers, jewellery items, refined copper and alloys packaging articles, cyclic hydrocarbons, T-shirts, etc, prefabricated building structures, etc. The CAGR of India in most of these items are high than world CAGR, but shares can be improved in the case of items like medical and surgical instruments, air or vacuum pumps, packaging articles etc. In the remaining 21 items of world's dynamic export products, there is potential to increase India's shares. These include items like transmission apparatus for radio telephony, reception apparatus for television, diodes, transistors and similar semiconductor devices, compression- ignition internal combustion pistons, printed circuits, some electrical machines, orthopedic appliances etc.

**Dynamic export products in the top 100 export products of the world**

Rank	HS4	Description	World		India	
			CAGR	Share	CAGR	Share
3	2710	Oil (not crude) from petrol & bituminous mineral etc,	22.1	3.3	62.0	11.8
8	3004	Medicaments nesoi, mixed or not, in dosage etc	20.3	2.0	22.6	2.0
23	9018	Medical, surgical, instruments for dental or veterinary sciences	12.6	0.6	23.1	0.2
32	7208	Flat-roll iron & non-alloy steel not under 600mm wide, no	18.8	0.4	58.8	0.7
34	8414	Air or vacuum pumps, compressor & fans	12.1	0.4	26.8	0.2
40	3901	Polymers of ethylene, in primary forms	15.7	0.4	59.8	0.4
45	3907	Polyether, epoxides & polyesters, in primary forms	14.5	0.3	77.5	0.4
48	3920	Plates, sheets, film and not cellular, laminated, etc	12.0	0.3	22.6	0.3
50	7113	Articles of jewellery & parts, of precious metal	12.2	0.3	27.1	3.6
51	7403	Refined copper & copper alloys unwrought	19.4	0.3	90.8	1.0
52	7210	Flat-roll iron & non-alloy steel under 600mm wide	13.2	0.3	38.4	1.4
59	3923	Containers (boxes, bags etc), closurers etc, plastics	12.4	0.3	56.8	0.2
60	2902	Cyclic hydrocarbons	22.3	0.3	62.6	0.6
67	7219	Flat-roll stainless steel products, not under 600mm wide	19.2	0.3	63.6	0.3
68	7326	Articles of iron or steel, springs and leaves for springs	12.8	0.3	17.7	0.2
70	2601	Iron ores & concentrates, including roast pyrites	20.6	0.3	49.4	3.5
73	6109	T-shirts, singlets, tank tops etc, knit or crochet	12.5	0.2	18.6	1.1
80	7207	Semi-finished products of iron or non-alloy steel	22.6	0.2	61.2	0.2
82	3902	Polymers of propylene or other olefins, primary forms	17.3	0.2	37.7	0.4
83	7308	Structures & parts thereof, of iron or steel bridges roof	13.9	0.2	20.3	0.2
87	7304	Tubes, pipes etc, seamless, iron & steel	18.7	0.2	45.1	0.2

Note: CAGR for the period 1999-2001 (average exports) to 2004-06 (average exports)

Share : 2004-06 (average exports)

Source: Calculated from PC-TAS data ITC, Geneva for world exports and CMIE: India trades using DGCI&S data for India's exports