

INDIA'S MERCHANDISE TRADE

6.57 India's Foreign Trade Policy, 2004-09 announced on August 31, 2004 sought to achieve two major objectives, namely (a) to double the percentage of India's merchandise trade within five years; and (b) to use trade expansion as an effective instrument for economic growth and employment generation.

6.58 The export target of US\$ 75 billion set for the year 2004-05 was progressively increased under the policy to US\$ 160 billion for 2007-08. As compared to the targets, the actual export performance exceeded, year after year. For the year 2008-09, an export target of US\$ 200 billion was set

earlier and later it was revised to US\$ 175 billion. In 2008-09, the value of merchandise exports reached US\$ 168.7 billion with a growth of 3.6 per cent despite global recession, thus achieving 96.4 per cent of the revised export target. While export growth was robust till August 2008, it became low in September and became negative from October 2008 to March 2009 due to the global recession (Figure 6.3). The negative trend continued in April 2009 with export growth at (-)33.2 per cent.

6.59 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 in exports both in terms of

Figure 6.3 : Monthwise growth rate of exports and imports (in US \$ terms)

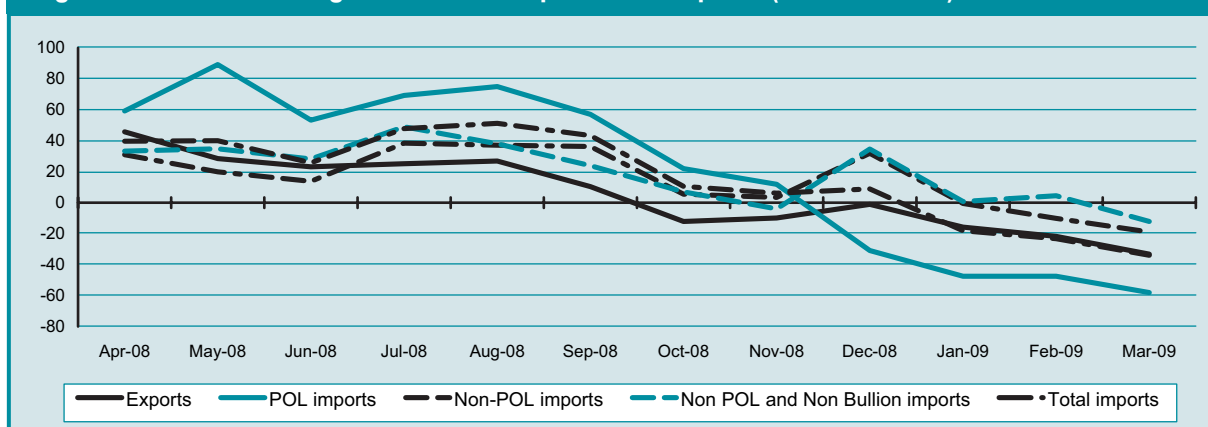


Table 6.9 : Performance of the foreign trade sector

(Annual per cent change)

	Exports			Imports			Terms of Trade	
	Value (in US\$)	Volume	Unit Value	Value (in US\$)	Volume	Unit Value	Net	Income
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	-10.9	5.0
2005-06	23.4	11.8	9.0	33.8	48.2	-10.7	22.7	36.9
2006-07	22.6	15.8	8.1	24.5	24.1	2.7	5.2	21.8
2007-08	28.9	5.4	8.8	35.4	27.2	-5.4	14.8	21.0
2008-09	3.6			14.4				

Source : Calculated on the basis of data from DGCI&S.

volume and unit value with a relatively higher growth of volume (Table 6.9). However, during 2007-08, export performance was dominated by growth in unit values at 8.8 per cent mainly due to the rise in commodity prices particularly iron ore, and other base metals and fuel prices particularly of petroleum products. Export volume growth on the other hand, at 5.4 per cent was very low compared to earlier years and was even lower than the growth in unit value mainly due to fall in export volumes of commodities like iron ore and other base metals and chemicals and related products.

6.60 The growth rate of the unit value index of imports has fluctuated widely since 2000-01 partly due to fluctuations in the global prices of oil and other commodities and partly due to unit value changes in machinery and transport equipment and chemicals and related products. During 2007-08, unit value index of imports registered a negative growth of (-) 5.4 per cent over 2006-07 mainly due to fall in unit values of machinery and transport equipment, miscellaneous manufactured articles and vegetable oils. Though the volume of imports has shown a rising trend since 2000-01, the 27.2 per cent growth in 2007-08 was the second highest in this decade mainly due to high volume growth of machinery and transport equipment, miscellaneous manufactured articles, chemicals and related products and vegetable oils. In the case of most of the major commodities determining the upward and downward movements of export and import growth in 2007-08, there is in fact an opposite movement of the unit value and volume indices.

6.61 The net terms of trade, which measures the unit value index of exports as a proportion of unit value index of imports, fell sharply in 2004-05 and increased in subsequent years mainly due to the sharp rise/fall in unit value index of imports. It moderated in 2006-07 registering a growth of 5.2 per cent and increased to 14.8 per cent in 2007-08. Income terms of trade, reflecting the capacity to import, continued to maintain the growth rate of around 21 per cent in 2007-08 as in the previous year.

6.62 India's share in world merchandise exports after remaining unchanged at 1.0 per cent between 2005 and 2006 reached 1.1 per cent in 2007 and continued to remain at that level in 2008. The increase in China's share of world exports between 2000 and 2008 at 5.1 percentage points is slightly less than one-half of the total increase in the share of developing countries over this period. However, China's export growth rate which was above 25 per cent in this decade till 2007 moderated to 17.3 per cent in 2008, while India continued to grow at around 21 per cent during 2006 to 2008. Brazil and Russia, with higher value of exports than India in absolute terms registered higher growth rate than India in 2008 (Table 6.10).

6.63 Merchandise imports grew by 35.4 per cent to US\$ 251 billion in 2007-08 due to the high growth of 39.4 per cent of POL and 33.6 per cent of non-POL. POL import growth was due to both volume

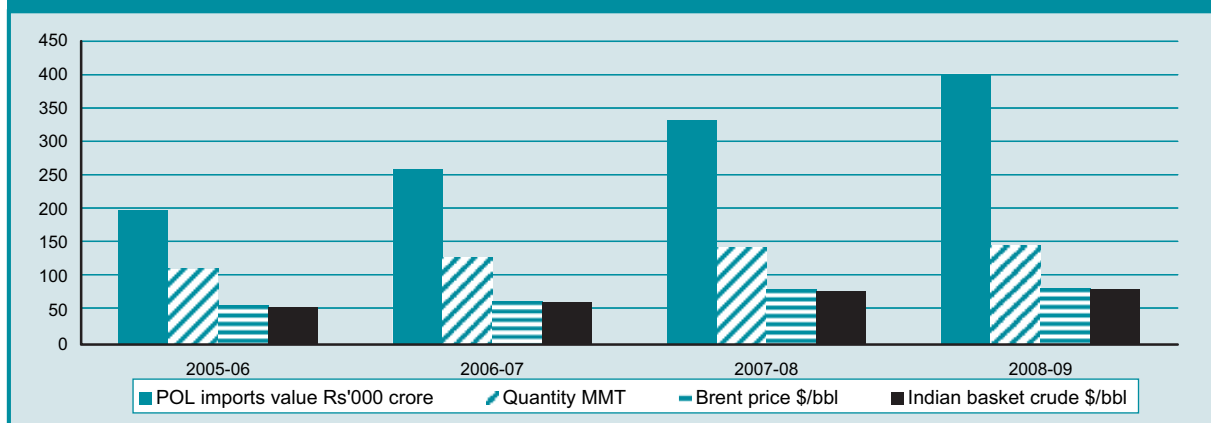
Table 6.10 : Export growth and share in world exports

	Value		Growth rate %			Share in world exports (%)				change in shares
	2008	2000-05	Annual			2000	2006	2007	2008	
			2006	2007	2008					
China	1429	25.0	27.2	25.6	17.3	3.9	8.0	8.8	9.1	5.1
Hong Kong	363	7.5	9.5	8.7	5.3	3.2	2.6	2.5	2.3	-0.9
Malaysia	210	7.5	14.0	9.6	19.1	1.5	1.3	1.3	1.3	-0.2
Indonesia	148	5.9	19.0	14.7	24.4	1.0	0.9	0.9	0.9	-0.1
Thailand	173	9.8	18.7	17.0	12.9	1.1	1.1	1.1	1.1	0.0
Singapore	338	10.8	18.4	10.1	13.0	2.2	2.2	2.2	2.1	0.0
India	176	18.6	21.3	20.3	20.7	0.7	1.0	1.1	1.1	0.4
Brazil	198	16.5	16.3	16.6	23.2	0.9	1.1	1.2	1.3	0.4
Mexico	292	5.2	17.1	8.6	7.3	2.6	2.1	2.0	1.8	-0.8
Russia	512	18.2	24.7	16.9	44.3	1.7	2.5	2.6	3.2	1.6
Korea	422	10.5	14.4	14.1	13.6	2.7	2.7	2.7	2.7	0.0
Emer.& Develop. Eco.	6052	16.5	22.7	14.7	21.1	26.0	36.0	36.2	38.4	12.4
World	15776	10.4	16.0	13.9	14.3	100.0	100.0	100.0	100.0	0.0

Source : IFS April, 2009 IMF

CAGR : Compound Annual Growth Rate

Figure 6.4 : POL imports



growth by 11.6 per cent and increase in import price of the Indian crude oil import basket by 27.3 per cent. While the price of Indian crude basket continued to be lower than the Brent price, the rise in Brent price at 28.3 per cent was higher than the rise in price of the Indian crude import basket (Figure 6.4).

6.64 Non-POL import growth was 33.6 per cent in 2007-08 compared to 22.2 per cent in the previous year. Non-POL non-bullion imports grew by 35.1 per cent reflecting the growing needs of imports for industrial activity and as inputs for exports.

6.65 During 2008-09 import growth was subdued at 14.4 per cent with growth in both POL and non-POL imports moderating to 16.9 per cent and 13.2 per cent respectively. Gold and silver imports registered negative growth of (-)7 per cent and non-POL non-bullion imports grew by 15 per cent. This was due to the global recession resulting in lower fuel prices with the Brent price rising by only 1.9 per

cent, and the price of the Indian crude import basket rising by 4 per cent; slowdown in industrial activity and lower demand for exports resulting in lower demand for imports needed for exports and industrial activity. In fact, import growth started declining from October 2008, with a one month lag from export growth and even turned negative from January to March 2009. The negative trend continued in April 2009 with import growth at (-)36.6 per cent. While oil import growth was lower at 58.5 per cent, non-oil import growth was lower at 24.6 per cent over April 2008.

6.66 Trade deficit increased to US\$ 88.5 billion (as per customs data) in 2007-08 and US\$ 119.1 billion in 2008-09 but fell in April 2009 by 42.8 per cent. Net POL imports grew at 32.4 per cent in 2007-08. During 2008-09 (April-February), the high growth of net POL imports continued with the huge oil price hike in the first half of 2008-09 (Table 6.11). Imports

Table 6.11 : Growth in POL trade and non-POL imports^a (US\$ terms)

	Total imports	POL imports	POL exports	Net POL imports	Non-POL imports	Gold & silver imports	Non-POL, non-gold & silver imports
2001-02	1.7	-10.5	12.0	-13.6	9.0	-1.2	10.6
2002-03	19.4	26.0	21.6	26.8	17.0	-6.4	20.3
2003-04	27.3	16.6	38.5	12.9	31.5	59.9	28.5
2004-05	42.7	45.1	95.9	34.4	41.8	62.6	39.0
2005-06	33.8	47.3	69.8	40.4	28.8	1.5	33.1
2006-07	24.5	30.0	59.3	19.1	22.2	29.4	21.4
2007-08	35.4	39.4	53.6	32.4	33.6	22.0	35.1
2008-09 (Apr-Feb)	21.8	22.4	3.5	32.7	21.5	10.1	22.9

Source : DGCI&S and own calculations

^a Growth rate in US dollar terms

of gold and silver are highly variable and have increased moderately in April-February 2008 after a high growth during 2006-07 and 2007-08.

Trade composition

6.67 High export growth in 2007-08 was due to the high growth of all the three major category of exports, namely, petroleum products with 53.6 per cent growth, manufactured goods with 21 per cent growth and primary products with 41.9 per cent growth. In the primary products sector, exports of agricultural and allied products grew by nearly 45 per cent. Export growth in manufactures was powered by the high growth of important items like gems and jewellery at 23.2 per cent and chemicals and related products at 22 per cent and moderate growth of engineering goods at 14.5 per cent and textiles including RMG at 11.8 per cent.

6.68 However, in 2008-09 (April-February) as a result of global recession, the overall growth of exports in US\$ terms was only 6.6 per cent compared to 29 per cent in the corresponding period of the previous year. Manufactured goods with 10.4 per cent registered double digit growth. Among the manufactured goods, engineering goods registered higher growth. Petroleum exports including coal witnessed a growth rate of only 3.5 per cent. While gems and jewellery, handicrafts, agriculture and allied items and ores and minerals exports registered negative growth, textiles including RMG and leather and leather manufactures showed low growth (Table 6.12).

6.69 There was relatively less change in the composition of imports than that of exports (Table 6.13). POL continues to be the single major item of import with its share stabilized at the 30-31 per cent level prior to 2007-08. This share increased to 32.8 per cent in 2008-09 (April-February) due to high rise in oil prices. The share of capital goods imports with high rise in 2007-08 fell sharply in 2008-09 (April-February) to 13.4 per cent partly due to relatively lower growth in imports of machinery and transport equipment as a result of global recession and partly due to rise in shares of POL and fertilizers in the import basket.

6.70 During 2008-09 (April-February) high import growth was registered by fertilizers (164.2 per cent) and edible oils (32.8 per cent) to meet domestic demand; pearls precious and semi-precious stones (76.5 per cent) due to revival of gems and jewellery exports and chemicals (24.3 per cent). Cereals import growth was highly negative and pulses import growth was slightly negative. POL import growth which was robust at 46.3 per cent during April-December 2009 due to unusually high crude oil prices in the first half of 2008-09, moderated to 22.4 per cent in April-February 2008-09 due to fall in crude oil prices. However as the world recession worsened and import growth became negative from January to March 2009, negative growth was registered in both POL and non-POL imports. Even non-POL non-bullion import growth declined and became negative reflecting the fall in exports and fall in demand for imports by industrial sector.

Table 6.12 : Composition of exports by major markets

	Percentage share			CAGR 2000-01 to 2005-06	Growth rate ^a		
	2000-01 (Apr-Mar)	2007-08 (Apr-Mar)	2008-09 (Apr-Feb)		2006-07	2007-08	2008-09 (Apr-Feb)
I Primary products							
World	16.0	16.6	14.6	17.3	19.8	41.9	-2.3
USA	9.4	5.9	6.6	6.1	-3.1	7.4	10.5
EU	13.1	8.9	7.8	8.9	17.0	21.5	-1.2
others	19.8	21.1	18.4	20.9	22.5	47.7	-3.2
(a) Agri & allied products							
World	14.0	11.6	10.6	11.0	23.5	44.9	-0.5
USA	9.0	5.6	6.3	5.8	-1.7	6.8	11.5
EU	11.9	7.8	7.1	7.4	17.8	25.1	3.0
others	16.8	13.9	12.5	13.0	28.6	53.4	-2.1
(b) Ores and minerals							
World	2.0	5.0	4.0	42.7	12.6	35.3	-6.6
USA	0.4	0.3	0.3	12.2	-25.3	19.5	-8.3
EU	1.3	1.1	0.7	19.9	12.5	0.6	-29.8
others	3.0	7.2	5.8	46.5	13.1	37.8	-5.3
I Manufactured goods							
World	78.8	64.4	68.3	16.1	16.9	21.0	10.4
USA	90.6	89.9	92.1	12.9	12.0	7.6	0.7
EU	86.8	78.5	80.5	14.8	18.7	22.8	12.5
others	70.9	55.0	59.8	18.2	18.0	25.0	12.6
(a) Textiles incl. RMG							
World	23.6	10.9	10.7	7.3	5.7	11.8	2.9
USA	27.2	19.2	18.5	9.4	1.5	-1.2	-4.6
EU	33.5	31.1	31.8	12.3	3.5	12.2	0.9
others	45.7	21.2	20.8	2.3	10.9	20.1	8.7
(b) Gems & jewellery							
World	16.6	12.1	11.2	16.0	2.9	23.2	-3.7
USA	29.3	24.0	20.2	9.9	8.8	4.6	-18.5
EU	11.5	7.6	6.7	10.1	1.7	28.5	-4.3
others	13.9	11.2	11.1	21.8	0.3	31.6	2.7
(c) Engineering goods							
World	15.7	20.7	23.9	25.0	38.1	14.5	23.0
USA	13.4	21.0	25.2	21.9	12.9	14.7	20.2
EU	14.0	22.9	26.8	25.3	30.6	31.1	30.4
others	17.2	19.9	22.6	25.8	47.0	9.4	20.8
(d) Chemical & related products							
World	10.4	10.7	11.0	20.9	19.1	22.1	11.3
USA	5.7	11.3	13.2	22.7	24.1	28.1	19.2
EU	9.7	11.0	11.1	17.9	25.7	27.1	14.7
others	12.5	10.4	10.5	21.5	16.2	19.4	8.5
(e) Leather & leather mnfrs.							
World	4.4	2.1	2.1	6.6	12.1	12.6	3.2
USA	3.7	1.4	1.7	-2.0	-4.2	-0.8	14.3
EU	11.4	6.4	6.2	6.5	11.0	19.5	3.8
others	1.6	0.8	0.8	12.8	21.7	2.5	-1.8
(f) Handicrafts including carpet handmade							
World	2.8	0.9	0.6	0.9	4.1	7.2	-26.4
USA	6.0	2.4	1.8	-0.8	-3.1	-4.7	-31.3
EU	4.4	1.6	1.2	2.7	7.1	-6.8	-17.0
others	0.8	0.4	0.3	1.2	15.2	65.6	-32.4
III Petroleum, crude & products							
World	4.3	17.8	16.8	43.8	59.3	53.6	3.5
USA	0.0	3.3	0.9	273.5	-60.8	138.8	-76.3
EU	0.0	11.8	11.5	377.4	-19.4	103.4	16.0
others	7.9	22.5	21.5	35.0	91.9	46.1	4.1
Total exports							
World	100.0	100.0	100.0	18.3	22.6	28.9	6.6
USA	100.0	100.0	100.0	13.3	8.7	9.8	-1.6
EU	100.0	100.0	100.0	16.7	15.6	28.5	11.5
others	100.0	100.0	100.0	20.6	29.0	33.5	6.6

Source : Calculated on the basis of data from DGCI&S, Kolkata

^a Growth rate in US dollar terms

Table 6.13 : Commodity composition of imports

Commodity Group	Share				CAGR 2001-02 to 2005-06	Growth rate (per cent) ^a			
	2001-02	2006-07	2007-08	2008-09 (Apr-Feb)		2006-07	2007-08	2008-09 (Apr-Feb)	
I. Food and allied products, of which	4.7	2.9	2.3	2.2	11.5	42.4	8.3	7.2	
1. Cereals	0.0	0.7	0.3	0.0	18.8	3589.7	-46.8	-93.9	
2. Pulses	1.3	0.5	0.5	0.4	-4.2	53.8	55.2	-4.6	
3. Edible oils	2.6	1.1	1.0	1.2	10.5	4.2	21.4	32.8	
II. Fuel, of which	29.5	33.2	34.2	36.4	33.3	29.0	39.4	25.3	
4. POL	27.2	30.8	31.7	32.8	33.1	30.0	39.4	22.4	
III. Fertilizers	1.2	1.6	2.0	4.8	33.8	52.4	66.2	164.2	
IV. Capital goods, of which	11.4	15.4	18.7	13.4	41.4	21.8	63.8	11.8	
5. Machinery except electrical & machine tool	6.2	7.5	7.9	7.3	36.8	24.9	43.3	7.1	
6. Electrical machinery	1.2	1.1	1.2	1.1	26.1	30.3	53.3	12.7	
7. Transport equipment	2.2	5.1	8.0	2.8	66.5	6.8	113.1	-1.8	
V. Others, of which	48.5	43.8	38.9	39.0	27.2	24.6	20.2	15.2	
8. Chemicals	6.8	5.2	4.9	5.3	25.1	14.1	25.9	24.3	
9. Pearls, precious & semi-precious stones	9.0	4.0	3.2	4.9	18.6	-18.0	6.5	76.5	
10. Gold & silver	8.9	7.9	7.1	6.8	25.4	29.4	22.0	10.1	
11. Electronic goods	7.4	8.6	8.2	7.4	36.8	20.6	29.3	6.4	
TOTAL IMPORTS	100.0	100.0	100.0	100.0	30.5	24.5	35.4	21.8	

Source : Calculated from DGCI&S data

^a Growth rate in US dollar terms