Merchandise Trade

13. According to the DGCI&S data, exports have been showing a decelerating trend since 1996-97. After three successive years of robust growth at an annual average of 19.7 percent (in U.S. Dollars) during 1993-94 to 1995-96, export momentum slowed down in 1996-97, with exports registering a modest growth of 5.3 per cent and decelerating further to 1.5 per cent in 1997-98. The performance continues to be worrisome in the current financial year with exports having registered a decline of 2.9 per cent during April-December, 1998 over the corresponding period of last year.

14. The growth in value of exports during 1996-97 and 1997-98 was largely contributed by a real growth in exports as indicated by the DGCI&S volume index of exports which is available only up to 1996-97. Depressed international commodity prices in 1997 and continued decline in global prices in 1998 point to a better performance of exports in volume terms in 1997-98 and beyond as compared to the value performance. According to the latest IMF World Economic Outlook, the world prices of manufactures (in U.S. Dollars), which constitutes three-fourth of our total exports, have declined cumulatively in the last three years ending 1998 by about 14 percent.

15. Both global and domestic factors have contributed to the slow down in export growth in India since 1996-97. The crisis in the ASEAN-4 and S. Korea has led to a shift in the current account of these countries (between 1996 and 1998) of U.S.$ 117 billion, reflecting mainly import contraction equal to 2 percent of world trade. Since the share of these countries in India's exports was about one-sixth (pre-crisis), India could not escape the fallout from the import compression of this magnitude. World merchandise exports (in U.S. Dollars) decelerated and grew at a rate of 4.1 per cent in 1996 and 3.4 per cent in 1997 following two years of high growth at 13.7 per cent in 1994 and 19.7 per cent in 1995. Developing countries' exports grew by only 5.7 per cent in 1997 as against 7.3 per cent in 1996 and 21.4 per cent in 1995 (Table 6.4). This trend continued in 1998 with world trade estimated to have decelerated even further.

16. Imports into the advanced economies, which are India's major trading partners slowed in U.S Dollars, reflecting both weak demand and also movements in cross currency exchange rates. The growth rate of imports of advanced economies decelerated from 18.2 per cent in 1995 to 3.7 per cent in 1996, and further to 2.5 per cent in 1997 (Table 6.5). In particular, imports by Japan and Germany declined in U.S. Dollars during 1997.

17. The recent slump in global trade and continued recessionary phase has caused not only import contraction, but has also triggered protectionist measures. The latter has taken the form of non-tariff barriers (NTBs) erected to restrict market access by (i) tighter requirements of quality, testing and labeling, and (ii) using investigations related to dumping and subsidies. The NTBs have added to uncertainty in trade and contributed to market disruption of our exports, especially of textiles, engineering items, chemicals and pharmaceuticals, and agricultural and marine products.

18. The recovery of exports was further hampered by the Rupee's appreciation in real terms in 1997 against the currencies of India's major trading partners because of the inflation differential. The movements of exchange rates during 1998, however, have, largely, corrected for the appreciation of the Rupee in real effective exchange rate terms (Fig. 6.1). Nevertheless, the movements in the value of the Rupee have been modest compared to the East Asian currencies. The cumulative depreciation of the Rupee since the onset of the East Asian crisis in July 1997 has been of the order of 15.7 per cent by end January, 1999 as against a depreciation of 73.4 per cent of the Indonesian Rupiah, 33.6 per cent of the Malaysian Ringgit, 31.4 per cent of the Philippines Peso, 24.4 per cent of the S. Korean Won, 29.9 per cent of the Thai Baht and 15.3 per cent of the Singapore Dollar (Fig. 6.2). Such large depreciations of these currencies have affected the price competitiveness of our exports. In particular, we have become less competitive in sectors like man-made yarn, fabrics, made-ups, finished leather and processed minerals. In overseas markets like the EU and the U.S., our competitiveness has been blunted in textiles, automotive parts, chemicals, iron ore, machinery and electronic goods.

19. Amongst the domestic factors that continue to hamper exports, infrastructure constraints, high transaction costs, SSI reservations, labour inflexibility, quality problems and quantitative ceilings on agricultural exports remain

TABLE 6.4
Exports of Selected East Asian Countries **(In US $ Billion)**

Country	1992	1993	1994	1995	1996	1997	1998@
China	84.9	91.0	121.1	148.8	151.2	182.9	133.8
		(7.1)	(33.1)	(22.9)	(1.6)	(21.0)	(3.6)
Malaysia	40.7	47.1	58.8	70.0	78.3	78.9	35.5
		(15.7)	(24.7)	(19.2)	(11.8)	(0.7)	(-9.9)
Indonesia	34.0	36.8	40.1	45.4	49.8	53.4	24.6
		(8.4)	(8.8)	(13.4)	(9.7)	(7.3)	(-3.9)
Singapore	63.5	74.0	96.8	118.3	125.0	125.0	55.3
		(16.6)	(30.8)	(22.1)	(5.7)	(-0.02)	(-10.4)
Thailand	32.5	36.8	45.1	56.5	55.7	57.5	40.6
		(13.3)	(22.7)	(25.1)	(-1.3)	(3.3)	(-4.9)
India	19.6	21.6	25.1	30.8	33.1	34.2	16.2
		(10.2)	(16.3)	(22.7)	(7.4)	(3.6)	(-5.8)
Developing Countries	1079.2	1134.5	1322.4	1604.9	1722.1	1820.5	851.8
		(5.1)	(16.6)	(21.4)	(7.3)	(5.7)	(-2.8)
World	3735.0	3718.3	4229.4	5062.8	5270.2	5451.3	2658.2
		(-0.4)	(13.7)	(19.7)	(4.1)	(3.4)	(-0.7)

Source : International Financial Statistics, December, 1998
@ : Data for 1998 in respect of China and Thailand are for 3 quarters; whereas data for remaining countries are for 2 quarters.
Figures within brackets show the percentage changes over previous year/previous period.

problematic. Sector specific issues contributing to sluggish exports include, *inter alia*, quota problems and constraints in increasing garments production in the textile sector, global recessionary conditions affecting demand for gems and jewellery exports, lease/renewal problems affecting granite exports, pollution control issues affecting leather exports, ceilings on export of iron ore, volatility of agricultural exports and restrictions and levies on inter-state movements of some export products.

20. Imports (in U.S. Dollars) have also decelerated in recent times, albeit on a relatively lower scale. After displaying a strong growth of 28 per cent in 1995-96, import growth declined to 6.7 per cent and further to 4.2 per cent, respectively, in 1996-97 and 1997-98. This

TABLE 6.5
Imports of India's Major Trading Partners
(In US $ Billion)

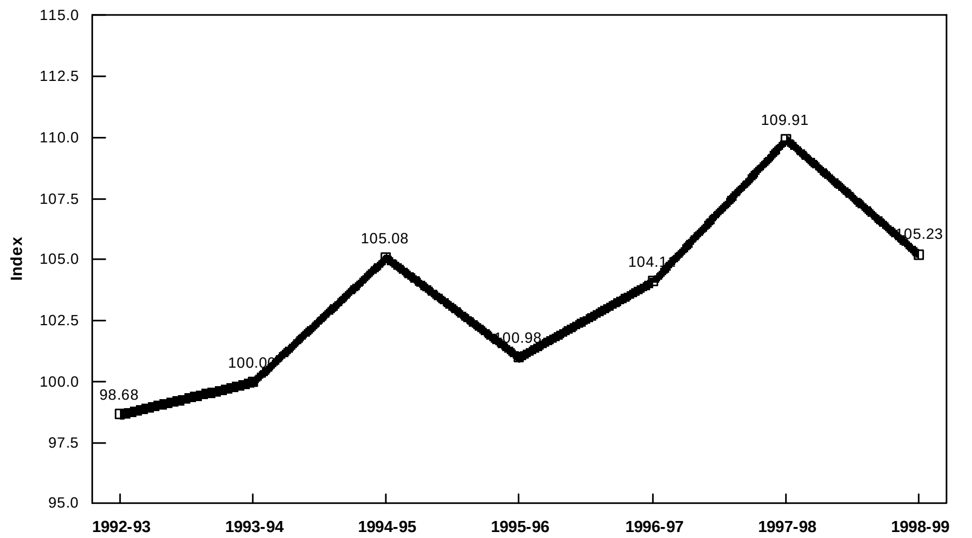
Country	1992	1993	1994	1995	1996	1997	1998@
U.S.A	**553.9**	**603.4**	**689.2**	**770.9**	**822.0**	**899.0**	**459.0**
		(8.9)	(14.2)	(11.8)	(6.6)	(9.4)	(6.5)
Japan	233.2	241.6	275.2	335.9	349.2	338.8	209.5
		(3.6)	(13.9)	(22.0)	(4.0)	(-3.0)	(-18.6)
U.K	221.6	205.4	227.0	263.7	286.0	311.4	156.8
		(-7.3)	(10.5)	(16.2)	(8.4)	(8.9)	(1.6)
Germany	402.4	346.0	385.4	464.3	458.8	445.5	337.2
		(-14.0)	(11.4)	(20.5)	(-1.2)	(-2.9)	(3.7)
Industrial Countries	2706.1	2547.6	2888.8	3413.4	3538.2	3626.9	1826.5
		(-5.9)	(13.4)	(18.2)	(3.7)	(2.5)	(2.0)
Developing Countries	1137.4	1233.5	1403.6	1708.4	1828.0	1927.6	867.0
		(8.5)	(13.8)	(21.7)	(7.0)	(5.4)	(-6.0)
World	3843.5	3781.2	4292.4	5121.9	5366.2	5554.5	2693.5
		(-1.6)	(13.5)	(19.3)	(4.8)	(3.5)	(-1.0)

Source : International Financial Statistics, December, 1998
@ : Data for 1998 in respect of Japan & Germany are for 3 quarters; whereas data for remaining countries are for 2 quarters.
Figures within brackets show the percentage changes over previous year/previous period.

deceleration was across the board, caused, among other factors, by weak domestic demand and a slow down in industrial activity. The declining international prices, especially of POL, has contributed substantially to this deceleration in import growth.

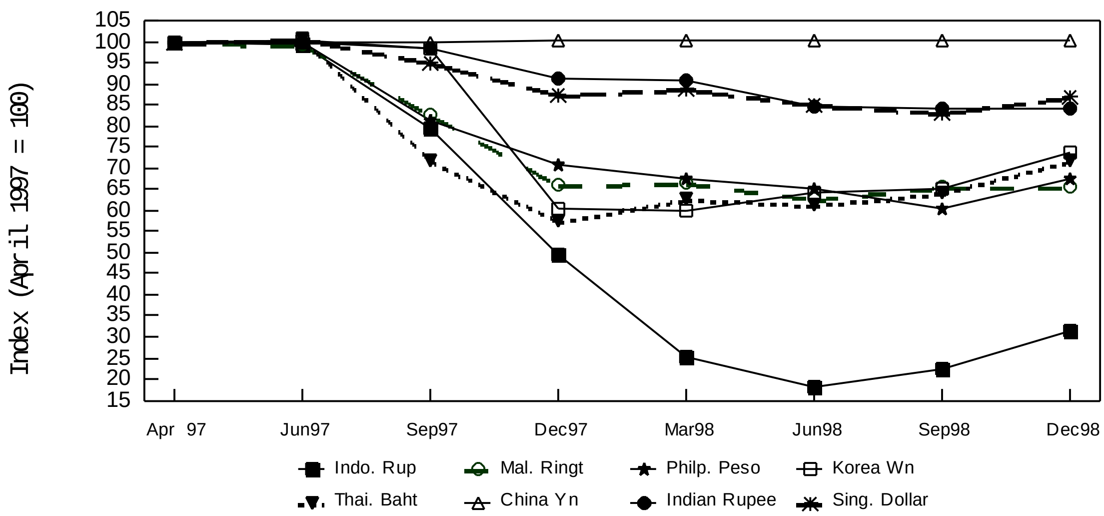
21. There has been a marginal deceleration in imports in the current financial year with imports during April-December, 1998 registering an increase of 7.1 per cent compared to a growth rate of 7.4 per cent during the corresponding period last year. POL imports have declined by 26.3 per cent due to continuing softness in international prices and slower growth of domestic industry. The sharp increase of Non-POL imports by 15.7 percent in the current financial year is mainly due to a spurt in the imports of gold and silver. Non-POL imports, net of gold and silver imports, have registered an increase of only 6.3 per cent during this period as against a higher growth rate of 11.9

Fig. 6.1 **10-Country REER Index of the Rupee with base 1993-94=100**



Note : An increase (decerease) in index means appreciation (depreciation) of rupee.

Fig. 6.2 **Indices of exchange rate of South East-Asian Currencies and Indian Rupee against US $ (monthly average)–US $ per local currency**



Note : An increase (decerease) in index means appreciation (depreciation) of local currency against the US dollar.

per cent in the corresponding period last year, thus pointing to continued sluggishness of domestic industry. Following placing of imports of gold and silver under a liberal import regime in October, 1997, these imports have increased sharply from U.S.$ 992 million in 1996-97 to U.S.$ 3701 million during the first nine months of the current financial year, and now constitute about 12 per cent of total imports. The bulk of this increase is on account of the shift in the recording of these imports from the baggage route to the DGCI&S reporting system. To moderate these imports, the customs duty on such imports was enhanced from Rs.250 to Rs.400 per ten grams with effect from January 5, 1999.

22. Imports of gold and silver are currently governed under a dual policy. In 1992, Non-Resident Indians were permitted to import gold, under the baggage rules on payment of duty. Subsequently, in 1994, Special Import Licenses (SIL) were introduced under which Export Houses/Trading Houses/Star Trading Houses were permitted to import specified goods, including gold. Since October 1997, designated agencies, on payment of specified duty, have been allowed to import gold without license. This new liberal scheme was introduced with a view to bringing down the domestic price of gold, deter smuggling and aid exporters utilizing the replenishment scheme. Whereas the imports of gold & silver under the new liberal scheme and the SIL route are recorded under the DGCI&S reporting system, the imports of gold & silver under the baggage route are reported separately. Prior to the liberalisation in October 1997, the bulk of gold imports in volume terms (estimated at about 90 per cent) were being undertaken through the NRI baggage route. However, with the introduction of the more liberal regime, the predominant route for import of gold has shifted to this new route. It is estimated that during April-October, 1998, approximately 90 per cent of these imports are under the new scheme and only about 10 per cent under the baggage route as compared to an estimated 85 percent under the baggage route in the corresponding period of last year.

23. The trade deficit, which reflects changes in the relative growth rates of exports and imports, has been showing a steady widening trend in recent years and stood at U.S.$ 6.8 billion in 1997-98. Due to continued sluggishness of exports, almost the same growth of imports and the shift of gold imports to customs (DGCI&S), the trade gap in the first nine months of the current financial year has increased sharply to U.S.$ 7.3 billion as compared to a deficit of U.S.$ 4.5 billion in April-December, 1997.