Merchandise trade

6.8 According to the Directorate General of Commercial Intelligence & Statistics(DGCI&S) data , exports in 1998-99 declined by 3.9 per cent in US Dollar value as compared to an increase of 4.6 per cent in 1997-98. Continued weak international commodity prices in 1998, however, point to a better performance of exports in real terms during this period as compared to the value performance. According to the latest IMF World Economic Outlook, the world prices (in US Dollar) of non-oil primary commodities declined by about 15 per cent in 1998. Manufactures prices also declined in 1998 but by considerably less than those of primary products.

6.9 Exports in the current financial year, however, have witnessed a significant turnaround with a growth rate of 12.9 per cent (in US Dollar value) during April-December, 1999 as against a decline of 2.9 per cent in the corresponding period of last year. The buoyancy is explained partly by the revival of world trade on the heels of the East Asian recovery and a modest recovery in some global commodity prices. Low inflation in the domestic economy may have also strengthened the competitiveness of India's exports in global markets.

6.10 Structural constraints operating on the demand as well as supply side of our exports contributed to the slow down /decline in exports during 1996-97 to 1998-99. The recessionary tendencies across the world severely affected the demand side of our exports. The reduction in global demand led to a substantial contraction in world trade. The world economy slowed down from 3.2 per cent in 1997 to 1.9 per cent in 1998. World merchandise exports, in value terms, declined by 1.6 per cent in 1998 as compared to an increase of 3.5 per cent in 1997. The decline in exports from the developing countries was even sharper with exports declining by 6.3 per cent as against a rise of 6.3 per cent in 1997 (Table 6.4). Reflecting continuing sluggishness in the nine months of 1999 in manufactured and commodity prices, there was a further decline of 0.4 per cent in world exports and 0.2 per cent in exports from developing countries. The economic contraction in the East Asian countries resulted in a sharp decline in import demand, which in turn, resulted in a massive turnaround in the current account balance of these countries; the current account balance of the Asian developing countries rose significantly to a surplus of $ 51 billion in 1998 from a surplus of US $ 5 billion in 1997. Since Asia accounts for about one fifth of India's exports, India could not escape the fallout from such import compression. In this context, the recovery of East Asian economies and improvement in the global trade environment augurs well for Indian exports in the current financial year.

TABLE 6.4

Exports of Selected East Asian Countries *(In US $ billion)*

Country	1994	1995	1996	1997	1998	1999@
China	121.05	148.80	151.20	182.88	183.59	137.22
	(33.1)	(22.9)	(1.6)	(21.0)	(0.4)	(2.6)
Malaysia	58.8	73.9	78.3	78.7	73.3	NA
	(24.9)	(25.6)	(6.0)	(0.5)	(-6.9)	
Indonesia	40.1	45.4	49.8	53.4	48.8	10.17
	(8.8)	(13.4)	(9.7)	(7.3)	(-8.6)	(-18.8)
Singapore	96.8	118.3	125.0	125.0	109.9	81.98
	(30.8)	(22.1)	(5.7)	(-0.02)	(-12.1)	(-0.8)
Thailand	45.3	56.4	55.7	57.4	54.5	31.83
	(23.1)	(24.7)	(-1.3)	(3.0)	(-5.1)	(-21.6)
India	25.0	30.6	33.1	35.0	33.6	26.59
	(16.1)	(22.4)	(8.1)	(5.7)	(-3.9)	(6.1)
Developing Countries	1351.2	1631.5	1748.0	1857.3	1740.5	1302.26
	(19.1)	(20.7)	(7.1)	(6.3)	(-6.3)	(-0.2)
World	4265.3	5098.3	5309.3	5495.3	5405.1	4027.8
	(14.7)	(19.5)	(4.1)	(3.5)	(-1.6)	(-0.4)

Source : International Financial Statistics, February 2000.
@ : Data pertains upto IIIrd Quarter, whereas for Indonesia it pertains to Ist Quarter.
N.A. : Not Available
Figure within brackets show the percentage change over pervious year/period.

6.11 Imports into the advanced economies, which are India's major trading partners, had also slowed down reflecting both a weak demand and also movements in cross currency exchange rates. The growth rate of merchandise imports (in U.S. Dollar value) of advanced economies remained sluggish at 2.6 per cent in 1998 as compared to 2.1 per cent in 1997 (Table 6.5). Growth of world merchandise imports, on the other hand, decelerated from 3.3 per cent in 1997 to a decline by 1.5 per cent in 1998. While there has been some recovery in imports into the advanced economies in 1999 with a growth rate of 4.3 per cent, world merchandise imports in the first three quarters of 1999 remained depressed with a decline of 0.5 per cent. Nevertheless, imports by countries like U.K and Germany remain sluggish.

6.12 The slowdown and contraction of world trade in 1997-1998 has also resulted in emergence of protectionist sentiments in some sectors in the guise of technical standards, environmental and social concerns. Non-trade barriers like anti-dumping duties, countervailing duties, safegaurd measures, sanitary and phytosanitary measures adopted by the developed countries have affected market access for exports from the developing countries. Indian products which have been affected by such barriers in the last two years include floriculture, textiles, pharmaceuticals, marine products and basmati rice to EU, carpet exports to Morocco, match exports to Egypt, mushroom exports to the US, sports goods and leather exports to the developed world and meat products to West Asia. Such use of non tariff barriers have added to uncertainty in trade and have contributed to market disruption of our exports.

6.13 The movement of the Rupee against the currencies of India's major trading partners in 1998-99 have largely corrected for the appreciation of the rupee in the previous year in real effective exchange terms. The exchange rate has been relatively stable in 1999-2000 (Figure 6.1). The downward movement in the real value of the Rupee has been only modest compared to the East Asian currencies. The cumulative nominal depreciation of the Rupee since the onset of the East Asian crisis in July, 1997 has been of the order of 17.6 per cent as on 2 February, 1999 as against a depreciation of 65.8 per cent of the Indonesian Rupiah, 32.5 per cent of the Thailand Baht, 35.1 per cent of the Philippines Peso, 33.8 per cent of Malaysian Ringgit, 21.8 per cent of the Korean Won and 14.8 per cent of the Singapore Dollar (Figure 6.2). Exchange rate depreciations of such magnitude not only provide increased

TABLE 6.5

Imports of India's Major Trading Partners

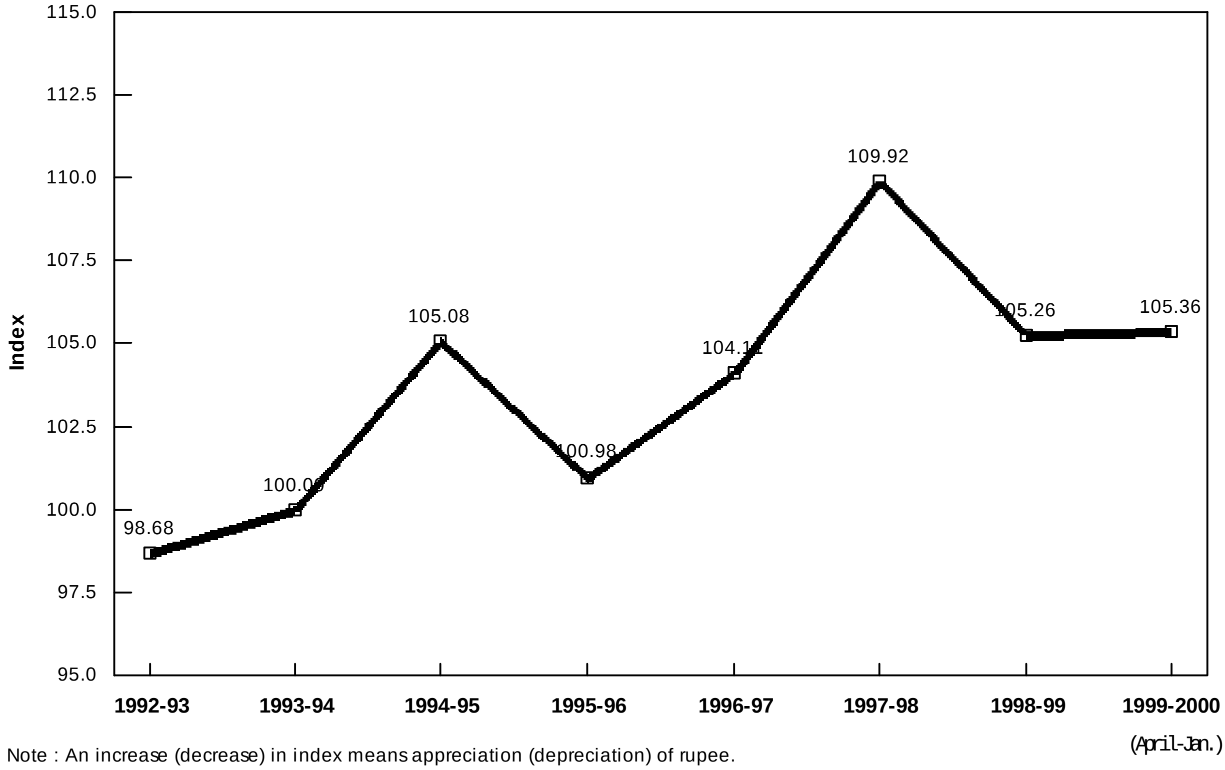
(In US $ billion)

Country	1994	1995	1996	1997	1998	1999@
U.S.A	689.2	770.9	822.0	899.0	944.4	769.8
	(14.2)	(11.8)	(6.6)	(9.4)	(5.0)	(9.1)
Japan	275.2	335.9	349.2	338.8	280.5	221.3
	(13.9)	(22.0)	(4.0)	(-3.0)	(-17.2)	(5.6)
U.K	226.2	265.3	287.4	306.6	314.0	233.8
	(10.1)	(17.3)	(8.3)	(6.7)	(2.4)	(-0.5)
Germany	385.4	464.3	458.8	445.6	471.4	342.6
	(11.4)	(20.5)	(-1.2)	(-2.9)	(5.8)	(-0.5)
Industrial Countries	2904.4	3434.0	3554.2	3630.2	3723.8	2861.1
	(14.0)	(18.2)	(3.5)	(2.1)	(2.6)	(4.3)
Developing Countries	1420.6	1732.5	1858.8	1963.5	1785.8	1305.4
	(15.2)	(22.0)	(7.3)	(5.6)	(-9.1)	(-2.8)
World	4325.0	5166.5	5413.0	5593.7	5509.6	4163.2
	(14.4)	(19.5)	(4.8)	(3.3)	(-1.5)	(-0.5)

Source : International Financial Statistics, February, 2000.
@ : Data pertains upto IIIrd Quarter.
Figures within brackets show the percentage changes over previous year/period.

Fig. 6.1

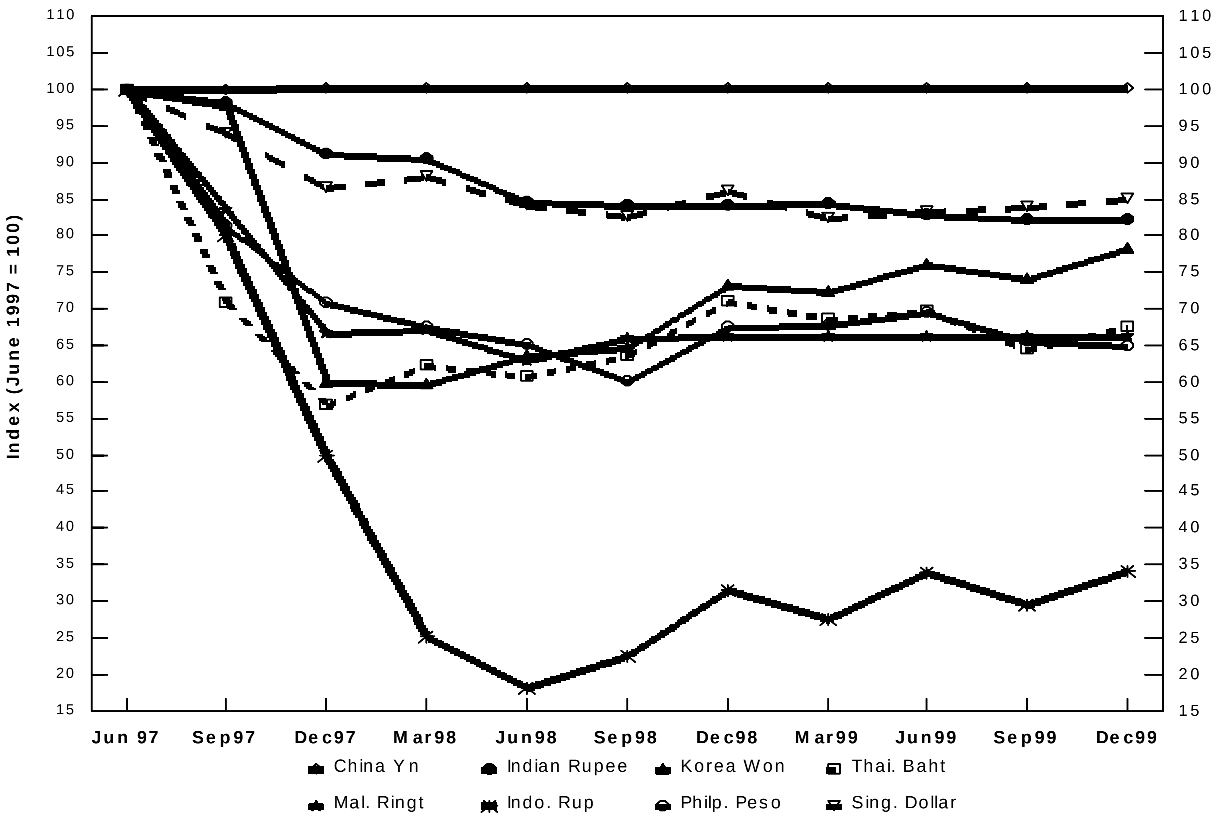
10-Country REER index with base 1993-94=100



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

Fig. 6.2

Indices of exchange rate of South East-Asian Currencies and Indian Rupee against US $ (montly average)-US $ per local currency



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

competition in export markets but also impart enhanced import competition in the domestic market.

6.14 The major supply constraints that continue to hamper our exports include infrastructure constraints, high transaction costs, SSI reservations, labour inflexibility, constraints in attracting FDI in the export sector, and quality problems. Despite tremendous potential, the lack of long term policies continue to hinder exports of agricultural products.

6.15 Imports (in U.S. Dollar value) have also witnessed a downturn in recent years, albeit on a relatively lower scale. Import growth decelerated from 6 per cent in 1997-98 to 0.9 per cent in 1998-99. The deceleration in 1998-99 was contributed mainly by a decline of 21.2 per cent in oil imports, attributed to softening of international oil prices and decline in imports of capital goods (by 7.9 per cent) and some intermediate goods (like iron & steel, non ferrous metals, chemicals etc.) due to weak domestic demand and slowdown in industrial activity. Growth in non-oil imports thus decelerated from 14.5 per cent in 1997-98 to 6.3 per cent in 1998-99.

6.16 Import growth in the current year so far has been modest with imports during April-December, 1999 recording a growth rate of 9.0 per cent in US Dollar value as compared to a lower growth of 7.2 per cent in the corresponding period of last year. The increase in imports in the current year is led by oil imports, which have recorded an increase of 57.8 per cent mainly on account of a sharp and sustained increase in international oil prices. Non-POL imports have, however, remained sluggish in the current financial year with a marginal increase of 1.1 per cent in the nine months, as compared to an increase of 15.8 per cent in the corresponding period last year. The major factors responsible for the collapse of non-POL imports are a sharp decline in capital goods imports and downturn in imports of gold & silver. The non-oil non-gold & silver imports has risen by only 0.7 per cent during April-November, 1999 as against an increase of 7.1 per cent in the corresponding period last year. Compared to past recoveries, this time round the industrial recovery does not seem to have had any significant impact on imports so far. The paradox of a relatively sharp recovery in industrial growth and low growth of non-oil imports, especially capital goods imports, may be due to a switch from imported to domestically manufactured capital goods in the wake of current restrictions on import of second hand capital goods. Stagnation of non-oil imports may also reflect a shift of sourcing from imports to domestic suppliers, particularly for commodities whose international prices have strengthened recently and may suggest a change in the pattern of inventory holding.

6.17 An important component of Non-oil imports are the imports of gold and silver. With the liberalisation of these imports in October 1997, gold & silver imports increased from $ 3.2 billion in 1997-98 to $4.9 billion in 1998-99, thus raising the share of these imports in DGCI&S total imports from 7.6 per cent in 1997-98 to 11. 6 per cent in 1998-99. The bulk of this increase was on account of the shift in these imports from the NRI baggage route, the erstwhile preferred route, to the DGCI&S reporting system. Currently, gold imports are predominantly undertaken under the new liberalised scheme and as a consequence imports under the NRI baggage route and the SIL route have been marginal. The value of these imports in the first eight months of the current financial year has been lower at $ 2896 million compared to $ 3416 million during April-November, 1998. This reflects, in large part, a decline in the world price of gold earlier in the year as a result of announcements by several central banks that official gold reserves will be sold. The value of gold imports into the country is expected to recover in the second half of the 1999-00 due to a recent sharp increase in bullion prices.

6.18 With a view to reduce the import of gold in the long run, the Union Budget 1999-00 announced the launching of the Gold Deposit Scheme 1999 to draw out privately held gold stocks and reduce India's dependence on imports. Under the scheme, investors can deposit gold with banks and receive fixed term interest bearing certificates or bonds in exchange. On maturity, depositors can take back their gold or its equivalent in Rupees. Since the scheme has been launched only in

September 1999 it is too early to assess its success.

6.19 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 $ 8.2 billion in 1998-99. Notwithstanding the increase in oil prices and hence oil imports, the trade deficit has been contained in the first nine months of the current financial year due to the recovery in exports and a sluggish growth in non-oil imports. Thus, trade deficit during April-December, 1999 at $ 7039 million was 4.0 per cent lower than the deficit of $ 7328 million during April-December, 1998.