International Trade

7

CHAPTER

Just when the world economy and trade, reeling under the jolt given by the 2008 global economic crisis started recovering with output and trade in many developed and emerging economies reaching pre-crisis levels and in some countries even surpassing pre-crisis trends, came the second shock in the form of the crisis in the euro area and slowdown in the US. The structural sovereign debt crisis in the euro zone area and the fiscal imbalance in the US which led to the present setback emanated from the earlier crisis. The tumultuous recession-ridden years of 2008 and 2009 seem to be re-emerging with fall in world trade being steeper than the decline in real gross domestic product (GDP). India's exports which had surpassed not only pre-crisis levels but also pre-crisis trends have started feeling the heat of this second global downturn which has come in quick succession to the first, though the country is in a better position than many others to weather the crisis.

World Trade

7.2 World trade value, which fell sharply from US$ 16 trillion in 2008 to US$ 12.4 trillion in 2009, recovered to US$ 15.1 trillion in 2010 though it was still below the pre-crisis level. World trade volume growth also picked up sharply to 12.7 per cent in 2010 from -10.7 per cent in 2009, though this was also still below pre-crisis growth. In the absence of the earlier low base effect, it moderated to 6.9 per cent in 2011 (Table 7.1).

7.3 In the first half of 2011, world trade had reached US$ 8.7 trillion with a value growth of 23.1 per cent. But with the escalating euro area crisis entering a perilous new phase in the fourth quarter of 2011,

Table 7.1 : Trends in growth in trade volumes

(per cent change)

			Projections		Difference from Sept. 2011 WEO Projections	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**
World trade volume (goods and services)	**12.7**	**6.9**	**3.8**	**5.4**	**-2.0**	**-1.0**
Imports						
Advanced economies	11.5	4.8	2.0	3.9	-2.0	-0.8
Emerging and developing economies	15.0	11.3	7.1	7.7	-1.0	-1.0
Exports						
Advanced economies	12.2	5.5	2.4	4.7	-2.8	-0.8
Emerging and developing economies	13.8	9.0	6.1	7.0	-1.7	-1.6

Source **: IMF, WEO, January 2012.**

world trade volume growth is expected to decelerate to 3.8 per cent in 2012 as per the International Monetary Fund's (IMF), World Economic Outlook (WEO), January 2012. This near halving of trade growth in 2012 is an ominous sign of the impending crisis as in 2008.

7.4 With the IMF moderating its growth projections of world output to 3.3 per cent in 2012 and 3.9 per cent in 2013 and with limited policy options in their armoury, the advanced economies are expected to grow at 1.2 per cent in 2012. This is also reflected in their expected import and export trade volume growths at 2.0 and 2.4 per cent respectively. The emerging and developing economies are expected to grow at a relatively better rate of 5.4 per cent in 2012 with import and export volume growths at 7.1 per cent and 6.1 per cent respectively.

Trade Credit

7.5 Trade credit, both its availability and cost is an important barometer of international trade. There have been many ups and downs on this front in recent years.

Trade Credit: International Scenario

7.6 According to the latest quarterly survey conducted by the Institute of International Finance (IIF) in the second half of September 2011, banks domiciled in emerging market economies continued to experience tight bank-lending conditions. The overall index of bank-lending conditions dipped to its weakest ever level in Q3(third quarter) 2011. There has thus been a significant deterioration in emerging market bank-lending conditions over the three quarters of 2011, during which time the overall index has moved from its strongest to its weakest level. The most significant deterioration has occurred in funding conditions facing banks in emerging economies. While local funding conditions are broadly unchanged over Q3, funding conditions in international markets have deteriorated significantly, and across all major regions. This is clear evidence of a spillover to emerging economies from the growing problems in mature economies – most notably, the challenges resulting from the severe debt problems in the euro area.

7.7 Conditions for international trade finance have also been adversely affected by current unstable financial conditions. Although the overall diffusion index for international trade finance conditions is still almost above the 50 threshold level (the reading is 49.3 for Europe), the mood is weaker than in the previous quarter. (A diffusion index reading of above 50 means greater strength, below 50 means weakness, and 50 is a neutral reading.) In Q3 2011, 23 per cent of banks said conditions for international trade finance had improved, whereas it was 44 per cent in Q2(second quarter) 2011. The strongest improvement was witnessed in Asia. Demand for international trade finance has deteriorated slightly in Europe, while it remained robust in the other regions. In Europe, 17 per cent of the participants said that the demand decreased over the last three quarters. On the supply side, banks in Latin America reported a decline in willingness to supply trade finance, while the supply conditions continued to improve in Africa and the Middle East (AFME) and Asia. Overall, 19 per cent of banks acknowledged improvement in supply conditions (as against 42 per cent in Q2 2011).

Trade Credit: Indian scenario

7.8 Reflecting improved global financial conditions, the gross inflow of short-term trade credit to India had reached US$ 75.7 billion during 2010-11, which was 42.2 per cent higher than recorded during 2009-10. Trade credit at US$ 50.6 billion continued to show an uptrend in the first half of 2011-12 and grew by 43.5 per cent as compared to 59.8 per cent in the first half of 2010-11. However, growth in outflow on account of trade credit was higher at 57.7 per cent in the first half of 2011-12 as against 28.1 per cent in the first half of 2010-11. As a result, net inflow was marginally lower at 5.9 billion in the first half of 2011-12 as compared to US$ 6.9 billion in the first half of 2010-11.

7.9 Export credit growth has decelerated to 8.4 per cent in 2011-12 (up to 30 December 2011) over end March 2011 as against 22.2 per cent growth in the full financial year (FY) 2010-11. Export credit as a per cent of net bank credit (NBC) has been decelerating over the years and accounted for only 4.2 per cent as on 30 December 2011 compared to the 9.8 per cent as on 24th March 2000 (Table 7.2).

7.10 As concerns relating to the euro area crisis have intensified since September 2011, the downward risks to trade credit in the coming quarters seem to have increased. Keeping in view the tight liquidity conditions and widening of credit spreads due to recent developments in international financial markets, on 15 November 2011 the ceiling rate on export credit in foreign currency by banks was increased to London Interbank Offered Rate (LIBOR)

Table 7.2 : Export Credit

Outstanding as on	Export Credit (₹ Crore)	Variations (Per cent)	Export credit as per cent of NBC
24 March 2000	39118	9.0	9.8
22 March 2002	42978	-0.8	8.0
21 March 2003	49202	14.5	7.4
19 March 2004	57687	17.2	7.6
18 March 2005	69059	19.7	6.3
31 March 2006	86207	24.8	5.7
30 March 2007	104926	21.7	5.4
28 March 2008	129983	23.9	5.5
27 March 2009	128940	-0.8	4.6
26 March 2010	138143	7.1	4.3
25 March 2011	168841	22.2	4.3
30 December 2011	183004	8.4*	4.2

Source : Reserve Bank of India (RBI).
Notes :
*Variation over 25 March 2011.
Data pertain to all scheduled commercial banks excluding regional rural banks (RRBs) availing of export credit refinance from the Reserve Bank of India (RBI).

plus 350 basis points (bps) from the earlier ceiling rate of LIBOR plus 200 bps with immediate effect and till 31 March 2012, subject to the express condition that the banks will not levy any other charges like service charge and management charge except for recovery towards out-of-pocket expenses incurred. Similar changes were effected in interest rates in cases where EURO LIBOR / EURIBOR has been used as the benchmark. The ceiling interest rate on the lines of credit with overseas banks has also been increased from six months LIBOR / EURO LIBOR / EURIBOR plus 100 basis points to six months LIBOR / EURO LIBOR / EURIBOR plus 250bps. These changes are applicable till 31 March 2012 and would be subject to review thereafter. Similarly, recognizing the fact that domestic importers were experiencing difficulties in raising trade credit within the existing all-in-cost (AIC) ceiling, on 15 November 2011, the Reserve Bank revised the AIC ceiling for trade credits from six months LIBOR plus 200 bps to LIBOR plus 350 basis points for trade credit up to one year as well as that with maturity period of more than one year and up to three years. The AIC ceiling includes arranger fee, upfront fee, management fee, handling/ processing charges, out-of-pocket and legal expenses, if any. The enhancement in AIC ceiling is also applicable up to 31 March 2012 and subject to review thereafter.

India's Merchandise Trade

7.11 India's exports and imports registered a five-to seven fold increase in the last decade from US$ 44.6 billion and US$ 50.5 billion respectively in 2000-01 to US$251.1 billion and US$369.8 billion in 2010-11 respectively. While the compound annual growth rates (CAGR) of India's exports and imports (in US dollar terms) were 8.2 per cent and 8.4 per cent respectively in the 1990s, they increased to 19.5 per cent and 25.1 per cent during 2000-01 to 2008-09. The resilience of India's trade can be seen from the fact that its export and import growth, which fell to -3.5 per cent and -5 per cent in 2009-10 as a

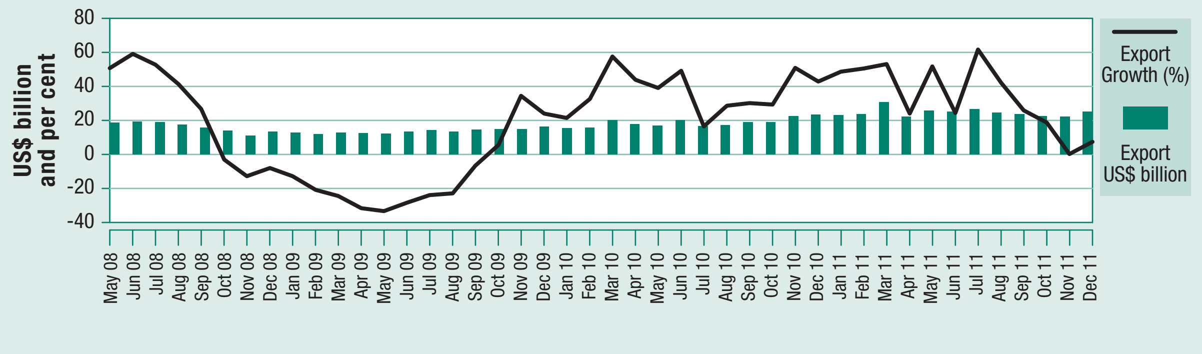
Table 7.3 : Trade Performance : Growth in Value, Volume, Unit Values & Terms of Trade

(Annual per cent change)

	Exports				Imports				Terms of Trade	
	Value				Value					
	Rupee terms	US$ terms	Volume	Unit Value	Rupee terms	US$ terms	Volume	Unit Value	Net	Income
2001-02	2.7	-1.6	0.8	1.0	6.2	1.7	4.0	2.8	-2.1	-1.3
2002-03	22.1	20.3	19.0	2.9	21.2	19.4	5.8	14.3	-9.8	7.4
2003-04	15.0	21.1	7.3	7.5	20.8	27.3	17.4	3.1	3.6	11.2
2004-05	27.9	30.8	11.2	14.9	39.5	42.7	17.2	18.9	-3.5	7.3
2005-06	21.6	23.4	15.1	6.1	31.8	33.8	16.0	14.0	-6.0	8.2
2006-07	25.3	22.6	10.2	13.7	27.3	24.5	9.8	15.1	-1.3	8.8
2007-08	14.7	29.0	7.9	5.1	20.4	35.5	14.1	1.9	2.6	10.7
2008-09	28.2	13.6	9.0	16.9	35.8	20.7	20.2	13.8	2.5	11.7
2009-10	0.6	-3.5	-1.1	1.0	-0.8	-5.0	9.9	-10.0	12.3	11.1
2010-11	35.1	40.5	43.2	-5.1	23.4	28.2	10.1	11.2	-14.3	22.7
2011-12[a]	28.7	23.5	-	-	34.8	29.4	-	-	-	-

Source : Directorate General of Commercial Intelligence and Statistics (DGCI&S), Kolkata
Note: [a] 2011-12 (April-January).
Volume and unit value index of exports and imports are with new base (1999-2000=100)

Figure 7.1 **Monthly trends in India's exports: values and growth**



Source **: Based on DGCI&S and RBI data.**

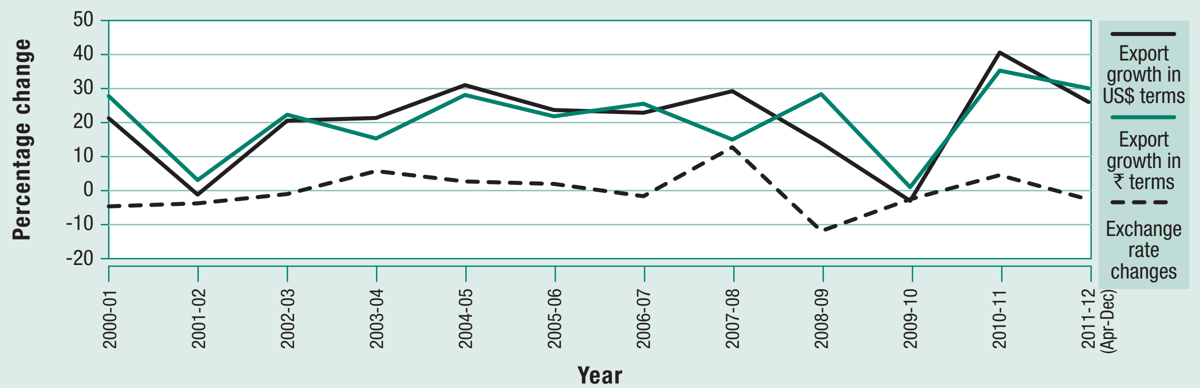
result of the shock from the 2008 global economic crisis, rebounded to 40.5 per cent and 28.2 per cent in 2010-11 (Table 7.3). India not only reached pre-crisis levels in exports, but surpassed pre-crisis trends in export growth rate unlike many other developing and even developed countries (Figure 7.1). India's share in global exports and imports also increased from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.5 per cent and 2.2 per cent in 2010 (1.4 and 2.1 per cent as per WTO). Its ranking in the leading exporters and importers improved from 31 and 26 in 2000, to 20 and 13 in 2010 respectively.

7.12 During the first half of 2011-12, India's exports witnessed a high growth of 40.6 per cent. However, since October 2011 there has been a deceleration in export growth as a result of the crisis originating in the periphery of the euro zone area and spreading to the core economies resulting in a now evident mild recession in the euro area.

7.13 Exports registered a high growth of 61.1 per cent in July 2011. After that growth decelerated to 41.5 per cent, 25.2 per cent, and 18.1 per cent in August, September, and October 2011 respectively. In November 2011, export growth was negative at - 0.5 per cent but in December 2011 and January 2012, it was positive but low at 6.7 per cent and 10.1 per cent respectively. Cumulative exports were at US $242.8 billion, registering a growth of 23.5 per cent during 2011-12 (April- January). During April-December 2011, the export sectors that have done well are petroleum and oil products registering a growth of 55 per cent; gems and jewellery 38.5 per cent; engineering 21.6 per cent; cotton fabrics made ups, etc. 13 per cent; electronics 21.1 per cent; readymade garments 23.7 per cent; and drugs 21.5 per cent.

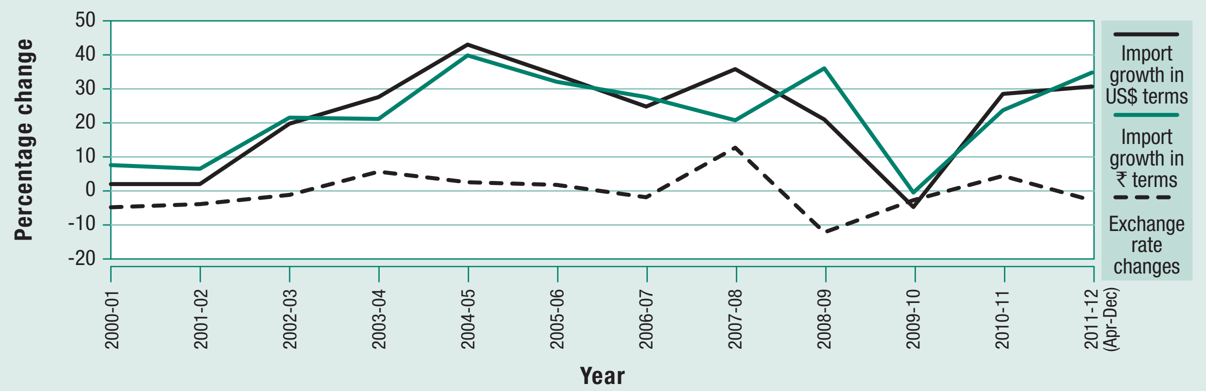
7.14 While export growth in dollar terms decelerated slightly in 2011-12 (April-December) over the corresponding period compared to the growth in 2010-11 full year, it was stable or decelerated less in rupee terms which is a direct reflection of the depreciation of 3.1 per cent in 2011-12 (April-December). On the other hand import growth in rupee terms accelerated more sharply than in dollar terms (Figure 7.2 and 7.3).

Figure 7.2 **Export growth and exchange rate changes**



Source **: Based on DGCI&S and RBI data.**

Figure 7.3 Import growth and exchange rate changes



Source : Based on DGCI&S and RBI data.

7.15 The improvement in export growth of 35.1 per cent in rupee terms in 2010-11 was mainly due to a large improvement in growth in volume (43.2 per cent) despite decline in the growth of unit value index. High growth of exports in volume terms is a positive sign and is mainly due to the growth in machinery and transport equipment (85.1 per cent), manufactured goods classified chiefly by material (41.2 per cent), food and food articles (29.9 per cent), and mineral fuels, lubricants, and related materials (26 per cent). In 2010-11, the growth of unit value index of exports declined to - 5.1 per cent, mainly due to decline in machinery and transport equipment (-18.2 per cent) and beverages and tobacco (-11.1 per cent). A dissection of the export quantum indices country-wise shows that the high growth in this index in 2010-11 is due to the high export quantum growth to China, South Africa, and the UAE.

7.16 The increase in growth of imports in rupee terms in 2010-11 was due to growth in both volume and unit value indices. The volume index witnessed a growth of 10.1 per cent in 2010-11, due to the high growth of manufactured goods classified chiefly by materials (56 per cent), beverages and tobacco (31.1 per cent), and chemicals and related products (8.9 per cent). The unit value index of imports registered a growth of 11.2 per cent mainly due to growth in unit values of crude materials, inedible, except fuels (23 per cent), mineral fuels, lubricants and related materials (17.1 per cent), and machinery and transport equipment (10.1 per cent).

7.17 The net terms of trade, which measures the unit value index of exports as a proportion of unit value index of imports, declined to - 14.3 per cent, due to the positive growth in unit value index of imports and negative growth in unit value index of exports for the first time in this decade. Income terms of trade, reflecting the capacity to import, grew by 22.7 per cent in 2010-11 which is the highest in this decade, despite the highest decadal negative growth in net terms of trade, as the export volume growth was robust.

7.18 India's share in world merchandise exports which had started rising fast since 2004, reached 1.3 per cent in 2009 and 1.5 per cent in 2010. It increased to 1.9 per cent in the first half of 2011, mainly due to the relatively higher Indian export growth of 55 per cent compared to the 23.1 per cent export growth of the world (Table 7.4). The increase in China's share in world exports between 2000 and 2010 at 6.5 percentage points is 48 per cent of the total increase in the share of emerging and developing countries over this period, while India's rise in share of 0.8 percentage points forms only 6 per cent of the total increase. However, China's export growth rate at 31.3 per cent in 2010 and 24 per cent in the first half of 2011 was relatively lower than that of India. Latest monthly growth rates of exports and imports of some of India's major trading partners are not encouraging with import and export growth rates of EU and Hong Kong decelerating and import growth rates of China and Singapore being low (Table 7.5).

7.19 India's merchandise imports which fell to US$288.4 billion with a negative growth of - 5.0 per cent in 2009-10 due to the global recession recovered sharply to US$ 369.8 billion in 2010-11 with a growth of 28.2 per cent. This was due to the increase in growth of petroleum, oil, and lubricant (POL) imports by 21.6 per cent and non-POL imports by 31.1 per cent. POL import growth was high mainly due to increase in import price of the Indian crude oil import basket by 22 per cent in 2010-11 as against - 16.5

Table 7.4 : Export growth and share in world exports : India and other select countries

	Value (US$ billion)	CAGR	Growth rate % Annual			Share in world exports (%)				change in shares
	2010	2000-08	2009	2010	2011 (Jan-June)	2000	2009	2010	2011 (Jan-June)	2010/2000
China	1578	24.4	-15.9	31.3	24.0	3.9	9.7	10.5	10.1	6.5
Korea	466	11.9	-14.3	29.0	24.2	2.7	2.9	3.1	3.2	0.4
Hong Kong	390	7.6	-12.2	22.5	15.3	3.2	2.6	2.6	2.4	-0.6
Russia	400	20.6	-35.7	32.0	31.5	1.7	2.5	2.7	2.9	1.0
Singapore	352	11.9	-20.2	30.4	21.9	2.2	2.2	2.3	2.3	0.2
Mexico	298	7.3	-21.3	29.8	21.3	2.6	1.9	2.0	2.0	-0.6
Taiwan	275	7.1	-20.1	34.8	NA	2.3	1.6	1.8	NA	-0.5
India	223	21.0	-15.2	35.1	55.0	0.7	1.3	1.5	1.9	0.8
Malaysia	199	9.9	-24.9	26.2	17.6	1.5	1.3	1.3	1.3	-0.2
Brazil	202	17.3	-22.7	32.0	32.6	0.9	1.2	1.3	1.4	0.5
Thailand	195	12.4	-13.6	28.6	17.3	1.1	1.2	1.3	1.3	0.2
Indonesia	158	9.9	-14.4	32.1	27.6	1.0	1.0	1.0	1.1	0.0
South Africa	82	13.9	-26.0	30.6	29.2	0.5	0.5	0.5	0.5	0.1
EDEs	5894	18.0	-24.4	28.4	29.2	25.4	37.1	39.1	39.8	13.6
World	**15087**	**12.2**	**-22.7**	**21.9**	**23.1**	**100.0**	**100.0**	**100.0**	**100.0**	**-**

Source **: Computed from IMF, International Financial Statistics, November 2011.**
Note **: EDEs stand for emerging and developing economies.**

Table 7.5 : Recent Month-wise Growth Rates of Exports and Imports of some of India's Major Trading Partners

	USA		EU		China		Hong Kong		Japan		Singapore	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
2011m1	19.0	22.0	16.5	16.9	37.6	27.3	18.7	18.7	11.9	23.8	27.1	19.3
2011m2	16.8	16.8	19.9	20.4	2.3	24.5	24.8	24.8	19.3	20.4	21.7	12.8
2011m3	18.8	17.4	20.1	20.2	35.8	21.0	18.4	18.4	8.1	23.9	24.4	29.3
2011m4	20.9	16.1	20.7	21.6	29.8	3.9	6.0	6.0	-1.9	22.1	16.1	15.7
2011m5	17.6	20.6	37.5	35.3	19.3	10.3	13.2	13.2	1.3	26.9	23.2	32.7
2011m6	14.7	13.6	22.4	22.8	17.9	9.3	11.6	11.6	11.2	24.0	20.1	17.4
2011m7	15.7	13.7	17.3	17.9	20.4	9.1	10.0	10.0	6.8	21.4	16.8	8.4
2011m8	18.6	14.2	26.0	24.7	24.4	6.5	13.7	13.7	13.8	32.0	16.7	31.0
2011m9	18.2	13.0	14.8	13.5	17.0	-3.3	2.0	2.0	12.4	23.2	14.3	14.1
2011m10	12.1	12.2	4.2	4.5	15.8	11.2	10.7	10.7	2.6	25.7	4.0	10.8
2011m11	11.9	12.8	6.4	3.5	13.8	1.7	8.4	8.4	1.6	18.4	9.2	18.0
2011m12	-	-	-	-	13.4	7.4	8.1	8.1	-1.3	15.9	8.5	4.9

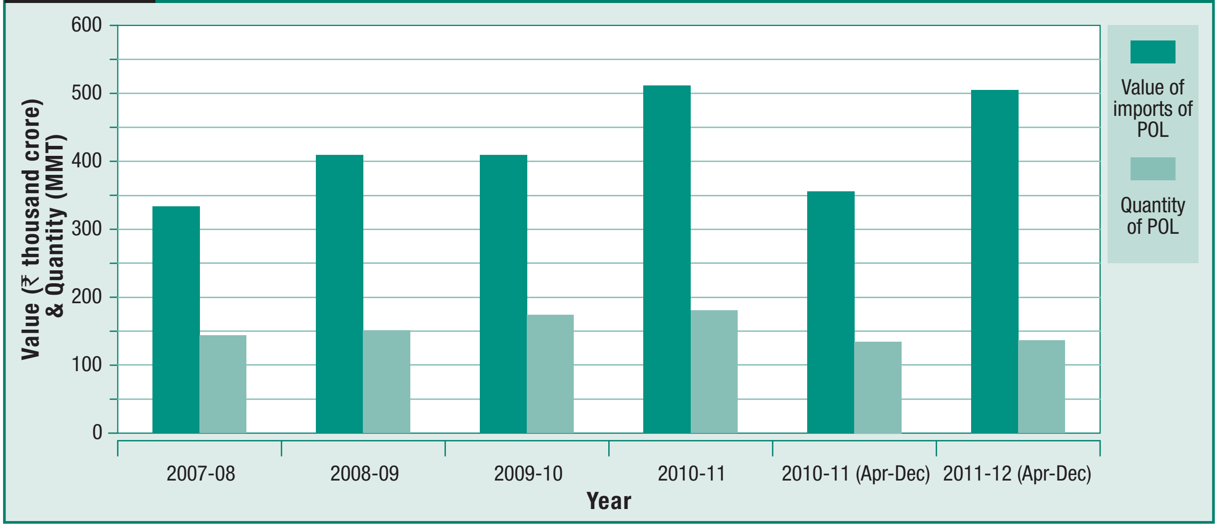
Source **: Computed from WTO data.**

per cent in 2009-10 (Figure 7.4). POL import volume growth decelerated from 15 per cent in 2009-10 to 4 per cent in 2010-11.

7.20 International oil prices (Indian Basket) which reached a high of US$ 132.47/bbl in July 2008 declined sharply to US$40.61 /bbl in December 2008, following the global recession. From 2009 onwards, oil price has been increasing with intermittent volatility reaching US$ 118.46/bbl in April 2011 and falling marginally with volatility in the following months. Till recently, Brent oil price has been hovering around US$105-115/bbl (Figure 7.5).

7.21 Non-POL non-bullion imports increased by 29.3 per cent in 2010-11 compared to the negative (-7.9 per cent) growth in 2009-10 reflecting the growing demand for imports for industrial activity and higher demand for imports of inputs needed for exports.

Figure 7.4 **POL Imports**



Source **: Based on MOPNG data.**

Figure 7.5 **Crude oil price (US$/bbl)**

Source **: Based on MOPNG data.**

7.22 Imports in 2011-12 (April-January) at US$391.5 billion registered a growth of 29.4 per cent with estimated growth in 2011-12 (April-December) of the important sectors at 40.4 per cent for POL; 53.8 per cent for gold and silver; 27.7 per cent for machinery; 24 per cent for electronics; 35 per cent for fertilizer and 62 per cent for coal. During 2011-12 (April-January) POL imports at US $ 118 billion, grew by 38.8 per cent. Non-POL imports at US $ 273.5 billion grew by 25.7 per cent. Gold and silver imports of US $ 50 billion grew by 46.2 per cent. Non-POL and non-bullion imports which basically reflect the imports of capital goods needed for industrial activity and imports needed for exports valued at US $ 223 billion grew by 21.7 per cent.

7.23 Trade deficit (on customs basis) increased by 8.2 per cent to US $ 118.6 billion in 2010-11 from US$ 109.6 billion in 2009-10. However, trade deficit for 2011-12 (April-January) at US $ 148.7 billion was 40.4 per cent higher than the US $ 105.9 billion in 2010-11 (April- January). Low export growth and moderate import growth which have led to the high trade deficit in 2011-12 (April-January) have raised the alarm of a possible unmanageable current account deficit. Net POL import growth, which has been positive since 2002-3 and became negative at -8.9 per cent in 2009-10 turned positive again in 2010-11 with a growth of 9.8 per cent. In the first half of 2011-12 the growth was 34 per cent reflecting the higher international crude oil price affecting the

Table 7.6 : Growth in POL trade and non-POL imports (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	7.2	-3.1	8.9
2002-03	19.4	26.0	21.6	26.8	17.0	-6.9	20.4
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	66.5	41.4	28.8	1.5	33.1
2006-07	24.5	30.0	60.5	19.0	22.2	29.4	21.4
2007-08	35.5	39.4	51.8	33.3	33.6	22.0	35.1
2008-09	20.7	14.7	-5.2	25.7	20.8	22.3	20.6
2009-10	-5.0	-5.0	4.6	-8.9	-3.3	35.5	-7.9
2010-11	28.2	22.0	46.5	9.8	31.4	43.5	29.3
2011-12 (Apr.-Sept.)	32.7	47.7	72.7	34.0	26.8	72.8	19.1

Source **: Computed from DGCI&S data.**

dominant import side more than the export side (Table 7.6). However, with the share of POL in total imports remaining steady at around 31 percent both in 2000-01 and 2011-12 (April-September) and share of POL exports to total exports increasing from 4.3 percent to 20.9 per cent, share of net POL imports in total imports has fallen from 27.2 per cent to 18.4 per cent during this period. The high growth of 53.8 per cent in imports of gold and silver particularly in 2011-12 (April-December) also contributed to the high growth in trade deficit.

Trade Composition

Export composition

7.24 Great changes in the sectoral composition of India's export basket seen in the 2000s decade have accelerated in the beginning of this decade. While the share of petroleum crude and products increased by 11.8 percentage points during the 10-year period from 2000-1 to 2009-10, it further increased by 4.8 percentage points from 2009-10 to the first half of 2011-12. The share of the other two sectors, i.e. manufactures and primary products fell almost proportionately by 11.6 and 1.1 percentage points respectively during 2000-1 to 2009-10 and 1.4 and 2.2 percentage points from 2009-10 to the first half of 2011-12. The inter-sectoral composition changes within manufactures exports have also been great with the biggest losers being labour-intensive manufactures like textiles, leather and leather manufactures, and handicrafts from 23.6, 4.4, and 2.8 per cent respectively in 2000-1 to 8.7, 1.6, and 0.3 per cent in the first half of 2011-12. The biggest gainer is the engineering goods sector with its share increasing from 15.7 per cent in 2000-1 to 22.2 per cent in the first half of 2011-12. Another sector is electronics, the share of which increased from 2.5 per cent to 3.5 per cent in 2010-11, but fell to 2.9 per cent in the first half of 2011-12. While the share of chemicals and related products increased marginally from 10.4 per cent to 11.6 per cent, that of gems and jewellery fell marginally from 16.6 per cent to 16.1 per cent during 2000-1 to the first half of 2011-12 (Table 7.7 and Appendix Table 7.3 (B)). A point to be noted is that most of the petroleum exports of India are refined exports and qualify for the category of manufactures. Similarly there are many items in the agricultural and allied sector like marine exports and processed foods which are manufactured items. If these are included under the definition of manufactures, then the share of manufactures in total exports has not fallen.

7.25 Export growth was high in 2010-11 and the first half of 2011-12 in case of agriculture and allied products due to export growth in cereals, meat preparations, oil meals, and coffee. Among manufactured exports, engineering goods, gems and jewellery, and chemicals and related products registered high growth, while textiles export growth was moderate (Box 7.1). Export growth of petroleum, crude, and products was also very high due to the high prices of crude oil and also due to increase in refining capacity. Ores and minerals is the only item with negative growth in the first half of 2011-12 due to a ban on export of iron ore by the state governments of Karnataka and Odisha.

7.26 The compositional change from 2000-1 to the first half of 2011-12 can also be seen in the destination-wise exports of major items. While the gain in share of petroleum, crude and products in India's export to the EU has been higher than to US

Table 7.7 : Composition of exports by major markets

	Percentage share						Growth rate*				
	2000-01	2008-09	2009-10	2010-11	2010-11 (Apr.-Sept.)	2011-12 (Apr.-Sept.)	2008-09	2009-10	2010-11	2010-11 (Apr.-Sept.)	2011-12 (Apr.-Sept.)
I Primary Products											
World	16.0	13.9	14.9	13.9	12.8	12.7	1.7	3.8	31.1	24.2	39.4
USA	9.4	7.2	6.8	7.5	7.6	10.9	2.9	-13.5	44.2	42.5	101.6
EU	13.1	8.4	8.6	7.7	8.5	9.8	1.7	-5.7	16.3	15.5	51.7
China	45.2	64.3	65.7	43.3	62.9	44.1	-26.0	26.9	11.3	61.7	-5.9
others	18.9	12.9	13.1	13.2	10.7	11.3	19.7	-1.7	43.4	11.4	51.3
(a) Agri & Allied Products											
World	14.0	9.6	10.0	9.9	8.4	9.9	9.7	1.1	38.2	18.1	64.9
USA	9.0	6.0	5.8	6.6	6.5	10.1	13.1	-12.1	49.7	45.1	118.1
EU	11.9	6.9	7.1	6.6	7.2	7.5	6.6	-6.4	21.2	17.2	38.9
China	18.9	8.3	14.8	13.1	8.1	13.7	-51.9	122.9	49.2	39.5	126.6
others	16.8	11.2	11.3	11.0	9.2	10.2	19.1	-3.3	39.1	14.3	59.6
(b) Ores and minerals											
World	2.0	4.3	4.9	4.0	4.3	2.8	-12.5	9.9	16.5	37.9	-10.3
USA	0.4	1.2	1.0	0.9	1.1	0.8	-29.6	-21.0	12.5	28.9	4.1
EU	1.3	1.4	1.5	1.1	1.4	2.3	-16.7	-2.6	-6.8	7.2	118.6
China	26.3	56.0	50.9	30.2	54.8	30.4	-19.6	12.8	0.3	65.6	-25.5
others	2.2	1.6	1.8	2.2	1.5	1.1	24.2	9.6	69.8	-3.7	1.1
II Manufactured goods											
World	78.8	68.9	67.2	67.9	68.6	65.8	23.1	-5.9	42.0	25.5	34.9
USA	90.6	90.2	89.1	87.6	88.2	82.1	7.1	-8.7	28.5	31.5	30.8
EU	86.8	79.3	73.2	72.8	73.0	74.3	20.6	-15.4	29.2	15.0	34.7
China	54.6	30.9	32.2	51.6	35.2	43.4	14.8	29.5	170.1	12.8	65.5
others	71.4	64.5	65.1	65.4	66.8	62.6	29.6	-2.5	43.3	28.5	34.5
(a) Textiles incl. RMG											
World	23.6	10.2	10.5	8.7	9.6	8.7	4.4	-1.2	17.1	10.6	27.0
USA	27.2	18.4	18.4	16.3	16.8	13.8	-4.8	-7.6	15.9	16.0	15.2
EU	29.2	18.2	18.5	15.4	15.9	16.3	7.9	-6.7	7.9	-3.1	35.7
China	9.3	1.5	1.7	2.1	2.8	3.2	31.6	44.1	102.9	120.4	48.9
others	20.2	6.7	7.4	6.4	7.1	6.2	5.9	6.3	22.9	17.0	25.6
(b) Gems & Jewellery											
World	16.6	15.1	16.2	14.7	14.3	16.1	42.1	3.7	27.0	9.4	58.4
USA	29.3	21.7	24.2	20.7	21.2	22.3	-7.7	2.8	11.9	15.6	47.6
EU	11.5	8.3	6.7	6.6	6.5	8.6	24.8	-26.2	29.9	14.8	75.2
China	0.0	8.0	3.8	0.4	0.7	0.7	2040.3	-41.4	-81.0	-82.5	33.5
others	14.4	16.8	19.2	17.8	16.5	18.2	60.5	10.7	32.2	9.6	59.1
(c) Engineering Goods											
World	15.7	21.6	18.2	23.8	21.7	22.2	18.7	-18.7	83.9	45.0	43.6
USA	13.4	23.9	17.1	22.4	21.9	21.3	16.1	-33.9	71.1	75.6	37.0
EU	14.0	25.4	20.8	22.5	22.3	21.5	25.7	-25.1	40.4	22.0	27.5
China	9.9	9.4	12.4	37.3	17.3	21.3	-10.0	63.6	409.2	52.2	65.3
others	17.5	20.8	18.2	22.8	21.9	22.6	17.9	-15.8	79.1	48.1	48.1
(d) Chemical & Related Products											
World	10.4	12.3	12.8	11.5	12.2	11.6	7.2	0.9	26.5	24.8	34.2
USA	5.7	14.8	17.2	17.1	17.3	15.1	12.8	7.4	29.9	45.0	22.5
EU	9.7	13.0	12.5	12.6	13.1	13.3	7.4	-11.8	30.5	28.8	34.3
China	15.5	4.9	5.1	4.3	5.2	6.5	-38.0	28.1	44.3	23.4	68.2
others	12.4	12.1	12.9	11.2	11.6	11.0	8.6	3.2	23.7	19.4	36.0
(e) Leather & leather mnfrs											
World	4.4	1.9	1.9	1.5	1.7	1.6	1.5	-5.5	12.1	13.9	27.3
USA	3.7	1.7	1.5	1.3	1.4	1.2	16.1	-17.8	12.8	15.4	23.4
EU	11.4	5.9	6.3	5.2	5.9	5.9	1.0	-2.1	8.4	7.3	32.4
China	1.1	0.5	0.4	0.4	0.6	0.7	-10.2	-2.2	49.7	58.0	48.2
others	1.6	0.7	0.7	0.6	0.7	0.5	-1.6	-9.9	20.4	30.4	14.4
III Petroleum, crude & products											
World	4.3	14.9	16.1	16.8	17.0	20.9	-5.2	4.6	46.5	62.6	72.7
USA	0.0	0.8	2.3	3.7	2.7	5.9	-76.2	180.3	110.8	61.9	204.7
EU	0.0	10.6	16.9	18.4	17.4	15.2	5.7	45.4	41.8	68.0	14.9
China	0.0	1.1	0.8	4.5	1.0	12.8	-35.1	-8.3	805.8	80.1	1565.8
others	8.1	20.0	19.9	20.0	20.8	25.7	-4.8	-3.9	43.2	61.2	77.4
Total Exports											
World	100.0	100.0	100.0	100.0	100.0	100.0	13.6	-3.5	40.5	30.0	40.6
USA	100.0	100.0	100.0	100.0	100.0	100.0	2.0	-7.6	30.8	31.9	40.5
EU	100.0	100.0	100.0	100.0	100.0	100.0	13.9	-8.4	30.0	21.6	32.3
China	100.0	100.0	100.0	100.0	100.0	100.0	-14.0	24.2	68.8	40.7	34.2
others	100.0	100.0	100.0	100.0	100.0	100.0	19.0	-3.4	42.6	31.4	43.5

Source **: Computed from DGCI&S data.**

***Growth rate in US dollar terms**

Note **: 1. RMG stands for ready-made garments.**

2. Share in a particular item means share of each country in total exports of India to that country.

3. Totals may not add up mainly due to some unclassified items.

Box 7.1 : India's Major Manufactured Exports

The top four items in India's manufactured exports are engineering goods, gems and jewellery, chemicals and related products, and textiles (see Table 1). Since 2007-8, electronic goods have displaced leather and manufactures from fifth place with the share of the former increasing and the latter decreasing. There has been a gradual shift in India's manufactures exports from labour-intensive sectors like textiles, leather and manufactures, handicrafts, and carpets to capital- and skill-intensive sectors.

Engineering goods exports has seen an almost steady rise in shares from 1999-2000 to the first half of 2011-12 and high growth rates of 84 per cent and 43.6 per cent in 2010-11 and the first half of 2011-12 respectively mainly due to the high growth rates of two major items machinery & instruments and transport equipments besides residual engineering items with very high growth rates. The major markets for Indian engineering exports in 2010-11 were China, the USA, the UAE, Singapore, Saudi Arabia, South Africa, Germany, Sri Lanka, and the UK. All these markets showed tremendous export growth with China topping at 409 per cent.

With the highest growth rate among manufactures at 58.4 per cent in the first half of 2011-12,gems and jewellery, the second major export item, has retained its share of around 16-17 per cent since 2000-1. In 2010-11, this sector accounted for 14.7 per cent of India's total merchandise exports. India is the largest cutting and polishing centre for diamonds in the world. Of the global polished diamond market, India's share is estimated to be 70 per cent in terms of value, 85 per cent in terms of volume, and 92 per cent in terms of pieces. As per the Gem and Jewellery Export Promotion Council (GJEPC), this sector as a whole supports about 34 lakh jobs. The gems and jewellery manufacturing sector consists of large number of small and medium enterprise (SME) units, employing skilled and semi-skilled labour, almost entirely in the unorganized sector.

The share of chemicals and related products has fallen marginally over the years mainly because of the fall in shares of basic chemicals, pharmaceuticals, and cosmetics. The growth in 2010-11 and the first half of 2011-12, however, have been higher by 26.5 per cent and 34.2 per cent respectively. The steady fall in share of the textiles sector to single digits since 2000-1 is mainly due to a fall in shares of ready-made garments and cotton, yarn, fabrics, made-ups, etc. Clearly, India has not been able to utilize the opportunity provided by the phasing out of the Multi Fibre Agreement (MFA) in 2005.

The rise of the electronics sector, though long overdue, is a welcome sign. This is due to the recent policies of the government to help this sector like including many electronic items in the Focus Product Scheme and customs duty exemption to many electronic components. The Tsunami in Japan which led to disruption of supply chains in Japan could also have benefitted India at a time when support measures were taken by India for this sector.

Table 1 : Performance of Top Four Items in India's Manufactured Exports

	Shares				CAGR	Growth rate		
	1999-00	2010-11	2010-11 Apr.-Sept.	2011-12 Apr.-Sept.	1999-00 to 2008-09	2009-10	2010-11	2011-12 (Apr.-Sept.)
1. Engineering Goods	11.9	23.8	21.7	22.2	28.0	-18.7	84.0	43.6
1) Machinery	5.6	12.2	13.1	13.1	30.5	-13.3	55.7	40.2
a) Machine tools	0.2	0.1	0.1	0.1	20.6	-26.4	12.8	18.3
b) Machinery & instruments	3.2	4.8	4.9	4.6	28.1	-13.3	25.2	31.6
c) Transport equipments	2.2	7.3	8.1	8.4	33.9	-12.9	86.6	45.7
2) Iron & steel	2.3	2.6	2.3	2.2	24.5	-39.2	80.0	31.5
a) Iron & steel bar rod etc	0.3	0.4	0.4	0.5	30.4	-34.2	49.4	50.2
b) Primary & semi-finished iron & steel	2.0	2.2	1.9	1.7	23.5	-40.4	87.8	27.1
3) Other engineering items	4.1	9.1	6.2	7.0	25.9	-21.7	145.7	56.8
a) Ferro alloys	0.2	1.2	1.0	0.6	43.6	-43.1	234.6	-14.2
b) Aluminum other than products	0.4	0.4	0.3	0.2	14.5	11.3	79.2	0.3
c) Non-ferrous metals	0.1	3.7	1.2	1.1	60.5	5.4	323.2	29.5
d) Manufacture of metals	3.3	3.8	3.7	2.9	22.5	-27.2	70.5	10.6
e) Residual engineering items	0.1	0.1	0.1	2.1	21.3	-5.9	47.4	3512.9
2. Gems & Jewellery	20.4	14.7	14.3	16.1	15.9	3.7	27.0	58.4
3. Chemicals & Related Products	13.4	11.5	12.2	11.6	19.3	0.9	26.5	34.2
1) Basic chemicals, pharma & cosmetics	8.4	7.7	8.2	7.5	19.8	0.7	22.0	29.2
2) Plastics & linoleum	1.6	1.8	2.0	2.2	19.7	10.4	37.7	56.1
3) Rubber, glass & other products	2.4	2.2	2.4	2.6	18.7	-0.5	33.2	51.4
4) Residual chemicals & allied products	0.9	0.6	0.5	0.5	14.6	-5.2	43.7	29.9
4. TEXTILES	25.0	8.7	9.6	8.7	8.6	-1.2	17.1	27.0
1) Ready-made garments	13.0	4.5	4.8	4.5	9.7	-2.0	4.6	29.4
2) Cotton, yarn, fabrics, made-ups, etc	8.4	2.2	2.5	2.2	3.4	-11.1	48.8	22.6
3) Man made textiles & made-ups, etc	2.3	1.8	2.0	1.9	16.2	19.7	16.9	35.0
4) Natural silk textiles	0.6	0.1	0.1	0.1	4.9	-18.4	21.2	-34.4
5) Wool & woolen mfrs	0.1	0.0	0.0	0.1	8.0	-10.3	16.6	59.9
6) Coir & coir mfrs	0.1	0.1	0.1	0.1	13.9	7.7	-4.9	31.3
7) Jute mfrs	0.3	0.2	0.2	0.2	10.3	-28.4	110.2	-4.2

Source : Computed from DGCI&S data

with an increase of around 17 percentage points, the decrease in share of manufactured goods in India's exports to the EU is also high at around 13.7 percentage points. However, there has been a dramatic rise in the share of petroleum, crude and products in India's exports to China. The share of ores & minerals has started falling in India's exports to China since 2008-09 reaching 30 per cent in the first half of 2011-12 resulting in rise in share of manufactured goods. Among manufactures, the fall in share of textiles to EU and US and 'Others' from 2000-1 to the first half of 2011-12 has been more or less the same at above 10 percentage points. There has been a rise in share of India's exports of engineering goods to all the four markets. While there has been a big jump in the share of this item in India's export to China in 2010-11 and then a moderation, in the case of the other three markets, the share is at a uniform 21-22 per cent range in the first half of 2011-12. While the share of gems and jewellery exports to the US and EU markets have fallen, it has increased in the case of 'Others'. China's share is insignificant in this item. The share of chemicals and related products in India's exports registered a near 10 percentage point increase to the US market and around 3.5 percentage point increase to the EU market (Table 7.7).

Export diversification

7.27 Similar to 2009, India had a global export share of 1 per cent or more in 48 out of a total of 99 commodities at the two-digit harmonized system (HS) level. However, its share of 5 per cent or more in 12 items in 2009 has declined to 10 items with the categories 'bird skin, leather, artificial flowers, human hair' and 'ores, slag, and ash' moving out of the list (Table 7.8). Except pearls, precious stones, metals, coins, etc. all the other nine items witnessed an increase in global share in 2010 over 2009, with cotton being at the top of the list. However, most of these 10 items except pearls, precious stones, metals, coins, etc. have a very small share in total world exports.

7.28 While India has made major strides in its diversification of export markets, a lot needs to be done to not only diversify the export basket but also have a perceptible share in the top items of world trade (Box 7.2).

Import composition

7.29 In case of imports, there are no major compositional changes other than the sudden rise in share of gold and silver imports from 9.3 per cent in 2000-1 to 13.3 per cent in the first half of 2011-12

Table 7.8 : India's Share in World Exports: Commodity-wise (Share of more than 5 per cent)

Sl. No.	Product code	Product label	2006	2007	2008	2009	2010	Change in share 2010/2009
1	'52	Cotton	6.84	8.47	8.60	7.61	11.86	4.25
2	'13	Lac, gums, resins, vegetable saps, and extracts nes	10.55	9.48	9.67	7.57	11.56	3.99
3	'50	Silk	11.39	10.53	10.17	9.73	10.30	0.57
4	'57	Carpets and other textile floor coverings	9.56	8.73	8.40	8.37	9.51	1.14
5	'53	Vegetable textile fibres nes, paper yarn, woven fabric	4.21	4.59	6.09	6.28	9.50	3.21
6	'71	Pearls, precious stones, metals, coins, etc.	6.49	6.60	5.70	10.20	7.80	-2.39
7	'14	Vegetable plaiting materials, vegetable products nes	4.46	4.83	5.45	5.09	7.25	2.17
8	'63	Other madeup textile articles, sets, worn clothing, etc.	6.37	5.73	5.39	5.46	6.01	0.55
9	'09	Coffee, tea, mate, and spices	5.01	5.18	5.31	4.98	5.41	0.43
10	'54	Manmade filaments	2.55	2.88	3.71	5.25	5.33	0.07

Source **: Calculated from National Centre for Trade Information (NCTI) data based on UN-ITC Trade Map Data 2010**

Box 7.2 : Need for India's Export Basket Diversification

An internal study of India's exports of world's top import items at the four-digit HS level using the latest UN comtrade data shows the following results:

- In the top 100 imports of the world, India has only 6 items with a share of 5 per cent and above in 2010.
- In the top 100 imports of the world in 2010, India has only 15 items with a share of 2 per cent and above. Of these only 3 items are in the top 25 and 4 in the top 30. Among these 15 items, there are 9 where India's export growth in 2010, is higher than that of world import growth. There are 3 items, namely iron ores and concentrates, including roasted iron pyrites (code 2601), diamonds, whether or not worked, but not mounted or set (code 7102) and flat rolled products iron etc (code 7210) where world import growth is higher than that of India's export growth with no negative growth for India. Of these there is need to focus on the third item which is a manufactured item and world import growth is more than double that of India. There are also three items where India's export growth is negative and world import growth positive. But this is mainly due to the base effect (see Table 1).

Table 1 : Export Items of India with 2 per cent and above share in Top 100 World Imports at Four Digit

Rank	HS4	Items	India's share in world 2010	Growth rate in 2010: India (Export)	Growth rate in 2010: World (Import)
1	2710	Petroleum oils and oils	5.8	57.8	33.1
12	2601	Iron ores and concentrates, etc.	4.2	16.0	72.8
15	7102	Diamonds, whether or not worked.	18.0	33.4	47.9
29	8803	Parts of goods of heading no. 88.01 or 88.02	2.1	57.5	7.0
31	7403	Refined copper and copper alloys, unwrought	6.6	341.6	44.2
40	6204*	Women's or girls' suits, ensembles, jackets, blazers, etc.	3.2	-4.6	3.4
44	6403	Footwear with outer soles of rubber, plastics, leather, etc.	2.4	13.7	11.0
53	7210	Flat-rolled products of iron or non-alloy steel, etc.	3.0	15.9	35.9
62	7113*	Articles of jewellery and parts thereof, etc.	18.2	-26.1	30.1
64	2902	Cyclic hydrocarbons.	3.4	40.2	35.8
67	6109*	T-shirts, singlets, & other vests, knitted or crocheted	4.3	-12.7	9.6
70	7202	Ferro-alloys	5.8	170.7	58.3
72	3902	Polymers of propylene or of other olefins, etc.	2.3	115.5	34.2
88	8419	Machinery, plant or laboratory equipment ,etc.	2.4	35.1	-0.9
97	2304	Oil-cake and other solid residues, etc.	5.6	21.9	1.1

Source: Computed form UN comtrade data extracted on 8th February 2012.

Note: * World import growth was negative in earlier years and India's export growth was positive in earlier years while it was the opposite in 2010.
*** Rank is in top 100 world imports.**

- Among the top 100 items there are many where India has already developed competence but India's share is very small. Some of them are simple items like taps, cocks, valves, and similar parts for pipes, boiler shells, tanks, vats, or the like, including pressure-reducing valves and thermostatically controlled valves (8481); new pneumatic tyres, of rubber (4011); flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated (7208); trunks, suit-cases, vanity-cases, executive-cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers (4202); other toys; reduced-size ('scale') models and similar recreational models, working or not; puzzles of all kinds (9503); flat-rolled products of stainless steel, of a width of 600mm or more (7219); electric motors and generators (excluding generating sets) (8501); screws, bolts, nuts coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles of iron or steel(7318); and many textiles items.
- Thus there is need for greater export basket diversification by India with a perceptible share in the top items of world demand.

Source: **Internal study, Economic Division, Department of Economic Affairs.**

and fall in the share of pearls, precious, and semi-precious stones from 9.6 per cent in 2000-1 to 6.0 per cent in the first half of 2011-12. The share of capital goods imports which increased from 10.5 per cent in 2000-1 to 15.5 per cent in 2008-9 started declining again to reach 11.6 per cent in the first half of 2011-12. The share of POL imports, which fell from 31.3 per cent in 2000-1 to 28.6 per cent in 2010-11 rose again to 31.4 per cent in the first half of 2011-12 due to high prices of crude oil (Table 7.9).

Direction of Trade

7.30 India is a success story in terms of diversification of export and import markets. The share of Asia and ASEAN in total trade increased from 33.3 per cent in 2000-1 to 57.3 per cent in the first half of 2011-12, while that of Europe and America fell from 42.5 per cent to 30.8 per cent respectively. This has helped India weather the global crisis emanating from Europe and America. In fact, today we have only five advanced western countries among the top 15 trading partners while in 2000-1 we had seven countries. While the top 15 countries still hold a share of around 60 per cent in 2010-11 and 2011-12 (April-September) (Table 7.10), the top 15 countries themselves have changed over the years. The major changes are the entry of Indonesia, Korea, Iran, and Nigeria in the new list in place of Italy, Malaysia, France, and Australia. If we see the share of the top 15 countries of 2000-1 today it is 59.6 per cent while the share of today's top countries in 2000-1 was 55.5 per cent. An interesting development in the direction of India's trade is that the USA which was in first position in 2007-8 has been relegated to third position in the following years, with the UAE becoming India's largest trading partner, followed by China. This position continued from 2008-9 to 2010-11.

7.31 India's trade deficit as a per cent of GDP at 5.7 percent in 2010, is one of the highest. Among major countries, only two trading nations Hong Kong and UK have higher ratio than India. Export-import

Table 7.9 : Commodity Composition of India's Imports

	Commodity Group	Percentage share					CAGR	Growth rate[a]			
		2000-01	2009-10	2010-11	2010-11 (Apr.-Sept.)	2011-12 (Apr.-Sept.)	2000-01 to 2008-09	2009-10	2010-11	2010-11 (Apr.-Sept.)	2011-12 (Apr.-Sept.)
I.	**Food and allied products, of which**	**3.3**	**3.7**	**2.9**	**3.1**	**3.1**	**18.0**	**69.0**	**0.8**	**19.7**	**35.0**
	1. Cereals	0.0	0.0	0.0	0.0	0.0	15.6	123.0	14.3	253.1	-54.5
	2. Pulses	0.2	0.7	0.4	0.5	0.3	36.0	58.8	-24.1	6.3	-2.6
	3. Edible oils	2.6	1.9	1.8	1.8	2.1	12.6	62.3	17.4	25.0	56.1
II.	**Fuel, of which**	**33.5**	**33.2**	**31.3**	**31.6**	**35.1**	**24.9**	**-5.5**	**20.8**	**33.7**	**47.6**
	4 POL	31.3	30.1	28.6	28.2	31.4	24.4	-5.0	22.0	33.0	47.7
III.	**Fertilizers**	**1.3**	**2.3**	**1.9**	**2.5**	**1.7**	**44.6**	**-48.3**	**3.4**	**30.4**	**-11.8**
IV.	**Capital goods, of which**	**10.5**	**15.0**	**13.1**	**12.8**	**11.6**	**31.2**	**-8.2**	**12.4**	**10.8**	**20.9**
	5. Machinery except elec. & machine tools	5.9	7.4	6.4	6.5	6.3	29.6	-10.2	11.7	12.0	30.2
	6. Electrical machinery	1.0	1.1	1.0	1.0	1.0	28.6	-15.1	23.4	19.3	29.5
	7. Transport equipment	1.4	4.1	3.1	2.8	1.8	44.0	-11.6	-2.2	-10.3	-12.8
V.	**Others, of which**	**46.3**	**42.6**	**47.7**	**46.8**	**45.7**	**22.7**	**1.3**	**43.5**	**51.6**	**29.6**
	8. Chemicals	5.9	5.2	5.2	5.5	5.1	22.2	0.0	27.9	34.0	23.8
	9. Pearls, precious, semi-precious stones	9.6	5.6	9.4	8.5	6.0	16.4	-2.4	114.0	173.4	-5.8
	10. Gold & silver	9.3	10.3	11.5	10.3	13.3	21.1	35.5	43.5	55.5	72.8
	11. Electronic goods	7.0	7.3	7.2	7.6	7.2	26.4	-10.0	26.7	25.4	26.2
	Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**25.0**	**-5.0**	**28.2**	**37.6**	**32.7**

Source **: Computed from DGCI&S data.**

ratios reflecting bilateral trade balance (Table 7.10) show that among its top 15 trading partners, India had bilateral trade surplus with five countries, namely the UAE, USA, Singapore, the UK, and Hong Kong in 2008-9, 2009-10, and 2010-11. An interesting point to be noted is that India has trade surplus with the UAE from which it imports large quantities of oil, while it has a high trade deficit with similar oil exporters like Saudi Arabia, Iran, and Nigeria. However, in the first half of 2011-12 (April-September), India's trade surplus with the UAE has turned into deficit, though very low, due to the rising oil prices. Another important trend is the high trade deficit of India with China and Switzerland which increased from US$ 19.2 billion and US$14.1 billion in 2009-10 respectively, to US$ 23.9 billion and US$ 24.1 billion in 2010-11 and further to US$ 20 billion and US$ 14.8 billion in the first half of 2011-12. The reasons for this are the rising imports of machinery from China and gold from Switzerland. The above analysis indicates the need for a more focused strategy with respect to bilateral balance of trade.

7.32 Region-wise, India's diversification in exports is evident from the fact that the share of Asia and ASEAN increased from 38.7 per cent in 2000-1 to 56.2 per cent in 2010-11, while the share of Europe and the USA fell from 46.9 per cent to 30.8 per cent during the same period. The UAE has displaced the USA as the topmost destination of India's exports in 2008-9 and continues to be in the top position in 2009-10, 2010-11, and first half of 2011-12 with export shares of 13.4 per cent, 13.7 per cent, and 11.9 per cent respectively. India's exports to all the top three destinations, i.e. the UAE followed by the USA and China, registered growth of 43.3, 30.8, and 69.1 per cent in 2010-11 and 21.9 per cent, 40.7 per cent, and 34.2 per cent in the first half of 2011-12 respectively.

7.33 Asia and ASEAN continued to be the major source of India's imports. The composition of imports in the first half of 2011-12 compared to 2000-1 shows a rise in share of Asia and ASEAN from 28.6 per cent to 61.5 per cent and fall in share of Europe and

Table 7.10 : India's Trade Share and Export-Import Ratio with Major Trading Partners

Sl. No.	Country	Share in total trade 2008-09	2009-10	2010-11	2010-11 (Apr-Sept)	2011-12 (Apr-Sept)	Export/Import ratio[a] 2008-09	2009-10	2010-11	2010-11 (Apr-Sept)	2011-12 (Apr-Sept)
1	UAE	9.76	9.29	10.81	10.87	9.25	1.04	1.23	1.05	0.88	0.99
2	China	8.59	9.09	10.16	9.72	9.27	0.29	0.37	0.45	0.26	0.28
3	USA	8.18	7.83	7.35	7.85	7.23	1.14	1.15	1.27	1.16	1.52
4	Saudi Arabia	5.09	4.49	4.13	4.27	4.44	0.26	0.23	0.26	0.23	0.22
5	Switzerland	2.54	3.26	4.10	3.55	4.28	0.07	0.04	0.03	0.03	0.05
6	Hong Kong	2.71	2.70	3.18	3.11	3.15	1.02	1.67	1.10	1.24	1.26
7	Germany	3.80	3.37	3.00	2.97	3.04	0.53	0.52	0.57	0.49	0.52
8	Singapore	3.26	3.01	2.81	3.02	3.62	1.09	1.17	1.44	1.19	1.92
9	Indonesia	1.91	2.52	2.60	2.40	2.79	0.38	0.36	0.63	0.50	0.47
10	Belgium	2.09	2.09	2.40	2.26	2.09	0.78	0.62	0.73	0.62	0.87
11	Korea	2.62	2.57	2.35	2.33	2.14	0.46	0.40	0.39	0.30	0.37
12	Japan	2.24	2.22	2.23	2.39	2.15	0.39	0.54	0.60	0.60	0.48
13	Iran	3.04	2.87	2.20	2.14	1.68	0.21	0.16	0.25	0.21	0.24
14	Nigeria	2.12	1.86	2.10	2.06	2.39	0.18	0.19	0.21	0.18	0.14
15	UK	2.58	2.29	2.02	2.02	2.06	1.13	1.40	1.33	1.36	1.13
	Total of top 15 countries	60.54	59.45	61.45	60.97	59.55	0.57	0.60	0.63	0.55	0.59
	Total trade	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**0.61**	**0.62**	**0.68**	**0.60**	**0.63**

Source : Computed from DGCI&S data.

Note : [a] A coefficient of export 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.

the USA from 27.5 and 5.7 per cent to 18.6 and 4.7 per cent respectively. Country-wise, China remained the largest source with an 11.7 per cent share in India's total imports followed by the UAE (7.6 per cent), Switzerland (6.6 per cent), Saudi Arabia (6 per cent), and the USA (4.7 per cent) in 2011-12 (April-September). Among the top 15 trading partners, India's imports from Nigeria, Switzerland, and Indonesia registered a growth of above 60 per cent in 2011-12 (April-September) due to imports of crude oil, gold and silver, and edible oils along with crude oil respectively. However, India's imports from Iran, the USA, the UAE, and Belgium registered low growths.

World Trade in Services

7.34 The US$ 3.7 trillion world exports of commercial services are dominated by the developed western countries in terms of share except for China, India, and Singapore which also appear in the list of top traders of services. While the United States, Germany, the United Kingdom, China, and Japan represent a third of world trade in commercial services, Europe alone accounts for 45 per cent of total trade in commercial services. While in terms of share, the developed western countries are the major traders, in terms of growth the Asian countries are the leaders with their exports of commercial services expanding on an average by 13 per cent annually since 2008. While world merchandise exports bounced back strongly in 2010 and increased by 14 per cent in volume terms, world exports of commercial services grew by only 9 per cent in 2010, to reach US$ 3,695 billion according to International Trade Statistics, 2011. However, both world merchandise and services exports have not reached the pre-crisis (2008) level. The recovery has not been even across regions. The most rapid growth of commercial services has been in Asia, where exports rose by 22 per cent in 2010, led by India and China. EU exports grew by only 3 per cent. Exports of commercial services from Central and South America and the Caribbean as well as from the Commonwealth of Independent States grew by 12 per cent; North America by 9 per cent; and Africa by 10 per cent.

7.35 Taking the EU (27) as a whole by excluding intra-EU trade, the top five exporters and importers of commercial services are the EU(27), the US, China, Japan, and India with the same ranks both in exports and imports of commercial services. Only China and Japan are net importers of commercial services in the top five. Emerging economies like China and India are now playing an increasing role in commercial services trade. In 2010, China's commercial services trade totalled US$ 362 billion, accounting for a global share of 6.6 per cent, up from 4.4 per cent in 2005 with exports expanding by 32 per cent. India is an important player in commercial services trade with its share reaching 4.3 per cent, compared to 2.8 per cent five years earlier. Its exports grew by 33 per cent and imports by 45 per cent in 2010, making it the most dynamic exporter of commercial services. Only Macao, China, ranking 19 in exports has a higher growth of 52 per cent, though it is not in the top 40 importers. Even if intra-EU trade is not excluded and the EU countries are taken individually, India is in the top 10 with seventh rank in both exports and imports of commercial services.

7.36 All the three broad categories of commercial services, namely transport, travel and other commercial services bounced back to positive zone with reasonably good growth in 2010. Of them transport has surpassed the 2000-5 average annual growth partly due to the high negative growth in 2009 (Table 7.11).

7.37 In world travel exports, accounting for a quarter of world exports of commercial services in 2010, Europe accounted for 41.1 per cent, a decline of almost 8 percentage points from 2005. In exports of transportation services, accounting for a 21.3 per cent share in global exports of commercial services,

Table 7.11 : World Exports of Commercial Services by Major Category, 2009

	Value (US$ billion) 2010	Annual percentage change			
		2000-05	2005-2010	2009	2010
Commercial services	3695	11	8	-12	9
Transport	785	11	7	-23	15
Travel	940	8	6	-9	8
Other commercial services	1970	13	10	-8	7

Source **: Compiled from WTO, International Trade Statistics 2011.**

the shares of European countries, Asia, and North America are 47.6, 28.8, and 10.7 per cent respectively. 'Other commercial services' is a major component of global exports of commercial services, accounting for a 53.3 per cent share and half of these exports originate from Europe, largely the European Union. Asia's share of 'other commercial services' exports was 25.4 per cent and North America's 18.2 per cent. While trade in services bounced back, the recovery has not been uniform in all regions and subsectors of 'other commercial services'. Even pre-crisis levels have not been reached in case of most of the services. The recovery in exports of transportation services was mainly driven by Asia's exports with major exporting countries achieving double-digit growth rates. In China, exports rose by 45 per cent and in the Republic of Korea by 33 per cent. Exports from Hong Kong and Japan expanded by 28 per cent and 23 per cent respectively. Europe recovered at a much slower pace with EU export growth at 8 per cent and that of Norway at only 2 per cent.

7.38 According to the United Nations World Tourism Organization, a 6.6 per cent surge in global international tourist arrivals in 2010 more than offset the decline triggered by the recession. Travel exports rose rapidly in Asian economies. Thanks to its thriving gaming sector, Macao, China became the world's fifth-largest exporter of travel in 2010, recording a 53 per cent increase in its travel receipts and its share in world travel exports more than doubling in five years, to reach 2.9 per cent. Travel exports expanded rapidly in other Asian countries as well, where the tourism sector experienced very strong growth. China's travel exports grew by 15 per cent, while in Hong Kong, the increase was by 35 per cent. Thailand's travel exports were up by 26 per cent and Malaysia's by 16 per cent. In the United States, travel receipts grew by 9 per cent, reflecting higher inflows of foreign tourists. However, in the European Union, travel exports fell by 2 per cent, while in Turkey, they stagnated. Recovery in all sub sectors of other commercial services was not uniform in 2010. While world exports of financial services increased by 7 per cent in 2010 following a sharp fall during the economic crisis, insurance services exports stagnated. Europe's financial services sector, which accounted for 49 per cent of global exports of financial services in 2010, was the hardest hit by the global crisis. It struggled to recover in 2010 with extra-EU exports rising marginally by 3 per cent, while in Switzerland, it declined by 2 per cent. US exports of financial services expanded by 5 per cent in 2010. But Asia experienced a strong recovery in financial services, with Singapore's exports up by 31 per cent, and Hong Kong's by 12 per cent. India's exports grew by 64 per cent but Japan's fell by 25 per cent. Exports of computer and information services and royalties and licence fees increased by 13 and 11 per cent respectively. While exports of communications services dropped by 8 per cent in value, reflecting a significant drop in prices, construction exports declined in nearly all regions in 2010 in the aftermath of the economic crisis. Global exports of construction contracted by 1 per cent in 2010, indicating that the effects of the global recession were still persisting in this sector. All leading exporters, with the exception of China, recorded negative growth. In the European Union, the world's major region in construction, exports declined by 7 per cent, in Japan by 10 per cent, and in Russia and the Republic of Korea by 20 per cent. China was the only top exporter with strong growth, with exports expanding by 53 per cent, due to its several infrastructure projects especially in Africa.

7.39 In 2010, India had good growth in trade of all the three major categories of commercial services. Even among other commercial services, its export growth has been good in all sub-sectors except communication services due to lower prices and personal, cultural, and recreational services. On the import side, only construction services show negative growth. India has improved its ranking in most of these services as other countries, particularly in Europe, did not perform well (Table 7.12).This analysis clearly indicates that the effects of the 2008 global crisis continued in the case of services trade, particularly in construction services in most countries and financial services in European countries. Thus the signs of the current crisis were more evident in the services sector.

India's Services Trade

India's Services Exports

7.40 For more than a decade, Indian growth story has been dominated by the services sector. This domination was also evident from the trend in export of services (receipts) which grew at a CAGR of 23.4 per cent during 2000-1 to 2010-11 while merchandise exports grew at a CAGR of 18.6 per cent during the same period. Having recorded a contraction of 9.4 per cent in 2009-10 due to the global financial crisis, services exports bounced back to grow by 38.4 per cent to US$ 132.9 billion in 2010-11. However, growth

Table 7.12 : India's sector-wise Rank and Share in World Exports / Imports of Services

Services		Rank 2009	Rank 2010	Share 2005	Share 2010	Per cent Change 2010
Transportation Services	Export	13	10	1.0	1.7	21
	Import	13	5	3.0	4.8	31
Travel Services	Export	14	12	1.1	1.5	27
	Import		...	...	...	...
Other Commercial Services	Export	4	3	3.1	4.9	36
	Import	8	5	1.9	3.5	66
Communication Services*	Export	4	5	...	2.1	-5
	Import	11	7	...	2.0	-7
Construction Services*	Export	12	...	...	...	...
	Import	13	10	...	1.6	-8
Insurance Services*	Export	7	8	...	2.0	17
	Import	7	7	...	3.1	24
Financial Services*	Export	7	7	...	1.5	64
	Import	5	3	...	3.9	81
Computer and Information Services*	Export[a]	2	2	...	19.2	...
	Import[a]	4	7	...	2.6	12
Other Business Services*	Export[a]	6	7	...	3.8	...
	Import	6	6	...	3.3	89
Personal, Cultural and Recreational Services*	Export	5	8	...	1.3	-28
	Import	12	...	...	...	...

Source **: Compiled from WTO, International Trade Statistics 2011.**
Note **: *share relates to 2009; a WTO Secretariat estimates.**

in exports of services moderated during the first half of 2011-12 to 17.1 per cent compared to 32.7 per cent during the first half of 2010-11 (Table 7.13).

7.41 While growth in exports of travel, transportation, and insurance services was higher in the first half of 2011-12 than in the first half of

Table 7.13 : India's Exports of Services

Sl. No.	Commodity Groups	Value (US $ Billion) 2010-11	Percentage share 2000-01	Percentage share 2010-11	Percentage share April-September 2010-11	Percentage share April-September 2011-12	CAGR 2000-01 to 2008-09	Growth rate* 2009-10	Growth rate* 2010-11	Growth rate* April-September 2010-11	Growth rate* April-September 2011-12
1	Travel	15.3	21.5	11.5	10.9	12.9	15.3	8.9	28.8	26.2	38.7
2	Transportation	14.3	12.6	10.7	11.0	12.8	23.8	-1.2	27.7	26.5	36.1
3	Insurance	1.9	1.7	1.5	1.5	1.7	23.1	11.9	22.5	10.2	38.8
4	GNIE	0.5	4.0	0.4	0.4	0.4	-6.2	13.4	21.3	9.5	30.6
5	Miscellaneous	100.9	60.3	75.9	76.2	72.1	30.4	-12.4	42.1	35.3	10.7
	a) Software services	55.5	39.0	41.7	42.7	45.2	28.2	7.4	11.6	11.6	24.1
	b) Non-software services	45.4	21.3	34.2	33.5	26.9	33.8	-40.3	113.0	85.6	-6.3
	Of which:										
	i) Business services	24.1	2.1	18.1	18.5	15.9	65.3	-39.4	112.4	111.4	0.3
	ii) Financial services	6.5	2.1	4.9	5.2	4.2	37.5	-16.6	76.3	64.9	-6.7
	iii) Communication services	1.6	7.0	1.2	1.3	1.1	9.2	-46.6	27.2	2.3	1.1
	Total services exports	**132.9**	**100.0**	**100.0**	**100.0**	**100.0**	**26.4**	**-9.4**	**38.4**	**32.7**	**17.1**

Source **: Computed from RBI data.**
Note **: * Growth rate in US dollar terms.**
GNIE= Government not included elsewhere.

2010-11, overall growth moderation in services exports in the first half of 2011-12 was due to low export growth (10.7 per cent) of miscellaneous services which accounted for nearly 72 per cent of total services exports. Within miscellaneous services, non-software services exports had negative growth of - 6.3 per cent. Growth in exports of business services, which are the major component of non-software services, registered a sharp deceleration in export growth from 111.4 per cent in the first half of 2010-11 to 0.3 per cent in the first half of 2011-12 reflecting the slowdown in business activity in the world economy. Exports of financial services declined by 6.7 per cent in the first half of 2011-12 as against an increase of 64.9 per cent in the first half of 2010-11, which is again a reflection of the impact of the current financial crisis in European countries. However, software exports which account for nearly 45 per cent of total services exports, continued to remain buoyant at US$ 30.8 billion and grew by 24.1 per cent in the first half of 2011-12. As per NASSCOM, software exports are likely to grow at 11-14 per cent in 2012-13. Going forward, if the euro zone debt crisis remains unresolved and the contagion impact spreads to other advanced countries, companies in the US and EU countries could reduce their information technology (IT) budgets which can affect the prospects of India's software exports. Similarly, weakening of economic activity in advanced economies can lead to a further downtrend in business and financial services which was also observed during Q4(fourth quarter) of 2008-9 to Q4 of 2009-10.

India's Services Imports

7.42 Import growth of services rebounded in 2010-11 with growth at 40 per cent. But in the first half of 2011-12 it grew by only 1.0 per cent as against 48.3 per cent in the first half of 2010-11. Growth deceleration in import of services was mainly on account of lower imports of miscellaneous services in the first half of 2011-12. Within miscellaneous services, imports of software and business services declined by 47.5 per cent and 1.7 per cent respectively during the first half of 2011-12 as against a growth of 39.9 per cent and 62.6 per cent respectively in the first half of 2010-11. In the first half of 2011-12, import growth of financial and transportation services moderated to 21.1 per cent and 14.5 per cent respectively. However, travel services import growth more than doubled to 39.7 per cent (Table 7.14).

India's Balance of Trade in Services

7.43 A consistent increase in surplus on account of India's services exports has been a cushioning factor for financing a large part of the trade deficit on the merchandise account in recent years. During 2005-6 to 2009-10, surplus in services exports, on

Table 7.14 : India's Imports of Services

Sl. No.	Commodity Groups	Value (US $ Billion)	Percentage share				CAGR	Growth rate*			
					April-September		2000-01 to			April-September	
		2010-11	2000-01	2010-11	2010-11	2011-12	2008-09	2009-10	2010-11	2010-11	2011-12
1	Travel	11.1	19.2	13.2	13.8	19.1	16.4	-0.9	18.9	15.1	39.7
2	Transportation	13.9	24.4	16.5	18.2	20.7	17.4	-6.9	16.3	33.2	14.5
3	Insurance	1.4	1.5	1.7	1.9	2.0	22.5	13.7	8.9	6.3	3.6
4	GNIE	0.8	2.2	1.0	1.0	1.0	12.1	-33.8	56.2	49.4	9.2
5	Miscellaneous	56.9	52.6	67.6	65.1	57.2	17.5	32.5	53.9	65.5	-11.2
	a) Software Services	2.2	4.1	2.6	3.2	1.6	20.1	-42.7	49.5	39.9	-47.5
	b)Non Software Services	54.7	48.6	65.0	61.9	55.6	17.3	40.1	54.1	67.1	-9.4
	of which:										
	i) Business Services	27.8	7.0	33.0	35.2	34.3	40.3	17.8	53.8	62.6	-1.7
	ii)Financial Services	7.5	13.5	8.9	9.1	10.9	5.2	56.9	61.2	68.0	21.1
	iii) Communication Services	1.2	0.9	1.4	1.4	2.0	30.8	24.7	-15.0	-14.2	42.8
	Total Services Imports	84.1	100.0	100.0	100.0	100.0	17.2	15.3	40.0	48.3	1.0

Source **: Computed from RBI data.**
Note **: * Growth rate in US dollar terms.**

Table 7.15 : India's Exports, Imports and Balance of Trade in Services

(US $ billion)

	Exports	Imports	Balance
2000-1	16.3	14.6	1.7
2001-2	17.1	13.8	3.3
2002-3	20.8	17.1	3.6
2003-4	26.9	16.7	10.1
2004-5	43.2	27.8	15.4
2005-6	57.7	34.5	23.2
2006-7	73.8	44.3	29.5
2007-8	90.3	51.5	38.9
2008-9	106.0	52.0	53.9
2009-10	96.0	60.0	36.0
2010-11	132.9	84.1	48.8
2010-11 (Apr.-Sept.)	58.1	36.6	21.5
2011-12 (Apr.-Sept.)	68.0	36.9	31.1

Source **: Compiled from RBI data.**

average, financed around 41 per cent of merchandise trade deficit. Net services surplus which was increasing over the years registered a dip in 2009-10 with services exports falling due to the global economic crisis but services imports increasing. However, in 2010-11, net services surplus again increased and was at US$ 48.8 billion. During the first half of 2011-12, a surplus of US$ 31.1 billion has been recorded in net services which is 44.7 per cent higher than that recorded during the first half of 2010-11 (Table 7.15). Going forward, downward risks to export of services cannot be ruled out as certain weaknesses have re-emerged in the global economy, particularly the crisis in the euro zone and slowdown in the US economy.

Trade Policy

Recent Trade Policy measures

7.44 Many trade policy measures were announced by the government in the Annual Supplement to the Foreign Trade Policy (FTP) on 13 October 2011 (Box 7.3). Many measures were also taken by the government in Union Budget 2011-12 and the RBI in its monetary and credit policies during the course of the year which include the following.

Budget related

- The peak rate of customs duty retained at 10 per cent in view of the continued uncertainties in the global economy.
- A concessional rate of basic customs duty of 2.5 per cent for specified agricultural machinery and parts of such machinery to encourage their domestic production.
- De-oiled rice bran cake exempted from basic customs duty. Simultaneously, an export duty of 10 per cent levied to discourage its exports.
- Reduction in basic customs duty from 30 per cent to 5 per cent on raw silk (not thrown); from 5 per cent to 2.5 per cent on certain textile intermediates and inputs for chemicals, ferro-nickel, and paper; from 7.5 per cent to 5 per cent on specified inputs for manufacture of certain technical textile; from 30 per cent to 10 per cent on raw pistachio and bamboo for agarbatti; and from 25 per cent to 10 per cent on lactose for the manufacture of homeopathic medicines.
- Full exemption of stainless steel scrap from basic customs duty.
- The raw material list for manufacture of specified electronic components that are fully exempt from basic customs duty expanded.
- Specified parts of hybrid vehicles fully exempted from basic customs duty and special additional duty of customs (SAD).
- Full exemption from excise duty extended to air-conditioning equipment and refrigeration panels for cold chain infrastructure and conveyor belts and to enzyme-based preparations for pre-tanning.
- Self-assessment in customs to usher in a new era of trust based customs-trade partnership, modernize the customs administration and quicken the clearance of cargo.
- Mega Cluster Scheme extended to leather products.
- Export duty on all kinds of iron ore unified at 20 per cent ad valorem.

Credit related (also see trade finance section paras 7.8 to 7.10)

- Interest subvention of 2 per cent re-introduced on rupee export credit with effect from 1 April 2011 to 31 March 2012 in handicrafts, handlooms, carpet, and SME sectors.
- In order to reduce the cost (interest cost on overdue export bills), exporters with overdue export bills permitted to extinguish their overdue post shipment rupee export credit from their rupee resources.

Box 7.3 : Foreign Trade Policy Measures in 2011-12

Some important Trade Policy and facilitation measures are the following:

Trade Policy Measures

- The Duty Entitlement Pass Book (DEPB) scheme was discontinued with effect from 30-09-2011. Since a Duty Drawback Scheme was already in existence, the erstwhile DEPB products were incorporated in the Duty Drawback Schedule (DDS) 2011-12 with effect from 01-10-2011. Approximately 1100 additional entries were made in the DDS for those erstwhile DEPB products that were not already specifically mentioned in the DDS. Appropriate rates of duty drawback were provided across the DDS. These range from 1 per cent to 17 per cent of FOB value. Many of the export goods with duty drawback rates more than 3 per cent have been provided with drawback caps.
- Special Bonus Benefit Scheme, within the Focus Product Scheme, covering 49 products in Engineering, Pharmaceutical and Chemical sectors, was introduced to provide special assistance @1 per cent of FOB value of exports for 6 months from 1.10.2011 to 31.3.2012.
- Special Focus Market Scheme, within the Focus Market Scheme, for exports to 41 countries. (12 from Latin American region, 22 from African region and 7 from CIS region) introduced with a view to increase the competitiveness of exports with a geographical targeting. The scheme provides additional 1 per cent duty credit when exports are made to these countries resulting in total duty credit scrip @4 per cent of the FOB value of exports.
- To help Apparel exports, MLFPS has been extended to all items covered under Chapters 61 and 62 of ITC HS Classification entitling them with duty credit @ 2 per cent of FOB value of exports when these products are exported to USA and EU during 2011-12.
- About 130 additional items mainly from Chemical/ Pharmaceuticals, Textiles, Handicrafts, Engineering and Electronics sectors have been included in the FPS for duty credit scrip @ 2 per cent of FOB value of exports for exports made with effect from 1.4.2011.
- The list of items under MLFPS has been extended to cover new items to specified countries and entitled to get duty credit scrip @ 2 per cent of FOB value of exports. These include Agricultural tractors> 1800cc capacity to Turkey and sugar machinery & high-pressure boilers to Brazil, Kenya, South Africa, Tanzania and Egypt. The scheme has also been extended to all existing MLFPS Countries for printing inks, writing ink, etc.
- Status Holders Incentive Scrip extended for 2012-2013.
- The towns of Firozabad for glassware, Bhubaneswar for marine products and Agartala for bamboo and cane products have been notified as towns of export excellence.

Trade facilitation measures:

- Filing of applications for various authorizations through EDI mode has been made mandatory in almost all schemes.
- 24 out of 37 EPCs have registered on DGFT's website for uploading of Registration cum Membership Certificate (RCMC) data. This would avoid repetitive filing of RCMC hard copies, eliminate redundancy and reduce transaction cost.
- Two additional banks namely (i) Bank of Baroda (ii) United Bank of India, have been included for Electronic Fund Transfer (EFT) facility for DGFT users in addition to the existing 11 banks.
- An offline data entry module has been provided for Advance Authorization and EPCG applications in August, 2010 to provide flexibility in filing applications by exporters, and reducing online server time which would improve efficiency and reduce cost.
- 'On-line' filing of Importer Exporter Code (IEC) application and processing has been initiated with effect from 1.1.2011. The linkage of on-line IEC filing and issuance system with the PAN data base through National Securities Depository Limited (NSDL) for on-line PAN validation is being integrated.
- As of now the message exchange with Customs is implemented for advance authorization, EPCG and Duty Free Import Authorization (DFIA). The message exchange is being extended to other schemes also i.e. annual advance authorization, annual EPCG, SFIS and SHIS.
- A Software system for 'on-line' filing of Policy Relaxation Committee (PRC) cases, it's processing and status tracking has been developed.
- A web based Tracking and Monitoring package for advance authorization and EPCG authorization has been uploaded on the DGFT's website, the access of which will be available to all Regional Licencing Authorities (RLAs) for monitoring of export obligation.
- DGFT has also become India's first digital signature enabled department in government of India, which has introduced a higher level of Encrypted 2048 bit Digital Signature. The 2048 bit DSC's have been issued to all offices.

- The limit for export credit refinance facility retained at pre-crisis level of 15 per cent.

Inflation-management related

- Levy obligation in respect of all imported raw sugar and white/refined sugar removed.
- Export of edible oils (except coconut oil and forest-based oil) and pulses (except Kabuli chana and organic pulses up to a maximum of 10,000 tonnes per annum) banned.
- No change in tariff rate values of edible oils;
- Ban on export of non-basmati rice and wheat for a short period of time.
- Permitted export of edible oils in branded consumer packs of up to 5 kg subject to a limit of 10,000 tonnes.
- Export of milk powders (including skimmed milk powder, whole milk powder, dairy whitener, and infant milk food), casein and casein products prohibited.
- Ban on export of onion imposed for a short period of time whenever required. Exports of onion calibrated through the mechanism of minimum export price (MEP).
- Import duties reduced to zero – for rice, wheat, onion, pulses, edible oils (crude) and to 7.5 per cent for refined and hydrogenated oils and vegetable oils.
- The National Dairy Development Board (NDDB) allowed to import 50,000 tonnes of skimmed milk powder and whole milk powder and 15,000 million tonnes (MT) of butter, butter oil, and anhydrous milk fat at zero duty under tariff rate quota.
- Sugar mills permitted to import duty-free raw sugar under open general licence (OGL). Later this facility was extended to private trade on job basis.
- The State Trading Corporation (STC)/Minerals and Metals Trading Corporation (MMTC)/ Projects and Equipment Corporation (PEC) and National Agricultural Cooperative Marketing Federation of India (NAFED) permitted to import duty-free white/refined sugar initially with a cap of 1 million tonnes. Later, duty-free import was also allowed by other central / state government agencies and private trade without any cap on the quantity.

Policy for Promoting State-wise Exports

7.45 Two States, namely Gujarat and Maharashtra, account for 46 per cent of exports from India as per the data on state of origin of exports of goods. If Tamil Nadu, Karnataka, and Andhra Pradesh, the next three states with more than 5 per cent share, are added to the top two, the share of the top five states would be 65.7 per cent. In 2010-11, the growth of exports from states was robust. Only Goa had negative export growth due to fall in ore exports owing to a ban on exports of iron ore by the Karnataka government. High export growth was registered by Odisha followed by West Bengal and Gujarat. In the first half of 2011-12 there was robust export growth in case of Karnataka, Uttar Pradesh, and Tamil Nadu (Table 7.16).

7.46 The state-wise exports given in Table 7.16 are only indicative as there are many weaknesses in the data. These include the following. The figures are compiled as per the reporting from customs and no validation is done at the DGCI&S end. Only one state of origin code can be given by the exporter in a single shipping Bill. In case of shipping bills with multiple invoices containing items originating from more than one state, there is no provision for making different entries. In the customs daily trade returns (DTRs) the non-reporting of state of origin (STON) is considerable and exporters have a tendency to report the state to which they belong/ the state to which the port (through which the export has taken place) belongs/ the state from where they 'procured' the goods as the state of origin for those particular goods instead of the actual state of origin of goods. The problem is acute in the case of non-manufacturing exporters, who only know the place of procurement and not production of the goods. These weaknesses need to be rectified to improve the quality of data.

7.47 To encourage exports, outlay under the Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme for the Eleventh Five year plan was increased to ₹ 3,793 crore. The allocations for the years 2007-8, 2008-9, 2009-10, 2010-11, and 2011-12 were ₹ 569 crore, ₹ 570 crore, ₹ 570 crore, ₹ 662.98 crore, and ₹ 850.96 crore respectively. State-wise allocation under state component of ASIDE shows that the top six states in terms of allocation in 2011-12 are Maharastra and Gujarat followed by Tamil Nadu Karnataka, Uttar Pradesh and Andhra Pradesh. Compared to earlier years the share of Maharastra has fallen, while the share of Tamil Nadu, Andhra

Table 7.16 : Exports of Top 15 States of India

(US$ million)

Sl. No.	State	2009-10	2010-11	(April-September) 2010-11	(April-September) 2011-12	Share(%) 2010-11	Growth rate (%) 2010-11	Growth rate (%) 2011-12 (Apr-Sept.)
1	Gujarat	38775	61694	24647	31246	24.6	59.1	26.8
2	Maharashtra	43356	53788	23394	33140	21.4	24.1	41.7
3	Tamil Nadu	16085	23378	8541	14179	9.3	45.3	66.0
4	Karnataka	9093	13603	5006	8509	5.4	49.6	70.0
5	Andhra Pradesh	8559	12567	6524	8533	5.0	46.8	30.8
6	Haryana	5679	8584	3574	4240	3.4	51.2	18.6
7	Uttar Pradesh	5524	8208	3849	6529	3.3	48.6	69.6
8	West Bengal	4197	7111	2886	3970	2.8	69.4	37.6
9	Odisha	3230	6990	2698	2075	2.8	116.4	-23.1
10	Kerala	5843	6547	2646	3717	2.6	12.1	40.5
11	Delhi	5187	6051	2907	4038	2.4	16.7	38.9
12	Rajasthan	3339	5214	1749	2626	2.1	56.2	50.2
13	Punjab	2732	4099	1904	2645	1.6	50.0	38.9
14	Madhya Pradesh	2357	3112	1147	1637	1.2	32.0	42.7
15	Goa	2481	1642	1074	774	0.7	-33.8	-27.9
	Total exports	**178751**	**251136**	**105241**	**147949**	**100.0**	**40.5**	**40.6**

Source **: Computed from data of DGCI&S, Kolkata.**

Pradesh, Uttar Pradesh and Gujarat have increased. In the North East region, Assam is the only state with significant share.

Special Economic Zones (SEZs)

7.48 In short span of about five years since the SEZs Act and Rules were notified in February 2006, formal approvals have been granted for setting up of 583 SEZs out of which 380 have been notified. Out of the total employment provided to 8,15,308 persons in SEZs as a whole, incremental employment generated after February 2006 when the SEZ Act came into force was 6,80,609 persons. This is apart from million man-days of employment created by the developer for infrastructure activities. Physical exports from the SEZs have increased from ₹ 2,20,711.39 crore in 2009-10 to ₹ 3,15,867.85 crore in 2010-11, registering a growth of 43.11 per cent in rupee terms. There has been overall growth of exports of 2180 per cent over past eight years (2003-4 to 2010-11). The total physical exports from SEZs as on 31 December 2011, i.e. in the first three quarters of the current financial year, has been to the tune of ₹ 2,60,972.9 crore, registering a growth of 14.5 per cent over the exports of corresponding period of the previous year. The total investment in SEZs till 31 December 2011 is ₹ 2,49,630.8 crore, including ₹ 2,31,160 crore in the newly notified zones. As per the provisions of the SEZ Act 2005, 100 per cent foreign direct investment (FDI) is allowed in SEZs through the automatic route. A total of 154 SEZs are making exports, out of which 88 are IT/ITeS, 17 multiproduct and 49 other sector-specific SEZs. The total number of units in these SEZs is 3,400.

Trade Promotion and Other Initiatives in the North East Region (NER)

7.49 The North East Cell in the Department of Commerce helps in the promotion of exports from the NER. The Export Development Fund (EDF) provides assistance for activities which have a linkage with exports from the region. So far (24th February 2012) 68 projects amounting to ₹ 67.78 crores have been sanctioned under the EDF-NER. Major projects approved/being considered under the EDF-NER include floriculture items like anthurium, gerbera, cut flower, orchid, and rose cultivation; cultivation and processing of passion fruit, orange, kiwi, ginger, turmeric, canned mushroom, safed musli, large cardamom; bee keeping and honey processing; infrastructure development of food testing laboratories, border trade points, etc.; handicrafts, handloom, silk; rubber wood-based door manufacturing; and workshops on mentoring, monitoring and export awareness.

Contingency Trade Policy and Non-Tariff Measures (NTMs)

7.50 Anti-dumping investigations initiated by all countries which went up in 2008 with the global economic crisis, fell marginally in 2009 to 209 cases and substantially in 2010 and the first half of 2011 to only 170 and 68 cases respectively (Table 7.17). India has been the top user of anti-dumping measures in terms of the investigations initiated in the last decade except for the year 2004 when the EU followed by China and the US topped the list. In line with global developments, India's anti-dumping initiations increased to 55 in 2008, fell to 31 in 2009, but again increased to 41 in 2010. Brazil with 37 initiations stood second in 2010. In the first half of 2010, Brazil with 11 anti-dumping initiations relegated India with 10 to second position.

7.51 During 2011-12 (up to 31 December 2011), six fresh anti dumping investigations have been initiated by the Directorate General of Anti-dumping and Allied Duties (DGAD). The products involved are phthalic anhydride, grinding media balls, digital offset printing plates, plain gypsum plaster board of 9.5 mm, 12.5 mm and 15 mm (+/- 0.6 mm), choline chloride, and resin or other organic substances bonded wood or ligneous fiber boards of thickness below 6mm except insulation boards laminated fiber board and boards which are not bonded either by resin or organic substances. The countries involved in these investigations are Korea RP, Chinese Taipei (Taiwan), Israel, Iran, Thailand, China PR, Japan, Indonesia, the UAE, the EU, Malaysia, and Sri Lanka.

7.52 The uncertainty in the international economic environment could lead to a rise in anti- dumping measures by countries in the coming months. India has been getting a lot of undue flak internationally for the highest anti-dumping initiations, though the value of imports prior to the imposition of anti-dumping duties on these items is negligible. The share of imports from the target countries in the total imports of India in the year prior to imposition of duties i.e., 2009-10 for the 12 items for which antidumping duties were imposed by India during 2010- 11 (April-March) is only 0.6 per cent. In 2010-11, it was 0.4 per cent (Table 7.18). This too is because of one single item i.e, synchronous digital hierarchy transmission equipment from China with 66 percent share in the imports of these items from target countries.

7.53 Though India's anti-dumping policy has been directed to checking genuine cases of dumping there is a need for some fine-tuning of its strategy to avoid unnecessary international criticism. Meanwhile the domestic economy needs to be adequately protected from the cheap imports of dumped or smuggled goods through the porous Indian borders. The hype around the high number of anti dumping cases of India needs to be dispelled by highlighting comparative value figures of other countries.

Table 7.17 : Investigations initiated by top ten users of Anti-Dumping Measures 1995-2011

Country	1995	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*	1995-2011*
India	6	79	81	46	21	28	35	47	55	31	41	10	647
United States	14	77	35	37	26	12	8	28	16	20	3	9	452
European Union	33	28	20	7	30	24	35	9	19	15	15	8	428
Argentina	27	28	14	1	12	12	11	8	19	28	14	4	288
Brazil	5	17	8	4	8	6	12	13	23	9	37	11	227
Australia	5	24	16	8	9	7	11	2	6	9	7	2	219
South Africa	16	6	4	8	6	23	3	5	3	3	0	1	213
China	0	14	30	22	27	24	10	4	14	17	8	0	186
Canada	11	25	5	15	11	1	7	1	3	6	2	0	153
Turkey	0	15	18	11	25	12	8	6	23	6	2	1	147
All countries	157	372	315	234	220	201	204	165	213	209	170	68	3922

Source **: WTO** ***Upto June 2011.**

Table 7.18 : Anti dumping duty by India in 2010-11 (April-March)

No. of Items	No. of cases	No. of countries involved	Value of imports of the items from target countries (US$ million)		Value of imports of the items from all countries (US$ million)	
			2009-10	2010-11	2009-10	2010-11
12	19	10	1767	1304	7226	6392
			(0.6)	(0.4)	(2.5)	(1.7)

Source : Computed from the data of the Directorate General of Anti-Dumping & Allied Duties, Department of Commerce.

Note : Percentage share in total imports of India in brackets

WTO Negotiations and India

Trade Negotiations

7.54 The Doha Round of trade negotiations in the WTO effectively made very little progress after 2008. Throughout 2009 and 2010, discussions continued but no headway was made on any substantive issue in the negotiations. (A summary of India's stand on key negotiabing issues is given in Box 7.4). However, the subject featured on the agenda of almost every major international meeting and there were strong affirmations of political support for an early conclusion of the Doha Round. Discussions continued in Geneva during March and April 2011, in a variety of formats. Reports on each area of the negotiations were issued on 21 April 2011. These documents provided an overview of the status of negotiations in each area covered in the Doha Development Agenda. While they indicated significant progress in many areas, they also captured the wide gaps remaining on many issues.

7.55 The focus then shifted to the possibility of selecting some issues for finalization as an 'early harvest' in time for the Eighth Ministerial Conference of the WTO in December 2011. It began with an attempt to select issues of particular importance to least developed countries (LDCs). However, these attempts did not meet with any success and proved not only unproductive but very divisive as well. Members could not agree on the issues to be included and sought to selectively bring in various issues of commercial interest to them. Gradually, as Members brought in non-LDC issues, the discussion veered away from the LDC issues. The LDC issues include (i) duty free quota free (DFQF) market access; (ii) the rules of origin for DFQF market access; (iii) LDC waiver in services; and (iv) issues relating to cotton (domestic and export subsidies for cotton and tariffs). Some of the issues suggested in addition for an 'LDC plus' package were trade facilitation and the export competition pillar of the agriculture negotiations. There was however little progress in arriving at a consensus on the elements of the early harvest package. The LDCs made it clear that if the LDC package was not delivered at the December 2011 Ministerial Conference, they would be very disappointed. The African Group, the African-Caribbean-Pacific Group, and other groups of developing countries supported an effort to harvest an LDC package for the Conference. India too, supported this stand.

7.56 In October-November 2011, concerted efforts were made by some of the developed country members of the WTO to use the G20 Leaders Summit in November 2011 to advance an agenda for the Eighth WTO Ministerial Conference scheduled to be held in Geneva in December 2011. Specifically, they wanted to set the stage for plurilateral agreements on selected issues in the WTO negotiations (rather than multilateral agreements); get WTO members to agree to a commitment abjuring the use of export restrictions; and introduce new issues for negotiation, namely climate change, energy security, and food security. The weeks preceding the Eighth WTO Ministerial Conference saw hectic activity in the WTO as some members attempted to put various issues on the agenda for ministerial decision. These proposals, however, did not receive support amongst WTO members. At the Eighth Ministerial Conference from 15 to 17 December, ministers adopted a number of decisions on intellectual property (IP), electronic commerce, small economies, LDCs' accession, a services waiver for LDCs, and trade policy reviews. A number of members expressed strong reservations about plurilateral approaches. Many members stressed that any different approaches in the work ahead should conform to the Doha mandate, respect the single undertaking, and be truly multilateral,

Box 7.4 : India's stand on key negotiating issues: A summary

Agriculture

- Substantial and effective reductions in overall trade-distorting domestic support (OTDS) of the US and EU;
- Self-designation of an appropriate number of special products (SPs);
- An operational and effective Special Safeguard Mechanism (SSM);
- Simplification and capping of developed country tariffs.

Non-Agricultural Market Access (NAMA)

- Adequate and appropriate flexibilities for protecting economically vulnerable industries;
- Participation in sectoral initiatives only on a non-mandatory and good faith basis without prejudgment of the final outcome, with substantial special and differential treatment provisions for developing countries;
- Serious consideration of non-tariff barrier (NTB) textual proposals with wide support such as the horizontal mechanism.

Services

- Need for qualitative improvement in the revised offers especially on Modes 1(cross-border supply) and 4 (movement of natural persons);
- Appropriate disciplining of domestic regulations by developed countries.

Rules

- Tightening of disciplines on anti-dumping (deletion of zeroing clause and reiteration of the lesser duty rule)
- Effective special and differential treatment for developing countries on fisheries subsidies.

Trade-related Aspects of Intellectual Property Rights (TRIPS)

- Establishing a clear linkage between the TRIPS Agreement and the Convention on Bio-diversity (CBD) by incorporating specific disclosure norms for patent applications;
- Enhanced protection for geographical indications (GIs) other than wines and spirits.

transparent, and inclusive. In looking at future work, a large number of ministers stressed the centrality of development. Many underlined the need to give priority to issues of interest to LDCs, including cotton. Many mentioned the importance of all three pillars in the agriculture negotiations. Many also mentioned trade facilitation, special and differential (S&D) treatment, S&D monitoring mechanism and NTMs. In an unprecedented display of unity, a coalition of more than a hundred developing countries, including India, Brazil, China, and South Africa, met on the sidelines of the Conference and issued a declaration emphasizing the development agenda. They roundly criticized suggestions for plurilateral agreements to replace decision making by multilateral consensus.

Fifth Trade Policy Review (TPR) of India

7.57 In order to promote transparency and provide better understanding of the trade policies and practices of its members, the WTO has a mechanism for regular review of their trade policies. Depending upon its share in world trade, each member's trade policy is reviewed by the WTO at fixed periodic intervals. India's TPR is carried out every four years. The TPR offers an opportunity to other WTO members to ask questions and raise concerns on different aspects of policies and practices of the country under review. The Fifth TPR of India was held on 14 and 16 September 2011 in the WTO. Before the meeting, the WTO Secretariat circulated a compilation of India's written replies to 886 advance questions raised by 26 WTO members. During the review, most of the members commended the resilience of the Indian economy that smoothly withstood the adverse effects of global financial crisis without taking recourse to protectionist measures. Members appreciated India for using its trade policy to promote sustainable development and inclusive growth. Members also noted India's positive engagement in Doha Round negotiations. Some of the members, notably the US, raised concerns in certain areas, namely tariffs and duties, licensing and restrictions, trade defence measures (anti-dumping), SPS & TBT, government procurement, incentive schemes to promote investments and exports and protect agriculture, tariff protection on agriculture, services and investments. Responses to the issues raised were provided in India's Closing Statement on 16 September 2011 (Box 7.5).

Box 7.5 : Fifth Trade Policy Review: Issues Raised and India's Responses

The Openness of India's Trading Regime: Questions were asked about the openness of India's trading regime. In response India pointed out that year after year, India's imports had outpaced exports. In terms of percentage of GDP, the country's merchandise trade deficit is one of the highest in the world. India has been autonomously reducing its tariffs over the years. The simple average most favoured nation (MFN) tariff rate declined from 15.1 per cent in 2006-7 to 12 per cent in 2010-11. Both the average agricultural and industrial average tariffs have declined over time. The tariffs on 71 per cent of India's tariff lines are between 5 and 10 per cent.

Gap between India's Bound and Applied Rates on Agricultural Products: Some members mentioned the large gap between India's bound and applied rates on agricultural products. India responded that the large gap reflected India's steady and continued autonomous tariff liberalization. During the four years since the last TPR, the tariffs on some agricultural commodities had to be adjusted in the face of high volatility in food prices. In most cases tariffs have been brought down and have stayed down. In a few instances they have been raised again but never above their original levels.

Export Incentives: Questions were asked about export promotion schemes. It was explained that India's export promotion schemes are based on the concept of duty neutralization and providing a level playing field. These schemes are reviewed regularly.

FDI Policy: To a number of questions on FDI policy, India explained that the continuing thrust, during the period since India's last TPR in 2007, has been on making the FDI policy more liberal and investment friendly. The FDI guidelines have been significantly rationalized, simplified, and consolidated, with the aim of providing a single policy platform for reference of foreign investors. Several new sectors, such as petroleum and natural gas and civil aviation were either opened up to foreign investment or significantly liberalized during this period. Efforts were also being made to streamline and simplify the business environment and make regulations conducive to business.

India's IP Policies and Enforcement: On questions related to India's IP policies, India replied that a number of initiatives have been taken to enhance IP protection and enforcement. The changes proposed in the Copyright and Trademark Acts would enhance protection to intellectual property rights (IPRs) in digital technology particularly with regard to the dissemination of protected material over digital networks. These have been supplemented by administrative as well as judicial measures to strengthen the IPR regime. The provisions on IP protection in these laws are further supplemented by border measures to prevent the import of goods involving copyright piracy and counterfeit trademarks. Another initiative taken by Indian customs is the facility for online registration by the right holders through the web-based Automatic Recordation and Targeting for IPR Protection System.

Government Procurement: On this subject, India explained that the procurement of high tech items and high value tenders, above US$ 50,000 is generally open to international bidders. Major reforms are on the anvil for increasing coverage, improving transparency and efficiency, and better enforcement, which are triggered by domestic concerns relating to enhancing the value for money. An omnibus procurement law applicable to the entire country and to all procuring entities, including public-sector enterprises, is being deliberated upon.

Sanitary and Phyto-sanitary (SPS) and Technical Barriers to Trade (TBT) measures: In response to question on India's SPS and TBT measures, India explained that specific trade concerns raised against India have been largely addressed. Regulations adopted in the past have been on the basis of scientific risk analysis.

Export Restrictions: There were some questions on India's use of export restrictions. India responded that export restrictions have been used on some occasions for purposes of domestic supply management but these have been purely on a temporary basis. The ban on the export of rice and wheat had to be extended in 2009 due to a dislocation in production and again in 2010 due to the severest drought in the country in the last forty years. However, the export of wheat and non-basmati rice is now completely free. The export of basmati rice is and has always been free. Restrictions on cotton exports were imposed for only a brief period last year. Cotton yarn exports have been made completely free. Similarly, cotton is also freely exportable.

Other Issues: There were questions related to customs valuation, tariffs, and other charges, internal taxation, import licensing, and the use of trade remedies. In response it was pointed out that India cannot be accused of protectionist intent in its use of trade remedies. If that were the case, then the easy route of increasing the tariffs up to the bound rates could have been used; that has not been done. Anti-dumping measures are legitimate instruments against unfair trade practices. Investigations are carried out in a fair and transparent manner and subjected to strict scrutiny. As a rule India only imposes the lesser duty and not the full dumping margin as is done by some WTO members. This underscores the fact that trade remedies are not used as a protectionist tool. Despite the fact that many members, with very deep pockets, use subsidies as part of their trade policy, India has not imposed a single anti-subsidy measure. As on date, there is only one safeguard duty in force. In the wake of the economic crisis, there was a spurt in application of safeguard investigations in 2009. A total of 14 applications were received but in nine cases, investigations were either terminated or a decision was taken not to impose any safeguard duty. Duties were imposed only in five cases and those too have since been withdrawn. Moreover, India has never taken recourse to quantitative restrictions as safeguard measures. Import licensing affects only a few restricted items primarily on grounds of protection of human, animal, and plant life and the environment. The licensing regime is open and transparent. Licences are granted on a non-discriminatory basis. The relevant regulations are all available in the public domain and the DGFT acts as the nodal agency.

Bilateral and Regional Cooperation

7.58 India has always stood for an open, equitable, predictable, non-discriminatory, and rule-based international trading system. Considering that regional and bilateral trade and economic cooperation agreements serve as building blocks towards achieving the multilateral trade liberalization objective, India is actively engaging in regional and bilateral negotiations with her trading partner countries/blocs to diversify and expand the markets for its exports. Some of the recent developments related to major Free Trade Agreements (FTAs) are the following:

- **India-Japan Comprehensive Economic Partnership Agreement (CEPA)**

  The India-Japan CEPA was signed on 16 February 2011 and has come into force on 1st August 2011. CEPA is a single undertaking covering goods, services, investment, and other areas of cooperation. The agreement covers more than 90 per cent of the trade, a vast gamut of services, investment, IPR, customs, and other trade-related issues. This is India's third CEPA (after Singapore and Korea) and first with a developed country.

- **India-Malaysia Comprehensive Economic Cooperation Agreement (CECA)**

  The India-Malaysia CECA was signed on 18 February 2011 and it has come into force on 1 July 2011. It is a single undertaking covering goods, services, investment, and other areas of cooperation. Taking into account the India-ASEAN Trade in Goods Agreement that was implemented from January 2010 between India and Malaysia, both sides have offered 'ASEAN Plus' market access in goods.

- **India-ASEAN Trade in Goods Agreement**

  A Framework Agreement on Comprehensive Economic Cooperation was signed between India and ASEAN on 8 October 2003. The India-ASEAN Trade in Goods Agreement has come into force on 1 January 2010 in respect of India and Malaysia, Singapore, Thailand; on 1 June 2010 in respect of India and Vietnam; 1 September 2010 in respect of India and Myanmar; 1 October 2010 in respect of India and Indonesia; 1 November 2010 in respect of India and Brunei; 24 January 2011 in respect of India and Laos; 1 June 2011 in respect of India and the Philippines; and 1 August 2011 in respect of India and Cambodia. Negotiations on the India-ASEAN CECA covering Trade in Services and Investment are under way.

- **India-EU Trade and Investment Agreement Negotiations**

  A High Level Trade Group (HLTG) was set up as mandated by the India-EU Summit in New Delhi on 7 September 2005. Negotiations for a Broad-based Bilateral Trade and Investment Agreement (BTIA) between India and the EU have commenced in June 2007 and are continuing.

- **India – European Free Trade Association (EFTA) BTIA (Iceland, Norway, Liechtenstein, and Switzerland)**

  Thirteen rounds of negotiations have so far been held alternately in Brussels and New Delhi. The thirteenth round was held from 31 March to 6 April 2011 in New Delhi. A meeting of the Commerce Secretary and EU's Director General (DG) Trade was held on 25 October 2011 at Delhi. A Chief Negotiator's Meeting was held in Brussels from 5–6 December 2011. Apart from these meetings, sector-specific inter-sessionals and digital video conferences (DVCs) have also frequently been held between the two sides.

  Both sides have intensified negotiations with a view to finalizing them in early 2012. Areas covered in the negotiations include trade in goods, SPS and TBT, trade in services, investment, IPRs and GIs, rules of origin, competition policy, customs and trade facilitation, trade defence, dispute settlement, mediation mechanism, government procurement, and sustainable development.

- **India-Canada CEPA**

  Both countries have agreed to initiate negotiations towards a CEPA covering trade in goods, services, and other areas of economic cooperation. Four Rounds of negotiations have been held.

- **India-New Zealand FTA/ CECA**

  Seven Rounds of the India–New Zealand FTA/ CECA negotiations have so far been held and negotiations are continuing.

- **India-Australia CECA**

  In April 2008, a Joint Study Group (JSG) was constituted to examine the feasibility for establishing an FTA between India and Australia. Based on the recommendations of the JSG, India and Australia are negotiating a CECA covering trade in goods, services, investment, and IPR related issues. Two Rounds of negotiations have so far been held.

Challenges And Outlook

Outlook

7.59 The prospects for India's Trade Sector which was performing very well in the first half of 2011-12, seems to have slightly deteriorated since the second half of the year with the deepening euro zone crisis casting a shadow on the trade prospects of countries with close linkages to the euro zone area. While India has successfully diversified its markets with reduced dependence on the EU and US, Europe still has a 19.5 per cent share in India's exports. Besides, some of India's trading partners are dependent on Europe, thus affecting India's trade indirectly. The Baltic Dry Index has again been in the red plunging to its lowest level on 3 February 2012 at 647 points, nearly 20 points lower than the previous low of 663 points recorded during the 2008 global financial meltdown. This comes as a double whammy as it not only reflects the fall in world trade activity but is also a blow to the shipping services sector. While the rise in Chinese inventory of iron ore and the Chinese New Year holiday from 23 January to 28 January 2012 could be the main reasons, the mild recession in the euro zone forecasted by IMF could be another reason. All this does not bode well for world trade in the near future and is likely to impact Indian trade as well. Recent import figures also indicate a fall not only in imports of the EU, but also imports of other Asian and South East Asian countries like China, Hong Kong, and Singapore. The December 2011 import figures are in no way encouraging. Import growth rates of China and Hong Kong from the world were low, while their import growth rates from India were only 1 per cent and 5 per cent respectively. This may be a one-off situation peculiar to the Chinese New Year holiday. In the case of the US and Japan, while the import growth rates from the world in December 2011 are moderate, their import growth rates from India are encouraging at 23 per cent and 34 per cent, Singapore's import growth from India is very high at 138 per cent. Though we have to keep our fingers crossed and wait some more time to see the trade effect on India of the emerging global situation, exports are likely to grow slowly in the coming months. On the other hand, import growth may only moderate with oil prices still above the US$100 per barrel mark and gold prices still at a high of US$ 1745 per troy ounce as on 8 December 2011. The rising geo-political tensions in countries like West Asia coming in quick succession after the Arab spring also needs to be factored as oil prices (Brent) have started boiling at US$ 119.8 per barrel as on 21/02/2012

7.60 The situation in services trade is no different. Shipping services depend directly on merchandise trade and are at an all time low as indicated by the Baltic Dry Index, though it could be a temporary phenomenon. Performance of software exports could largely depend on the developments in the major economies like the US, UK, and major euro area economies. While the US accounts for nearly 60 per cent of India's software exports, the EU economies account for around 30 per cent. However, there is no significant exposure to the countries which are presently facing crisis. To that extent, there may not be a significant loss of business for Indian software companies. Nevertheless, software exports may show some sluggishness. The euro zone accounts for around 30 per cent of total tourist arrivals in India and travel exports may also suffer because of lower tourist arrivals from the euro zone particularly the affected countries. Business services (comprising many services) exports are usually less stable service depending on the vagaries of business conditions abroad. They declined sharply in 2009-10 following the global economic crisis and have already declined in the first half of this year (2011-12). There are no signs of this getting better. As a result, as in 2009-10, surplus in export of services may be squeezed in the last two quarters of 2011-12 if subdued growth prospects continue in US and EU economies. Import growth of services appears to be less elastic downwards as seen during the 2008 global crisis. However in the first half of 2011-12, it was only 1 per cent. The decelerating growth rates of exports in goods and services coupled with only a moderation in growth rates of imports of goods and services could, therefore, strain the balance of trade in goods and services with merchandise trade deficit on customs basis in April-January 2011 already at an all time high of $ 148.7 billion—a phenomenon not witnessed even during or in the aftermath of the 2008 global crisis.

Challenges

7.61 The challenges for India on the trade front are many. Some are due to the current emerging global situation and some are systemic and long term in nature. If the global situation worsens, the pressure for stimulus measures could again resurface and protectionist measures from trading partners could increase. Already the pitch for protectionist measures is on the rise with rising anti-dumping initiations by the US and in the rhetoric on visa restrictions in the UK and on outsourcing in the US. Though domestic food inflation has already been tamed and may not put much strain on merchandise imports, the higher wages due to the built up inflation till now coupled with creation of greater employment opportunities in India could narrow down the wage differential between India and the Gulf countries for low-skilled jobs leading to a gradual drying up of inward workers' remittances.

7.62 The challenges in the medium and long term are the following. While India is less vulnerable to the situation in the US, EU, and other developed countries due to its diversification of exports to Asia and ASEAN, concerns have increased on the bilateral trade deficit front with India's high and growing trade deficits with countries like China and Switzerland. A lot more needs to be done on diversification of India's export basket as its export presence is limited in the top items of world trade. While India has made new forays in skill-and capital-Intensive exports like information technology (IT), gems and jewellery, and engineering goods, it is losing steam in its traditional area of strength, i.e. in the labour-intensive exports like textiles, leather and leather manufactures, handicrafts, and carpets. Greater trade facilitation by removing the delays and high costs due to procedural and documentation factors, besides infrastructure bottlenecks is another major challenge. As per the World Bank and International Finance Corporation (IFC) publication Doing Business 2012, India is ranked 132 on 'ease of doing business'. While Singapore is in first place, even neighbouring countries like Sri Lanka, Vietnam, Pakistan and Bangladesh are ahead of India. On 'trading across borders', India is ranked 109 with Singapore at first rank and China at 60th. India requires 8 export documents to be cleared and China 5 with good practice economies like France at 2. Time to export is 16 days for India, 21 for China, and 5 for Denmark. Cost to export is $1095 per container for India, compared to $500 in China and $450 in Malaysia. Number of import documents that need clearance are 9 in India, 5 in China, and 2 in France. Time to import is 20 days in India, 24 in China, and 4 in Singapore. Cost to import is $1070 per container in India, $545 in China, and $439 in Singapore. Thus a lot needs to be done on the trade facilitation front. While India has achieved a fair amount of stability in software services exports, there is less stability in business services exports. Despite the rhetoric in India on the potential of tourism services exports, results on the ground could improve further. Finally, while there are no signs of any meaningful conclusion of WTO negotiations in the near horizon, India's push towards regional and bilateral agreements should result in meaningful and result-oriented FTAs and CECAs. The challenges for India on the trade front are daunting but needs to be addressed with speed and dexterity as the opportunities are equally great and still untapped.