International Trade

7

CHAPTER

The years 2008 and 2009 were tumultuous ones for global trade. The simmering sub-prime crisis in the US in 2007 which triggered the global financial crisis in September 2008 spread its tentacles in full, leading to a full blown global recession resulting in unprecedented fall in global trade. World trade volume (goods and services) grew by only 2.8 per cent in 2008 compared to 7.3 per cent in 2007, with trade growth tumbling down month after month from September 2008 onwards. While the fall seems to have been stalled with the recent recovery, world trade continues to be vulnerable given the nature of the recovery.

WORLD TRADE

7.2 The deepening world recession had profound impact on world trade. The US$16 trillion global trade of 2008 collapsed, reaching US $ 5.8 trillion in the first half of 2009 compared to US$8.2 trillion in the corresponding period of 2008. As a result, growth of world output and trade volume of goods and services fell to (-) 0.8 and (-) 12.3 per cent respectively in 2009 according to the International Monetary Fund's (IMF) World Economic Outlook (WEO) January 2010. The World Trade organization (WTO) in March 2009 forecast a 9 per cent decline in global trade for 2009, the largest in over 60 years. The decline was more marked in the case of advanced economies (Table 7.1)

7.3 The World Bank's Global Economic Prospects, 2010, estimates world real GDP growth and world trade volume to fall by (-) 2.2 per cent and (-) 14.4 per cent respectively in 2009. As per the World Bank, the dollar value of world trade plummeted 31 per cent between August 2008 and its low point in March 2009. After discounting for falling commodity prices

Table 7.1 : Trends in growth in trade volumes (per cent change)

			Projections	
	2008	2009	2010	2011
World Trade Volume (Goods and Services)	2.8	(-)12.3	5.8	6.3
Imports				
Advanced Economies	0.5	(-)12.2	5.5	5.5
Emerging and Developing Economies	8.9	(-)13.5	6.5	7.7
Exports				
Advanced Economies	1.8	(-)12.1	5.9	5.6
Emerging and Developing Economies	4.4	(-)11.7	5.4	7.8

Source: IMF:WEO, January 2010

and exchange rate fluctuations, global trade volumes were down by 22 per cent by March 2009.

7.4 The crisis seems largely to have petered out in the second half of 2009 and beginning of 2010 with global trade recovering from the troughs and the appearance of green shoots and the IMF even projecting a better-than-expected growth in world trade volume of 5.8 per cent and 6.3 per cent for 2010 and 2011 respectively, which is also a reflection of the higher-than-expected world output growth projections of 3.9 per cent and 4.3 per cent in 2010 and 2011 respectively. Though we are still not out of the woods, there is a greater degree of confidence, particularly in countries with strong fundamentals like India and China which have weathered the crisis with great dexterity and spearheaded the recovery.

7.5 Examination of the month-wise exports and imports for the world, India and some major trading partners of India from 2008 onwards [Figures 7.1 (A to H)] indicates a recovery in trade with export growth becoming positive in November 2009 over November 2008 in the EU(11.4 per cent), Hong Kong (1.3per cent), India (18.2 per cent), Japan (1.5 per cent) and Singapore (13.3 per cent) and remaining marginally negative in the USA (-2.5 per cent) and China (-1.2 per cent). Pick up in import growth rates was led by China (26.7 per cent), followed by Hong Kong (6.5 per cent), the EU (5.2 per cent) and Singapore (4.4 per cent). Import growth also became less negative in the case of the US (-3.8 per cent), India (-2.6 per cent) and Japan (- 9.9 per cent).

7.6 As observed in the previous chapter, while the global recession seems to be lifting, a note of caution is needed as recovery of trade is still vulnerable and fragile given the fact that it is mainly Government support and policy driven and some policies like the "cash for clunkers" scheme in the US and similar schemes for the automobile sector in other countries could have simply brought forward the demand. Besides, the turnaround in trade growth is largely due to the lower base effect of the last year (2008) which was in fact a lost year on the trade front as the progress in export sector of earlier years was mercilessly frittered away by the onslaught of the global recession. This is evident if we see the actual exports and imports in the pre-recession months along with those in the corresponding recession/post-recession months. It is a matter of concern that except for India in the case of exports and India and China in the case of imports, for the world and all other countries considered here, the actual monthly exports/imports in 2007 were higher than the corresponding monthly exports/imports in 2009 in almost all the months. The concern is more in the case of imports with monthly imports in 2007 being relatively higher than the corresponding monthly imports for most of the trading partners of India in 2009. The growth rates of exports/imports in 2009 over 2007 given in Figures 7.1(A to H) also clearly shows that while the freefall of global trade has been stopped, real growth from pre-crisis levels is yet to happen.

Trade Credit during World Recession

Impact of the crisis on trade credit

7.7 The global economic crisis also impacted trade credit. A number of banks, global buyers and firms surveyed independently by the World Bank, International Monetary Fund (IMF) and Bankers Association for Finance and Trade (BAFT), have felt that lack of trade credit and other forms of finance, such as working capital and pre-export financing, has affected growth in world trade. In addition, the costs of trade credit have substantially gone up and are higher than they were in the pre-crisis period, raising the challenge of affordability of credit for exporters. Higher funding costs and increased risk continue to put upward pressure on the price of trade credit. In 2008, as the financial crisis intensified, the spreads on trade finance increased by a factor of three to five in major emerging markets, like China, Brazil, India, Indonesia, Mexico, and Turkey. For example, the spread (over the six-month LIBOR) for Turkey jumped to 200 basis points in November 2008 from 70 basis points in the third quarter(Q3), while Brazil's spread almost trebled in 2008 (from 60 bps to 175 bps); India's spread increased from 50 bps to 150 bps during the same year. Similarly, spreads for several Sub-Saharan countries jumped from 100 basis points to 400 basis points. (Figure 7.2)

7.8 Small and Medium Enterprises (SMEs) and exporters in emerging markets appear to have faced the greatest difficulties in accessing affordable credit. Increased uncertainty initially led exporters and importers to switch from less secure forms of trade finance to more formal arrangements. Exporters increasingly asked their banks for export credit insurance (ECI) or asked importers to provide Letters of Credit (LCs). Importers were asked to pay for goods before shipment and exporters sought more liquidity to smooth their cash flow. Further, the realization of export proceeds was not taking place

Figure 7.1 Export/import growth (month wise)

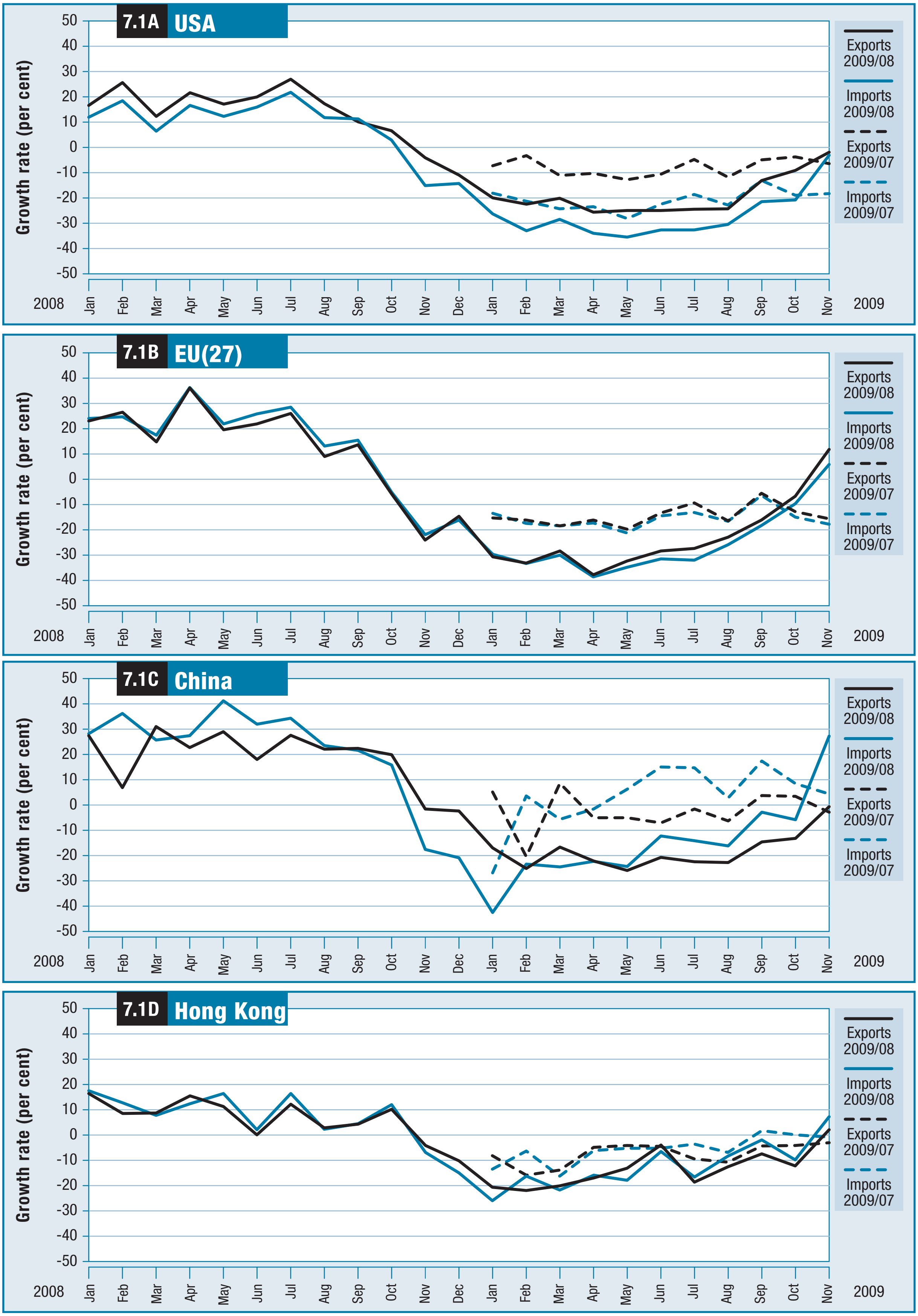


Figure 7.1 Export/import growth (month wise)

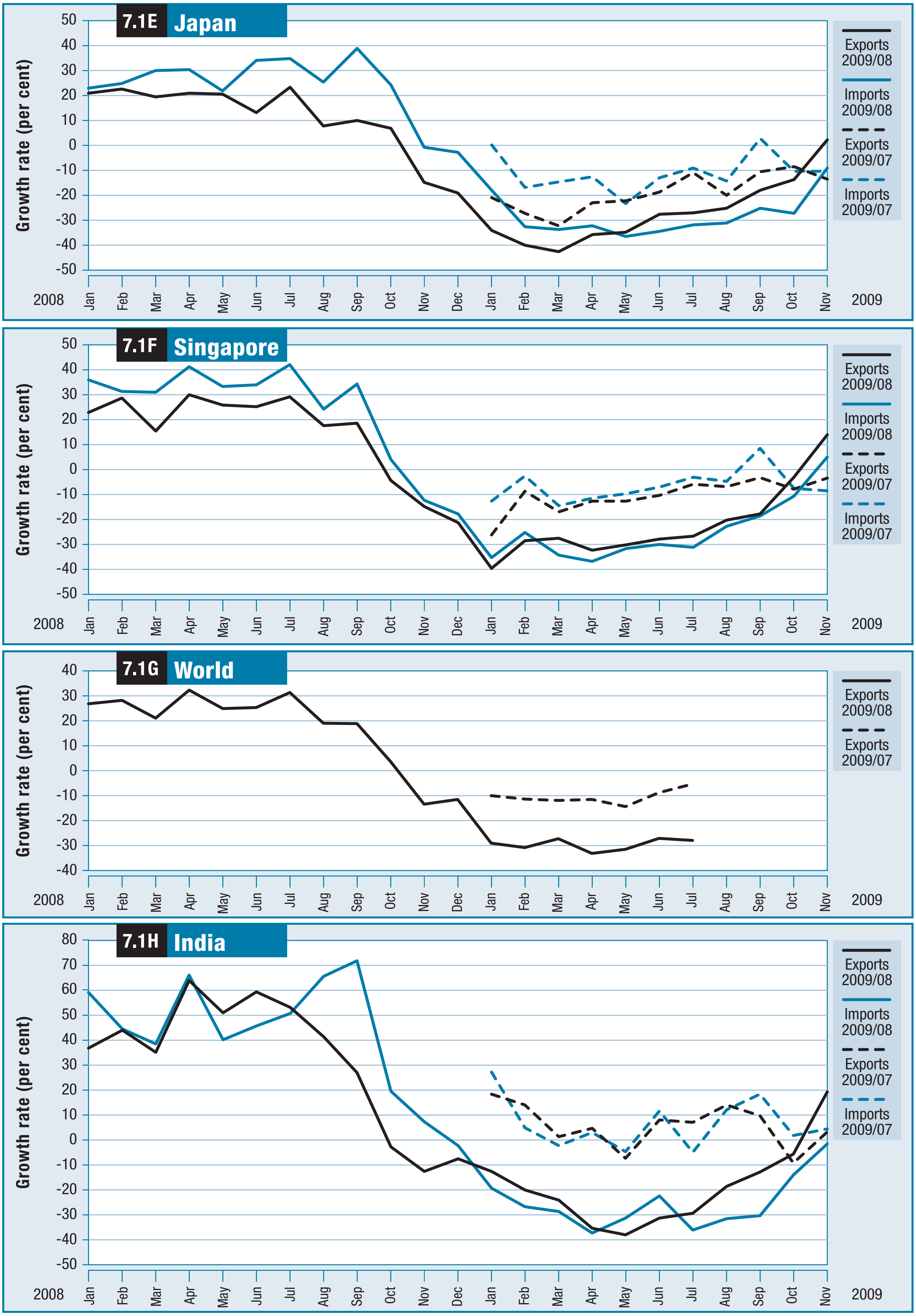
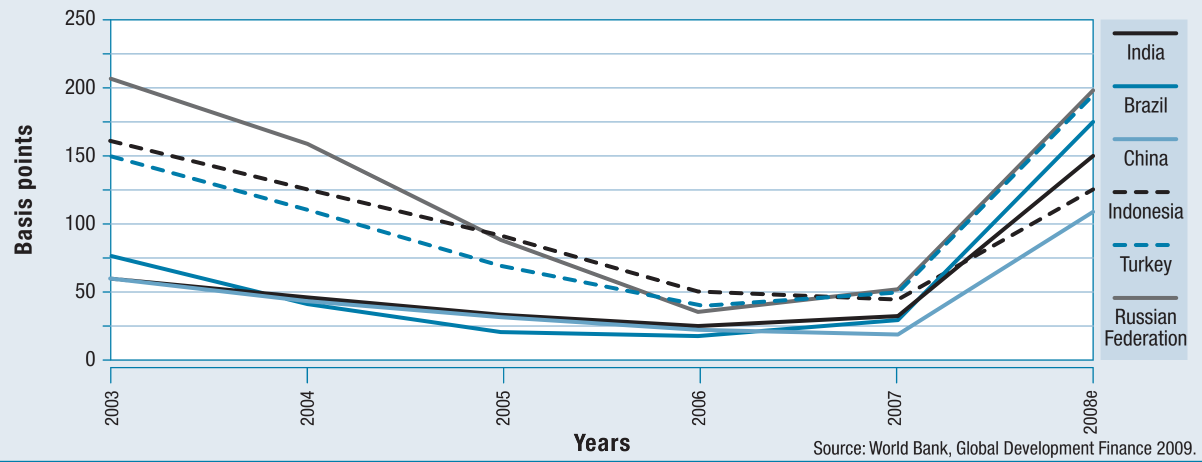


Figure 7.2 Spike in spreads on trade finance in 2008



Source: World Bank, Global Development Finance 2009.

on the due date. This led firms to trim down inventories, and direct the funds so generated to meet their working capital requirements.

7.9 While there is strong anecdotal evidence that the financial crisis might have reduced the availability of trade credit leading to decline in the volume of trade and possibly deepening and prolonging the recession, data from the IMF indicates that the pace of decline in trade finance was just one-fourth that of the decline in trade volumes during the period October 2008 to January 2009. The World Bank estimates that the shortage in trade finance in the market would have accounted for 10-15 per cent of the decline in trade. A survey carried out by the IMF and BAFT in August-September 2009 shows that decreases in the value of trade finance business accelerated between October 2008 and June 2009. The regions most affected were the industrialized countries and Latin America.

Trade credit: Indian scenario

7.10 As a result of difficult financing conditions prevailing in the international credit markets and increased risk aversion by the lending counterparties, gross inflows of short-term trade credit to India declined by 12.2 per cent to US$ 41.8 billion during 2008-09. Export credit as a percentage of net banking credit also fell from 5.5 per cent as on March 28, 2008 to 4.6 per cent as on March 27, 2009 and further to 4.1 per cent as on January 15, 2010 (Table 7.2).

7.11 On the other hand, short-term trade credit repayments registered an increase of 37.9 per cent during 2008-09 to touch US$ 43.7 billion. Since the gap between the inflows and outflows of short-term trade credit to India were limited to a net outflow of US$ 1.9 billion during 2008-09, financing of short-term trade credit did not pose much of a problem.

Table 7.2 : Export Credit

Outstanding as on	Export Credit (Rs. Crore)	Variations (Per Cent)	Export credit as per cent of NBC
March 24, 2000	39,118	9.0	9.8
March 23, 2001	43,321	10.7	9.3
March 22, 2002	42,978	-0.8	8.0
March 21, 2003	49,202	14.5	7.4
March 19, 2004	57,687	17.2	7.6
March 18, 2005	69,059	19.7	6.3
March 31, 2006	86,207	24.8	5.7
March 30, 2007	1,04,926	21.7	5.4
March 28, 2008	1,29,983	23.9	5.5
March 27, 2009	1,28,940	-0.8	4.6
Jan. 15, 2010*	1,24,360	-3.6	4.1

Source: Reserve Bank of India (RBI).

* Variation over the March 27, 2009 figure

Note : 1. Data upto March 2004 relate to select banks accounting for 90 percent of bank credit.

2. March 18, 2005 onwards, data pertain to all scheduled banks excluding RRBs availing export credit refinance from the RBI.

7.12 This trend also continued in 2009-10. During the first half of 2009-10, the gross inflow of short-term trade credit stood at US$ 21.7 billion, lower by 9.2 per cent than that in the corresponding period in 2008-09, while the outflows at US$ 22.3 billion were higher by 17.5 per cent, thereby resulting in a net outflow of US$ 0.6 billion (inclusive of suppliers' credit up to 180 days) compared to a net inflow of US$ 4.9

billion during the corresponding period of the previous year. Although the higher net outflows during the second half of 2008-09 and in the first half (H1) of 2009-10 suggest some challenges in rolling over maturing trade credits, the continuing trend in inflows indicates no significant problem in servicing short-term debt. This is also indicative of the confidence enjoyed by Indian importers in the international financial markets. The various policy initiatives taken by the Government and RBI have also helped ease the pressure on trade financing. This is further corroborated by the increase in share of short-term trade credit (both inflows and outflows) in the overall gross capital flows with share in inflows increasing from 10.9 per cent in 2007-08 to 13.4 per cent in 2008-09 and share in outflows increasing from 9.6 per cent to 14.3 per cent, thereby indicating that the impact of global financial crisis on trade credit was less when compared to other forms of capital flows such as portfolio investment and external commercial borrowings (ECBs).

Policy Response

Response of Multilateral Institutions and Governments

7.13 Governments and multilateral institutions have responded with a range of trade finance programmes, including a pledge by the G20 leaders at their April 2009 London Summit to provide US$ 250 billion of support for trade finance. The commitment of G-20 leaders was reaffirmed in the Pittsburg Summit in September 2009, calling for swift implementation of the package and a collective fight against protectionism as also stated in chapter 6. Multilateral agencies also responded quickly to counter the trade finance aspect of the crisis (Box 7.1).

7.14 Governments across the world have also taken various policy initiatives. According to a World Bank survey on “Trade and Trade Finance Developments in 14 Developing Countries Post September 2008”, these policies include various combinations of short-term solutions to provide immediate relief to firms and banks and long-term adjustment strategies to bolster countries’ export competitiveness. According to the survey, the main actions taken by Governments can be grouped in two categories: (i) to increase banks’ liquidity to alleviate liquidity pressure including for trade finance; (ii) to enhance the long-term competitiveness of the country’s exports by developing and expanding export promotion programmes.

7.15 In the wake of the crisis, most banks moved away from funding open-account facilities to more traditional forms of cash-backed or collateralized letters of credit. Several countries entered into bilateral agreements to ease the strains on access to foreign currencies, including trade credit. In December 2008, the US Federal Reserve entered into currency swap agreements with some of its counterparts, including Brazil and Mexico. Each partner in the agreement received a swap line of US$ 30 billion. In addition, the United States and China – acting through their respective import-export banks – created a bilateral trade facility of US$ 20 billion. In March 2009, China entered into similar agreements with its major trading partners (Argentina, Belarus, the Republic of Korea, Malaysia, Indonesia, and the Philippines) by providing swap facilities in its currency.

7.16 Export Credit Agencies (ECAs) have also greatly helped Governments, particularly in the developing countries, channel trade finance to firms. In addition, some Governments’ actions directly targeted the reported shortage of trade finance to firms. According to the World Bank, while some Governments have tried to achieve this objective by establishing rediscount and refinance facilities to increase liquidity for trade loans and export credit, many have implemented direct measures through the established ECAs or Export Import (Exim) Banks. Being mostly under public sector, these entities typically serve as channels for the Government to issue trade credits, loans, and guarantees and insurance to the private sector. In many emerging countries, public ECAs and Exim Banks served as “providers of last resort” for trade finance as in Brazil, India, the Philippines, South Africa and Turkey. ECAs and Exim Banks were used by national governments to channel new lines of trade credit and loans. For example, the Brazilian government established new credit lines via the National Bank for Economic and Social Development (BNDES) to provide pre-export and export finance.

7.17 In the absence of formal entities established by the Government, that offer trade finance instruments, some Governments have decided to set them up or make existing ones legal and use other public bodies. For example, in Indonesia, the Government passed legislation in December 2008 to transform an existing government agency into an official EximBank that would provide funding and insurance for trade finance. In the Ukraine, the parliament passed a law that granted the

Box 7.1 : Measures by International Institutions related to Trade Finance

The World Bank Group's (WBG) support to bolster trade finance includes the following:

- The Global Trade Finance Program (GTFP) has been doubled to US $ 3 billion over a three-year period to provide additional guarantees to mitigate risks in trade transactions with local banks in emerging markets.
- The Global Trade Liquidity Program (GTLP) is expected to contribute up to US $ 50 billion over a three-year period to channel trade finance liquidity to developing countries.
- The World Bank has also launched a US $ 40 million Trade Facilitation Facility (TFF) to support developing country priorities to improve trade facilitation systems, including infrastructure, institutions, services, procedures and regulatory systems.
- World Bank Trade-Related Lending has more than doubled from US $ 1.4 billion in FY 2008 to US $ 3.4 billion in FY 2009, driven by projects in the Europe, Central Asia and Africa regions, in support of trade facilitation, regional integration and export competitiveness. Support was also provided by the World Bank Group to select developing countries like India, Indonesia, Kenya, Turkey, Tunisia and Ukraine. In the Indian case, the World Bank has established a US $ 120 million line of credit for SMEs and a small guarantee fund. This project was scheduled to close in June 2009, but as a response to the crisis, the Bank recently negotiated additional financing of US$400 million to extend the original project by four years.

The Asian Development Bank(ADB) had allocated a total of US $ 8.94 billion in crisis support for 43 projects as on October 31, 2009. The ADB's crisis-related lending is expected to increase by more than US $ 10 billion in 2009-10 comprising US $ 1 billion for trade finance.

The Inter America Development Bank (IDB) enhanced its Trade Finance Facilitation Program (TFFP) from US $ 400 million to a maximum of US $ 1 billion in January, 2009. The IDB also added loans to its offering of guarantees and now supports non-dollar- denominated trade finance transactions.

The European Bank for Reconstruction and Development (EBRD) announced in January 2009 that it would raise the ceiling on its Trade Finance Program (TFP) from •800 million to •1.5 billion to increase trade with and within Eastern Europe, Central Asia, Russia and the Ukraine.

The African Development Bank (AfDB) established a multi-phase US $ 1 billion Trade Finance Initiative (TFI) in March 2009. The AfDB launched a new trade finance line of credit that will allow African commercial banks and development finance institutions to use AfDB resources to support trade finance operations. The Bank also launched a "multi-purpose" line of credit that enables the borrower to use the proceeds for trade finance as well as long-term project and corporate finance operations.

The International Finance Corporation (IFC) doubled its Global Trade Finance Program (GTFP) ceiling to US $ 3 billion in November 2008. The GTFP offers confirming banks partial or full guarantees covering payment risk on banks in the emerging markets for trade-related transactions. The IFC Global Trade Liquidity Program (GTLP) is the newest programme to be instituted in May 2009 in response to the crisis. The programme is designed to support up to US $ 50 billion in international trade in the next three years.

Ukreximbank the status of official export credit agency and supports plans to establish a Government export insurance company, "Ukrainian Export Insurance Company".

Policy Response by India

7.18 India has also taken many steps to ease the problems related to trade finance due to the global economic crisis (Box 7.2).

Prospects of Recovery

7.19 According to the IMF and BAFT survey, the upward price pressures seem to be easing for some trade financing instruments, with increasing evidence that the collapse in trade is bottoming out, as demand starts to recover and banks become more positive about the economic outlook. For example, price increases have started to ease for export credit insurance and LCs. The survey notes that the shift towards bank-intermediated trade finance appears to be continuing. It is estimated that open account transactions (for which exporters provide credit directly to importers) as a share in the total, continued to remain subdued, at less than 40 per cent in the second quarter of 2009, as compared to 45 per cent that prevailed at the end of 2007. This has been largely offset by the increasing reliance of traders on bank finance –mainly LCs – as well as by a more modest shift toward cash-in-advance transactions (for which importers pay for goods before shipment).

India's Merchandise Trade

7.20 India's merchandise exports have shown remarkable resilience in recent years with a growth rate of 20 per cent plus in dollar terms since 2002-

Box 7.2 : India's policy response related to trade finance

Select measures taken by the Government of India since the outbreak of crisis in September 2008 include the following:

- Interest rate ceiling of 250 basis points p.a. below the benchmark prime lending rate (BPLR) for pre-shipment rupee export credit up to 270 days and post-shipment rupee export credit up to 180 days has been extended to the end of April 30, 2010.
- The ceiling rate on export credit in foreign currency increased to LIBOR plus 350 basis points.
- The all-in-cost ceiling for raising trade credit was revised to 200 basis points over six months of LIBOR from the then (October 2008) prevailing ceiling of 75 basis points over six months of LIBOR.
- The prescribed interest rate as applicable to post-shipment rupee export credit was extended to overdue bills up to 180 days.
- Limit for Export Credit Refinance facility was increased from 15 per cent to 50 per cent of eligible outstanding export credit to provide additional liquidity support to banks (returned to the pre-crisis level of 15 per cent in the Second Quarter Review of Monetary Policy for the Year 2009-10).
- A refinance facility of Rs 50 billion was established for the Exim Bank of India on 15, December 2008 which has since been extended to March 2010.
- Interest subvention has been extended up to March 2010 for pre- and post-shipment export credit (in rupees) for certain employment-oriented export sectors such as textiles (including readymade garments and handloom), handicrafts, carpets, leather, gems and jewellery, marine products and SMEs.
- The period of entitlement has been extended by 90 days for the first slab of pre-shipment and post-shipment rupee export credit with effect from November 15, 2008 and November 28, 2008 respectively.
- Foreign exchange (US dollars) has been sold through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps.
- Special market operations have been undertaken to meet the foreign exchange requirements of public-sector oil marketing companies against oil bonds.
- A foreign exchange swap facility with tenure up to three months has been given to Indian public and private sector banks having overseas operations in order to provide them flexibility in managing their short-term funding requirements at their overseas offices (discontinued subsequent to the Second Quarter Review of Monetary Policy for the Year 2009-10).

03. The global recession jolted this continued upward growth with initial estimates showing a growth rate of only 3.6 percent for 2008-09 as stated in last year's Economic Survey. However, according to revised figures, export growth in 2008-09 stands at a respectable 13.6 per cent, indicating that India had weathered the crisis better than other countries. The compound annual growth rate (CAGR) for India's merchandise exports for the five-year period 2004-05 to 2008-09 increased to 23.8 per cent from the 14.0 per cent of the preceding five-year period. India's ranking in the leading exporters in merchandise trade which slipped marginally from 26th in 2007 to 27th in 2008 is likely to improve in 2009 due to its reasonably good export growth when world export growth fell. However, this overall reasonably good picture for the whole year hides the travails through which the export sector went in the 13 crisis-ridden months. This can be seen by comparing India's export performance in the pre-recession period with that in the recession period (Table 7.3).

Table 7.3 : Quarterly export and import growth

(Percentage)

	2008-09				2009-10		
	(Pre-Recession)		(Recession)				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Exports	57.0	39.5	-4.0	-20.3	-38.6	-21.0	6.0
Imports	38.7	73.8	7.4	-24.0	-35.0	-33.6	1.2

7.21 As a result of the full-blown global recession coupled with the deepening of the global financial crisis in 2008, India's export growth rate started plummeting from the high 40 per cent to 63 per cent range witnessed during April to August 2008 to 26.1 per cent in September, turning negative from October 2008 to October 2009 except for December 2008 with a low 4.2 percent as per revised estimates. This type of situation was not witnessed in the last twenty four years. Even in 2001-02 and 1998-99 when export growths were negative at (-) 1.6 per cent, (-) 5.1 per cent respectively, such a long period of continuous negative monthly export growths was not witnessed. Only in 1985-86 when export growth was negative at (-)9.9 percent there was a similar situation with continuous negative growth for twelve months. The Government had set an export target of US$ 200 billion for 2008-09 which was revised to US$ 175 billion. With merchandise exports reaching US$ 185.3 billion in 2008-09, the target was surpassed by 5.9 per cent which is no mean achievement in trying times like these.

7.22 Given the uncertain global scenario, the Government did not fix an export target for 2009-10, instead the Foreign Trade Policy (FTP) 2009-14 set the objective of an annual export growth of 15 per cent with an annual export target of US$200 billion by March 2011. The beginning of 2009-10 saw acceleration in the fall of export growth with further deepening of the global recession. The upwardly revised export figures for the first half of 2008-09 also partly contributed to this. While export growth rate was (-) 22.3 per cent in April-November 2009-10, in the month of November 2009, it became positive at 18.2 per cent after a nearly continuous 12-month spell of negative growth. However, this is due to the low base figures in November 2008 (at $11.2 billion compared to $14.1 billion in October 2008 and $13.4 billion in December 2008). The month-over-month export growth rate in November 2009 over October 2009 was marginally positive at 0.04 per cent. In December 2009 also export growth rate over December 2008 was positive at 9.3 per cent and over the previous month it has been better at 10.7 per cent.

7.23 While export growth in dollar terms accelerated in 2007-08 and decelerated in 2008-09, in rupee terms it exhibited an opposite movement (Table 7.4 and Figures 7.3 and 7.4) reflecting the direct effect of appreciation of the rupee by 12.4 per cent in 2007-08 and its depreciation by 12.5 per cent in 2008-09. In 2009-10 (April-December), as a result of global recession, export growth was negative both in dollar and rupee terms, with the latter being less negative due to the depreciation of the rupee by 6.7 per cent.

7.24 The deceleration in export growth in rupee terms in 2007-08 though due to slowing down of growth in both volume and unit values, was more so because of the latter. This was mainly due to the export unit values registering zero growth in manufactured goods classified chiefly by materials

Figure 7.3 Export growth and exchange rate movement

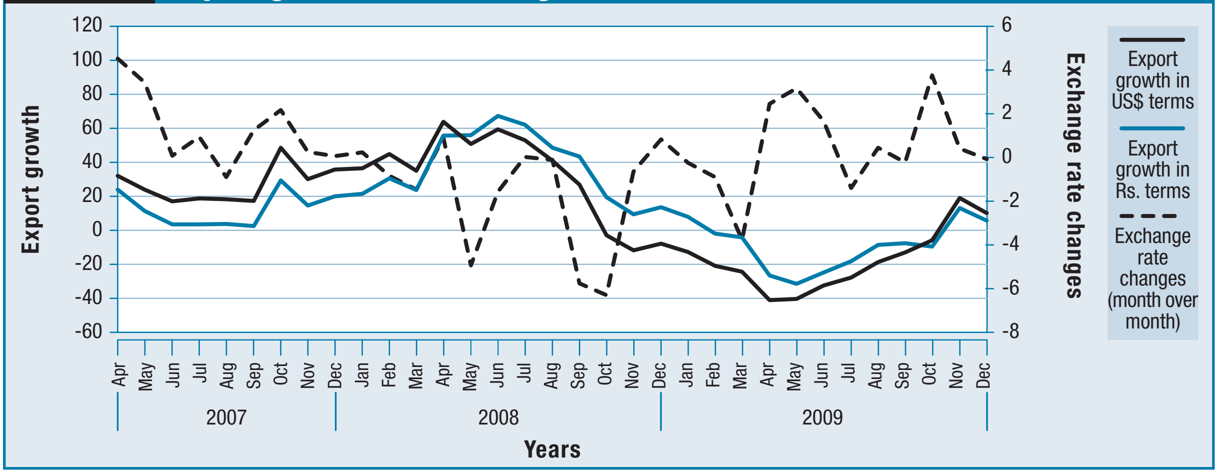


Figure 7.4 Import growth and exchange rate movement

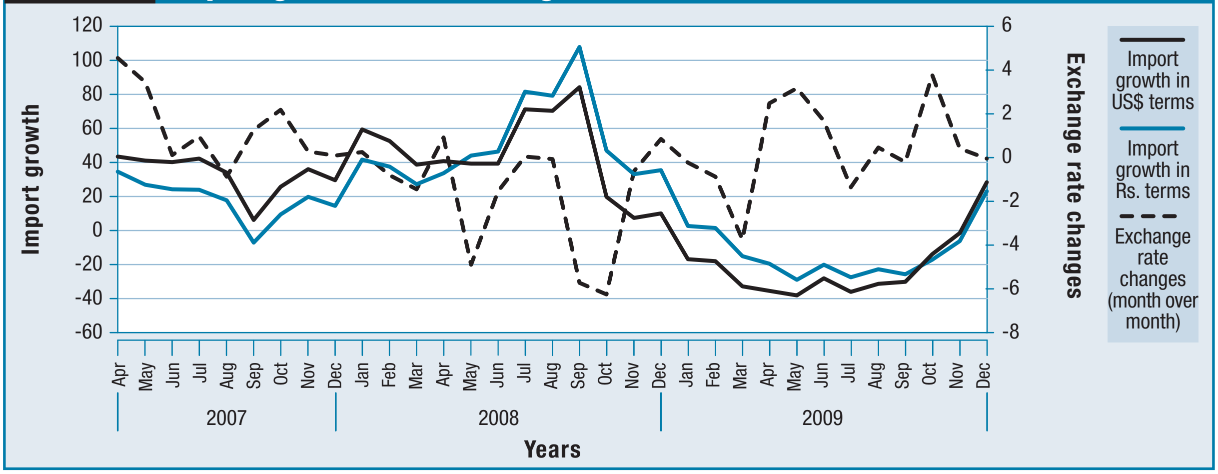


Table 7.4 : Trade Performance : Volume and Unit Values

(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[a]	-13.7	-20.3	—-	—-	-17.6	-23.6	—-	—-	—-	—-

Source : Computed from data of Directorate General of Commercial Intelligence and Statistics(DGCI&S), Kolkata
[a] April-December 2009.
Volume and unit value index of exports and imports are with new base (1999-2000=100)

and miscellaneous manufactured articles and low growth in another major item, i.e. chemicals and related products, despite a very high growth in non-fuel crude materials and high growth in mineral fuels, lubricants and related materials.

7.25 In 2008-09, contrary to general expectations, the highest export growth in the whole decade in rupee terms was registered which apart from the depreciation of the rupee, was due both to volume and unit value growth, but more so the latter which has registered the highest growth of 16.9 per cent in the decade. This in turn was due to the high growth in export unit value indices of miscellaneous manufactured articles, manufactured goods classified chiefly by materials, besides mineral fuels, lubricants and related materials and non-fuel crude materials. The major data revisions for 2008-09, particularly in the new SEZs for gems and jewellery items where a lot of trading took place leading to high trade volumes could also have contributed to this phenomenon. In fact the quantum index of exports of pearls and precious stones shows a high growth rate of 19.7 per cent in 2008-09 over and above the 26.8 per cent growth in 2007-08. This is higher than the growth rate for manufactured goods.

7.26 The region-wise quantum indices show high growth in export volumes to Organization of Petroleum Exporting Countries (OPEC), the Asia-Pacific Economic Cooperation (APEC) and the European Union (EU) in 2008-09. The bilateral quantum indices available for some trading partners show high growth in export volumes to the United Arab Emirates, Germany and Russia. In the case of China, the quantum index is very high though it is slightly lower than in 2007-08.

7.27 Import growth in rupee and dollar terms also shows the same see-saw movement in 2007-08 and 2008-09 due to exchange rate movements. The deceleration of imports in rupee terms in 2007-08 is mainly due to a major slowing down in growth of unit value indices. This is due to the negative growth in unit value of machinery and transport equipment and manufactured goods classified chiefly by materials and low growth in chemicals and related products. In 2008-09 the acceleration in imports in rupee terms is due to the high growth in both volume and unit value indices. The sectors which contributed to this are manufactured goods classified chiefly by materials, chemicals and related products, mineral fuels and non-fuel crude materials, in the case of unit value indices; and all categories of manufactured goods including machinery and transport equipments and chemicals and related products, in the case of the quantum index indicating high import of machinery and inputs needed for industrial recovery in 2008-09.

7.28 The net terms of trade, which measures the unit value index of exports as a proportion of unit value index of imports, grew by more or less the same percentage in both 2007-08 and 2008-09 due to the relatively higher growth in export unit value indices, the only difference being that the growth in both the export and import unit value indices in 2008-09 was very high, while in 2007-08, it was very low. Income terms of trade, reflecting the capacity to import, grew at more than 10 per cent in both 2007-08 and 2008-09, due to the combined effect of improvement in net barter terms of trade and moderately high growth in export volume indices.

7.29 India's share in world merchandise exports, after remaining unchanged at 1.1 per cent between 2007 and 2008, reached 1.2 per cent in 2009 (January-June) mainly due to the relatively greater fall in world export growth than India (Table 7.5). The increase in China's share of world exports between 2000 and 2008 at 5.0 percentage points is around 39 per cent of the total increase in the share of emerging and developing countries over this period. However, China's export growth rate which was above 25 per cent in this decade till 2007 moderated to 17.3 per cent in 2008 and declined to (-) 21.7 per cent in the first half of 2009, as a result of global recession. Although India's export growth was also negative at (-)18.4 per cent in the first half of 2009 it was lower than the negative growth of the other major emerging and developing countries and other select countries except Hong Kong. However, in absolute terms, India is way behind China with its exports constituting only 12.4 per cent of China's in 2008. While India's exports were higher than those of China till 1954, they started lagging thereafter. Ironically the gap started widening since the 1990s, the period of India's reforms. In 1990, the shares in world exports of China and India were 1.8 per cent and 0.5 per cent respectively and in 2008, their respective shares stood at 8.9 percent and 1.1 percent. This growing gap between India and China calls for greater introspection on the part of India.

7.30 India's merchandise imports were also affected by the global recession though with a slight lag and grew by 20.7 per cent to US$ 303 billion in 2008-09. This was due to the moderate growth of 23.5 per cent in import of non-petroleum, oil and lubricants (non-POL) products and 14.7 per cent in POL products. POL import growth was low mainly due to both low volume growth by 6.2 per cent and low growth of import price of the Indian crude oil import basket by 5.5 per cent (Figure 7.5).

7.31 International oil prices recorded unprecedented rise during 2008 and remained considerably volatile during the entire ensuing period. The price of Indian basket of crude oil which moved in tune with international oil prices was also volatile, averaging at 83.57 per barrel during 2008-09 after reaching an unprecedented US $ 142 per barrel on July 3, 2008 before declining sharply following the global recession. The monthly movements in oil prices during 2007-08 to 2009-10 (April-December) clearly reflect this volatility (Figure 7.6)

7.32 Non-POL non-bullion imports grew by 23.6 in 2008-09 per cent reflecting relatively low demand for imports for industrial activity, partly due to low industrial growth and partly due to the use of inventories, and also for imports used as inputs for exports due to fall in global demand following the world economic recession.

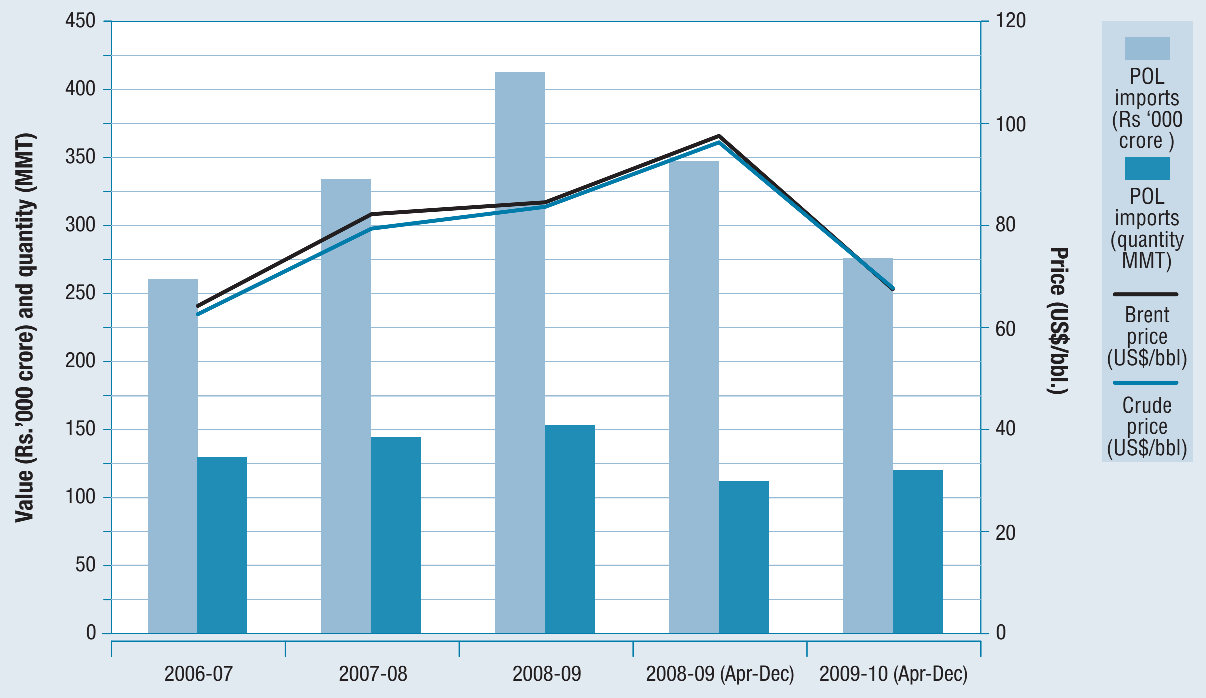
7.33 During 2009-10 (April-December) import growth was negative at (-)23.6 per cent accompanied by a decline in both POL and non-POL imports at (-) 29.8 per cent and (-)20.7 per cent respectively.

Table 7.5 : Export growth and share in world exports : India and other select countries

	Value (US$ billion)	Growth rate %				Share in world exports (%)				change in shares
		CAGR	Annual							
	2008	2000-06	2007	2008	2009 (Jan-Jun)	2000	2007	2008	2009 (Jan-Jun)	2008/2000
China	1,429	25.4	25.6	17.3	-21.7	3.9	8.8	8.9	9.1	5.0
Hong Kong	363	7.8	8.7	5.3	-16.7	3.2	2.5	2.3	2.5	-0.9
Malaysia	210	8.5	9.6	19.1	-31.2	1.5	1.3	1.3	1.2	-0.2
Indonesia	148	7.9	14.7	24.4	-28.3	1.0	0.9	0.9	0.9	-0.1
Thailand	173	11.3	17.0	12.9	-23.4	1.1	1.1	1.1	1.2	0.0
Singapore	338	12.0	10.1	13.0	-31.7	2.2	2.2	2.1	2.1	-0.1
India	177	19.1	21.4	20.4	-18.4	0.7	1.1	1.1	1.2	0.4
Brazil	198	16.5	16.6	23.2	-22.8	0.9	1.2	1.2	1.2	0.4
Mexico	292	7.1	8.6	7.3	-30.3	2.6	2.0	1.8	1.8	-0.8
Russia	472	19.3	16.6	33.1	-46.8	1.7	2.6	2.9	2.2	1.3
Korea	422	11.2	14.1	13.6	-22.7	2.7	2.7	2.6	2.9	-0.1
Emerging & Develop. Eco.	6,218	17.3	15.2	25.7	-27.6	25.9	35.9	38.9	38.4	12.9
World	**16,001**	**11.2**	**14.1**	**16.2**	**-29.5**	**100.0**	**100.0**	**100.0**	**100.0**	**—**

Source : Computed from International Financial Statistics, IMF, November 2009.

Figure 7.5 **POL imports**



Gold and silver imports registered negative growth of (-) 7.3 per cent. The continuous rise in prices of gold also dampened demand. Non-POL non-bullion imports declined by 22.4 per cent due to slowdown in industrial activity and exports. Import growth is positive in December 2009 at 27.2 per cent partly due to the base effect, partly due to the 42.8 per cent positive growth of POL products with the pick up in oil prices and industrial demand, and partly due to growth of non-POL items at 22.4 per cent including a high growth of gold and silver imports.

7.34 Trade deficit fell by 28.2 per cent to US$ 76.2 billion (as per customs data) in 2009-10 (April–December) from US$ 106 billion in the corresponding period of the previous year. Net POL import growth which has been positive since 2002-03 stood at 25.7 per cent in 2008-09 compared to 32.4 per cent in 2007-08. However, during 2009-10 (April-September), it fell by 40 per cent with the softening of international oil prices compared to the corresponding previous period (Table 7.6).

Trade Composition

Export composition

7.35 There were substantial changes in the composition of exports in 2008-09 and 2009-10(April-September) with the fall in share of petroleum, crude and products and primary products resulting in corresponding rise in share of manufactured goods.

Figure 7.6 **Crude oil price (Indian basket) ($/bbl)**

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	9.8	-13.4	7.2	-1.2	8.5
2002-03	19.4	26.0	21.6	26.8	17.0	-6.4	20.3
2003-04	27.3	16.6	38.5	12.9	31.5	59.9	28.5
2004-05	42.7	45.1	95.9	34.4	41.8	62.6	39.0
2005-06	33.8	47.3	69.8	40.4	28.8	1.5	33.1
2006-07	24.5	30.0	59.3	19.1	22.2	29.4	21.4
2007-08	35.5	39.4	53.6	32.4	33.8	22.0	35.3
2008-09	20.7	14.7	-4.6	25.7	23.5	22.3	23.6
2009-10 (Apr-Sept)	-32.9	-41.0	-44.0	-39.7	-28.6	-24.9	-29.2

Source : DGCI&S and own calculations.

The share of petroleum, crude and products fell from 17.8 per cent in 2007-08 to 14.9 per cent in 2008-09 and 14.2 per cent in the first half of 2009-10, while the share of primary products fell from 15.5 per cent in 2007-08 to 13.3 per cent in 2008-09 and further to 12.7 per cent in the first half of 2009-10. The share of manufactured exports increased by 2.3 percentage points to 66.4 per cent in 2008-09 and further to 69.2 per cent in the first half of 2009-10 (Table 7.7).

7.36 India's moderate growth of 13.6 per cent in 2008-09 which was due to the high growth in the first half of the year prior to the setting in of global recession, was only due to manufactured exports as both primary products and petroleum, crude and products registered negative growths of (-)2.4 per cent and (-)4.6 per cent respectively. Among manufactured products, the major drivers were gems and jewellery, engineering goods and chemicals and related products with export growths of 42.1 per cent, 18.7 per cent and 7.2 per cent respectively.

7.37 The first half of 2009-10 when the global recession was in full swing, also saw an accentuation in the fall of India's export growth resulting in negative growth of (-) 29.7 per cent compared to the positive 48.1 per cent in the corresponding period of the previous year. All the three sectors were badly affected during this period with petroleum, crude and products being the worst affected at (-)44 per cent export growth due to the low crude oil prices in the first half of 2009-10, which started declining from the high reached in the first half of 2008-09. Primary product exports also registered a decline of 32.4 per cent with fall in growth of both ores and minerals and agriculture and allied products. Manufactured goods registered negative export growth of (-)24.9 per cent, with the worst affected sectors being engineering goods at (-)34.6 per cent, followed by handicrafts including carpets at (-) 33.7 per cent and leather and leather manufactures at (-) 24.2 per cent.

7.38 Examination of composition cum direction of exports in the Economic Survey 2007-08 had clearly shown the possible effect of the US slowdown on India's exports and the Economic Survey 2008-09 had shown the worsening effect of the US and global recession on India's exports. A comparison of the commodity-wise growth of major exports to the United States, the European Union and 'Others' in 2008-09 and 2009-10 (April-September) shows that the fall in the shares of petroleum crude and products and primary products for the period was mainly in the 'Others' category. The consequent rise in share of manufactured goods during the above period was also in the case of 'Others'. Though the share of manufactures continues to be more important in the case of India's exports to the US market, there is a fall in the share in the first half of 2009-10 after a marginal rise in 2008-09. Exports of manufactured goods to the EU followed a similar pattern (Table 7.7).

7.39 The export growth performance of different categories of exports in 2008-09 shows that while primary products and petroleum products buckled under the pressure of world recession, despite a good growth in the first half of 2008-09, manufactured goods exports particularly to the EU and 'Others' were more resilient, though there was a moderation in growth. However, India's exports of manufactures to the US market grew by only 2.2 percent. This was due to the accentuation of the negative growth in textiles exports and the growth in gems & jewellery exports to the US turning negative. Textiles exports growth to the EU and 'Others', though low was

Table 7.7 : Composition of exports by major markets

		Percentage share					CAGR	Growth rate[a]			
		2000-01 (Apr.-Mar.)	2007-08 (Apr.-Mar.)	2008-09 (Apr.-Mar.)	2008-09 (Apr.-Sept.)	2009-10 (Apr.-Sept.)	2000-01 to 2006-07	2007-08 (Apr.-Mar.)	2008-09 (Apr.-Mar.)	2008-09 (Apr.-Sept.)	2009-10 (Apr.-Sept.)
I	**Primary Products**										
	World	16.0	15.5	13.3	13.2	12.7	16.9	38.2	-2.4	44.5	-32.4
	USA	9.4	7.2	7.4	7.5	7.0	8.3	5.5	4.5	18.0	-30.7
	EU	13.1	9.4	8.3	8.5	9.0	11.5	20.0	-0.1	20.0	-26.3
	Others	19.8	19.1	16.2	15.5	14.8	19.5	44.7	-3.3	51.5	-33.2
(a)	**Agri & Allied Products**										
	World	14.0	9.9	9.1	9.1	9.0	10.4	43.0	4.4	53.7	-30.9
	USA	9.0	5.5	6.2	6.2	5.8	3.9	7.6	15.2	30.9	-29.9
	EU	11.9	7.4	6.9	7.0	7.3	8.7	22.8	4.4	30.8	-26.8
	Others	16.8	11.6	10.5	10.2	10.0	12.0	52.6	3.4	62.1	-31.8
(b)	**Ores and Minerals**										
	World	2.0	5.5	4.2	4.1	3.7	40.4	30.5	-14.6	27.2	-35.6
	USA	0.4	1.7	1.2	1.3	1.1	45.6	-0.6	-29.7	-19.6	-34.9
	EU	1.3	2.0	1.4	1.5	1.6	28.8	10.4	-17.1	-13.6	-23.7
	Others	3.0	7.5	5.7	5.3	4.8	42.1	34.1	-13.6	34.4	-35.7
II	**Manufactured Goods**										
	World	78.8	64.1	66.4	64.8	69.2	16.1	21.8	17.7	45.4	-24.9
	USA	90.6	82.1	82.9	82.4	78.9	10.9	8.2	2.2	22.2	-28.6
	EU	86.8	71.9	72.6	73.2	68.8	13.9	22.9	14.1	35.4	-34.5
	Others	70.9	58.3	63.0	59.7	67.7	19.2	25.6	23.3	56.0	-20.7
(a)	**Textiles incl. RMG**										
	World	23.6	11.2	10.2	9.2	11.1	7.5	12.0	4.4	13.0	-14.7
	USA	27.2	19.8	18.6	17.1	18.6	8.5	-1.0	-4.8	0.2	-18.6
	EU	29.2	19.2	18.4	16.3	18.3	11.3	12.4	7.9	12.4	-21.7
	Others	19.8	6.9	6.5	5.8	7.7	4.1	20.3	6.2	20.5	-7.3
(b)	**Gems & Jewellery**										
	World	16.6	12.1	15.1	15.9	17.8	13.7	23.2	42.1	82.4	-21.7
	USA	29.3	24.0	21.9	24.2	24.7	9.7	4.6	-7.7	16.8	-23.6
	EU	11.5	7.5	8.3	9.8	7.1	8.7	28.5	24.8	72.6	-49.6
	others	13.9	11.2	16.4	16.5	19.7	17.9	31.6	66.2	111.8	-16.4
(c)	**Engineering Goods**										
	World	15.7	20.7	21.6	21.3	19.8	24.9	27.2	18.7	48.8	-34.6
	USA	13.4	21.0	24.1	24.5	16.5	20.3	14.7	16.1	50.4	-49.7
	EU	14.0	23.1	25.7	27.6	22.8	26.3	31.8	25.7	56.1	-42.5
	Others	17.2	19.9	20.3	19.0	19.5	25.6	28.4	16.6	45.5	-28.2
(d)	**Chemical & Related Products**										
	World	10.4	13.0	12.3	11.5	13.1	24.6	22.2	7.2	29.0	-20.3
	USA	5.7	13.4	15.0	13.4	15.9	26.8	26.8	12.8	35.7	-11.2
	EU	9.7	13.8	13.2	12.4	12.8	23.8	28.1	7.4	24.4	-27.8
	Others	12.5	12.6	11.8	11.0	12.7	24.5	19.3	6.0	29.3	-19.6
(e)	**Leather & Leather Mnfrs**										
	World	4.4	2.1	1.9	1.9	2.0	7.5	16.1	1.5	17.6	-24.2
	USA	3.7	1.5	1.7	1.6	1.6	-1.5	-1.2	16.1	20.1	-27.4
	EU	11.4	6.6	5.9	5.9	6.7	7.8	20.2	1.0	17.6	-21.8
	Others	1.6	0.8	0.7	0.7	0.7	12.5	13.0	-2.1	16.6	-29.0
(f)	**Handicrafts including Carpet Handmade**										
	World	2.8	0.9	0.6	0.6	0.5	1.5	7.2	-25.8	-12.2	-33.7
	USA	6.0	2.4	1.6	1.7	1.5	-1.2	-4.7	-30.6	-23.8	-35.0
	EU	4.4	1.5	1.1	1.1	1.1	3.4	-6.8	-18.0	-3.8	-33.2
	Others	0.8	0.4	0.2	0.2	0.2	3.4	65.8	-30.2	-6.9	-32.9
III	**Petroleum, Crude & Products**										
	World	4.3	17.8	14.9	17.8	14.2	46.3	53.6	-4.6	49.9	-44.0
	USA	0.0	3.2	0.7	1.3	1.8	230.3	136.0	-77.6	-64.5	1.4
	EU	0.0	11.5	10.7	10.3	12.8	883.9	99.3	5.4	65.8	-13.3
	Others	7.9	22.7	19.0	22.6	16.6	43.2	46.7	-4.2	52.4	-48.5
	Total Exports										
	World	100.0	100.0	100.0	100.0	100.0	19.0	29.0	13.6	48.1	-29.7
	USA	100.0	100.0	100.0	100.0	100.0	12.5	9.8	1.3	18.6	-25.4
	EU	100.0	100.0	100.0	100.0	100.0	16.6	28.7	13.0	38.1	-30.3
	Others	100.0	100.0	100.0	100.0	100.0	21.9	33.5	14.1	57.3	-30.0

Source: DGCI&S and own calculations.
Note : [a] Growth rate in US dollar terms.

positive, while growth of gems & jewellery exports to 'Others' was very robust at 66.2 per cent and was at 24.8 per cent to the EU market. In the case of chemicals and related products and leather and leather manufactures, India's export growth to the US was better than to other markets.

7.40 In the first half of 2009-10, India's export growth of all items to almost all three destinations was negative with global recession in full swing. Among manufactured goods, textiles export growth was comparatively less negative mainly to 'Others', whose share also rose. India's gems & jewellery exports and chemicals & related products exports were more affected in the EU market, while the worst affected sector was engineering goods, especially in the US and EU markets with negative export growths of (-)49.7 per cent and (–)42.5 per cent, respectively. The performance of handicrafts (including carpets) exports which were badly affected even in 2008-09, worsened in all the three markets with a negative growth above 30 per cent in all of them.

Import composition

7.41 The composition of imports also underwent changes. Reflecting growing domestic concerns like inflation, the share of food and allied products imports which fell from 2.3 per cent in 2007-08 to 2.1 per cent in 2008-09 increased to 3.5 per cent in the first half of 2009-10 with the increase in imports of edible oils and pulses (Table 7.8). The share of fuel imports fell from 34.2 per cent in 2007-08 to 33.4 per cent in 2008-09 and 33.2 per cent in the first half of 2009-10. Among fuel items, the share of POL, the major item, fell to 30.1 per cent in the first half of 2009-10 from 34.2 per cent in the corresponding period of 2008-09 reflecting the relatively lower oil prices. The share of fertilizers increased suddenly from 2 per cent in 2007-08 to 4.3 per cent in 2008-09 with growth in imports of nearly 250 per cent, but fell to 2.5 per cent in the first half of 2009-10. The most notable change is the fall in share of capital goods imports from 18.7 per cent to 15.5 per cent in 2008-09 and to 14.3 per cent in the first half of 2009-10. The commodity group 'Others' saw increase in share from 38.9 per cent in 2007-08 to 40.0 per cent in 2008-09

Table 7.8 : Commodity composition of imports

Commodity Group	Percentage share				CAGR	Growth rate (per cent)[a]			
	2000-01 (Apr.-Mar.)	2008-09 (Apr.-Mar.)	2008-09 (Apr.-Sept.)	2009-10 (Apr.-Sept.)	2000-01 to 2006-07	2007-08 (Apr.-Mar.)	2008-09 (Apr.-Mar.)	2008-09 (Apr.-Sept.)	2009-10 (Apr.-Sept.)
I. Food and Allied Products, of which	**3.3**	**2.1**	**1.5**	**3.5**	**21.6**	**8.6**	**9.1**	**9.7**	**52.9**
1 Cereals	0.0	0.0	0.0	0.0	112.4	-46.8	-93.3	32.6	-6.7
2 Pulses	0.2	0.4	0.3	0.6	41.1	55.2	-2.4	-10.3	40.0
3 Edible Oils	2.6	1.1	0.8	2.0	8.3	21.4	34.4	4.7	67.6
II. Fuel, of which	**33.5**	**33.4**	**37.3**	**33.2**	**24.3**	**39.4**	**17.7**	**84.1**	**-40.3**
4 POL	31.3	30.1	34.2	30.1	24.1	39.4	14.7	82.8	-41.0
III. Fertilizers	**1.3**	**4.3**	**4.1**	**2.5**	**28.9**	**66.2**	**156.8**	**249.4**	**-59.4**
IV. Capital Goods, of which	**10.5**	**15.5**	**13.7**	**14.3**	**33.8**	**62.7**	**-3.9**	**71.7**	**-30.2**
5 Machinery except Electrical & Machine Tools	5.9	7.8	7.3	8.2	31.8	43.9	7.7	46.6	-24.2
6 Electrical Machinery	1.0	1.2	1.2	1.2	26.4	46.5	27.7	82.3	-29.1
7 Transport Equipment	1.4	4.4	3.6	2.3	54.3	113.1	-34.3	134.9	-57.3
V. Others, of which	**46.3**	**40.0**	**40.8**	**43.4**	**22.9**	**22.7**	**23.8**	**46.5**	**-28.6**
8 Chemicals	5.9	5.0	5.1	5.8	21.9	25.8	23.0	59.0	-23.3
9 Pearls, Precious, Semi-precious Stones	9.6	5.5	5.7	4.4	7.7	6.5	107.7	122.2	-48.0
10 Gold & Silver	9.3	7.2	8.3	9.3	21.1	22.0	22.3	32.3	-24.9
11 Electronic Goods	7.0	7.7	7.0	8.6	28.7	26.5	15.3	31.1	-17.7
TOTAL IMPORTS	**100.0**	**100.0**	**100.0**	**100.0**	**24.5**	**35.5**	**20.7**	**55.1**	**-32.9**

Source: Calculated from DGCI&S data.
[a] Growth rate in US dollar terms.

and 43.4 per cent in the first half of 2009-10. Even gold and silver and electronic goods increased their import shares in the first half of 2009-10 over the corresponding period in the previous year, despite high negative growths, as other items in the import basket had still higher negative growths.

7.42 In 2008-09 there was high import growth of fertilizers reflecting the rise in fertilizer prices mirroring skyrocketing POL prices in the first half of the year, besides chemicals, pearls, precious and semi-precious stones and gold and silver. The high import growth of the last two items also contributed to the high export growth of gems and jewellery including diamond trading. In the first half of 2009-10, the only category showing positive and high import growth is food and allied products to meet the domestic needs.

Composition of Imports by Broad Economic Categories (BEC)

7.43 The classification of imports as per BEC introduced by the UN shows that most of India's imports consist of intermediate goods followed by capital goods. While the share of intermediate goods is still dominant, it fell from 83.5 per cent in 2001 to 76.8 per cent in 2006. In 2007, there was a marginal rise to 77.2 per cent. Share of capital goods imports has increased from 8.9 per cent in 2001 to over 14 per cent in 2006 and 2007. The share of consumption and other goods is quite low. Contrary to the general belief, not only is the share of consumer goods low, it has fallen from 4.3 per cent in 2001 to 3.5 per cent in 2007 (see Table 7.9).

7.44 The WTO's "International Trade Statistics 2009" has indicated that increasing trade in intermediate goods is one of the major reasons for world trade experiencing larger changes than world GDP. The higher composition of intermediate goods also has tariff policy implications as higher duties on these items make our exports and manufacturing less competitive (also see Tariff Policy section).

Export diversification

7.45 In 2008, India had a global export share of 1 per cent or more in 42 out of a total of 99 commodities at two digit Harmonised System (HS) level, but a significant share of 5 per cent or more in eleven items (Table 7.10). Three items, vegetable textile fibres n.e.s., paper yarn, woven fabric; vegetable plaiting materials, vegetable products, n.e.s.; and residues, wastes of food industry and animal fodder, had an increase in global share by 0.5 per cent point or more in 2008 over 2007. Four items lost global shares which include carpets and other textiles floor coverings; other made textile articles, sets, worn clothing, etc; lac, gums, resins, vegetable saps and extracts, n.e.s.; and pearls, precious stones, metals, coins, etc. One item, namely silk had stagnant growth. In the remaining 31 items, 10 lost their shares in 2008 over 2007.

7.46 While India has diversified its export basket as well as export markets, a more systematic approach of diversification of dynamic products to developed countries and non-dynamic products to developing countries could pay better dividends (Box 7.3).

Direction of trade

7.47 The directional pattern of India's trade has been changing constantly during the decade with the share of the top 15 trading partners increasing by 9.5 percentage points to 61.3 per cent in between 2004-05 and 2008-09 (Table 7.11). In the first half of 2009-10, their share was 59.6 per cent. The major development in the direction of India's trade is that USA which was in the first position in 2007-08 has been relegated to the third position in 2008-09, with UAE becoming India's largest trading partner, followed by China. However, in the first half of 2009-10, with oil prices moderating, China has gained a slight edge over the UAE to become India's major trading partner.

7.48 According to the WTO's "International Trade Statistics 2009" the global recession reduced the trade imbalances of many countries. Japan's trade surplus fell from 2.1 per cent of the GDP before the crisis to 0.4 per cent in 2008, turning into a trade deficit of 0.02 per cent of the GDP during the first quarter of 2009. Germany's trade surplus of 8 per cent of the GDP until 2008 fell to 7 per cent in 2008 and United States' trade deficit of 6.8 per cent of the GDP in 2006 fell to 6.2 per cent in 2008 and further to 3.4 per cent in the first quarter of 2009. For the BRIC(Brazil, Russia, India and China) countries trade balances as a percentage of the GDP were more volatile due to trade in primary commodities, Russia and Brazil being specific examples. The report states that India has faced a structural deficit in merchandise trade that has grown especially from 2000 onwards. China's trade surplus of 7.6 per cent of the GDP in 2007 fell to 6.7 per cent in 2008 and 4.7 per cent in the first quarter of 2009, though initial monthly figures indicate that it is benefiting noticeably from the initial recovery of trade. Export-

Table 7.9 : Distribution of India's imports according to BEC: 2001 to 2007

BEC	Descriptions	2001	2006	2007	No. of tariff lines	Basic duty (per cent) Unweighted average	Basic duty (per cent) Peak
		(Percentage of value of imports)					
Total	**Total Imports**	**100**	**100**	**100**			
1	**Food &Beverages**	**5.1**	**3.2**	**3**			
11	- Primary	2.1	1.8	1.7			
111	- For Industry	0	0.7	0.6	116	49.83	100
112	- For Households	2.1	1.1	1.1	334	38.89	100
12	- Processed	3	1.4	1.3			
121	- For Industry	2.6	1.2	1.2	148	50	150
122	- For Households	0.5	0.1	0.1	447	51.92	150
2	**Industrial Supplies**	**43.9**	**36.8**	**37.4**			
21	- Primary	14.2	9.3	8.4	724	13.76	70
22	- Processed	29.7	27.5	28.9	5671	9.45	150
3	**Fuels & Lubricants**	**29.9**	**32.9**	**33.2**			
31	- Primary	26.9	27.3	26.9	13	11.54	55
32	- Processed	2.9	5.6	6.3	15	8.67	10
321	- Motor Spirit	2.1	3.5	4			
322	- Fuels and Lubricants, Processed (Other than Motor Spirit)	0.8	2.1	2.3	22	7.95	10
4	**Machinery**	**15.4**	**18.3**	**19.1**			
41	- Capital Equipment	7.8	11.6	12.4	1,323	7.41	30
42	- Parts	7.7	6.7	6.7	573	7.59	10
5	**Transport**	**2.7**	**5.4**	**4**			
51	- Passenger Cars	0	0.1	0.1	37	100	100
52	- Other	1.1	3.3	1.7			
521	- Industrial	1.1	3.2	1.7	89	9.17	10
522	- Non-industrial	0	0.1	0.1	37	63.19	100
53	- Parts	1.6	2	2.1	197	9.05	10
6	**Consumption Goods**	**1.7**	**2.1**	**2.2**			
61	- Durable	0.4	0.8	0.7	270	9.72	10
62	- Semi-durable	0.5	0.7	0.9	727	9.91	10
63	- Non-durable	0.8	0.6	0.6	576	11.08	60
7	**Goods n.e.s.**	**1.3**	**0.1**	**1.2**	**21**	**9.52**	**10**
	Others (unclassified)				16	14.69	
	Total $ bn/Nos/%	51.9	185.38	218.64	11,356	13.46	150
	Memorandum: Capital Goods (41+521)	**8.9**	**14.8**	**14.1**	**1,412**	**7.52**	**30**
	Intermediate Goods (111+121+21+22+31+322+42+53)	**83.5**	**76.8**	**77.2**	**7,454**	**11.14**	**150**
	Consumption Goods (112+122+522+61+62+63)	**4.3**	**3.4**	**3.5**	**2,391**	**22.9**	**150**
	Other Goods (321+51+7)/(51+7)	**3.4**	**3.7**	**5.3**	**58**	**67.24**	**100**

Source : Based on UN data.

Box 7.3 : Consistency of Indian Exports with Global Demand

In the recent episode of global recession, the shocks were transmitted very fast from industrialized countries to developing countries, through international trade among other channels. The pace of export growth recovery could be relatively faster, if the export basket is in harmony with the globally dynamic products, though the depth of recession affecting different segments of the world economy also counts. Dynamic products play a crucial role in the global economic recovery as demand for these products picks up very fast with change in global trade winds. Based on the twin criteria of export growth and market share, 1,242 export products at the four-digit level are classified into five different groups. Two sub-periods, 1999-2001 and 2004-06 are taken for computation of the CAGR. The sub-period 2004-06 is taken for global exports share of products. Based on the twin criteria, five groups of products are identified as 1) trend setters, 2) champions, 3) under achievers, 4) achievers in adversity and 5) losers in declining markets. Dynamic products falling under the "trend setters" group with high CAGR and high share and "champions" group with high CAGR and relatively high share are the drivers of global trade. Most of the dynamic products fall under four broad categories of exports: machinery, auto components and cinematography which are high and medium technology-intensive; chemicals and plastics which are medium technology-intensive; gems and jewellery and base metals which are mainly low technology-intensive; and mineral products which are mainly primary and resource-based products. The non-dynamic products include all the other three categories, namely the "under- achievers" with high CAGR but low share and heavily concentrated in sectors like processed food, minerals, chemicals, plastics, T&C and base metals; "achievers in adversity" with high share and low or declining growth rate mostly concentrated in sectors like processed food, pulps of wood, T&C, machinery and auto components; and "losers in Declining Markets "with low share and low CAGR concentrated in sectors like vegetable products, chemicals, pulps of wood, T&C, plaster & cement, base metals and machinery with bleak prospects of revival in the medium term. Securing market access for the last two sets of product groups is a major concern, because the global market is shrinking for these products.

Global dynamic products constitute nearly 10 per cent of products but slightly less than 50 per cent of value. On the contrary, the product share of non-dynamic products is around 90 per cent and value share is slightly above 50 per cent. In the Indian case, dynamic products constitute 10 per cent of products and 51.3 per cent of value, while non-dynamic products constitute 90 per cent of products and 48.7 per cent of value. Thus the general pattern of composition of dynamic and non-dynamic products is similar in India and the world. (Table 1).

Table 1 : Compositon of Dynamic & Non-dynamic products

	(Percentage)	Dynamic products	Non-dynamic products
World	Number	9.8 (121)	90.2 (1121)
	Value	47.6	52.4
India	Number	10.0 (40)	90.0 (1217)
	Value	51.3	48.7

Source: Computed from *PC-TAS* CD, 2008, ITC, Geneva and *India Trades*, Online, CMIE, Mumbai.

Note: World figures refer to 2006 and figures for India correspond to 2006-07. Figures in brackets indicate actual number of products.

Since the Asian Crisis, dynamic export products have provided a new direction to Indian exports. Products under the "trend setters" group have consistently improved their share in Indian exports from 21.5 per cent in 1998-99 to 35 per cent in 2006-07, posting a CAGR of 26.3 per cent during 1999/2000-2006/07 in rupee terms. The robust performance of the "trend setters" has been supported by the sustained growth of these products in global exports. The "champions" have also significantly improved their share in Indian exports from 10.8 per cent in 1998-99 to 16.3 per cent in 2006-07. This segment of exports has registered the fastest CAGR of 27.1per cent, even better than the "trend setters", during the period 1999/2000-2006/07. While the share of the tiny emerging products, that is the group of "under achievers", is almost stagnant even during the period of global export boom, the two weak segments of the export sector, namely "achievers in adversity" and "losers in declining markets" together have a share of nearly 35 per cent.

The differing performances of dynamic versus non-dynamic products are particularly important in the context of multilateral vs regional/ bilateral trade. The composition of India's exports by the two categories in the Regional Trading Arrangements (RTAs) of India with developing countries shows that the share of dynamic products is high in value terms in all the RTAs, while the share of non-dynamic products is very high in terms of numbers and quite substantial in value terms in all the RTAs (Table 2)

Table 2 : Share of dynamic and non-dynamic products in India's exports to RTAs.

RTA	(Percentage)	Dynamic products	Non-dynamic products
ASEAN	(Value)	56.2	43.8
	(No.)	11	89
Andean	(Value)	47.7	52.3
	(No.)	15.3	84.7
COMESA	(Value)	55.4	44.6
	(No.)	11.3	88.7
GCC	(Value)	61.2	38.8
	(No.)	10.6	89.4
MERCOSUR	(Value)	59.3	40.7
	(No.)	14.7	85.3
SAARC	(Value)	37.7	62.3
	(No.)	10.7	89.3
Other Countries*	(Value)	51	49
	(No.)	10.2	89.8

Source: Computed from *PC-TAS* CD 2008, ITC, Geneva.
Note: *Includes all other countries not in the RTAs given above.

Import preference for globally non-dynamic products is either thinly spread across the globe or heavily concentrated in some select regions. Marketing globally dynamic products could be done with ease under the multilateral set up without any preferential arrangement, while the regional approach could help in exporting sizeable amounts of globally non-dynamic products. As India is actively engaged in the process of regional trade, sizeable amounts of such products could find market in different regional, sub-regional and bilateral trading arrangements through negotiations. Thus systematic planning could help in diversification of India's commodity basket as well as markets.

Table 7.10 : India's share in world exports: Commodity- wise (share of more than 1 per cent)

Sl. No.	HS	Chapter	2007	2008	Change
1	50	Silk	10.53	10.53	0.00
2	13	Lac, gums, resins, vegetable saps and extracts n.e.s.	9.48	9.45	-0.03
3	52	Cotton	8.51	8.84	0.34
4	57	Carpets and other textile floor coverings	8.74	8.51	-0.24
5	53	Vegetable textile fibres n.e.s., paper yarn, woven fabric	4.61	6.27	1.66
6	71	Pearls, precious stones, metals, coins, etc.	6.60	5.72	-0.88
7	63	Other made textile articles, sets, worn clothing, etc.	5.73	5.52	-0.20
8	14	Vegetable plaiting materials, vegetable products n.e.s.	4.66	5.48	0.83
9	9	Coffee, tea, mate and spices	5.23	5.30	0.07
10	23	Residues, wastes of food industry, animal fodder	4.01	5.16	1.15
11	67	Bird skin, feathers, artificial flowers, human hair	5.03	5.09	0.06

Source : Calculated from National Centre for Trade Information (NCTI) data based on UN-ITC Trade Map Data, 2008.

Import ratios in Table 7.11 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 2008-09 and the first half of 2009-10. India's trade deficit with the USA and Singapore in 2007-08, turned into trade surplus thereafter. The export import ratio fell in 2008-09 in the case of Hong Kong, though it recovered in the first half of 2009-10. The fall in export-import ratio from 0.8 in 2004-05 to the present 0.3 in the case of China needs special attention. Among the countries not in the top 15, Brazil is an interesting case. India's export-import ratio which had stabilized at above 2 till 2008-09 indicating a high trade surplus for India has suddenly turned into a trade deficit at 0.64 in the first half of 2009-10. The disaggregated data for April-June 2009 indicate that this was probably due to the sudden fall in India's exports of refined POL to Brazil because of softening of crude oil prices and the sudden high rise in imports from Brazil of crude

Table 7.11 : India's trade and export-import ratio with major trading partners

		Share in total trade					Export/Import ratio[a]				
		2004-05	2007-08	2008-09	2008-09 (Apr-Sept)	2009-10 (Apr-Sept)	2004-05	2007-08	2008-09	2008-09 (Apr-Sept)	2009-10 (Apr-Sept)
1	UAE	6.1	7.0	9.8	8.7	9.2	1.6	1.2	1.0	1.5	1.5
2	China	6.5	9.2	8.6	7.4	9.4	0.8	0.4	0.3	0.3	0.3
3	USA	10.6	10.1	8.2	6.9	8.1	2.0	1.0	1.1	1.4	1.2
4	Saudi Arabia	1.4	5.6	5.1	5.6	4.4	1.1	0.2	0.3	0.3	0.3
5	Germany	3.5	3.6	3.8	3.1	3.5	0.7	0.5	0.5	0.6	0.5
6	Singapore	3.4	3.7	3.3	3.3	3.2	1.5	0.9	1.1	1.4	1.1
7	Iran	0.8	3.1	3.0	3.2	3.3	3.0	0.2	0.2	0.2	0.2
8	Hong Kong	2.8	2.2	2.7	1.8	2.5	2.1	2.3	1.0	2.8	2.1
9	Korea RP	2.3	2.1	2.6	2.2	1.9	0.3	0.5	0.5	0.5	0.0
10	UK	3.7	2.8	2.6	2.2	2.4	1.0	1.4	1.1	1.3	1.3
11	Australia	2.3	2.2	2.6	2.5	2.9	0.2	0.1	0.1	0.1	0.1
12	Switzerland	3.3	2.5	2.5	3.1	2.8	0.1	0.1	0.1	0.0	0.0
13	Japan	2.7	2.5	2.2	2.0	2.3	0.7	0.6	0.4	0.4	0.5
14	Malaysia	1.7	2.1	2.2	1.9	1.9	0.5	0.4	0.5	0.4	0.7
15	Nigeria	0.4	2.1	2.1	2.3	1.9	13.3	0.1	0.2	0.1	0.2
	Total (1 to 15)	51.8	60.7	61.3	56.3	59.6	1.0	0.6	0.5	0.6	0.6
	Total trade	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**

Source : Computed from DGCI&S data.

[a] A coefficient of export and import ratio between 0 and 1 implies that India's imports are greater than exports and a coefficient greater than one, that India exports more than what it imports.

petroleum, besides sugar to meet domestic needs. High growth in imports of beverages, iron and steel, fats and oils from Brazil also seems to have contributed to the trade deficit.

7.49 The UAE has displaced the USA as the topmost destination of India's exports in 2008-09 and 2009-10 (April-September) with an export share of 13.1 per cent and 14.4 per cent respectively. India's exports to all the top three export destinations—the UAE followed by the USA and China—registered negative growth of (-) 28.7, (-) 25.3 and (-) 21.9 per cent respectively. Region-wise, over half of India's exports (55 per cent) in the first half of 2009-10 were to Asia (including ASEAN), up from around 40 per cent in 2001-02. During 2009-10 (April-September), exports to Asia (including ASEAN) declined by 27.6 per cent and to Europe by 30.9 per cent. India's merchandise exports to South Asian countries declined by 30.4 per cent.

7.50 In 2009-10 (April-September), Asia and ASEAN continued to be the major source of India's imports accounting for 61.3 per cent of the total. Country-wise, China remained the largest source with a share of 12 per cent in India's total imports followed by the USA (5.95 per cent), UAE (5.93 per cent) and Saudi Arabia (5.5 per cent). As a result of global recession, India's import growth from 14 of the top 15 trading partners was negative, Indonesia being the exception.

SERVICES TRADE

7.51 Trade in some services like transportation of goods is directly dependent on merchandise trade while in some others like financial services it is complementary. However, some other services like tourism and software are near standalone services not directly related to merchandise trade. There are many such services and with the spread of telecommunications and computer technology, virtually all commercial services including health care and education have become tradeable across borders without movement of natural persons. The trend towards globalization, reinforced by liberalization policies and the removal of regulatory obstacles, has fuelled steady growth of international investment and trade in services.

World trade in services

7.52 The US$ 3.78 trillion world export of commercial services was dominated by the developed countries in 2008, with the exception of India and China which were also among the top 10 exporters. As in the case of merchandise trade, India has improved its rank in commercial services trade. As per the latest "International Trade Statistics 2009"brought out by the WTO, world export and import growth in services decelerated from 19 and 18 per cent respectively to 12 per cent in both the cases. The deceleration was more or less similar in most of the major regions like North America, Europe and Asia. Import growth in commercial services in the US was particularly low at 8 per cent, while its deceleration in EU by 9 percentage points was particularly sharp. While India ranks 27th in world merchandise exports in 2008 compared to China at 2ndposition , in commercial services exports it ranks 9th compared to China at 5th rank.

7.53 The three broad categories of commercial services, namely transport, travel and other commercial services witnessed a decline in export growth in 2008 compared to a high growth in 2007 (Table 7.12).

7.54 In commercial services imports, India moved from 15th position in 2004 to 13th position in 2005, and remained in 13th position in 2008, with a 2.4 per cent share. The United States, the European Union-15 and Japan are the major importers of services in the world. Among top exporters/importers of services (with EU-27 taken as a single unit) India ranked among the first five countries in the export of computer and information services, commercial

Table 7.12 : World exports of commercial services trade by major category, 2008

	Value (US$ billion)	Annual percentage change			
	2008	2000-08	2006	2007	2008
Commercial services	3730	12	14	20	12
Transport	890	13	11	20	16
Travel	950	9	10	15	10
Other commercial services	1935	14	17	22	11

Source : WTO

services, communication services including telecommunications services and other business services and in the import of computer and information services, financial services and transport services (Table 7.13).

7.55 The Global Economic Prospects 2010 report of the World Bank states that the global economic crisis also affected services trade which, however, was more resilient than merchandise trade. However, systematic and up to date information on trade in services is lacking. The term "Invisibles", which is generally used as a synonym for services, is most apt for this sector as regards recent data and information. Any analysis on the impact of the crisis on trade in services has to be made from the titbits of information available from several widely spread out sources. Piecing these bits of information together shows that the global financial crisis which affected trade credit and also resulted in a slump in merchandise trade had both a direct and indirect bearing on trade in services. Some services like transport for which goods trade itself is a barometer of performance were severely hit. The Baltic Dry Index (BDI) which reached a record high of 11440 in May 2008 fell by 93 per cent in December 2008. In the case of other services, the tight financial situation coupled with depressed economic activity led to deceleration in growth in trade of these services

7.56 As per the WTO's "International Trade Statistics 2009", world exports of commercial services which increased by 20 per cent on average on a year-on-year basis in the first two quarters of 2008, decelerated in the third quarter and dropped by 6 per cent in the last quarter. Preliminary figures for the first quarter of 2009 suggest a more pronounced decline of 19 per cent. While transportation and Travel were severely hit due to the global crisis, financial services plummeted due to the turmoil in the financial sector with the WTO's preliminary figures for the first quarter of 2009 showing a further decline in exports for the leading exporters ranging from 13 per cent for the US to an estimated 30 per cent for the EU. However, some of the sharpest declines in the first quarter of 2009 were recorded in Asian economies such as Hong Kong, China (a drop of 32 per cent), Chinese Taipei (53 per cent) and the Republic of Korea (56 per cent). Other commercial services have shown more resilience to the economic recession than transportation and travel services as the decline in the last three months of 2008 was only 5 per cent. In the first quarter of 2009, however, exports of commercial services were

Table 7.13 : India's sector-wise rank and share in world exports / imports of services

Services		Rank 2008	Share 2000	Share 2008	Per cent Change 2008
Transportation Services	Export	11	0.6	1.2	23
	Import	5	2.1	4.0	34
Travel Services	Export	14	0.7	1.2	10
	Import	15	0.6	1.1	17
Other Commercial Services	Export	4	..	4.1	18
	Import	9	..	2.0	3
Communication Services*	Export	4	..	3.3	10
	Import	13	..	1.1	22
Construction Services*	Export[a]	9	..	1.3	..
	Import[a]	11	..	1.1	..
Insurance Services*	Export	7	..	2.1	35
	Import	7	..	2.7	19
Financial Services*	Export	8	..	1.4	121
	Import	5	..	2.9	175
Computer and Information Services*	Export[a]	2	..	18.1	..
	Import[a]	4	..	4.4	..
Other Business Services*	Export[a]	5	..	4.0	..
	Import[a]	6	..	3.0	..
Personal, Cultural and Recreational Services*	Export[a]	6	..	1.6	..
	Import	..	..	..	..

Source: Compiled from WTO, International Trade Statistics 2009. WTO.

Notes: * data relate to 2007; a WTO Secretariat estimates.

estimated to have declined by 15 per cent globally, possibly due to the lagged effect of the economic recession.

7.57 The Organisation for Economic Cooperation and development(OECD) data shows that in Q3 2008, the value growth of exports and imports of services in OECD countries, measured in current US dollars decelerated turning negative in all the subsequent quarters till Q3 2009 for which latest data are available. The fall was at its peak in Q2 2009 with both export and import growth rates at (-)20.2 percent and (-) 18.4 percent respectively, In Q3 2009 the extent of negative growth has been slightly less, with signs of turnaround. The seasonally adjusted quarterly value growth over previous quarter which had turned negative since Q3 2008, both for exports and imports of services of OECD has become positive in Q2 and Q3 with growth rates of 1.8 per cent and 2.6 percent for exports respectively and 1.6 percent and 3.3 percent for imports respectively. The contraction in the Air Transportation sector which began in the end of 2008 continued in 2009. As per the International Air Transport Association (IATA), in 2009 international passenger demand and cargo demand declined by 4.1 percent and 13.0 percent respectively with passenger and cargo yields plummeting by 12 percent and 15 percent respectively. In 2010, while passenger traffic and cargo demand are expected to grow by 4.5 percent and 7 percent respectively and cargo yields are expected to improve by 0.9 percent, passenger yields are not expected to improve from their extraordinary low level due to excess capacity in the market and reduced corporate travel budgets. Thus as per IATA eventhough demand continues to improve, there is still a lot of ground to be recovered.

7.58 The World Bank in a report has also given some such examples of fall in services trade. Quoting reports of World Tourism Organization, the World Bank states that tourism arrivals were off by 7 per cent in the first six months of 2009. The outbreak of A H1NI compounded the woes of some countries like Mexico which was particularly hard hit. Notwithstanding widespread efforts to support tourism through special tax deductions, the easing of visa restrictions and investment plans, the World Tourism Organization expects global tourist volumes to have declined by between 4 and 6 per cent during 2009.

India's services exports

7.59 India, which is moving towards services-dominated GDP growth with a 9 per cent CAGR for services which is higher than the 5.8 per cent for non-services during 2000-01 to 2006-07, is also moving towards a services-dominated export growth with a CAGR of 28.7 per cent for services during 2000-01 to 2006-07 which is higher than the 19 per

Table 7.14 : India's exports of services

Sl. No.	Commodity Groups	Percentage share				CAGR	Growth rate[a]			
				April-September		2000-01 to			April-September	
		2000-01	2008-09	2008-09	2009-10	2006-07	2007-08	2008-09	2008-09	2009-10
1	Travel	21.5	10.7	10.4	12.0	17.3	24.4	-4.0	22.0	-9.2
2	Transportation	12.6	11.1	11.1	12.6	25.4	25.6	12.7	39.9	-10.6
3	Insurance	1.7	1.4	1.4	1.9	28.1	37.2	-13.4	1.8	6.1
4	GNIE	4.0	0.4	0.4	0.5	-14.6	30.8	17.5	30.2	-5.2
5.	Miscellaneous	60.3	76.4	76.7	73.0	33.4	21.3	15.9	27.4	-25.2
	a) Software Services	39.0	45.5	47.5	53.4	30.5	28.8	14.9	35.3	-11.5
	b) Non-software Services of which	21.3	30.9	29.2	19.5	38.0	11.6	17.5	16.3	-47.5
	i) Business Services	2.1	16.2	16.5	12.7	87.6	15.3	-1.9	9.9	-39.5
	ii) Financial Services	2.1	3.9	4.5	4.6	44.1	3.6	22.7	58.4	-19.2
	iii)Communication Services	7.0	2.1	2.5	1.8	12.1	6.5	-9.8	11.0	-42.0
	Total Services Exports	**100.0**	**100.0**	**100.0**	**100.0**	**28.7**	**22.4**	**12.5**	**27.6**	**-21.4**

Source: Calculations based on RBI data.
Note:[a] Growth rate in US dollar terms.
GNIE = Government Not Included Elsewhere

cent for merchandise exports during the corresponding period. Services exports reached US$ 102 billion in 2008-09 with a moderate growth of 12.5 per cent over the previous year. Growth has been reasonably good in the miscellaneous services category which has increased its share by 16.1 percentage points to 76.4 per cent in 2008-09 compared to 2000-01. While the share of software services increased by 6.5 percentage points to 45.5 per cent, the share of non-software services increased by 9.6 percentage points to 30.9 per cent. The CAGR of miscellaneous services was very high at 33.4 per cent during 2000-01 to 2006-07 followed by annual growth rates of 21.3 per cent and 15.9 per cent respectively in 2007-08 and 2008-09 (Table 7.14). While the high growth rate of the US $ 47 billion (2008-09) software services exports is well known, the high CAGR of non-software services during 2000-01 to 2006-07 is noteworthy. This was due to the high growth in communication services and business services exports, which, however, have fared very badly in both 2008-09 and the first half of 2009-10 with negative growth rates ; and financial services which registered high CAGR during 2000-01 to 2006-07 and high growth in 2008-09.

7.60 The impact of global recession was visible on India's services exports, the growth of which declined to (-)21.4 per cent in the first half of 2009-10 compared to the high growth of 27.6 per cent in the corresponding period of the previous year . Except insurance, all the items witnessed a negative growth. While fall in transportation exports is a reflection of the fall in merchandise trade, fall in travel services is a reflection of the decline in tourist arrivals which declined by 1.8 per cent in the first quarter of 2009-10. In 2009, Foreign Tourist Arrivals (FTAs) at 5.11 million registered a negative growth of (-)3.3 percent as compared to the 4 percent positive growth in 2008. Foreign Exchange Earnings (FEE) from tourism which grew by 9.5 percent in 2008 fell to US $11.39 billion in 2009 with a negative growth of (-)3 per cent

7.61 Services exports are expected to grow in 2009-10, though at a relatively slower pace. While the lower merchandise trade affected transportation exports in the first half of the year, with pick up in global and India's trade, transportation exports are also expected to pick up. Software including BPO services after a negative export growth in the first half of 2009-10 has shown a recovery with an estimated positive but tepid growth of 5 percent in 2009-10 and a projected 13-15 per cent growth in 2010-11, according to NASSCOM. Receipts under business and professional services are also expected to be higher. According to the Ministry of Tourism, though foreign tourist arrivals declined in the first quarter of 2009-10, the growth rate has marginally improved during April-September 2009 as compared to the corresponding period of the previous year. In fact, both FTA and FEE have picked up in December with growth rates of 21 percent and 44.4 percent respectively over December 2008. Given the trend, travel receipts are also expected to improve in the remaining period of the year.

India's services imports

7.62 Imports of commercial services have become important in recent years reaching US$ 52.0 billion in 2008-09 though growth had decelerated to 1.1 per

Table 7.15 : India's imports of services

Sl. No.	Commodity Group	Percentage share				CAGR	Growth rate[a]			
				April-September		2000-01 to			April-September	
		2000-01	2008-09	2008-09	2009-10	2006-07	2007-08	2008-09	2008-09	2009-10
1.	Travel	19.2	18.1	18.8	17.8	15.6	38.5	1.8	23.3	-9.8
2.	Transportation	24.4	24.6	27.4	20.2	14.6	42.7	11.3	39.2	-29.4
3.	Insurance	1.5	2.2	2.1	2.7	19.3	62.6	8.2	13.6	22.9
4.	GNIE	2.2	1.5	0.8	0.9	4.0	-6.7	110.9	-13.4	12.6
5.	Miscellaneous	52.6	53.6	50.9	58.3	24.5	2.7	-4.8	12.0	9.3
	a) Software Services	4.1	5.4	6.9	3.4	25.1	48.1	-16.2	20.1	-53.4
	b) Non-software Services	48.6	48.2	44.1	55.0	24.4	-1.2	-3.4	10.7	19.1
	of which									
	i) Business Services	7.0	29.7	28.0	34.3	57.9	4.3	-6.8	7.3	16.9
	ii) Financial Services	13.5	5.7	6.1	8.4	7.2	4.7	-5.6	37.8	30.0
	iii) Communication Services	0.9	2.1	2.0	2.5	35.8	8.0	26.4	27.3	19.5
	Total Services Imports	**100.0**	**100.0**	**100.0**	**100.0**	**20.4**	**16.2**	**1.1**	**20.2**	**-4.6**

Source : Calculations based on RBI data.
Note: [a] Growth rate in US dollar terms.

cent due to global recession (Table 7.15). Business services is the most important category of services imports, followed by transportation and travel. Import growth of business services which declined by (-) 6.8 per cent in 2008-09 picked up by 16.9 per cent in the first half of 2009-10. Import growth of transportation and travel which decelerated in 2008-09 was negative in the first half of 2009-10 and particularly so in the case of transportation. Insurance, financial and communication services have registered positive growths.

Policies related to services

7.63 Given the difficult situation arising out of the global economic crisis, which also affected services trade, the Government took some specific measures for the services sector, besides the general measures related to liquidity and trade finance. Some such specific policy measures in the Union Budget and Foreign Trade Policy include extension of the 10A sunset clause for Software Technology Parks of India (STPI) for the financial year 2010-11 and exemption

Box 7.4 : Policy suggestions for India's services sector

Some policy suggestions for India's services sector based on interactions with service providers and literature survey are given below. This is only an indicative and not exhaustive list.

FDI related

- Opening some segments of the insurance sector like health insurance and removing the 10-year disinvestment clause; and liberalizing FDI in the animation sector.
- Making available FDI policy on the website in a user-friendly way.

Tariff and Tax related

- Rationalizing taxes in the shipping sector and addressing the issue of multiple levies and duties the in telecom sector.
- Rationalizing the entry fees for monuments and privatization of these services.
- Relocation of business of the Indian film industry from foreign countries to India by addressing the tax credit issue.
- Addressing the inverted duty issue in the printing sector.
- Allowing advance tax instead of tax deduction at source (TDS) in some services like engineering and construction.
- Abolishing octroi at least for capital goods used in hospitals including super speciality hospitals exporting health-care services and in health-related research centres.
- Making TDS uniform for all heads of income with exemptions for small incomes up to a certain minimum limit
- Expediting the measures related to transfer pricing.
- Single return for service tax and excise tax which is being administered by the same department

Credit and Finance related

- Exempting ECBs from withholding tax for financing export-related activities and overseas acquisition including of ships.
- Encouraging venture capital in services.
- Operationalizing offshore financial centres.

Other trade related

- Increasing visibility of India in services through trade fairs, buyers-sellers meets and setting up convention centres; facilitating services exports by setting up joint offices with common facilities; setting up a portal for services and devoting some SEZs exclusively to services.
- Speeding up 3 G technology auctions.
- Strengthening Indian fleets and providing long-term contracts for Indian flags.
- Resolving the issue of precondition in most of the overseas tenders wherein equipment to be supplied by the contracting company should necessarily be sourced from an approved list of suppliers from developed countries.
- Facilitating International accreditation for Indian health services.
- Tapping outsourcing opportunities in niche areas like actuarial and accounting services.
- Totalization agreements with target countries and necessary changes in domestic laws.
- Revamping the system of teaching, research, etc. in universities/ institutions, phased introduction of education reforms, allowing foreign educational institutions in higher education with proper checks and balances, etc.
- Skill certifying unskilled labour.

Source : Ministry of Finance, Government of India, "Draft Policy Paper on Services 2009" and "Strategy for India's Services sectors: Broad Contours", Working paper No.1/2007/DEA,.

from service tax for certain services linked to exports (see Box 7.5). Well-thought- out policy measures could give a further boost to this sector. While policies like disinvestment of services' PSUs and easing domestic regulations can create the conducive atmosphere, liberalization of foreign investment-related policies could also help as trade in services is usually accompanied by foreign investment in services due to the high intra-firm trade of multinational parent firms with affiliates. These should be complemented by specific trade policies including tariff, tax and credit-related policies for services (see Box 7.4)

Trade Policy

Recent trade policy measures

7.64 Trade policy measures taken by the Government and the RBI this year focused on mitigating the adverse impact of the global recession on the Indian economy and on checking inflation. Many measures were taken including three stimulus packages announced in 2008-09, measures by the RBI and the Government in the Union Budget 2009-10 and the Foreign Trade Policy (2009-14) to help the export sector in general and the employment-intensive sectors affected by the world recession in particular (Box 7.5)

7.65 Trade Policy measures to check inflation caused mainly by supply-side constraints include among others, the following–-reducing import duties to zero for sugar, rice, wheat, pulses, edible oil (crude) and maize; reducing import duties on refined and hydrogenated oils and vegetable oils to 7.5 per cent; allowing import of raw sugar at zero duty under open general licence (OGL) up to December 31, 2010 and opening import of raw sugar to private trade up to December 31, 2010 for being processed by domestic factories on job basis; allowing import of white/refined sugar up to 1 million tonnes by the STC/MMTC/PEC and NAFED under OGL at zero duty up to March 31, 2010 and also extending it to other Central/State Government agencies and to private trade; banning export of non-basmati rice, edible oils and pulses (except kabuli chana); use of minimum export price (MEP) to regulate exports of onion and basmati rice; scheme for permitted public-sector units (PSUs) to import and sell pulses; permitting sugar factories to sell processed raw sugar in the domestic market and fulfil export obligation on tonne-to-tonne basis; and not changing the tariff values of edible oils.

Policy for promoting State-wise exports

7.66 State-wise exports are reflected in the data on state of origin of export goods which at present are the only available comparable data for State-wise exports (Table 7.16). This does not include export of services

7.67 In 2008-09 and the first half of 2009-10, the major exporters were Maharashtra, followed by Gujarat, Tamil Nadu and Karnataka as in 2007-08. In 2008-09, the two major exporting states, namely Maharashtra and Karnataka, registered negative growth rates along with West Bengal. Kerala with growing SEZ exports, registered the highest growth rate with doubling of exports. This was followed by UP, Delhi, AP, Goa and Tamil Nadu with high export growth rates. The importance of states likes Kerala, UP and Delhi in the export effort is rising. In the first half of 2009-10, negative growth was registered by all the states except Kerala with 9.2 per cent growth and Haryana with a paltry 0.1 per cent growth.

7.68 To encourage exports by States, outlay under the Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme has been increased in the Eleventh Five Year Plan to Rs. 3,793 crore (tentative) as against the actual release of funds of Rs. 2,050.5 crore in the Tenth Five Year Plan. During 2008-09, Rs. 437.84 crore and Rs. 131.4 crore were sanctioned/released under the State and Central-Sector components respectively out of an actual outlay of Rs. 570 crore. In 2009-10, as on December 22,2009, out of the outlay of Rs. 570 crores, Rs 296.65 crore and Rs. 82.83 crore have been released to the States and Centre respectively. Under ASIDE, projects aimed at setting up of critical infrastructure for exports are approved, namely creation of new SEZs and augmenting of facilities in existing ones, equity participation in infrastructure projects, development of complementary infrastructure such as roads connecting production centres to ports, setting up of ICDs and CFSs, stabilizing of power supply, etc.

7.69 State-wise allocation of funds under the ASIDE scheme for the past few years shows only slight change. However, highest allocation to Maharashtra followed by Gujarat, Tamil Nadu, Karnataka, Uttar Pradesh and West Bengal continued. The top 15 States had a share of 92.8 per cent in total allocation in 2008-09.

Box 7.5 : Trade Policy Measures

The latest trade policy measures for 2008-09 and 2009-10 include the following:

- Interest subvention of 2 per cent from December 1,2008 to September 30, 2009 to the labour-intensive sectors of exports such as textiles (including handloom), handicrafts, carpets, leather, gems and jewellery, marine products andSMEs. This was further extended to March 2010.
- Inclusion of handicrafts items in the Vishesh Krishi and Gram Udyog Yojana (VKGUY);
- Provision of an additional Rs 1,100 crore to ensure full refund of CST/terminal excise duty/duty drawback claims on deemed exports.
- Extension of the DEPB scheme till the end of December 2010.
- Restoration of DEPB rates for all items where they were reduced in November 2008 and increase in duty drawback rates on certain items effective from September 1, 2008.
- Provision of additional fund of Rs 1,400 crore for the textile sector to clear the backlog claims of the Technology Upgradation Fund (TUF).
- Excise duty reduction across the board by 4 per cent for all products except petroleum products and those products where the current rate was less than 4 per cent.
- Extension of the adjustment assistance scheme to provide enhanced Export Credit Guarantee Corporation (ECGC) cover at 95 per cent to badly hit sectors up to March 2010.
- Sections 10A and 10B related to sunset clauses for STPI and EOUs schemes respectively extended for the financial year 2010-11. Anomaly removed in Section 10AA related to taxation benefit of 'unit vis-à-vis assessee';
- Additional items allowed within the existing duty-free imports entitlement for some employment-oriented sectors like sports goods, leather garments, footwear and textile items.
- Measures related to service tax which include, among others, exemption from service tax on services linked to exports like the transport of goods by road and commission paid to foreign agents.
- Diversification of exports to emerging markets of Africa, Latin America, Oceania and CIS countries under the Focus Market Scheme and Market Linked Focus Product Scheme.
- Setting up a Directorate of Trade Remedy Measures to support Indian industry and exporters especially the MSMEs, in availing of their rights through trade remedy instruments under the WTO framework.
- Higher support for market and product diversification and additional resources under the MDA and MAI.
- Introduction of EPCG at zero duty for engineering and electronic products, basic chemicals, pharmaceuticals, apparels and textiles, plastics, handicrafts, chemicals and allied products and leather and leather products till March end 2011.
- Duty drawback facilities on jewellery exports to neutralize duty incidence
- Expanding the Market Linked Focus Product Scheme to bicycle parts, motor cars and motor cycles, apparels and clothing accessories, auto components etc. for exports from April 4,.2009 to September 30, 2009.
- Enhancement of the Export Obligation Period under the Advance Authorization Scheme from 24 to 36 months without payment of composition fee.
- Widening the coverage of the ECGC by making available back up guarantee to the ECGC to the extent of Rs350 crore to enable it to provide guarantees for exports to difficult markets/products.
- Abolishing basic customs duty of 5 per cent on rough / unworked corals.
- Constituting two high-level committees, one chaired by the Prime Minister and the other by the Cabinet Secretary for regular monitoring.
- A Committee under the Chairmanship of Finance Secretary constituted to resolve all problems related to non-availablity of dollar credit to exporters by the concerned Banks.
- To accelerate exports and encourage technological upgradation, additional duty credit scrips for status holders @ 1 per cent of the f.o.b. value of past exports for certain specified sectors upto March end 2011.
- New incentives in January 2010 by adding new products in FPS, new products and markets under MLFPS, new products under VKGUY and new markets under FMS.

Table 7.16 : State-wise exports of top 15 states

(US$ million)

Sl. No.	State	2007-08	2008-09	(April-September) 2008-09	2009-10	Share(%) 2008-09	Growth rate (%) 2008-09	2009-10 (Apr-Sept.)
1	Maharashtra	44,841	44,667	25,612	20,180	24.1	-0.4	-21.2
2	Gujarat	34,736	40,272	26,802	16,433	21.7	15.9	-38.7
3	Tamil Nadu	14,816	18,540	10,654	7,770	10.0	25.1	-27.1
4	Karnataka	14,641	12,296	7,877	4,181	6.6	-16.0	-46.9
5	Andhra Pradesh	7,427	9,897	5,231	4,585	5.3	33.3	-12.3
6	Delhi	5,183	8,467	4,936	2,214	4.6	63.4	-55.2
7	Uttar Pradesh	4,295	7,571	5,284	2,586	4.1	76.3	-51.1
8	West Bengal	5,679	5,583	3,554	1,808	3.0	-1.7	-49.1
9	Haryana	4,414	4,792	2,478	2,481	2.6	8.6	0.1
10	Kerala	2,364	4,753	2,544	2,778	2.6	101.0	9.2
11	Orissa	3,024	3,351	2,189	1,220	1.8	10.8	-44.3
12	Rajasthan	3,276	3,313	1,815	1,365	1.8	1.1	-24.8
13	Punjab	2,598	3,016	1,628	1,175	1.6	16.1	-27.9
14	Madhya Pradesh	2,915	2,946	1,596	904	1.6	1.1	-43.4
15	Goa	1,387	1,781	640	554	1.0	28.4	-13.5
India's total exports		**163,132**	**185,295**	**108,907**	**76,589**	**100.0**	**13.6**	**-29.7**

Source : DGCI&S

SEZs

7.70 The Special Economic Zones (SEZs) Policy supported by the SEZ Act 2005 and SEZ Rules 2006 intends to make SEZs an engine for economic growth supported by quality infrastructure, complemented by an attractive fiscal package, both at the Central and State levels and with the single-window clearance mechanism. The process of globalization has enhanced the relevance of SEZs, which have become an important component in the export-led industrialization strategy, playing a crucial role in promoting the manufacturing sector, including providing an enabling investment climate for SMEs and offer platform for attracting export-oriented FDI. The spin-off effects of SEZs, particularly the new generation ones, are creation of employment, development of infrastructure and additional economic activity in the hinterland.

7.71 In a short span of about three years since the SEZs Act and Rules were notified in February 2006, formal approvals have been granted for setting up of 571 SEZs out of which 346 have been notified. A total of 105 SEZs are exporting at present. Out of these 65 are information technology(IT)/information technology enabled services (ITES), 15 multi-product and 25 other sector-specific SEZs. The total number of units in these SEZs is 2761.

7.72 Out of the total employment of 4,90,358 persons in SEZs, an incremental employment of 3,55,654 persons was generated after February 2006 when the SEZ Act came into force. At least double this number obtain indirect employment outside the SEZs as a result of the operations of SEZ units. This is in addition to the employment created by the developer for infrastructure activities. Physical exports from the SEZs have increased by 50 per cent to Rs 99,689 crore in 2008-09 with a CAGR of 48.4 per cent during 2003-04 to 2008-09 compared to the CAGR of 23.4 per cent for total merchandise exports of the country for the same period. Exports during the first three quarters of the current year have been to the tune of Rs. 1,51,785 crores.

7.73 Even during the current economic meltdown, SEZs have registered impressive growth in exports (Table 7.17), besides investment and employment generation.

Box 7.6 : Progressive reduction of peak customs duty

India has been progressively lowering peak customs duty. Contrary to popular belief, the fall in peak duty has neither led to a fall in revenue collections, nor a wiping out of the domestic manufacturing sector. In fact, peak duty falls have been accompanied by rise in customs duty collections. The trend follows the Laffer curve effect which indicates that lowering of taxes produces higher economic activity and higher revenue realization (Table 1)

Table 1. Peak duty reductions, customs duty collection and import values

Year	Peak duties (per cent)	Customs duty collection (Rs cr.)	Imports (Rs cr.)	Customs duty as a percentage of imports
1999-00	40	47,091	2,15,237	21.88
2000-01	38.5	49,066	2,30,873	21.25
2001-02	35	42,256	2,45,200	17.23
2002-03	30	44,610	2,97,206	15
2003-04	25	48,857	3,59,108	13.6
2004-05	20	55,470	5,01,065	11.08
2005-06	15	63,656	6,60,409	9.64
2006-07	12	81,015	8,40,506	9.64
2007-08	10	97,691	10,12,312	9.65
2008-09	10	1,01,710	13,74,436	7.4

Source: DGCI&S, Kolkata, Receipt Budget of Union of India and Budget Speeches of Finance Minister.

However, as a result of progressive reduction in customs duty rates and exemptions on various counts, customs duties as a proportion of imports have been falling quite rapidly, which is in fact a positive sign of liberalization. The customs duty was only 7.40 per cent of imports in 2008-09 compared to 21.88 per cent in 1999-2000. Given the situation created by the global economic crisis when countries were frantically looking for avenues to export their products, a pause button was pressed to this progressive reduction of peak duties, resulting in peak duties remaining at 10 per cent in 2008-09.

A small forward movement in our tariff reforms related to lowering of peak duties even during these difficult times when revenue concerns are important, could help our manufacturing sector and also improve the options for our trade negotiations. This can be done with considerable ease as 77.5 per cent of our imports in value terms had duties of 7.5 per cent and less, though the share was only 39.4 per cent in terms of tariff lines in 2008-09 (Table 2). The shares are similar even if only non-agricultural items are considered.

Table 2 : Tariffs, imports and notional duties in 2008-09

Basic Duty	Capital goods			Intermediate goods			Consumer goods			Total no. of tariff lines	Share of tariff lines (%)	Total notional duty (Rs cr)	Share of Imports (%)
	No. of tariff lines	Imports (Rs cr)	Notional duty (Rs cr)	No. of tariff lines	Imports (Rs cr)	Notional duty (Rs cr)	No. of tariff lines	Imports (Rs cr)	Notional duty (Rs cr)				
7.5% or	1079	1,64,198	38358	3353	8,96,459	89046	40	3944	886	4472	39	1,28,290	78
Less 10%	334	33745	10082	3429	2,14,816	64181	1522	21728	6492	5,285	47	80755	20
Above 10%	15	31	9	738	24591	5842	846	14924	9292	1599	14	15143	3
Total	**1428**	**1,97,974**	**48449**	**7520**	**11,35,866**	**1,59,069**	**2408**	**40596**	**16670**	**11356**	**100**	**2,24,188**	**100**

Source: Customs data base, Department of Economic Affairs, Ministry of Finance & Academy of Business Studies, United Nations and DGCI&S

Further, exemptions result in a fall in revenue by around 55 per cent of notional collections. If these are also factored into the calculations for items with 10 per cent duty or less, the actual duties will be still less. Thus, while practically our peak duties are below 10 per cent in terms of number of tariff lines and in the 7.5 per cent and below categories in value terms, we are not able to use these arguments in our favour in multilateral and bilateral negotiations because of the 10 per cent peak duty tag. Leaving aside consumer goods for the present, if most items under capital goods which enjoy a concessional rate of 0-3 per cent duty under the EPCG scheme and some items under intermediate goods which are inputs for exports and industrial activity are moved from the 10 per cent duty category to 7.5 per cent duty, our peak duties could be 7.5 per cent even in terms of number of tariff lines.

Table 7.17 : Exports from special economic zones

Year	Value of exports from SEZs (Rs crore)	Growth rate(per cent) (over the previous year)
2003-04	13,854	39
2004-05	18,314	32
2005-06	22,840	25
2006-07	34,615	52
2007-08	66,638	93
2008-09	99,689	50
2009-10 (up to 31.12.2009)	**1,51,785**	**-**

Tariff Reforms

7.74 Tariff policy has occupied the centre stage of trade policy for quite some time in India. Following the opening up of the economy, India's customs tariff regime also underwent drastic changes. Though the tariff policy in 2008-09 was more focused on tackling inflation caused by supply-side constraints, some forward movement could also be seen towards the objective of making India's tariff structure comparable to international standards, particularly to that of its immediate competitors. The FTA of India with Association of South East Asian Nations (ASEAN) countries is a move in this direction.

7.75 Bold reforms were taken by India in 1991 following the balance-of-payments crisis. Further tariff reforms at present, in the aftermath of the global economic crisis, could involve continuation of the twin strategy of (i) progressively lowering the peak customs duty rate (Box 7.6) and (ii) reducing end-use exemptions to check revenue loss due to duty foregone and streamlining export promotion schemes (Box 7.7). Stimulus packages for exports except during crisis should be in the form of duty cuts for capital goods and intermediate goods imports needed for exports instead of doles in different forms. Besides plugging leakages, this could also help in lowering our duties to international levels.

Contingency trade policy and non- tariff measures

7.76 Contingency trade policy and non-tariff measures (NTMs) which continued to act as significant barriers to exports from developing countries, but with somewhat reduced intensity in recent years, have started a comeback with the accentuation of the global economic crisis, resulting in protectionist tendencies amongst various countries.

7.77 Anti-dumping investigations of all countries after reaching a peak in 2001 had started falling, numbering163 in 2007. However, in 2008, they have again started rising with 208 anti-dumping initiations. In line with the world trend, India's anti-dumping initiations increased in 2008 to 54 from 47 in 2007 (Table 7.18). During 2009-10(up to December 31,2009) , the Directorate General of Antidumping & Allied Duties (DGAD) has initiated 11 fresh anti-dumping investigations. The products involved are synchronous digital hierarchy(SDH) transmission equipment, recordable digital versatile disc(DVD), circular weaving machines, barium carbonate, coumarin, pencillin-G potassium and 6-APA, phenol, 1,1,1,2-tetrafluoroethane or R-134 of all types, acetone, PVC paste resin, and sodium tripoly phosphate. The countries involved in these investigations are China, Israel, Malaysia, Thailand, Vietnam, Mexico, Japan, South Korea, Russia and Taiwan. During the financial year 2009-10, the DGAD has not initiated any fresh countervailing duty (anti-subsidy) investigation.

7.78 The bail-out packages of some countries have also introduced new protectionist measures. Economic Survey 2008-09 had given a select list of such trade restrictions and distortionary measures introduced after the global financial crisis. The most trade-distorting measures are those that have clauses related to providing preference for domestic purchases. For example, the US passed a $ 787 billion stimulus package known as the American Recovery and Reinvestment Act in February 2009 which excludes procurement of iron, steel and manufactured goods used in construction projects from countries like India which are not members of the Agreement on Government Procurement (GPA) unless the procurement increases the overall cost of the project by 25 per cent. Price preferences for

Box 7 .7 : Customs duty exemptions and export promotion schemes

The Budget 2009-10, while succinctly bringing out the estimates of revenue loss, observed that the amount of revenue foregone continues to increase year after year. As a percentage of aggregate tax collection, revenue foregone remains high and shows an increasing trend. The effect is severe specially in the financial year 2008-09 which is bearing the strain of the reduction in excise duties in the stimulus package. In 2007-08, only 51.1 per cent of the notional customs duties was collected and collection percentage has worsened to 44.6 per cent in 2008-09. Thus ,while imports have gone up by 35.8 per cent in 2008-09, collections have barely risen, largely due to exemptions, which has resulted in 55 per cent of notional duties being foregone. Within customs duty, revenue foregone on account of export promotion of Rs 49,053 crore in 2008-09 is an important head of revenue loss, while revenue leakage due to end-use exemptions other than exports is up by 125.6 per cent to reach a staggering Rs 77,380 crore. Substantial revenue is foregone on account of the different export promotion schemes (Table 1). In 2009-10, revenue foregone could continue to be significant at more than Rs 50,000 crore due to enlargement of the scope of schemes in the Foreign Trade Policy 2009-14 (FPS/FMS/VKGUY) and improvement in the export promotion rates in the DEPB coupled with the bottoming out of the export fall.

Table 1 : Revenue foregone on account of export promotion schemes (Rs crore)

Sl.No	Name of the scheme	2007-08	2008-09
1.	Advance Licence Scheme	17,654	12,389
2.	EOU/EHTP/STP	18,978	13,401
3.	SEZ	1,804	2,324
4.	EPCG	10,521	7,833
5.	DEPB Scheme	5,341	7,092
6.	DFRC	607	111
7.	Duty Free Import Authorisation Scheme	1,359	1,268
8.	Duty Free Entitlement Credit Certificate	740	418
9.	Target Plus Scheme	923	1,220
10.	VKGUY	538	2,059
11.	Focus Market Scheme	41	408
12.	Served from India Scheme (SFIS)	642	531
	Total	**59,149**	**49,053**

Source: Receipts Budget 2009-10 of Union of India.

While some exemptions are needed particularly at this juncture to promote exports, there is scope for reducing the duty foregone by rationalization and convergence of these schemes. One such example is related to the EPCG scheme.

At present, basic duty for capital goods in the general case is 7.5 per cent. In 2007-08, more than 20 per cent of machinery imports were on EPCG account. This has come down to 12.9 per cent in 2008-09 due to significant reduction in the differential between normal and EPCG duty. As a result, revenue forgone was Rs10, 521 crore in 2007-08 and Rs7,833 crore in 2008-09. The EPCG duties at present are Nil for export-oriented, labour-intensive sectors and 3 per cent for others. With import duties of general capital goods being reduced consistently, the differential with total EPCG has come down from 35.4 per cent to 21.5 per cent during the last five years (Table 2).

Table 2 : Duty foregone and imports under EPCG

Year	Capital goods duties (basic-excise-4% SAD)[1]	Total duty	EPCG duties	Duty foregone	Revenue foregone (DoR[2] estimate) (Rs cr)	Estimated EPCG imports on the basis of revenue foregone (Rs cr)	Machinery and parts imports in Ch. 84, 85 of customs tariff (Rs cr)	Share of EPCG in machinery import (%)
2005-06	15- 16-4	40.369	5	35.369	5,332	15,075	1,14,286	13.2
2006-07	12.5-16-4	37.250	5	32.250	9,152	28,378	1,50,152	18.9
2007-08	7.5- 16-4	31.011	5	26.011	10,521	40,448	1,82,603	22.2
2008-09	7.5- 14-4	28.639	3	25.639	7,833	30,551	2,36,216	12.9
2009-10	7.5 -8-4	21.523	0*/3	21. 5*/ 18.5	NA	NA	NA	NA

***Concession for export-oriented, labour-intensive sectors. Covers engineering and electronic products, basic chemicals and pharmaceuticals, apparels and textiles, plastics, handicrafts, chemicals and allied products, leather and leather products.**

[1]SAD= Special Additional Duty of 4 per cent for VAT. [2] Department of Revenue

The time is possibly ripe for another reduction of import duties for all capital goods preferably to the 3 per cent duty fixed under the general EPCG with a simultaneous withdrawal of EPCG scheme. This will help in avoiding revenue leakages and serve as a major step forward in rationalizing our export promotion schemes besides giving an upfront push to the import of capital goods for modernization of the manufacturing and services sector in general and export manufacturing in particular. The Laffer Curve effect could also help in lessening revenue impact as volumes could double in three to four years.

The above is just one example and there is a lot of scope for reforms in the other schemes as well.

Table 7.18 : Investigations initiated by top ten users of anti-dumping measures 1995-2008

Country	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	1995-2008
India	6	41	79	81	46	21	28	35	47	54	564
United States	14	47	75	35	37	26	12	8	28	16	418
European Community	33	32	28	20	7	30	25	35	9	19	391
Argentina	27	43	27	14	1	12	12	11	8	19	241
South Africa	16	21	6	4	8	6	23	3	5	1	206
Australia	5	15	23	16	8	9	7	10	2	6	197
Brazil	5	11	17	8	4	8	6	12	13	23	170
Canada	11	21	25	5	15	11	1	7	1	3	145
China PR	0	6	14	30	22	27	24	10	4	14	151
Turkey	0	7	15	18	11	25	12	8	6	22	137
All Countries	157	292	366	312	232	214	200	202	163	208	3,427

Source: WTO

local companies exist in the measures of other developed country markets as well.

7.79 With non-tariff measures (NTMs) coming in new forms and with greater vigour, the need was felt to check such tendencies, lest they proved counterproductive if retaliatory measures are taken by other countries. Leaders in fora like the G-20, World Economic Forum and the WTO expressed their commitment towards tackling the protectionist measures and ensuring an early conclusion of the Doha Round. The WTO set up a monitoring mechanism for the trade policy measures that members adopted during the financial crisis. However, intentions should translate into actions and protectionist tendencies should be nipped in the bud. The developed countries who have been the champions of liberalization and globalization should take the lead in pressing the stop button on rising protectionism.

WTO Negotiations and India

7.80 The Doha Round of trade negotiations at the WTO has been under way since 2001. The negotiations cover several areas such as agriculture, market access for non-agricultural products, trade-related intellectual property rights, rules (covering anti-dumping and subsidies) and trade facilitation. The conduct, conclusion and entry into force of the outcome of the negotiations are parts of a single undertaking, that is “nothing is agreed until everything is agreed”.

7.81 While the years 2007 and 2008 saw intensive discussions in the WTO and progress achieved on several complex subjects, the negotiations were slow to resume following the December 2008 break at the WTO. Based on discussions during the Mini-Ministerial Meeting held in July 2008, the Chairs of the Negotiating Groups on Agriculture and Non Agricultural Market Access (NAMA) brought out fresh drafts of modalities for Agriculture and NAMA on December 6, 2008. However, discussions on these texts began only in September 2009 partly due to national elections in the US and India and partly due to a general standstill in Geneva and a reluctance to negotiate seriously with a view to narrowing differences.

7.82 Going by the political commitments expressed by WTO members in international fora, India took the initiative and hosted a Ministerial Conference in New Delhi from September 3-4, 2009 which was the first occasion since July 2008 for ministers representing practically all shades of opinion and interests in the WTO to come together. There was unanimous affirmation of the need to expeditiously conclude the Doha Round, particularly in the present economic situation, and for development remaining at the heart of the Doha Round.

7.83 The Seventh WTO Ministerial meeting which was the first full Ministerial meeting of the WTO in the aftermath of the global economic meltdown was held in Geneva from November 30-December 3, 2009. While the Conference was not intended as a negotiating forum, it provided a platform for different groups and caucuses to assess the direction of the negotiations. India and her coalition partners reiterated their commitment to upholding the development dimension, the centrality of the multilateral process and the need to safeguard livelihood concerns, particularly of the poor, subsistence farmers in their countries.

7.84 The major issues in the current negotiations in the WTO are related to Agriculture and NAMA discussions which resumed on the basis of the draft modalities on Agriculture and NAMA issued by the Chairs of the respective Negotiating Groups on December 6, 2008. As per the draft agriculture modalities, developed countries would have to reduce their bound tariffs in equal annual instalments over five years with an overall minimum average cut of 54 per cent. Developing countries would have to reduce their bound tariffs with maximum overall average cut of 36 per cent over a larger implementation period of ten years. Both developed and developing members would have the flexibility to designate an appropriate number of tariff lines as sensitive products, on which they would undertake lower tariff cuts. The revised draft modalities propose a special product (SP) entitlement of 12 per cent of agricultural tariff lines. The average tariff cut on SPs is proposed as 11 per cent, including 5 per cent of total tariff lines at zero cuts. This is a special and differential treatment for developing countries. In the case of NAMA negotiations, the tariff reductions are proposed through a non-linear Swiss formula with a three-tiered coefficient of 20, 22 and 25 for formula reductions linked to specific flexibilities for protecting sensitive NAMA tariff lines of developing countries, and a coefficient of 8 for tariff reduction of developed countries.

7.85 In services negotiations, the Services Clusters were held in March–April 2009, June 2009, October, 2009 and November, 2009 in which India participated actively. Other than multilateral and plurilateral discussions, bilateral discussions were also held with important trading partners, wherein India conveyed its disappointment over their ambiguous and inadequate signals in the key areas of our interest which were conveyed earlier during the signalling conference of July 2008. India is actively participating in the working party discussions on Domestic Regulations (WPDR) as disciplining of DRs is an area of its interest.

7.86 In the current negotiations on rules, taking place in the Negotiating Group on Rules (NGR), India is seeking strengthened anti-dumping rules so as to prohibit the use of zeroing in dumping margin calculation, strengthening of the rules for conduct of sunset reviews and mandatory application of lesser duty. In the area of subsidies, India is opposed to enlargement of the scope of prohibited subsidies in the Agreement on Subsidies and Countervailing Measures (ASCM) and /or limiting of the existing flexibilities for developing countries. In the negotiations on new disciplines on fisheries subsidies, India is seeking effective special and differential treatment (S&D) for developing countries, particularly in the light of employment and livelihood concerns of small, artisanal fishing communities and for retaining sufficient "policy space" so as to enable it to develop its infrastructure.

Bilateral and Regional Cooperation

7.87 Multilateral negotiations at the WTO continue to be at the centre of India's trade negotiations. However, given the long and protracted nature of these negotiations and recognizing the fact that regional cooperation would continue to feature for a long time in world trade, India has been active in regional and bilateral trading arrangements in recent years. RTAs, which help in expanding India's export market are considered as "building blocks" towards the overall objective of trade liberalization and multilateral negotiations.

7.88 Some of the recent developments in the current year related to bilateral and regional trade and cooperation are the following:

- **Indian-ASEAN CECA**: A Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India was signed by the Prime Minster of India and the Heads of Nations/ Governments of ASEAN members during the Second ASEAN-India Summit on October 8, 2003 in Bali, Indonesia. The Agreement on Trade in Goods was signed on August 13, 2009. The India-ASEAN Trade in Goods Agreement has come into effect on January 1,2010. The Agreement provides for elimination of basic customs duty on 80 per cent of the tariff lines accounting for 75 per cent of the trade in a gradual manner. Negotiations towards trade in services and investment are expected to conclude by August 2010.
- **India-South Korea Comprehensive Economic Partnership Agreement (CEPA)**: The Agreement was signed on August 7, 2009. It is India's first FTA with an OECD country. CEPA covers trade in goods, investments and services and bilateral cooperation in areas of common interest. Under CEPA, tariffs will be reduced or

eliminated on 93 per cent of Korea's tariff lines and 85 per cent of India's tariff lines. The Agreement will facilitate trade in services through additional commitments made by both countries to ease movement of independent professional and contractual service suppliers.

- **India-Japan CEPA**: Agreements in goods, services and investment are under negotiation. Twelve meetings of the Joint Task Force have so far been held. The 12th meeting of the JTF was held during September 29 - October 1, 2009 in Tokyo.
- **India-EU Trade and Investment Agreement:** With the EU, a broad- based bilateral Trade & Investment Agreement is being negotiated. Negotiations cover trade in goods, services and investment, sanitary and phytosanitary measures, technical barriers to trade, rules of origin, trade facilitation and customs cooperation, competition, trade defence mechanism, Government procurement, dispute settlements, Intellectual Property Rights (IPR) and Geographical Indications (GIs). Eight rounds of negotiations have so far alternately been held at Brussels and New Delhi respectively; the eighth round was held during January 25-29, 2010 in New Delhi.
- **India-European Free Trade Association (EFTA)**: A broad based bilateral trade and investment agreement is being negotiated with EFTA Countires. First round of negotiations took place in New Delhi in October 2008. Fourth round of negotiations took place in New Delhi in September 2009.

Challenges and outlook

7.89 The outlook for India's trade sector in 2010 has brightened with prospects of recovery in world output and trade volumes. The World Bank has forecast real GDP growth rates of 2.7 per cent and 7.5 per cent for the world and India respectively for 2010 and growth in world trade volume of 4.3 per cent and 6.2 per cent in 2010 and 2011 respectively. The International Monetary Fund (IMF) projections are a tad better than the World Bank estimates, with projections of output growth for the world and India at 3.9 per cent and 7.7per cent respectively. The world trade volume growth projections are also higher at 5.8 per cent and 6.3 per cent in 2010 and 2011 respectively. This is a remarkable improvement compared to the fall in world trade volumes by 12.3 per cent in 2009. While the gap between the projected output growth for advanced economies (at 2.1 per cent and 2.4 per cent for 2010 and 2011 respectively) and emerging and developing economies (at 6.0 and 6.3 per cent in 2010 and 2011 respectively) is rather high, it is substantially narrower in projections of import volume of goods and services of advanced economies (at 5.5 per cent both for 2010 and 2011) and emerging and developing economies (at 6.5 and 7.7 per cent in 2010 and 2011 respectively).

7.90 The Baltic Dry Index which fell to a low of 774 in December 2008 has recovered since then, with a continuous upward trend, though with sudden ups and downs reaching 3887 in November 2009 and falling marginally to 3118 in January 2010. The extraordinary financial stimulus by different countries, a turn in the inventory cycle and the lead by developing and emerging economies, particularly India and China, with strong fundamentals have all contributed to the recovery, which is now considered to pick up, albeit at a slow pace. The latest import growth figures (December 2009) of some trading partners of India though operating from a lower base, are also encouraging, with growth of China's imports from the world and India at 55.6 per cent and 71 per cent respectively. Growth in Hong Kong's imports from the world has turned positive at 19.3 per cent and from India, highly positive at 58.5 per cent. Japan's import growth rate from the world is less negative at (-) 4.1 percent, while growth in its imports from India has turned positive at 3 per cent. Even in the case of the USA, which is still registering negative import growth, the extent of negative growth has become less, with imports from the world and India growing at (-)3.1 and (-) 10 per cent respectively in November 2009.

7.91 The downside risks for world and Indian trade lie in the fact that though the fall has been arrested, both output and trade recoveries are still fragile given the fact that the recovery has been pumped up by the stimulus given by different countries including India, the effects of which may dry up if natural recovery doesn't follow. There is also the fact that the early signs of pick up in output, industrial and trade growth in India and other countries, are due to the low base and are even lower than the absolute values of the pre-crisis period. The high unemployment rates in some developed countries forcing even world leaders like the USA to resort to protectionist measures, as in the case of the recent tax breaks for companies giving jobs in the US, could give wrong signals.

7.92 India which has admirably weathered the present economic crisis, however, need not be unduly worried. Instead it could lead from the front by taking bold steps towards reforms as it did in 1991 on the back of the balance-of- payments crisis, and thus force the wavering leaders of liberalization and globalization not to backtrack.

7.93 In the Indian case, while in the short-term relief and stimulus measures have worked, some fundamental policy changes are needed. For the merchandise sector these include furthering tariff reforms by lowering the peak duties from the present 10 per cent to 7.5 per cent (which has already been attained in value terms though not in terms of number of tariff lines) by tweaking the rates in the dominant intermediate goods category of imports besides capital goods; weeding out unnecessary customs duty exemptions and streamlining export promotion schemes to reduce duty foregone which could include reduction of tariffs on all capital goods to a uniform 3 per cent while simultaneously withdrawing the EPCG Scheme; further reduction in excise duties to make exports and industry competitive; giving special attention to export infrastructure along with rationalization of port service charges based on services rendered by ports in tune with our competing countries; rationalizing the tax structure including specific duties in a calibrated manner taking into account the specific duty levels in our trading partner countries; fine tuning the trade strategy by targeting exports of dynamic products to developed markets and employment-intensive non-dynamic products to developing country markets; and continuing with our proactive role in multilateral trade negotiations while taking care of livelihood concerns and the needs of the domestic sector.

7.94 In the case of the services sector, a more conducive environment for trade can be created by liberalizing FDI in services like health insurance, rural banking and higher education as FDI inflows and trade in services have a close relationship given the nature of intra-firm trade of multinational parent firms with affiliates; making FDI policy available in a user-friendly manner on the official website; rationalizing taxes in services like shipping and telecom along with facilitation measures like single returns for service tax and excise tax administered by the same department; continuing with the present initiative on totalization agreements; streamlining many of our domestic regulations like licensing requirements and procedures, technical standards and regulatory transparency which can help in the growth and export of services; continuing with our focus on services in multilateral and bilateral negotiations; and negotiating for streamlining of domestic regulations in our major trading partner countries which can increase our market access. These, along with systematic marketing of services, collection and dissemination of market information by setting up a portal for services and streamlining the services data system, could help the services sector in making further strides.