Merchandise Trade

14. The analysis in this section is based on the trade data provided by the DGCI&S. The ratio of foreign trade to GDP (in rupee terms), increased from 11.6 per cent in 1985-86 to 14.1 per cent in 1990-91, and further to an estimated 19.6 per cent in 1997-98, indicating a more open economy. The revival of exports began in 1992-93 followed by three years of strong growth ranging between 18.4 per cent and 20.7 per cent in US dollar terms. Export growth slowed down in 1996-97 registering a modest growth rate of 5.3 per cent and continued to be sluggish at 2.6 per cent (provisional) in 1997-98.

15. The deceleration in export growth was less pronounced in SDR terms. Exports valued in SDR terms grew by 10.8 per cent in 1996-97 and by 6.7 per cent (provisional) in 1997-98 . This was down from a growth of 13.6 per cent in 1994-95 and 16.7 per cent in 1995-96. The difference reflected the impact on the US dollar value (of exports) of the movement in cross currency exchange rates.

16. The slow down in export growth since 1996-97 must be viewed in the backdrop of external developments. The rate of growth of world exports (in US dollar) decelerated in 1996 to 3.7 per cent following two years of high growth (19.8 per cent in 1995 and 13.7 per cent in 1994). Developing country exports grew by only 5.9 per cent in 1996 as against 21.5 per cent in 1995 (and 16.5 per cent in 1994). It is apparent that like India, the fast growing Asian exporters also suffered considerable decline in export growth in 1996 (Table 6.3). China's export growth decelerated to 1.6 per cent from 22.9 per cent in 1995 (and 33.1 per cent in 1994).

17. Imports into the advanced economies which are India's major trading partners (56 per cent of our exports in US dollar) slowed, perhaps reflecting a slowdown in economic growth. The growth rate of imports of advanced economies declined from 13.4 per cent in 1994 and 18.2 per cent in 1995 to 3.6 per cent in 1996 (Table 6.4). Imports of USA and Japan, our two largest export destinations, grew by only 6.6 per cent and 4.0 per cent respectively in 1996. Germany's imports declined in absolute dollar value. This slow down adversely affected our exports in 1996-97.

18. In 1997, the rupee's appreciation, in real terms, against the currencies of India's major trading partners (figure 6.1) and the failure of world import growth to recover contributed to the lack of recovery in export growth. The Asian crisis was partly responsible for the discrepancy between international forecasts of world trade and the actual growth. The unprecedented depreciation of the currencies of competitor countries in Southeast Asia like the Philippines, Indonesia and Thailand, was an additional factor in the second half of 1997-98 (figure 6.2). Infrastructure constraints, high transaction costs and quantitative ceilings on agricultural exports

TABLE 6.3

Exports of Selected South-East Asian Countries

(In US $ Billion)

COUNTRY	1992	1993	1994	1995	1996	1997@
CHINA	84.94	90.97 (7.1)	121.05 (33.1)	148.80 (22.9)	151.20 (1.6)	129.12
INDONESIA	33.97	36.82 (8.4)	40.06 (8.8)	45.42 (13.4)	49.81 (9.7)	39.50
PHILIPPINES	9.75	11.09 (13.7)	13.30 (19.9)	17.50 (31.6)	20.42 (16.7)	18.42
THAILAND	32.47	36.78 (13.3)	45.13 (22.7)	56.46 (25.1)	55.72 (-1.3)	42.71
INDIA	19.56	21.55 (10.2)	25.08 (16.4)	30.76 (22.7)	33.05 (7.4)	25.85
DEVELOPING CTYs.	1083.07	1146.74 (5.9)	1335.97 (16.5)	1622.56 (21.5)	1718.60 (5.9)	1335.75
WORLD	3735.00	3730.60 (-0.1)	4243.00 (13.7)	5083.90 (19.8)	5271.30 (3.7)	4007.80

@ Data relate to first three quarters only.
Figures in brackets show percentage changes over previous year.
Source : International Financial Statistics, April,1998.

TABLE 6.4

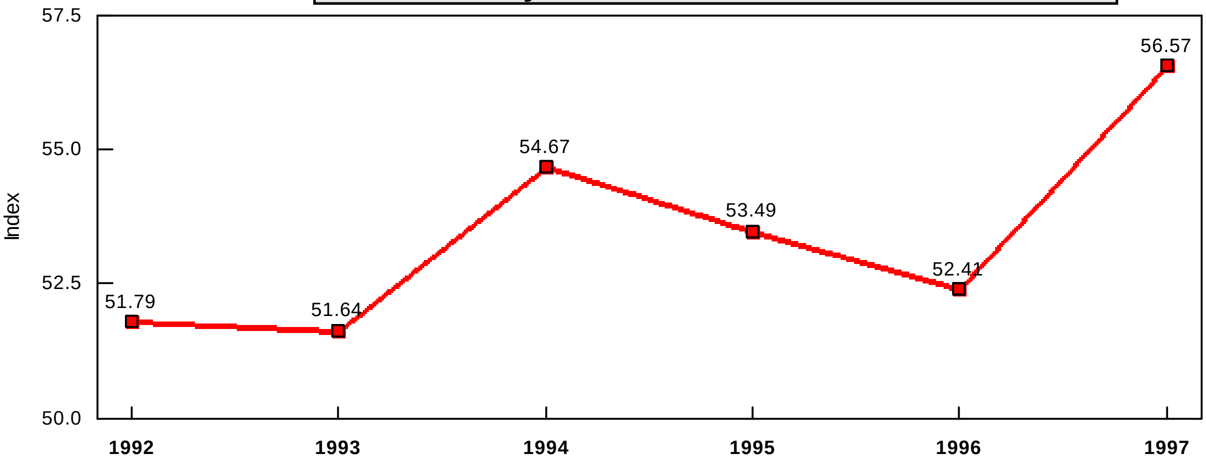
Imports of India's Major Trading Partners

(In US $ Billion)

COUNTRY	1992	1993	1994	1995	1996	1997 @
U.S.A	553.92	603.44 (8.9)	689.22 (14.2)	770.85 (11.8)	822.03 (6.6)	663.06
JAPAN	233.25	241.62 (3.6)	275.24 (13.9)	335.88 (22.0)	349.15 (4.0)	257.31
U.K	221.55	205.39 (-7.3)	227.00 (10.5)	263.72 (16.2)	286.00 (8.5)	229.25
GERMANY	402.44	346.03 (-14.0)	385.35 (11.4)	464.27 (20.5)	458.78 (-1.2)	325.28
INDUSTRIAL CTYs.	2706.10	2547.60 (-5.9)	2888.80 (13.4)	3414.40 (18.2)	3538.70 (3.7)	2668.80
DEVELOPING CTYs.	1137.37	1227.22 (7.9)	1402.50 (14.3)	1707.20 (21.7)	1820.52 (6.6)	1404.56
WORLD	3843.50	3774.90 (-1.8)	4291.30 (13.7)	5121.60 (19.4)	5359.20 (4.6)	4073.40

@ Data relate to first three quarters only.
Figures in brackets show percentage changes over previous year.
Source : International Financial Statistics, April,1998.

Fig. 6.1 **10-Country REER Index with base 1985=100**



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

remain problematic, though power supply growth recovered after a marked slowdown.

19. Other mainly sector specific factors, which contributed to the decline in export growth, are: (a) environmental concerns regarding leather effluents and prawn farming; (b) non-availability of good quality rough gemstones, breaking of single channel supplies, growing competition and consequent uncertainty in non-cut diamond prices; (c) a shift in the pattern of Western consumer demand for textiles and leather accessories; and (d) labour issues related to production of carpets.

20. Import growth (in US dollar) has followed a similar pattern over the past few years. After growing by 22.9 per cent in 1994-95 and 28 per cent in 1995-96, import growth decelerated to 6.7 per cent in 1996-97. The deceleration in import growth has been across the board caused, among other factors, by weak domestic demand and a slow down in industrial activity. Growth of GDP from manufacturing decelerated to 7.4 per cent from 14.0 per cent in 1995-96. A slow down in investment also contributed to lower import growth. Import of capital goods (in US dollar) particularly machinery, transport equipment and project goods declined in 1996-97 and continued

TABLE 6.5

Fastest Growing Commodities : Exports & Imports (1997-98)

I. EXPORTS

(In US $ Million)

Commodities of Exports	**1996-97 (Apr-Jan)**	**1997-98 (Apr-Jan)**	**% Change**
1. Tobacco Unmanufactured	120.7	191.5	58.7
2. Tea	238.3	341.1	43.1
3. Manufactures of Metals	740.8	902.5	21.8
4. Primary & semi-finished iron & steel	446.1	514.0	15.2
5. Spices	257.8	294.1	14.1
6. Drugs, Pharmaceuticals & Fine Chemicals	983.2	1109.1	12.8
7. Machinery and Instruments	860.7	947.3	10.1
8. Cotton yarn, Fabrics, Made-ups, etc.	2560.4	2731.2	6.7
9. Marine Products	948.2	1011.5	6.7

II. IMPORTS

(In US $ Million)

Commodities of Imports	**1996-97 (Apr-Jan)**	**1997-98 (Apr-Jan)**	**% Change**
1. Cereals	38.4	226.4	489.6
2. Fertilizers	758.4	1037.4	36.8
3. Professonal Instruments,Optical goods	449.9	569.1	26.5
4. Coal	760.5	957.9	26.0
5. Pearls, precious & semi-precious stones	2076.9	2589.9	24.7
6. Iron & Steel	1030.6	1201.4	16.6
7 Electrical Machinery & Electronic Goods	265.5	303.8	14.4
8. Chemicals	3011.3	3261.7	8.3
9. Manufactures of Metals	252.7	261.1	3.3

Source : DGCI&S, Calcutta

to do so in 1997-98.

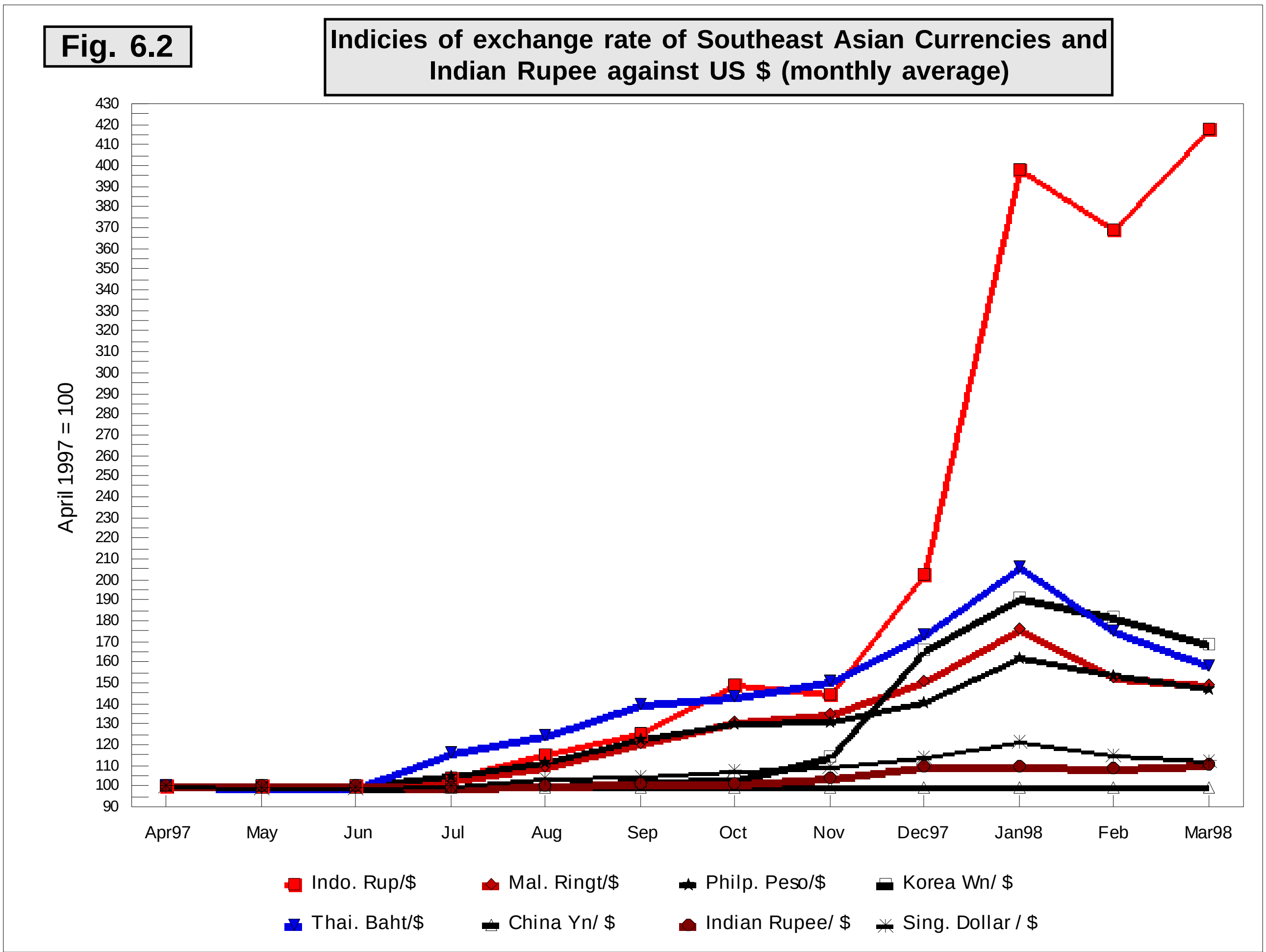
21. The slow down in import growth continued in the first quarter of 1997-98, but picked up thereafter. Imports in US dollar terms grew by 5.8 per cent during 1997-98 (provisional). A significant feature in 1997-98 has been a continuous decline in the POL imports, primarily due to a fall in international prices. Non-POL imports, in contrast, have followed an inverse pattern, with a vigorous 14.5 per cent growth in 1997-98 (provisional), compared with a negative growth of 0.2 per cent in 1996-97. This could be an indication of a revival of industrial production.

22. The trends in level of trade deficit reflect the change in relative growth rates of exports and imports. The trade deficit widened from US $2,324 million in 1994-95 to US $5,663 million in 1996-97. During 1997-98, it increased further to US $6,799 million (provisional).

23. Steady progress has been made during the nineties in replacement of quantitative restrictions, licensing and discretionary controls over imports by deregulation and simplification of procedures and protection through tariffs and exchange rates. The Export Import (EXIM) Policy of 1992-97 was a step in this direction.

24. Another step was the EXIM Policy, 1997-2002, as formulated in April 1997. This was subsequently revised on April 13, 1998. Some of the main features of the revised policy are

Fig. 6.2



outlined below:

- A number of items were moved from the negative/restricted list to OGL and can therefore be imported freely. For example, on 1-4-1996 there were 6,161 items which could be imported freely. This list was expanded to 6,649 on 1-4-1997. An additional 128 items, mainly textiles, were freed by a notification dated December 31, 1997.
- Another 340 items have been shifted from the Restricted list to the OGL in the revised policy.
- For rationalisation of export promotion, a number of changes have been announced in the revised EXIM Policy with a view to enhance export competitiveness by simplifying procedures, minimising transaction costs and delays and improving the attractiveness of various Schemes. The measures inter-alia include:
- Threshold limit for EPCG zero duty scheme has been brought down to Rs.1 crore uniformly for Agriculture and Allied sector (from Rs.5 crore) and for Electronics, Textiles, Leather, Gems and Jewellery, Sports goods and Food Processing sectors (from Rs.20 crore) and to Rs.10 lakh in the case of the software sector.
- DEPB scheme will neutralise not only the basic customs duty but also the special customs duty.
- Setting up of private bonded warehouses has been permitted for exports and imports.
- Exports of all oilseeds, when exported for consumption purposes, and of vegetable oils have been made free without any quantitative and licensing requirements.
- In addition, changes have been announced in depreciation limit, value addition norms, threshold limit for export houses, SIL entitlement, for providing impetus to exports.

25. As on 1.4.97, the residual import restrictions for balance of payment purpose, aggregated to 2,714 tariff lines at the eight-digit level of the Indian Trade Classification. India is committed to phase these out in accordance with the obligations emanating from the membership of

the World Trade Organisation (WTO). Accordingly, following consultations with the developed countries in 1997-98, an understanding was reached with all these countries, except the USA. The revised plan envisages the elimination of Quantitative Restrictions in the next six years, starting from April 1, 1997. This would be done in three consecutive phases of 3 years, 2 years and 1 year with phasing out being achieved in a balanced manner within each phase. Formal and informal discussions with the USA are also continuing to resolve the dispute.