Chapter 18
TRADE

18.1 **International Trade & WTO :** The World Trade Organization(WTO) came into being in 1995. One of the youngest of the international organizations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War. The system was developed through a series of trade negotiations, or rounds, held under GATT. The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping (Kennedy Round) and non-tariff measures (Tokyo Round). The last round — the 1986-94 Uruguay Round (biggest negotiating mandate on trade ever agreed: extending the trading system into several new areas including trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles) — led to the WTO's creation. The GATT was the only multilateral instrument governing international trade from 1946 until the WTO was established on 1 January 1995, during the ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement

18.2 Ministerial Conferences are the highest level of engagement at the WTO. Amongst various negotiations, the Doha Development Round, at the fourth ministerial conference in Doha, Qatar in November 2001 has been highly contentious with ensuing disagreements over several key areas including agriculture subsidies. Doha Development Round was to be an ambitious effort to make globalization more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming. Ninth Ministerial Conference of WTO in Bali (Dec 2013) was the latest in the rounds of international trade negotiations.

18.3 The two important items adopted in December 2013 were the decisions respectively on the Agreement on Trade Facilitation (TF) and on Public Stockholding for Food Security Purposes. The former relates to the reduction of administrative barriers to trade — like dealing with custom barriers, documentation and transparency — while the latter concerns the procurement and storage of food grains by state agencies for the public distribution of food. Recently, global attention was focussed on these two items as India argued that the adoption of the protocol on trade facilitation should be postponed till a permanent solution to public stockholding for food security had been worked out. Despite intense pressure from the developed countries, including the United States, India stuck to its stand even as the deadline for adopting the protocol on TF passed on July 31.

18.4 Global Trade: After moderating in the two years following the global economic crisis (2008), world trade in both goods and services reached and surpassed pre-crisis levels in 2011 after recording its largest ever annual increase in 2010, as merchandise trade surged 14 per cent (in 2010), but in the year 2012, it declined to 2.6 per cent and showed only a marginal improvement to 2.7 per cent in 2013 (as per IMF's World Economic Outlook April 2014).

However, acceleration of world trade in goods in 2014 and 2015 has been forecasted with growth rates of 4.3 per cent and 5.3 per cent respectively. Growth in volume of world trade increased marginally to 3 per cent in 2013 over 2.8 per cent in 2012 and is projected to accelerate further to 4.3 per cent and 5.3 per cent in 2014 and 2015 respectively.

(per cent change)

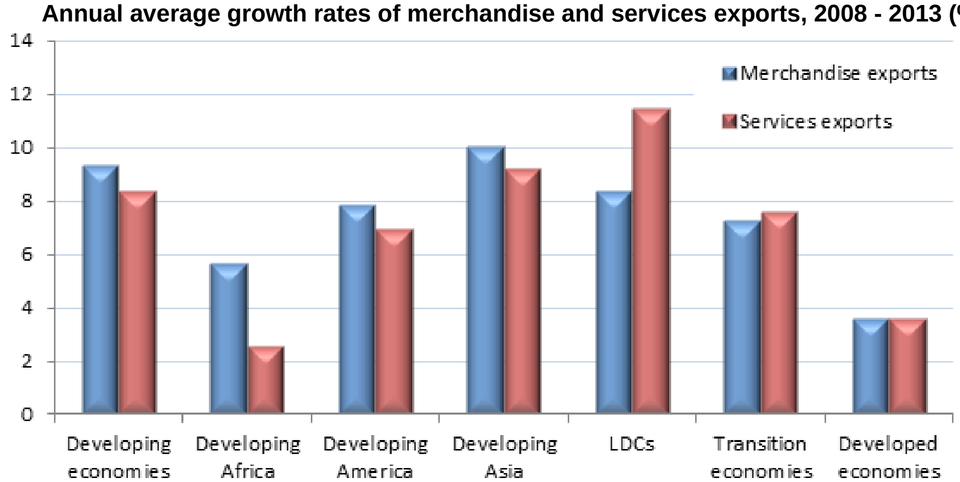
	Actuals		Projections	
	2012	2013	2014	2015
World trade volume (goods and services)	2.8	3.0	4.3	5.3
Imports				
Advanced economies	1.1	1.4	3.5	4.5
EMDEs	5.8	5.6	5.2	6.3
Exports				
Advanced economies	2.1	2.3	4.2	4.8
EMDEs	4.2	4.4	5.0	6.2

Source: International Monetary Fund (IMF), World Economic Outlook, April 2014.

18.5 According to UNCTAD and WTO estimates, the strongest exports growth was observed in developing Eastern Asia (6.5%). At the same time, exports contracted the most in Northern Africa (-10.6%). Imports grew particularly in developing countries of Western Africa (8.6%) and Eastern Asia (6.2%), while they decreased the most in developed Oceania (-5.8%), followed by developed Asia (-5.5%).

18.6 Services are increasingly being traded internationally, reaching 4.7 trillion dollars of global exports in 2013 and recording a 5% annual growth (current prices). The most dynamic services sectors between 2008 and 2013 were computer and information services (9.1 % annual average growth), followed by personal, cultural and recreational services (8.9 %), then by other business and professional services (6.8 %). It is in computer and information services sector that developing economies record highest growth rates: 13 % on average annually since 2008, compared with 7.5 % for developed countries. Other fast growing services sector for developing nations are financial and insurance services, with average yearly rise of almost 11%. LDCs record highest increase in computer and information services, insurance service and construction: some 30% on average annually since 2008. However, these sectors together represented just 7% of LDCs' total services exports in 2013. In LDCs, as in a majority of regions, travel and transport account for a large part of services exports (some 60% in LDCs, 54% in developing regions, and about 40% in the developed world).

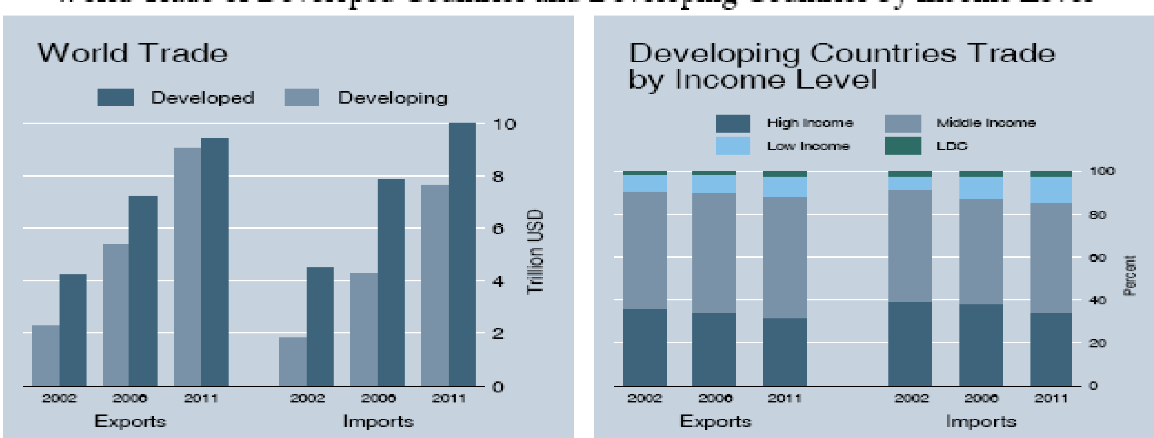
Annual average growth rates of merchandise and services exports, 2008 - 2013 (%)



18.7 As per Key Trends in International Merchandise Trade 2013, UNCTAD, notwithstanding the economic crisis, world trade has increased dramatically over the past decade, rising almost threefold since 2002 to reach about 18 trillion USD in 2011. Developed countries continue to constitute the main players in international trade, however developing countries account for an increasing share. As of 2011 almost half of world trade has originated from developing countries (up from about one-third in 2002). Although trade growth (both import and export) has been higher for developing countries during the last decade, this trend is slowly abating. Indeed, data for 2010 and 2011 indicate more homogenous rates of import and export growth across all country groupings, with no dramatic differences between developed and developing countries. Low income countries' (including LDCs) participation in world trade remains limited. East Asia continues to dominate developing country trade flows, while other regions lag far behind. China has become an increasingly important trading partner for many other developing countries, not only in the East Asian region but also in Sub-Saharan Africa and Latin America. The importance of regional trade has further differed among developing country regions. While about 40 percent of East Asian trade is intra-regional, intra-regional trade is also of significance only for Latin America and the Transition Economies (about 20 percent), whereas for the remaining regions this percentage falls to around 10 percent or less.

18.8 Growth patterns of international trade have also varied across categories of products. The last decade has seen an overall increase in the importance of primary (especially energy-related) products in world trade. This has been prompted by a surge in demand in emerging markets and consequent rise in commodity prices.

World Trade of Developed Countries and Developing Countries by Income Level

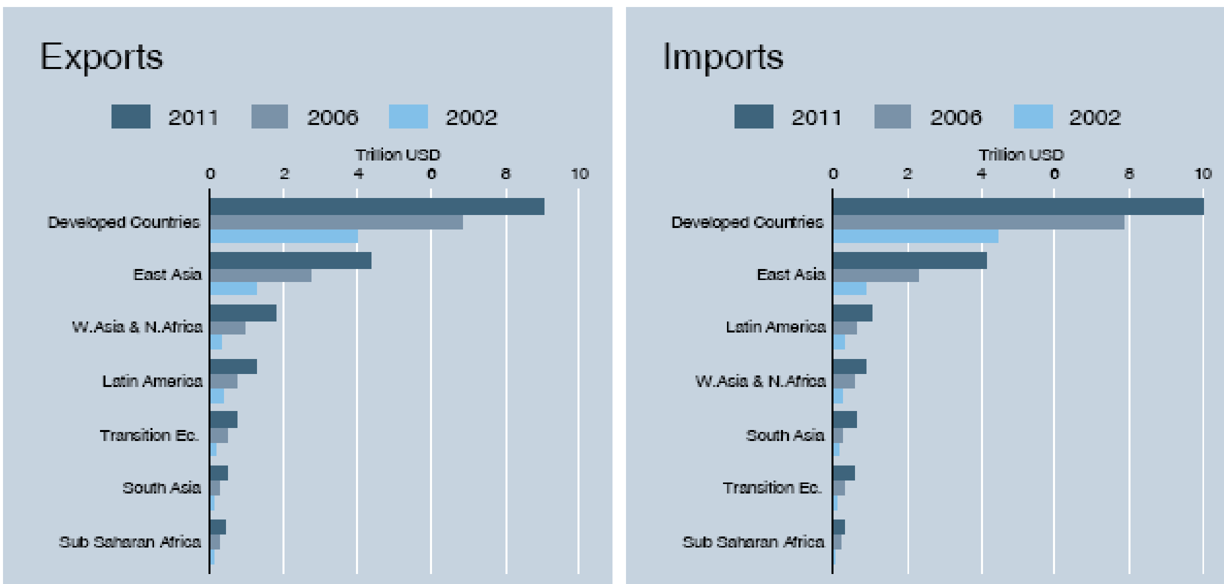


Source : Key Trends in International Merchandise Trade 2013, UNCTAD

18.9 Developed countries remain the main destination of international trade flows, with total imports valued at about 10 trillion USD. As of 2011, developing countries' export value is similar to that of developed countries (around 9 trillion USD). Trade flows to and from developing countries largely involve middle income countries (about half) and high income countries (about one-third). Low income countries account for a small, albeit increasing, share of developing countries' trade; about 10 percent of exports and 12 percent of imports in 2011. Least developed countries (LDCs) only account for a minor, although also increasing, fraction of developing country trade.

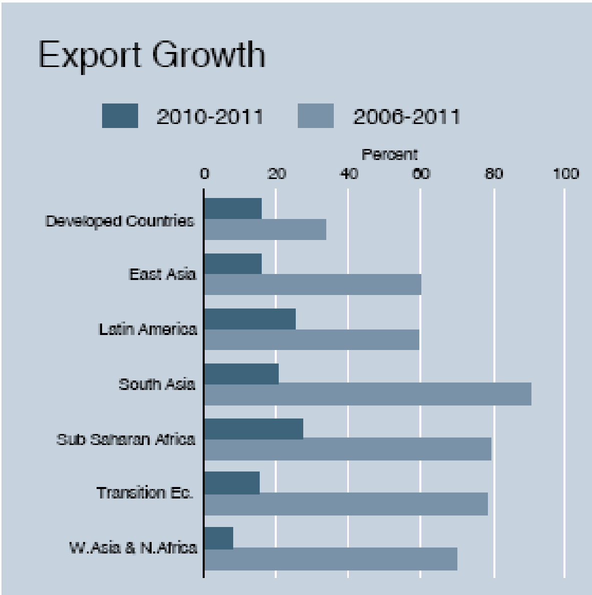
18.10 World Trade by region : Developed countries account for more than half of global export and import flows. **East Asia** dominates developing country trade flows, its trade being of a similar magnitude to that of all other developing country regions combined.

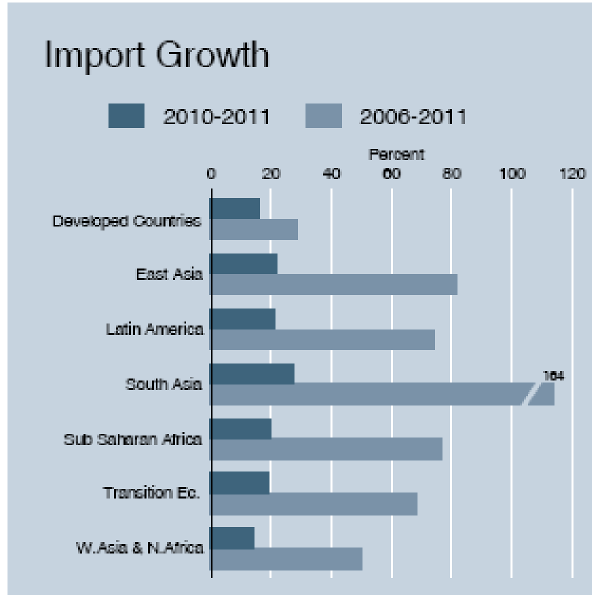
18.11 As of 2011, developed countries account for about 9 trillion USD of exports and about 10 trillion USD of imports. As a whole, trade of developing countries is of a similar magnitude (9 trillion USD in exports and 8 trillion USD in imports). East Asia comprises the bulk of developing countries' trade, with an estimated 4 trillion USD of exports and of imports in 2011. Other regions' participation in world trade is markedly more limited. Nevertheless, there has been a significant increase in exports and imports of other developing country regions over the past decade, even if from much lower starting points.



Source : Key Trends in International Merchandise Trade 2013, UNCTAD

18.12 Export & Import Growth by Region In spite of the global economic crisis, trade of developed countries has increased by about 30 percent since 2006. Trade flows originating from and destined to developing countries have increased substantially faster. Since 2006 exports have increased by a minimum of about 60 percent in the case of East Asia and Latin America, and a maximum of about 90 percent in **South Asia**. Sub-Saharan African exports have increased by about 80 percent. Imports by developing countries have also increased considerably, varying from almost 50 percent in West Asia and North Africa to a peak of more than 150 percent in **South Asia**. Importantly, rates of import growth have exceeded export growth rates in East Asia, Latin America and South Asia, indicating growing demand levels in these regions.. Developed countries' trade has on average increased by about 15 percent, while developing countries' has grown by about 20 percent, with some important differences among regions.



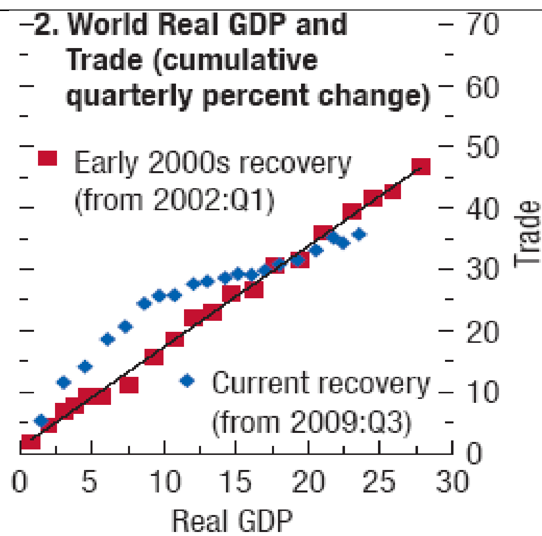


Source : Key Trends in International Merchandise Trade 2013, UNCTAD

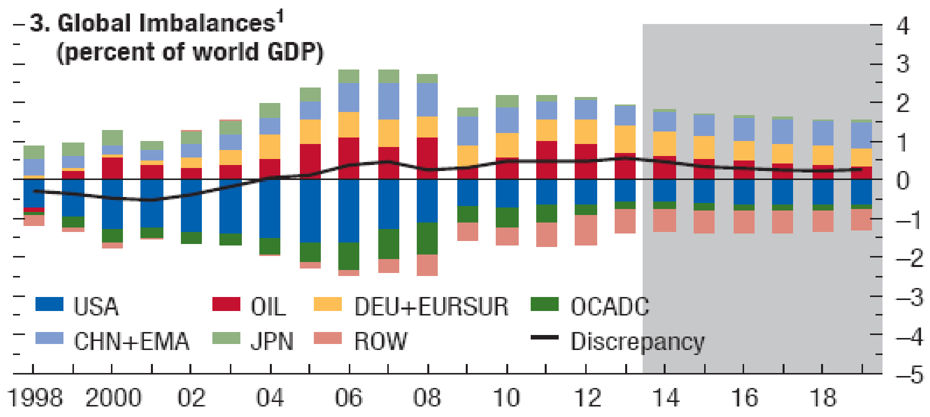
Global Trade & Imbalances

Global trade volume growth slowed markedly in the first half of 2014 compared with global activity.

Expectations that with a strengthening recovery, global trade would once again grow faster than GDP, based on developments in the second half of 2013, have not materialized. Some of the slowdown in trade growth could reflect a more modest pace in the fragmentation of global production processes (value chains) after years of rapid change. Indeed, much of the recent slowing in trade growth relative to GDP is an emerging market phenomenon. And some of this slowdown could be cyclical, reflecting declining world growth since 2011. Indeed, in the early stages of the global recovery in 2009–10, global trade had picked up strongly, broadly in line with patterns in earlier periods of increasing global growth. Global trade is projected to pick up ahead of GDP as the global recovery strengthens, but the difference between trade and GDP growth is projected to remain below recent pre crisis averages.



Global current account imbalances narrowed in 2013 and are projected to contract further, albeit modestly, in 2014 and beyond. The contraction in 2014 is projected to come from a reduction in deficit and surplus positions within Europe, as well as from some contraction in surpluses in oil exporters.



1AE = advanced economies; CHN+EMA = China and emerging Asia (Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, Thailand); DEU+EURSUR = Germany and other European advanced surplus economies (Austria, Denmark, Luxembourg, Netherlands, Sweden, Switzerland); EA = euro area; OCADC = other European precrisis current account deficit countries (Greece, Ireland, Italy, Portugal, Spain, United Kingdom, WEO group of emerging and developing Europe); OIL = Norway and WEO group of emerging market and developing economy fuel exporters; ROW = rest of the world.

Source : World Economic Outlook ,October 2014, IMF

18.13 **Indian Story – From Closed Economy to Global Integration :** India's international trade policy following her independence in 1947 focused on being self-sufficient, which also implied minimal reliance on international trade as a source of income. An alarming large number of people were living in abject poverty and the central government sought to improve the well-being of people by adopting the strategy of 'import-substituting' industrialization. To implement this, the government developed a complex, extensive and often costly system of price controls and quantitative restrictions. India's lack of enthusiasm for international trade and its reliance on domestic factors to fuel growth during the fifties meant that exports played a smaller role and this is evident from the following table, where India's exports lost its world market share between 1951-1960 and 1961-70. Till the mid seventies, India's policy was restrictive and focused on developing the domestic industry, while tightening control on foreign trade (using quantitative restrictions as a tool). High levels of protection coupled with an overvalued domestic currency resulted in a growing demand for imports and discouraged exports. Moreover, India's exports also suffered because export incentives were only available to a limited number of manufacturing industries and selected agricultural exports (which were subjected to export duties at varying rates). The table below reveals that the period between 1961 and 1970 had higher imports (as a share of GDP), compared to exports which may have contributed to a growing foreign exchange shortage. Additionally, high levels of inflation and budget deficits coupled with the India-Pakistan war severely affected foreign aid and led to a foreign exchange crisis, which resulted in the devaluation of the rupee in 1966.

	Average annual growth rate over period		Percent of GDP		Share of India's export in world export (%)
Period	Export	Import	Export	Import	
1951-60	0.7	8.6	6.3	8	1.4
1961-70	4.6	0.3	4.2	5.8	0.9
1971-80	6.8	8.7	5.8	6.7	0.5
1981-90	6.1	3.9	6.5	8.4	0.5
1991-97	11.4	14.4	9.9	10.6	0.6

Reproduced from Economic Policy Reform and The Indian Economy , 2002 p-13

18.14 Due to the occurrence of two major oil shocks in the seventies, India experienced a rise in the import cost of oil and thus a shrinking foreign exchange reserve position. The pressure to earn foreign currency led the government of India to adopt export promotion policies in the form of export subsidies (such as duty drawback, subsidized credit and direct subsidies). During this time, the end of the Bretton Woods system led to a depreciation of the floating pound sterling. The Indian rupee, which was pegged to the British pound at the time also depreciated, a fact which probably contributed to the rise in growth of Indian exports relative to global exports. This period was also characterized by a stronger import substitution strategy and greater government control over economic activities, a strategy which was maintained even after the occurrence of the India-Pakistan war in 1971 and the first oil price shock. India's overall trade, however, experienced a setback between 1979 and 1981, as the import cost of crude oil more than doubled, following the oil-price shocks. The Indian rupee steadily appreciated by almost 20 percent between 1979 and 1986 and had an adverse impact on its export competitiveness. However, the situation reversed in 1987 with a gradual decline in the value of the rupee, though it remained overvalued till l991 (in terms of the real effective exchange rate).

18.15 It was during the eighties that the government undertook expansionary fiscal and monetary policies. The growth surged at an average annual rate of 5.8 percent; well above the Hindu rate of growth. But this rapid expansion was supported by a large current account deficit. A mounting deficit, coupled with high inflation (at 13.5 percent) and the Gulf war led India to a balance of payment crisis in 1991. Following the crisis, the Indian economy was opened up to foreign participation for the first time, in an attempt to improve the efficiency and competitiveness of Indian industries. Post 1991, the gradual liberalization of the Indian economy characterized by such policy reforms created a conducive environment for India's exports to flourish and evolve into an engine of social and economic growth. Hence, the last two decades have witnessed India transform from a closed economy to a considerable player in the global market.

18.16 The liberalization of the Indian economy following the balance of payment crisis resulted in major policy and exchange rate changes, which had a favourable impact on India's trade. Sharp increase in the share of exports and imports between 1990 and 2008. Share of exports in India's GDP increased from 7.13 percent to 23.48 percent in 1990 and 2008 was seen, while the share of imports (in GDP) rose from 8 percent to 29 percent in the same period.

18.17 India's export performance since 1991 has fluctuated. The East Asian Crisis of 1997 had a serious impact on India's exports, which registered a negative growth of 2.33 percent in the same year. The situation for India worsened when its competitor countries (in ASEAN) devalued their currencies amidst the crisis, which reduced the competitiveness of India's exports in the international market for textile and electronics commodities, where India directly competed with ASEAN exports in overseas markets. India's imports also suffered and reduced by 2.44 percent due to weak domestic demand, lower industrial activity and a lower unit value of imports

18.18 In 2001-02, India faced another setback in its exports, at large, due to the semi-recession faced by the US; one of India's biggest trading partners. The terrorist attack on the World Trade Centre caused a net loss of 0.25 percent of US GDP and also had an impact on India's exports, which grew only at 5 percent that year.

18.19 The next major setback for India's exports was the global crisis of 2008. The collapse of large investment banks around the world coupled with high oil prices and rising inflation led to a global recession. India's trade deficit dampened in 2009-10 with a negative import growth (-0.78 %) for the first time in more than two decades while exports were also impacted. Consequently the trade deficit decreased by 2.9 percent in 2009-10.

18.20 **Present Foreign Policy & Initiatives:** In consonance with its vision of ensuring sustained accelerated growth of exports and making India a major player of world trade, the Government announces a **Foreign Trade Policy (FTP)** every five years. FTP is annually reviewed to incorporate changes necessary to take care of emerging economic scenarios both domestically and globally. The FTP 2009-14, was updated on June, 2012. The salient features include :

- **Measures to revive investors' interest in SEZs** : Reduction in minimum land areas requirement, introduction of graded scale for minimum land area criteria **,** sectoral broad banding (to encompass similar / related areas under the same sector), doing away with minimum land requirement for setting up an IT/ITES SEZ, relaxing the minimum built up area requirement for IT/ITES SEZ , allowing transfer of ownership of SEZ units, including sale etc.
- **Zero Duty Export Promotion Capital Goods (EPCG) Scheme :** Authorization holders will have export obligation of 6 times the duty saved amount. The export obligation has to be completed in a period of 6 years. The period for import under the Scheme would be 18 months. Export obligation for Domestic Sourcing of Capital Goods & for units in the State of Jammu & Kashmir have been reduced.
- **Widening of Interest Subvention Scheme** to include 134 sub-sectors of engineering sector was announced and the benefit of this scheme of 2% interest subvention was extended upto 31.03.2014.
- **Widening the Scope of Utilization of Duty Credit Scrip**
- **Market and Product Diversification** : Norway has been added under Focus Market Scheme and Venezuela has been added under Special Focus Market Scheme. The total number of countries under Focus Market Scheme and Special Focus Market Scheme becomes 125 and 50 respectively. Approximately, 126

new products have been added under Focus Product Scheme. These products include items from engineering, electronics, chemicals, pharmaceuticals and textiles sector. About 47 new products have been added under Market Linked Focus Product Scheme (MLFPS). These products are from engineering, auto components and textiles sector. Two new countries i.e., Brunei and Yemen have been added as new markets under MLFPS.

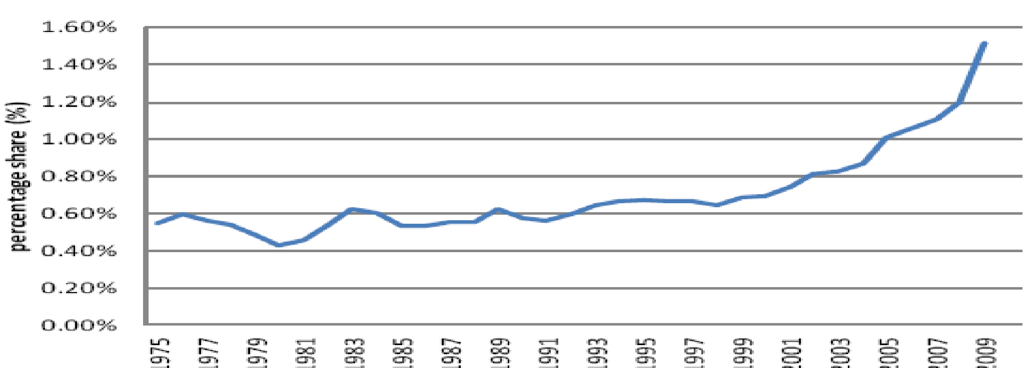
- **Incremental Exports Incentivisation Scheme** has been extended for exports made to USA, EU and Asia, for the year 2013-14. The Government has also agreed to include additional countries under Incremental Exports Incentivisation Scheme. 53 countries of Latin America and Africa have been added with the objective to increase India‟s share in these markets. The present exports to each of these markets is less than US $ 100 million.
- **Facility to close cases of default in Export Obligation** : The duty + interest have to be paid within a limited period of six months from the date of notification of this scheme. The total payment shall not exceed two times the duty saved amount on default in Export Obligation.
- **Served from India Scheme (SFIS)** Service providers are entitled to duty credit scrips under 'Served from India Scheme' at the rate of 10% of free foreign exchange earned during a financial year. The entitlement shall now be calculated on the basis of net free foreign exchange earned .
- **Duty Free Import Authorization Scheme (DFIA)**: Anti Dumping Duty and Safeguard Duty was exempted under DFIA Scheme. Exemption from payment of Anti Dumping Duty and Safeguard Duty shall henceforth not be available after endorsement of transferability of such authorizations .
- **Import of Cars** : Now import of cars/vehicles would also be allowed at ICD Faridabad and Ennore Port (TN).
- **Improvement in quality and timeliness of Foreign Trade Data** : The release of Press Note relating to Quick estimates has been compressed to 15 days after completion of the month to which it relates. The period of reporting by DGCIS about data on principal commodity-wise has been reduced from 2 ½ months to 1 month. Further transaction level (8 digit level) data is now available within a period of 2 months.
- **Second Task Force on Transaction Cost in International Trade** : The report on Transaction Cost was released in Feb 2011. Implementation of its recommendation resulted into estimated reduction of transaction cost of approximately Rs 2495 Crores. Second Task Force on Transaction Costs has been constituted. The Committee would submit its report in six months
- **Electronic Data Interchange Initiatives :** e-BRC system allows Transmission of realization of export proceeds details from banks to DGFT in electronically secured format. The system has been made mandatory with effect from 17th August, 2012. Government of Maharashtra and Delhi have started the process, as first movers, to use e-BRC data for processing VAT refund claims of exporters. e-BRC will improve the productivity of DGFT, Banks, Central and State Government departments dealing with exporter/importers and will lead to substantial reduction of transaction cost and time. DGFT has introduced the system of online Export Obligation Discharge certificate (EODC). DGFT will also transmit all EODCs to DG Systems through a secured message exchange. This

will obviate the need to have re-verification at the Custom's end. Reconciliation of export / import closure of an authorization was document heavy process. With online EODC, exporter can complete the formalities at DGFT online and may get quick clearances at the Customs on account of e-transmission of EODC from DGFT to Customs. Message Exchange System for exchanging shipping data relating to Focus Product Scheme (FPS), Focus Market Scheme(FMS), Market linked Focus Product Scheme(MLFPS), Status Holder Incentive Scrip(SHIS), Served From India Scheme (SFIS)and Agri Infrastructure Scheme shall be established with DG Systems. This will allow exporters to quickly link (and not fill all details) Shipping bills received from Customs with their applications for quick processing. Online issuance of Registration Certificate for export , online system to resolve EDI issues , online complaint resolution system relating to EDI issues etc are also in the process.

- **Ease of Documentation and Procedural Simplification** : Submission of physical copies of IEC and Registration-cum-Membership Certificate (RCMC) with individual application has been dispensed with. It has been decided to dispense with submission of hard copy of EP copy of shipping bills in case of (a) advance authorization, (b) duty free import authorization for grant of Export Obligation Discharge Certificate (EODC) if exports are made through EDI ports. Application fee can be paid either in cash or through demand draft or through EFT. Now exporters/importers would be allowed shortly to utilize their credit card for payment of such application fee.

18.21 **Indian Merchandise Trade & Balance of Trade- Trends and Present Status :** India's merchandise trade has been growing in importance over the years with the share in world exports and imports increasing, though gradually, from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.7 per cent and 2.5 per cent respectively in 2013.Though the export share is still less, it has improved since the economic reforms of 1991. Between 1991 and 2009, India's share in world exports rose from 0.56 to 1.52 percent. . However countries like China, South Korea or Taiwan have made greater global impact compare to India since it initiated economic reforms even though India's export growth has almost continuously been above world export growth in the 2000s decade and in 2011.

Share of Indian Merchandise Export in World Exports :



18.22 India's ranking in the top merchandise exporters and importers in the world has also improved from 31st in 2000 to 19th in 2013 in exports and from 26th to 12th for imports in the same years, as per the World Trade Organization (WTO).

18.23 There has also been marked improvement in India's total merchandise trade to GDP ratio from 21.8 per cent in 2000-01 to 44.1 per cent in 2013-14 In the last five years, India's export growth has seen ups and downs, being in negative territory twice: in 2009-10 as an aftershock of the 2008 crisis and in 2012-13 as a result of the euro zone crisis and global slowdown. India's exports were US$ 312.6 billion against a target of US$ 325 billion during 2013-14, though they grew by a positive 4.1 per cent as compared to the negative growth of 1.8 per cent during the previous year.

18.24 Trade Deficit : The sharp fall in imports and moderate export growth in 2013-14 resulted in a sharp fall in India's trade deficit by 27.8 per cent. In absolute terms, trade deficit fell to US$ 137.5 billion from US$ 190.3 billion during 2012-13. However, there was not much change in the POL deficit which was hovering at around US$100 billion in the last two years. With the fall in imports of both gold and capital goods, non-POL deficit fell sharply to US$ 35 billion in 2013-14 from US$ 87.2 billion in 2012-13. Performance of Exports, Imports and Balance of Trade during 2004-05 to 2013-14 is given below :

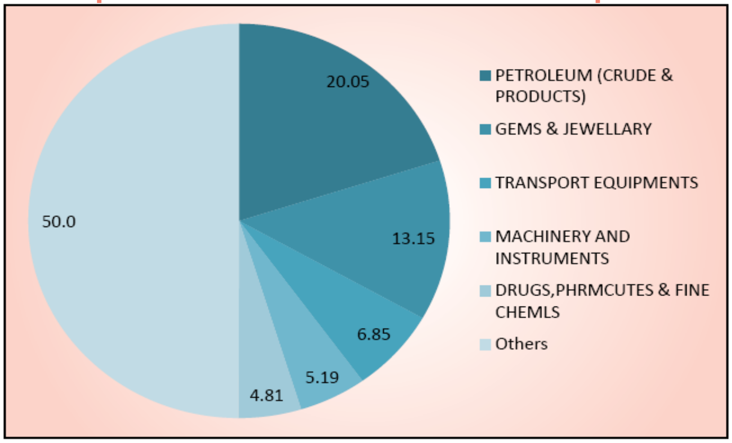
Trade Data for period 2004-05 to 2013-14 (Rs Crores)

s.no	Year	exports	%Growth	Imports	%Growth	trade Balance
1	2004-2005	3,75,340	27.94	5,01,065	39.53	-1,25,725
2	2005-2006	4,56,418	21.6	6,60,409	31.8	-2,03,991
3	2006-2007	5,71,779	25.28	8,40,506	27.27	-2,68,727
4	2007-2008	6,55,864	14.71	10,12,312	20.44	-3,56,448
5	2008-2009	8,40,755	28.19	13,74,436	35.77	-5,33,680
6	2009-2010	8,45,534	0.57	13,63,736	-0.78	-5,18,202
7	2010-2011	11,42,922	35.17	16,83,467	23.45	-5,40,545
8	2011-2012	14,65,959	28.26	23,45,463	39.32	-8,79,504
9	2012-2013	16,34,319	11.48	26,69,162	13.8	-10,34,843
10	2013-14(P)	18,94,182	15.9	27,14,182	1.69	-820,000

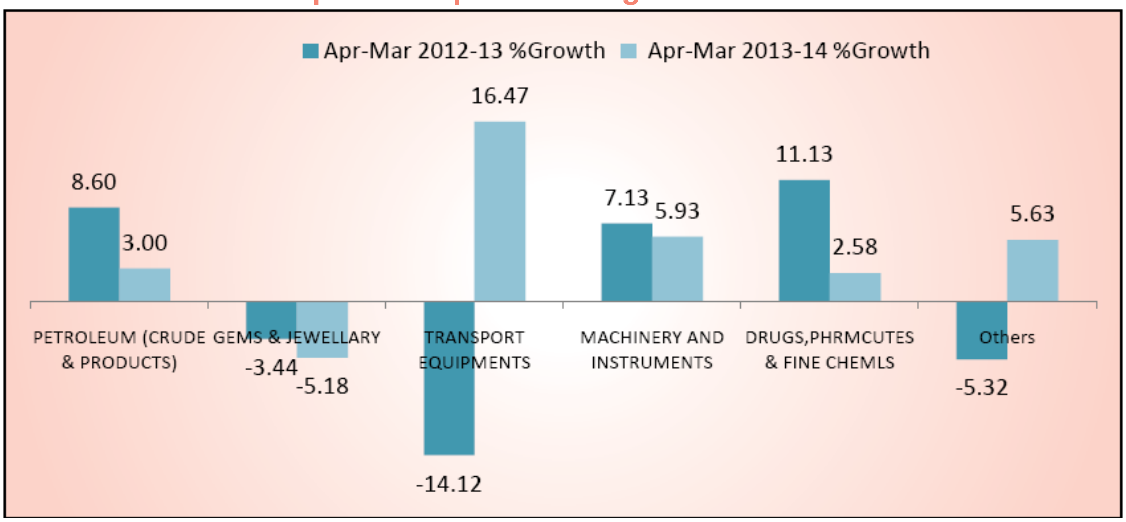
Source DGCI&S, Kolkata

18.25 Trade Composition: Noticeable compositional changes have taken place in India's export basket between 2000-01 and 2013-14 with the share of petroleum, crude, and products increasing by nearly five times to 20.1 per cent, catapulted by its 33.5 per cent growth (CAGR). While there has been a small fall in share of primary products, there was a 15.1 percentage point fall in share of manufactured goods. One interesting feature of the sectoral performance of exports is that many labour-intensive export sectors have performed relatively well in 2013-14. Textile exports grew by 14.6 per cent in 2013-14. Exports of the top five commodities during the period 2013-14 registered a share of 50.05 per cent mainly due to significant contribution in the exports of Petroleum (Crude & Products), Gems & Jewellery, Transport Equipments, Machinery and Instruments and Drugs, Pharmaceuticals & Fine Chemicals.

Share of Top Five Commodities in India's Export 2013-14

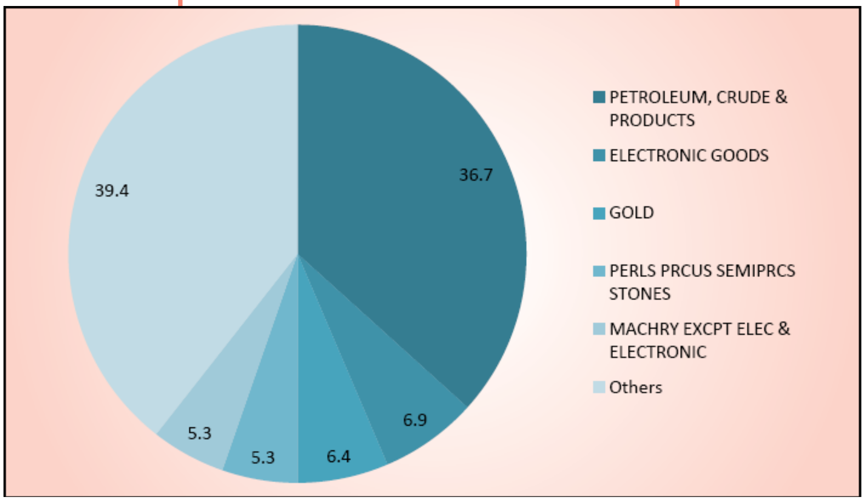


Growth of Top Five Exports during 2012-13 & 2013-14

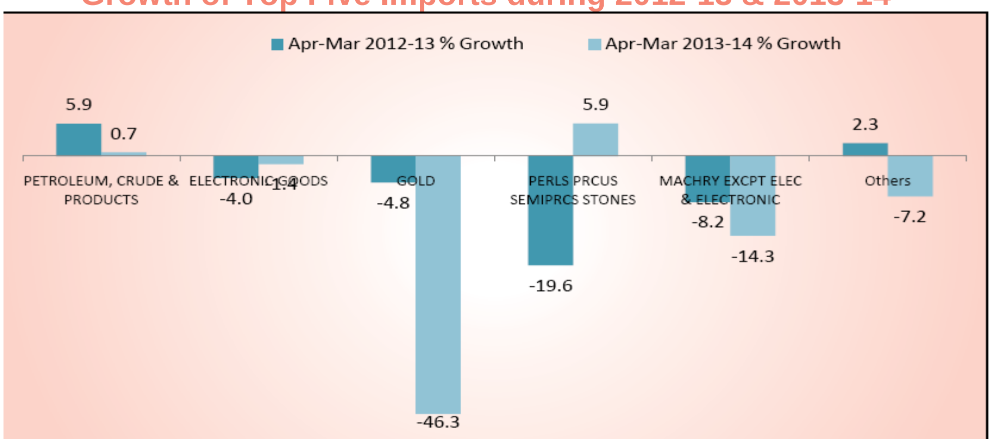


18.26 Import growth decelerated sharply from 32.3 per cent in 2011-12 to 0.3 per cent in 2012-13 and fell to a negative -8.3 per cent in 2013-14, owing to fall in non-oil imports by 12.8 per cent. Among the major items of import, the value of petroleum, oil, and lubricants (POL), which constituted 36.7 per cent of total imports in 2013-14, grew marginally by 0.7 per cent. This marginal growth was on account of moderate quantity growth of POL (2.6 per cent) despite the moderation in crude oil prices with the average price of crude oil (Indian basket) falling to US$ 105.5/bbl in 2013-14 from US$ 108.0/bbl in 2012-13. The other major item of import is gold, the import of which declined from 1078 tonnes in 2011-12 to 1037 tonnes in 2012-13 and further to 664 tonnes in 2013-14, on the back of several measures taken by the government. In value terms, gold and silver imports fell by 40.1 per cent to US$ 33.4 billion in 2013-14. Capital goods is the other major import category. As in 2012-13, capital goods imports had negative growth in 2013-14 also of -14.7 per cent, which is a cause for concern. Imports of the top five commodities during the period 2013-14 registered a share of 60.58 per cent mainly due to significant imports of Petroleum (Crude & Products), Electronic Goods, Gold, Pearls, precious and semi-precious stones and Machinery except electrical and electronic.

Share of Top Five Commodities in India's Import 2013-14

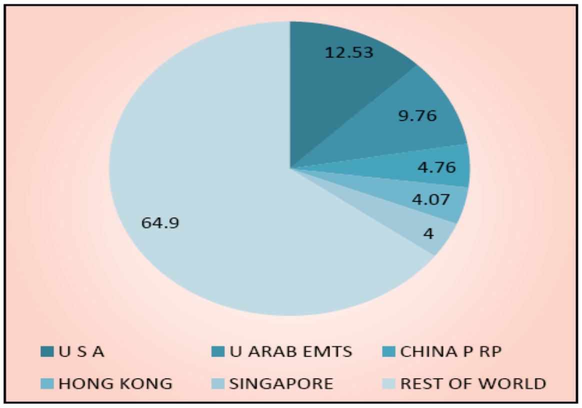


Growth of Top Five Imports during 2012-13 & 2013-14

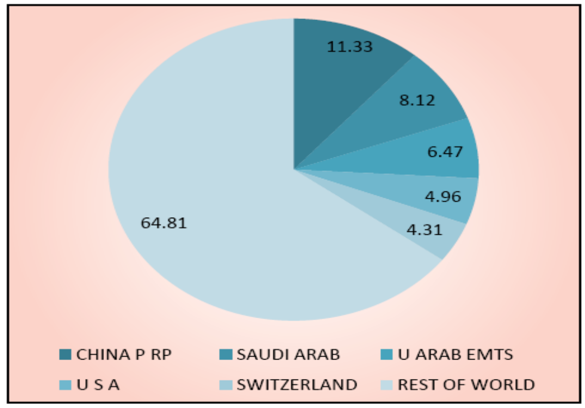


18.27 Direction of Trade : The share of the top 15 trading partners of India in India's trade at 58 per cent in 2013-14 was more or less the same as in earlier years. The top three trading partners of India are China, the USA,and the UAE, with the top slot shifting between the three. In 2013-14, there was good growth of exports to North America (9.1 per cent) and Africa (7.2 per cent), low growth to Europe (4 per cent) and Asia (1.7 per cent), and negative growth to Latin America (-20 per cent) and the CIS and Baltics (-4.7 per cent). While export growth to the US was 8.3 per cent, it was just 2.2 per cent to the EU 27 as a result of the slowdown in the EU. Exports to the UAE fell to a negative -16 per cent. Exports to Asia still constitute around 50 per cent of India's exports. While India's exports to ASEAN (Association of South East Asian Nations) grew by a small 0.5 per cent, exports to South Asia grew robustly with high growths to all the four major SAARC (South Asian Association for Regional Cooperation) countries, Sri Lanka, Bangladesh, Nepal and Pakistan, besides Bhutan. There was also good export growth to China and Japan at 9.5 per cent and 11.7 per cent respectively. Region-wise, imports from all five regions declined, with the highest decline of -19.3 per cent in imports from Europe.

Major Destinations of India's Exports for 2013-14



Major Sources of India's Imports for 2013-14



18.28 **India's Services Trade :** In commercial services trade, India was the sixth largest exporter with 3.4 per cent share of world exports and seventh largest importer with 3.0 per cent share of world imports in 2012. The 2008 global financial crisis gave a big jolt to India's service exports. In the five years prior to 2008 (i.e. 2003-04 to 2007-08)service export growth (CAGR) at 35.4 per cent was faster and way above the merchandise export growth at 25.8 per cent. In the five years post crisis (2008-09 to 2012-13), service export growth at 8.3 per cent was below the 12.8 per cent merchandise export growth. In 2012-13, service exports at US$ 145.7 billion showed a lower growth of 2.4 per cent compared to the 14.2 per cent in the preceding year. They improved slightly in 2013-14 with a 4 per cent growth the same as merchandise export growth. While export of software services with 45.8 per cent share and non-software with 29.1 per cent share grew by 5.4 per cent and 5.9 per cent respectively, all other major categories had negative or very low growth.

18.29 Service imports which grew by a small 3.2 per cent in 2012-13 fell to a negative -2.8 per cent in 2013-14 with all major categories registering negative growth. Net services has been a major source of financing India's growing trade deficit in recent years, financing around 38 per cent of merchandise trade deficit on an average during 2006-7 to 2012-13. While in 2012-13, net services financed 33.2 per cent of merchandise trade deficit, during 2013-14, with moderate growth in service exports and fall in service imports, net services financed 49.4 per cent of merchandise trade deficit.

Commodity group	Percentage share		CAGR 2002-03 to 2013-14	Growth rate	
	2002-03	2013-14		2012-13	2013-14
Travel	16.0	11.8	16.6	-2.5	-0.4
Transportation	12.2	11.5	19.1	-5.0	0.3
Insurance	1.8	1.4	17.2	-15.4	-4.8
GNIE	1.4	0.3	4.8	20.1	-14.9
Miscellaneous	68.6	75.0	20.8	4.9	5.6
Software services	46.2	45.8	19.7	5.9	5.4
Non-software services	22.4	29.1	22.7	3.4	5.9
of which:					
Business services	3.9	18.8	38.3	9.8	0.1
Financial services	3.3	4.4	23.1	-17.1	34.4
Communication services	3.9	1.6	10.4	5.4	43.0
Total service exports	100.0	100.0	19.8	2.4	4.0

Source Reserve Bank of India

18.30 Trade Quantum & Unit Values : In 2012-13, while export growth in US dollar terms was negative, in rupee terms it decelerated from 28.3 per cent in 2011-12 to 11.5 per cent in 2012-13 mainly due to deceleration in the growth of unit value of exports by 14.2 percentage points. The export quantum growth decelerated marginally by 1.0 percentage point. The deceleraton in unit value growth of exports in turn was because of the fall in unit value growth of exports of chemicals and related products and deceleration in unit value growth of some items like mineral fuels, lubricants and related materials, and miscellaneous manufactured articles. The deceleration in quantum growth of exports was on account of the fall in growth of machinery and transport equipment and manufactured goods classified chiefly by materials.

18.31 Imports in rupee terms also decelerated in 2012-13 to 13.8 per cent from 39.3 per cent in the previous year due to the high deceleration in unit value of imports by 66.9 percentage points, despite the quantum index of imports improving from a negative 20.9 per cent in 2011-12 to a positive in 6.1 per cent in 2012-13. The high deceleration in unit value of imports was due to the deceleration in unit value of almost all items except beverages and tobacco and miscellaneous manufactured articles, while the slight improvement in quantum of imports was due to growth in quantum of chemicals and related products; machinery and transport equipment; and miscellaneous manufactured articles. Thus, contrary to general belief, there was no decline in import of capital goods in quantity terms. The fall in value of capital goods imports could therefore be either due to fall in import price of capital goods or shift to import of low unit valued capital goods.

18.32 The growth in **net barter terms of trade** in 2012-13, the ratio of the unit value index of exports to the unit value index of imports, though still negative at -1.6 per cent improved compared to the -31.5 per cent in 2011-12.

Trade Performance : Growth in Quantum & Unit Value Indices (Annual Percent Change)

(per cent change)

	Exports				Imports				Terms of trade	
	Rupee terms	US$ terms	Quantum	Unit value	Rupee terms	US$ terms	Quantum	Unit value	Net	Income
2001-02	2.7	-0.6	0.8	1.0	6.2	2.9	4.0	2.8	-2.1	-1.8
2002-03	22.1	20.3	19.0	2.9	21.2	19.4	5.8	14.3	-9.8	7.4
2003-04	15.0	21.1	7.3	7.5	20.8	27.3	17.4	3.1	3.6	11.2
2004-05	27.9	30.8	11.2	14.9	39.5	42.7	17.2	18.9	-3.5	7.3
2005-06	21.6	23.4	15.1	6.1	31.8	33.8	16.0	14.0	-6.0	8.2
2006-07	25.3	22.6	10.2	13.7	27.3	24.5	9.8	15.1	-1.3	8.8
2007-08	14.7	29.0	7.9	5.1	20.4	35.5	14.1	1.9	2.6	10.7
2008-09	28.2	13.6	9.0	16.9	35.8	20.7	20.2	13.8	2.5	11.7
2009-10	0.6	-3.5	-1.1	1.0	-0.8	-5.0	9.9	-10.0	12.3	11.1
2010-11	35.2	40.5	15.2	13.8	23.4	28.2	8.0	13.0	1.1	16.1
2011-12	28.3	21.8	8.9	20.2	39.3	32.3	-20.9	74.9	-31.5	-25.4
2012-13	11.5	-1.8	7.9	6.0	13.8	0.3	6.1	8.0	-1.6	6.3
2013-14	15.9	4.1	NA	NA	1.7	-8.3	NA	NA	NA	NA

***Source* :** Computed based on the data of the Directorate General of Commercial Intelligence and Statistics (DGCI&S).

18.33 **Terms & Definitions:**

- **Balance of Trade :** It is the difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments.

A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus.

- **Unit Value Price Index** : A unit value import/ export index is an index, which measures the change in the average cost of imported and exported goods. The unit value index allows us to identify those categories of goods, which are primarily responsible for the overall increase in the cost of total imports/exports into the economy. Unit values are subject to the effect of changes over time in quality, product mix and markets or sources of supply for a commodity item in addition to pure price changes.

- **Quantum Index :** It is calculated by dividing the Export/Import Value by the Unit Price Index (with the base year as 100). The Quantum Index is considered to represent the integrated trading volume by taking the weighted average of indexes of traded items.

18.34 Data Source : In India, Trade Statistics are obtained as a by-product of administrative activity. In the case of External Trade, there are **three stages** of administrative activity namely, licensing, actual shipment and arrival of goods, and the receipt and remittance of payments. The **Director General of Foreign Trade (DGFT)** is responsible for **licensing statistics**; the **Director General of Commercial Intelligence and Statistics (DGCI&S)** for the **balance of trade statistics** and the **Reserve Bank of India (RBI)** for the **balance of payment statistics**. The merchandise trade statistics disseminated by the DGCI&S captures the movement of goods across the customs frontier of the country and are based on the Daily Trade Return (DTR) generated at the various custom houses. On the other hand, the External Trade data in the standard format of balance of payments (BoP) statistics is prepared by the RBI.

18.35 The Directorate General of Commercial intelligence and Statistics, Kolkata under the Ministry of Commerce, Government of India, is the pioneer official organization for collection compilation and dissemination of India's trade Statistics and Commercial information. The main sources for India's Foreign Trade Statistics are **Shipping Bills and Bills of Entry** – declarations made and submitted by exporters and importers, respectively to the authorities of customs at the ports. These bills are statutory documents, which contain the customs' permission to ship or land the goods, as the case may be. These Shipping Bills and Bills of Entries for each item of export and import contain relevant details of the transactions such as Code Number of the Commodity according to Indian Trade Classification based on Harmonised Commodity Description and Coding System {ITC(HS)}, description of the commodity, license particulars of the goods in the case of imports, value of exports or imports, quantity (gross and net), amount of duty, name of exporter or importer, country of destination or consignment, Importer and Exporter Code (IEC), etc. The Foreign Trade Statistics cover only commercial transactions of the merchandise trade. Items on Defence Goods are not covered in Foreign Trade Statistics as a matter of principle, set earlier. This apart, non-commercial transactions such as, personal baggage and effects, exhibition goods, samples, etc. are not covered in Foreign Trade Statistics. The direct transit trade, i.e. goods of other countries passing and transit goods warehoused not for the purpose of disposal, are excluded completely. Although the exports and imports of crude oil and petroleum products are included in the Foreign Trade Statistics, the detailed commodity-wise or country-wise break-ups are not published by the DGCI&S due to non-availability of detailed information.

18.36 The DGCI&S receives trade data from about 40-50 major ports and some small ports in three different modes namely, Electronic Data Interchange (EDI), Non-EDI and manual. A monthly brochure entitled, ***Foreign Trade Statistics of India (Principal Commodities and Countries*)** is then brought out in about two months time from the reference month. At the final stage, detailed data of India's Foreign Trade are released in two publications, namely, ***Monthly Statistics of Foreign Trade of India (MSFTI*)** containing Commodity by country details and ***Statistics of Foreign Trade of India by Countries (SFTIC)*** containing country by commodity details. The former is a monthly publication while the latter is a quarterly one though the two publications are based on the same data set with varying presentation. Annual Publications like Statistics of Foreign and Coastal Cargo Movements of India , Selected Statistics of the Foreign Trade of India etc are also brought out. The data reported in these publications are according to 8-digit ITC (HS) and is available with a time lag of about 3 to 4 months from the reference month. Priced Information System which can also be accessed through website www.dgciskol.nic.in contains two years final import export month wise data.

18.37 These days trade in services is becoming increasingly significant. In such cases (e.g. software etc) , trade takes place mostly in the digital mode(e-commerce). This poses a problem in capturing such transactions in the traditional system of DGCI&S which is more suited to capturing merchandise trade. Efforts of DGCI&S towards implementation of technology for improvement of statistics may be seen under 'Data Interchange Initiatives' & 'Improvement in quality and timeliness of Foreign Trade Data' under the heading Trade Policy and Initiatives. **E- Commerce portal** of Central Board of Excise and Customs (www.icegate.gov.in) provides transactional services for imports and exports to the Customs House Agents. Reserve Bank provides some information on **trade in services**.

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