CHAPTER 18
TRADE

18.1 International Trade & WTO : 18.1.1 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

18.1.2 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 India was successful in getting its concerns regarding Minimum Support Prices above WTO limits (increasingly relevant in the backdrop of Food Security Law)addressed while support subsidies to poor farmers across all developing countries were also safeguarded against WTO rules .

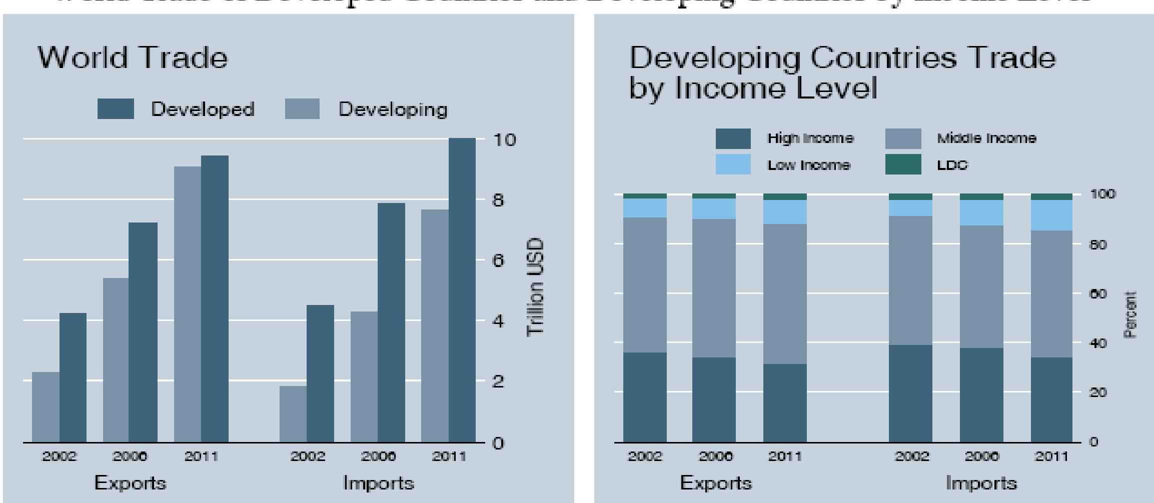
18.2 Global Trade : 18.2.1 After moderating in the two years following the global economic crisis(2008), world trade in both goods and services reached and surpassed pre-crisis levels in 2011.However, the deceleration in world growth and trade in 2012 and forecast of only a gradual upturn in global growth by international institutions, portend a weak and slow recovery for world trade.

18.2.2 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. Although well performing as a group, developing countries' integration into the global economy has been very varied. 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.

18.2.3 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.

18.2.4 World trade has reached about 18 trillion USD in 2011, increasing almost threefold since 2002. A large share of the increase in world trade can be attributed to developing countries. High and middle income countries (developed and developing) continue to constitute the main players in international trade, while low income countries' (including LDCs) participation in world trade remains limited.

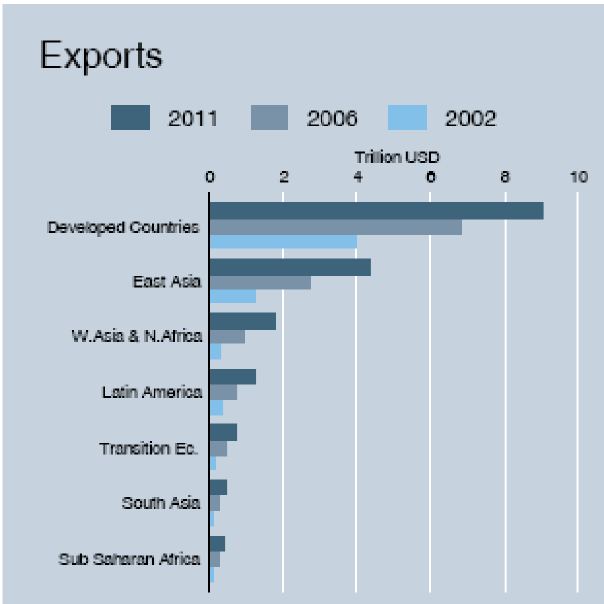
World Trade of Developed Countries and Developing Countries by Income Level

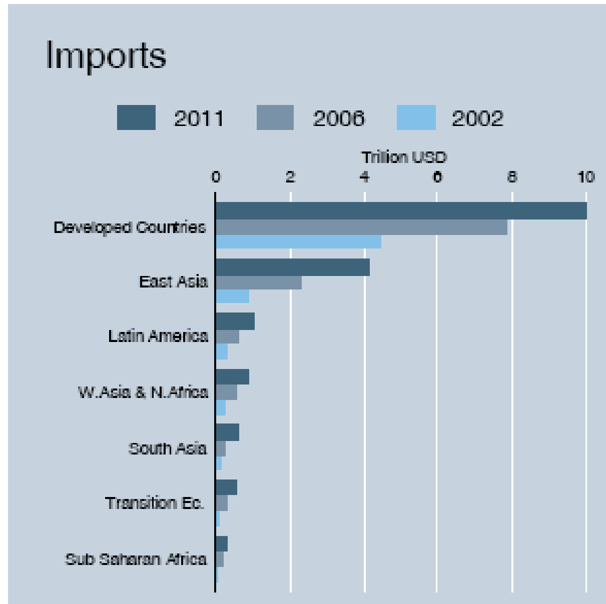


Source : Key Trends in International Merchandise Trade 2013, UNCTAD

18.2.5 International trade has increased dramatically in the last 10 years, rising from 6.5 trillion USD in 2002 to around 12 trillion USD in 2006 to reach around 18 trillion USD in 2011.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.

18.3 World Trade by region : 18.3.1 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.



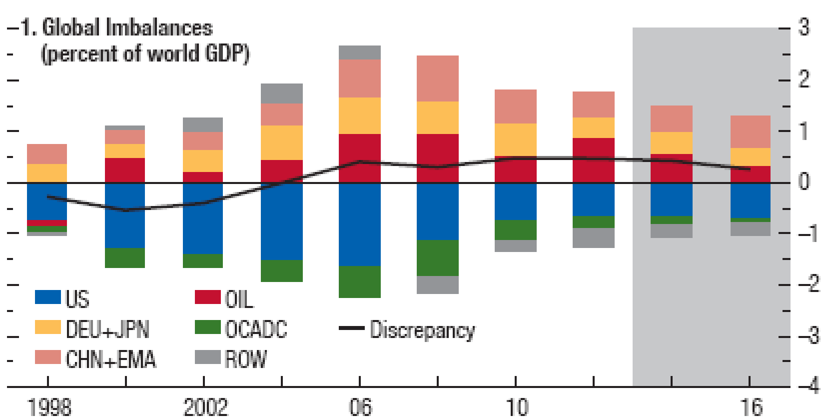


Source : Key Trends in International Merchandise Trade 2013, UNCTAD

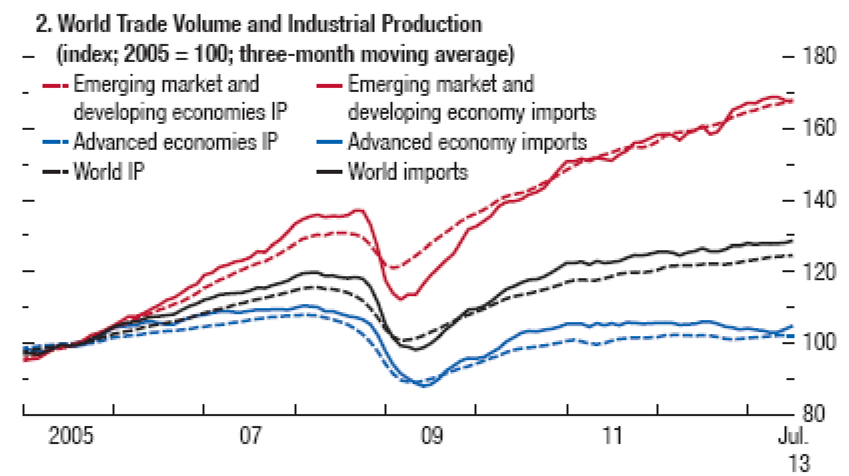
18.3.2 As of 2011, developed countries account for about 9 trillion USD of exports and about 10 trillion USD of imports. As a whole, trade of developing countries is of a similar magnitude (9 trillion USD in exports and 8 trillion USD in imports). East Asia comprises the bulk of developing countries' 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.

18.4 Export & Import Growth by Region: 18.4.1 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	
World trade reflects the weak momentum in global activity. Global current account imbalances narrowed in 2011–12 and are projected to decrease modestly in the medium term, helped by lower surpluses among the energy exporters. During the past few years, a notable development has been the larger-than-projected increase in the current account surplus of the euro area. This increase reflects import compression and some relative price adjustment in the economies of the periphery. However, rebalancing of demand in the core current account surplus economies remains limited.	The latest slowdown in global trade is broadly consistent with the slowdown in global GDP. It has meant that global imbalances have declined modestly again. Whether imbalances stay narrow or widen again in the medium term depends on the extent to which output losses relative to precrisis trends are largely permanent: WEO projections assume they largely are consistent with historical evidence. 

Policy has played a limited role in narrowing global imbalances. In the future, fiscal consolidation in deficit economies would hold back the cyclical recovery of import demand. Achieving stronger growth in major surplus economies will thus require that these economies promote a sustained expansion of their domestic demand, in particular of private consumption in China and investment in Germany.



Sources: CPB World Trade Monitor; Haver Analytics; and IMF staff estimates.
Note: CHN+EMA = China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, Thailand; DEU+JPN = Germany and Japan; IP = industrial production; OCADC = Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, United Kingdom; OIL = oil exporters; ROW = rest of the world; US = United States.

Source : World Economic Outlook ,October 2013, IMF

18.5 Indian Story – From Closed Economy to Global Integration : 18.5.1 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

18.5.2 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).

18.5.3 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.

18.5.4 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.

18.5.5 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

18.5.6 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.

18.5.7 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.

18.6 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.

18.7 Indian Merchandise Trade & Balance of Trade- Trends and Present Status :

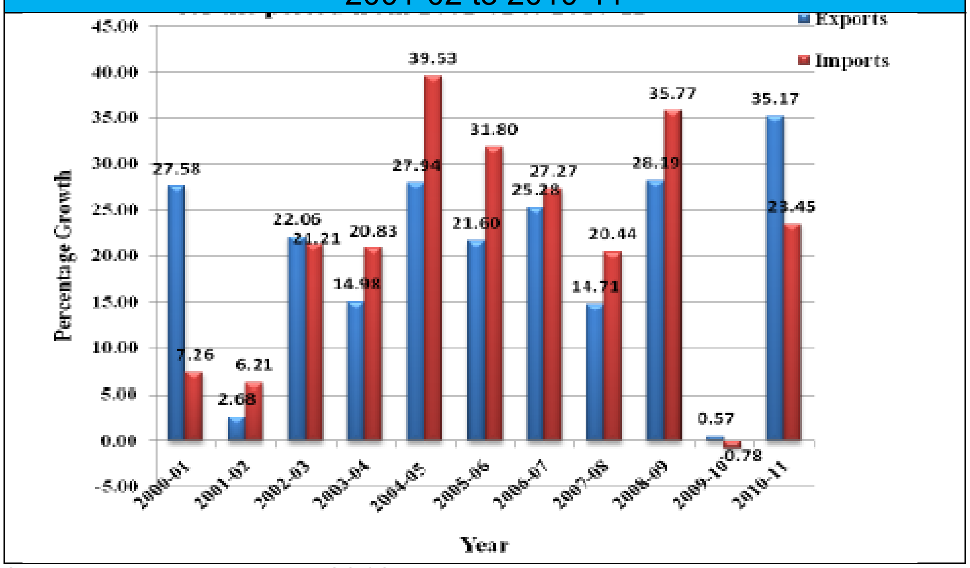
18.7.1 The global slowdown had its impact on the economy of almost all the countries, including India. The trade deficit abruptly increased from 356448 crores in 2007-08 to 533681 crores in 2008-09, an increase by almost 50 %. However, it was less by 2.9 % in 2009-10, to be increased again by 4.3 % in 2010-11& 64% in 2011-12. India's exports, which had surpassed pre-crisis levels within a year in 2010-11 with a record

40.5 per cent growth, continued growing even in 2011-12, but were finally affected by the global slowdown in 2012-13. While India's total merchandise trade as a percentage of the gross domestic product (GDP) increased from 28.2 per cent in 2004-5 to 43.2 per cent in 2011-12 as per provisional estimates, India's merchandise exports as a percentage of GDP increased from 11.8 per cent to 16.5 per cent during the same period.

Export Import & Balance of Trade

Year	value in Rs. '00 crores			percentage growth		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
2000-01	2035.71	2308.73	-273.02	27.58	7.26	-50.97
2001-02	2090.18	2452.00	-361.82	2.68	6.21	32.53
2002-03	2551.37	2972.06	-420.69	22.06	21.21	16.27
2003-04	2933.67	3591.08	-657.41	14.98	20.83	56.27
2004-05	3753.40	5010.65	-1257.25	27.94	39.53	91.24
2005-06	4564.18	6604.09	-2039.91	21.60	31.80	62.25
2006-07	5717.79	8405.06	-2687.27	25.28	27.27	31.73
2007-08	6558.64	10123.12	-3564.48	14.71	20.44	32.64
2008-09	8407.55	13744.36	-5336.81	28.19	35.77	49.72
2009-10	8455.34	13637.36	-5182.02	0.57	-0.78	-2.90
2010-11	11429.22	16834.67	-5405.45	35.17	23.45	4.31

Percentage Growth of India's Exports & Imports for the period 2001-02 to 2010-11



Source Annual Report 2010-11, DGCI&S

18.7.2 As per Annual Report 2012-13, D/o Commerce ,the Trade deficit in 2012-13 (Apr.-Feb.) was estimated at US $ billion 182.09 which was higher than the deficit of US $ 169.81 billion during 2011-12 (Apr.-Feb.).

(Values in Rs Crores)

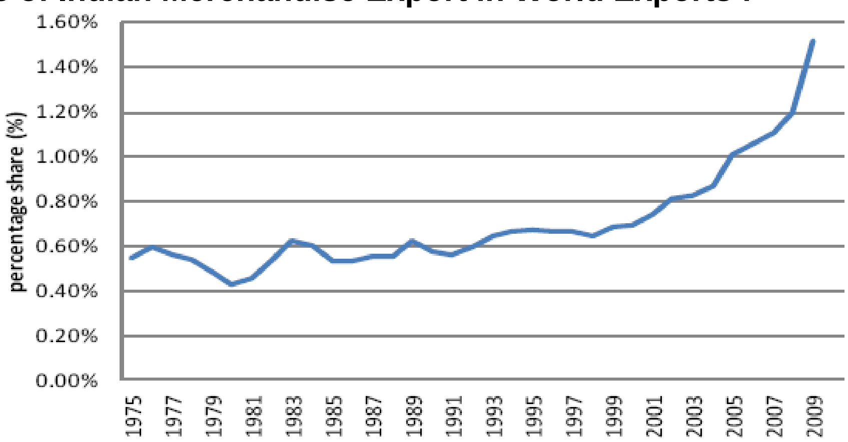
Year	Exports	%Growth	Imports	%Growth	Trade Balance
2011-2012(Provisional)	14,59,281	27.68	23,44,772	39.28	-8,85,492
2011-12 (April-February) Press	13,20,836		21,32,198		-8,11,362

Release					
2012-13 (April-February) Press Release	14,46,627	9.52	24,36,564	14.27	-9,89,938
Values in US$ Millions					
2011-2012(Provisional)	3,04,624	21.30	4,89,181	32.29	-1,84,558
2011-12 (April-February) Press Release	2,77,125		4,46,939		-1,69,814
2012-13 (April-February) Press Release	2,65,946	-4.03	4,48,037	0.25	-1,82,090

Source Annual Report 2012-13, D/o Commerce

18.7.3 Exports recorded a growth of 21.30 per cent during Apr-Mar 2011-12. The Government has set an export target of US $ 360 billion for 2012-13. The merchandise exports reached US $ 265.95 billion in 2012-13 (Apr.-Feb.). Cumulative value of imports during 2012-13 (Apr.-Feb.) was US $ 448.04 billion as against US $ 446.94 billion during the corresponding period of the previous year registering a growth of 0.25 per cent in $ terms. Oil imports were valued at US $ 155.57 billion during 2012-13 (Apr.-Feb.) which was 11.92 per cent higher than oil imports valued US $ 139.00 billion in the corresponding period of previous year. Non-oil imports were valued at US $ 292.47 billion during 2012-13 (Apr.-Feb.) which was 5.03 per cent lower than non-oil imports of US $ 307.94 billion in previous year.

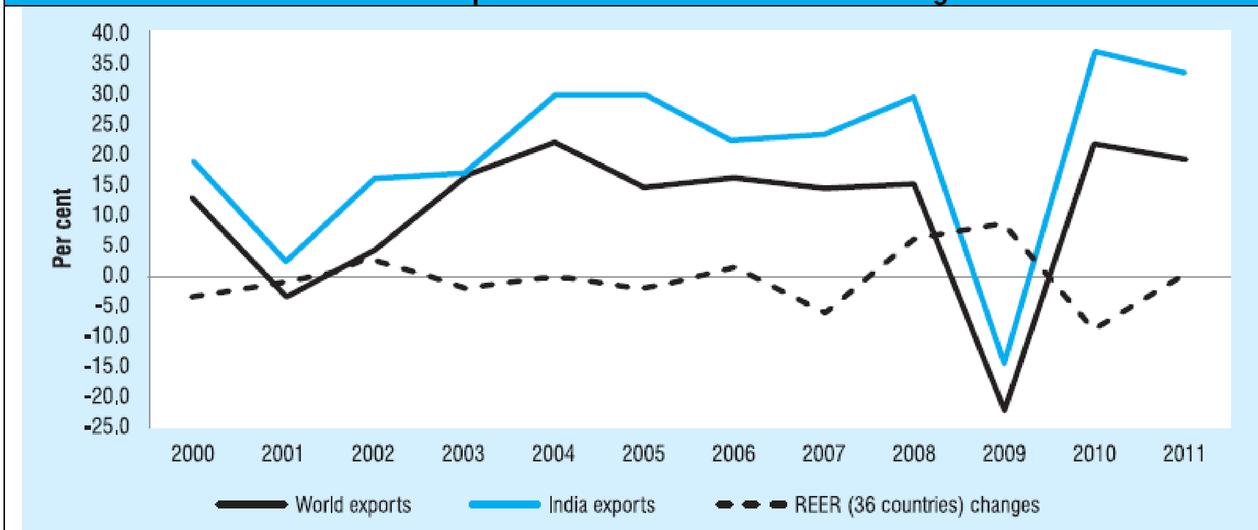
18.7.4 Share of Indian Merchandise Export in World Exports :



18.7.4.1 Even though the export sector plays a significant role in the domestic economy by contributing close to 25 percent to India's GDP (in 2009), its contribution to world exports continues to remain minimal, at a mere 1.7 percent of world exports in 2011 after increase from 1.5 % in 2009 & 2010 (however, this share 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.

18.7.4.2 There is a strong correspondence between India's export growth and world export growth. This is clearly visible in 2009 when there was a big dip in both world exports and India's exports. The relationship between changes in real effective exchange rate (REER) and India's export growth is not however as clear-cut as that with world trade.

Growth of Exports of World & India & REER Changes



18.7.5 Trade Quantum & Unit Values : The 28.3 per cent export growth in rupee terms in 2011-12 was due to the high growth in the unit value index of 20.2 per cent besides the 8.9 per cent growth in the volume index. While the high growth in the unit value index is due to growth in chemicals and related products (41.2 per cent), inedible crude materials other than fuels (41 per cent), and mineral fuels and related materials (36 per cent), growth in the quantum index of exports is mainly due to growth in food and food articles (35.9 per cent) machinery and transport equipment (28.0 per cent) and miscellaneous manufactured articles (16.8 per cent). A dissection of country-wise export quantum indices shows that the high growth in this index in 2011-12 is due to the high export quantum growth to Japan (26.8 per cent), Belgium (26 per cent), Bangladesh (20.9 per cent), and the UK (17 per cent). Contrary to general belief, the high import growth (in rupee terms) in 2011-12 was not due to quantum increase but due to high unit value increase (74.9 per cent), with growth in quantum of imports even being in negative figures at - 20.9 per cent in 2011-12. The unit value index of imports registered unusually high growth of 74.9 per cent in 2011-12, mainly due to growth in unit values of two high weighted items, machinery and transport equipment (169.2 per cent) due to a sharp rise in prices; and mineral fuels, lubricants, and related materials (28.9 per cent) due to the rise in price of crude petroleum and products. The high negative quantum growth of imports was mainly due to fall in quantum of machinery and transport equipment (- 52 per cent) which had become costlier and manufactured goods classified chiefly by materials (- 7.9 per cent).

18.7.6 The **net barter terms of trade** in 2011-12, which measures the unit value index of exports as a proportion of unit value index of imports, declined to - 27.2 per cent due to the high growth in the unit value index of imports while growth in the unit value index of exports was moderate. **Income terms of trade**, reflecting the capacity to import, declined for the first time after 2001-2 by 20.7 per cent, indicating a very unfavourable terms of trade situation for India. In 2001-2, the fall was very marginal with the relevant component of the indicator also showing marginal increases.

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

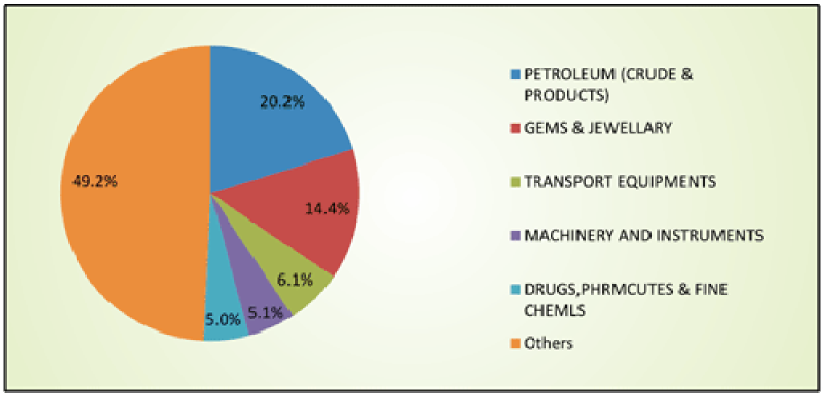
	Exports				Imports				Terms of Trade	
	Rupee terms	US$ terms	Quantum	Unit Value	Rupee terms	US$ terms	Quantum	Unit Value	Net	Income
2001-2	2.7	-0.6	0.8	1.0	6.2	2.9	4.0	2.8	-2.1	-1.7
2002-3	22.1	20.3	19.0	2.9	21.2	19.4	5.8	14.3	-9.8	7.8
2003-4	15.0	21.1	7.3	7.5	20.8	27.3	17.4	3.1	3.6	10.4
2004-5	27.9	30.8	11.2	14.9	39.5	42.7	17.2	18.9	-3.5	8.0
2005-6	21.6	23.4	15.1	6.1	31.8	33.8	16.0	14.0	-6.0	8.1
2006-7	25.3	22.6	10.2	13.7	27.3	24.5	9.8	15.1	-1.3	8.7
2007-8	14.7	29.0	7.9	5.1	20.4	35.5	14.1	1.9	2.6	10.9
2008-9	28.2	13.6	9.0	16.9	35.8	20.7	20.2	13.8	2.5	11.3
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	16.7
2011-12	28.3	21.3	8.9	20.2	39.3	32.3	-20.9	74.9	-27.2	-20.7
2012-13[a]	9.1	-4.9	-	-	14.5	0.01	-	-	-	-

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

18.7.7 Trade Composition: 18.7.7.1 Compositional changes in India's export basket have been taking place over the years. While the share of primary products in India's exports fell over the years from 16 per cent in 2000-1, in 2012-13 (April-November) it regained the share of 16 per cent mainly due to the export of agricultural items like rice and guar gum meal. The share of manufacturing exports fell drastically from 78.8 % in 2000-1 to 66.1 per cent in 2011-12 and further to 64.5 per cent in 2012-13(April-November) mainly due to the fall in shares of traditional items like textiles and leather and leather manufactures even though the share of engineering goods and chemicals and related products increased. Share of gems and jewellery fell marginally. Share of petroleum, crude & products exports, which also include refined items, increased from 4.3 per cent in 2000-1 to 18.3 per cent in 2011-12 and 18.6 per cent in 2012-13(April-November).

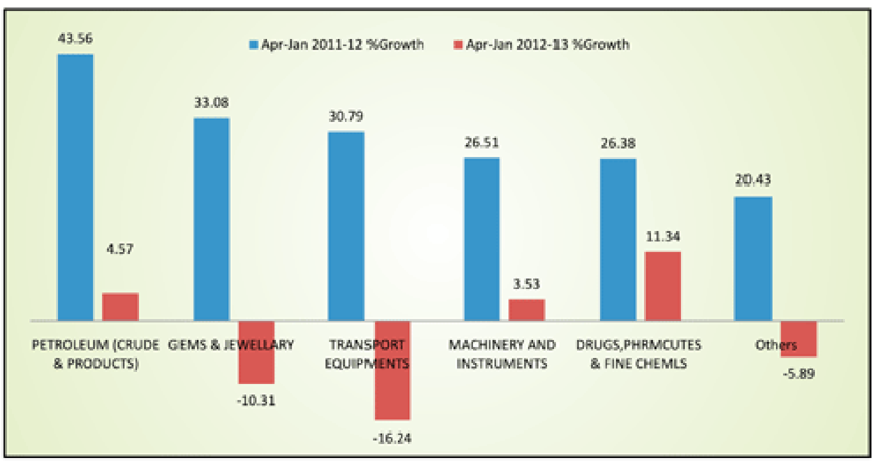
18.7.7.2 Exports of the top five commodities during the period 2012-13 (April-January) registered a share of 50.8 per cent in US $ terms mainly due to significant contribution in the exports of Petroleum (Crude & Products), Gems & Jewellery, Transport Equipments, Machinery and Instruments and Drugs, Pharmaceuticals & Fine Chemicals.

Share of Top Five Commodities in India's Exports 2012-13
(April- January)



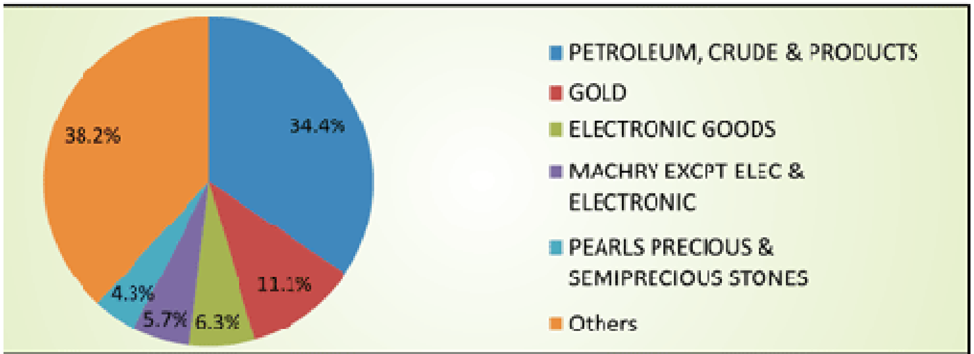
18.7.7.3 The export performance (in terms of growth in US $ terms) of top five commodities during 2012-13 (April-January) vis-a-vis the corresponding period of the previous year is shown below

Top Five Commodities of Exports by Growth (Apr. -Jan.) 2011-12 & 2012-13



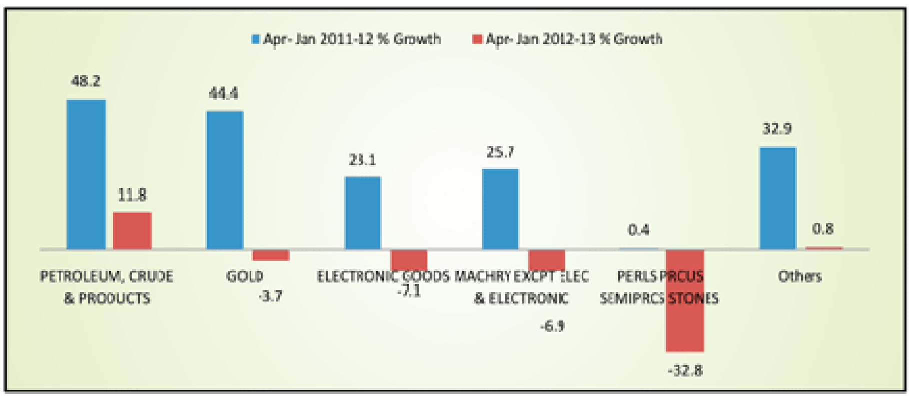
18.7.7.4 There have been some significant compositional changes in India's import basket in recent years. The share of POL imports increased from 28.7 per cent in 2010-11 to 31.7 per cent in 2011-12 (with a very high growth rate) and 34.6 per cent in 2012-13 (April-November). The share of gold and silver imports increased from 9.3 per cent in 2000-1 to 12.6 per cent in 2011-12 with a high import growth rate of 44.5 per cent. However, in part due to policy measures like raising import duty on gold, there was a moderation in gold and silver imports in 2012-13 (April-November) with its share falling to 10.5per cent following a negative growth of - 20.4 per cent. The import share of pearls, precious and semiprecious stones also fell sharply in 2011-12 to 6.1per cent following a negative growth of -13.3 per cent and further to 4.1 per cent in 2012-13 (April-November), with a high negative growth rate of - 32.3 per cent. Another important development is related to the share of capital goods imports which increased from 10.5 per cent in 2000-1 to 13.6 per cent in 2010-11 and further to 14.1 per cent in 2011-12, declining thereafter to 11.9 per cent in 2012-13 (April-Nov.) following a negative growth rate of - 6.5 per cent.

Share of Top Five Commodities in India's Imports 2012-13
(April- January)



18.7.7.5 The import performance by growth of top five Principal commodities during 2012-13 (April–January) vis-a-vis the corresponding period of the previous year is shown as under

Top Five Commodities of Import by Growth (Apr.-Jan.) 2011-12 & 2012-13

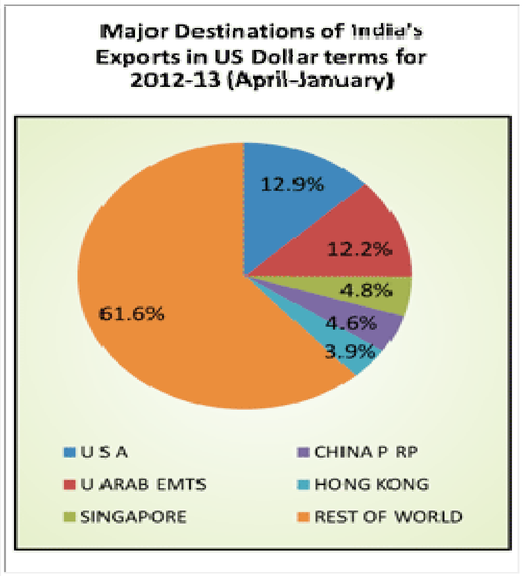


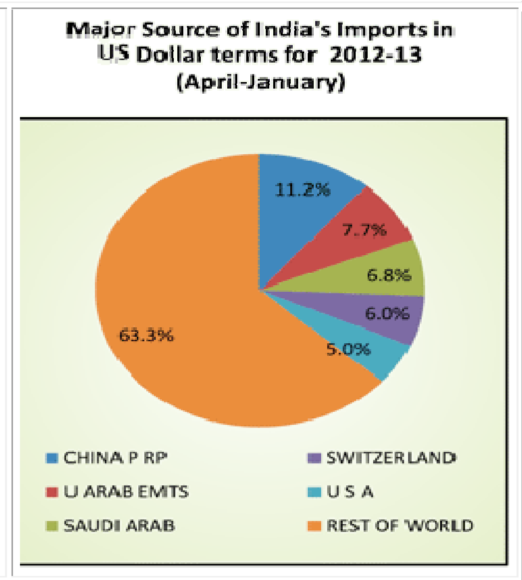
18.7.8 Direction of India's Foreign Trade : 18.7.8.1 There has been significant market diversification in India's trade since 2000-01. Region-wise, while India's exports to Europe and America have declined whereas its exports to Asia and Africa have increased.

Region Wise Share of India's Exports

		2000-1	2005-6	2011-12	2012-13 (Apr.-Nov.)
1)	Europe	25.9	24.2	19.0	18.7
2)	Africa	5.3	6.8	8.1	9.6
3)	America	24.7	20.7	16.4	19.5
4)	Asia	37.4	46.9	50.0	50.4
5)	CIS & Baltics	2.3	1.2	1.0	1.3

18.7.8.2 However, in 2012-13 (April- November), the share of India's exports to the USA increased to 13.5 per cent. Within Asia, while the share of North East Asia (consisting of China, Hong Kong, Japan) and ASEAN (Association of South East Asian Nations) fell from 14.8 per cent and 12.0 per cent in 2011-12 to 13.1 per cent and 10.3 per cent respectively in 2012-13 (April- November), there was a noticeable rise in the share of West Asia-GCC (Gulf Cooperation Council) countries from 14.9 per cent in 2011-12 to 17.7 per cent in 2012-13 (April- November).





18.7.8.3 During the period 2012-13 (April–January), the share of Asia comprising of East Asia, ASEAN, West Asia, Other West Asia, North East Asia and South Asia accounted for 50.78 per cent of India's total exports in US $ terms. The share of Europe and America in India's exports stood at 18.88 per cent and 18.77 per cent respectively of which EU countries (27) comprises 16.99 per cent. During the period, USA (12.89 per cent) has been the most important country of export destination followed by UAE (12.20 per cent), Singapore (4.79 percent), China (4.59 per cent) and Hong Kong (3.95 per cent).

18.7.8.4 Asia accounted for 60.08 per cent of India's total imports during the period followed by Europe (17.39 per cent) and America (11.64 per cent). Among individual countries the share of China stood highest at (11.21 per cent) followed by UAE (7.67 per cent), Saudi Arabia (6.78 per cent), Switzerland (6.01 per cent) and USA (5.00 per cent).

18.8 **Trade in Services :** 18.8.1 Like world merchandise trade, world commercial services trade which was badly hit by the 2008 global crisis, crossed the pre-crisis level in 2011 to reach US$ 4.17 trillion after a gap of two years.

18.8.2 India's services export growth has been faster than that of merchandise exports with the export of services growing at a CAGR of 23.6 per cent during 2001-2 to 2011-12, while merchandise exports grew at a CAGR of 21.4 per cent during the same period. However, growth in services exports became erratic in the post global crisis period. Reflecting the impact of uncertainty in the global economy and weak growth in advanced economies, services exports at US$ 142.3 billion showed a lower growth of 14.2 per cent in 2011-12 as against 29.8 per cent in the preceding year. Services imports at US$ 78.2 billion declined by 2.9 per cent in 2011-12, as against an increase of 34.2 per cent in the preceding year.

India's Export of Services

Commodity Group	Percentage Share				CAGR	Growth Rate[a]			
	2001-02	2011-12	2011-12	2012-13	2001-02 to 2011-12	2010-11	2011-12	2011-12	2012-13
			(Apr.- Sept.)					(Apr.- Sept.)	
Travel	18.3	13.0	11.9	10.7	19.4	33.2	16.9	21.3	-5.9
Transportation	12.6	12.8	13.3	12.1	23.8	27.4	28.0	37.1	-4.8
Insurance	1.7	1.8	1.8	1.6	24.8	22.3	35.3	39.8	-9.3
GNIE	3.0	0.3	0.4	0.4	-0.8	21.3	-10.7	30.6	7.7
Miscellaneous	64.4	72.0	72.6	75.2	25.0	29.8	11.3	20.2	8.0
Software Services	44.1	43.7	43.3	45.6	23.5	6.8	17.2	21.8	9.8
Non-Software Services	20.3	28.3	29.3	29.6	27.8	83.4	3.3	18.1	5.4
Of which:									
Business Services	3.0	18.2	17.8	21.2	47.9	112.4	7.7	10.6	23.9
Financial services	1.7	4.2	4.3	3.8	35.2	76.2	-8.3	-6.2	-6.9
Communication Services	4.4	1.1	1.1	1.3	7.8	27.2	2.4	1.1	16.5
Total Services Exports	**100.0**	**100.0**	**100.0**	**100.0**	**23.6**	**29.8**	**14.2**	**22.7**	**4.3**

Source: Computed from RBI data.
Notes: [a] Growth rate is based on values in US dollar terms. GNIE = Government not included elsewhere.

India's Import of Services

Commodity Group	Percentage Share				CAGR	Growth Rate[a]			
	2001-02	2011-12	2011-12	2012-13	2001-02 to 2011-12	2010-11	2011-12	2011-12	2012-13
			(Apr.- Sept.)					(Apr.- Sept.)	
Travel	21.8	17.6	19.3	15.2	16.4	18.0	24.8	39.4	-12.9
Transportation	25.1	20.9	21.0	18.9	16.8	16.3	18.0	14.5	-1.0
Insurance	2.0	1.9	2.0	1.4	18.3	8.9	7.0	3.6	-23.3
GNIE	2.0	1.0	1.0	0.8	10.7	56.2	-4.9	9.2	-11.3
Miscellaneous	49.0	58.6	56.7	63.7	21.1	44.6	-14.3	-13.4	23.9
Software Services	4.9	1.6	1.7	2.9	6.5	49.5	-42.8	-47.5	89.7
Non-Software Services	44.2	56.9	55.0	60.8	22.0	44.4	-13.0	-11.7	21.9
Of which:									
Business Services	10.9	34.2	33.8	37.4	33.4	53.4	-3.3	-4.4	22.0
Financial services	9.1	10.2	10.7	6.4	20.2	61.2	6.7	17.7	-34.7
Communication Services	2.7	2.0	2.0	0.6	15.5	-15.0	35.2	42.8	-66.2
Total Services Imports	**100.0**	**100.0**	**100.0**	**100.0**	**18.9**	**34.2**	**-2.9**	**-0.5**	**10.3**

Source: Computed from RBI data.
Note: [a] Growth rate is based on values in US dollar terms. GNIE = Government not included elsewhere.

18.8.3 India's Balance of Trade in Services : Surplus on account of India's services exports has been a cushioning factor for financing a large part of the merchandise trade deficit in recent years. During 2006-7 to 2011-12, surplus in services exports, on average, financed around 38 per cent of merchandise trade deficit. During 2011-12, net surplus on account of services exports at US$ 64.1 billion stood significantly higher than that in 2010-11 and financed 33.8 per cent of trade deficit

18.9 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.

18.10 Data Source : 18.10.1 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.

18.10.2 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.

18.10.3 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.

18.10.4 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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