

## CHAPTER 18

### TRADE

Combined with cutting edge technology, Indian trade market is making its presence felt all across the world and is fast emerging as one of the global leaders in trade. Indian products and services are seen as of international standards and globally competitive. Undertaking considerable industrial deregulation and other structural reforms, trade in India recognizes that strong exports are critical for overall economic growth and poverty reduction. Export-led growth has thus become a key thrust for the trade in India.

Export represents actual shipments as checked by the custom officials. The figures of exports relate to Indian merchandise alone and re-exports relate to foreign merchandise previously imported into India and then exported from India. Direct transit trade, transshipment trade, passenger's baggage, ships stores, defence stores, transaction in treasures i.e. gold and current coins & notes, diplomatic goods are excluded. All articles dispatched to foreign countries by parcel or letter post are included since 1964-65. Transactions in silver (other than current coins) and in notes & coins not in circulation or withdrawn from circulation and indirect transit trade are also included.

Exports are credited to the country of final destination as declared by exporters in the shipping bill whether that country possesses a sea-port or not. The country of final destination is defined as that to which goods exported from India are intended to pass whether by sea and land or by sea only or by air without interruption of transit, save in the course of transshipment or transfer from one means of conveyance to another.

Imports are classified with reference to the countries whence they were consigned to India and not with reference to the countries whence they were shipped direct to India. The country of consignment is defined as that from which the goods have come whether by land and sea or by sea only or by air, without interruption of transit save in the course of transshipment or transfer from one means of conveyance to another. Thus the countries where goods are consigned are not in all cases the countries of actual origin of goods since goods produced in one country may be purchased by a firm in another country and then dispatched after an interval to India.

The figures are those declared by importers and exporters in the bills of entry and shipping bills. The value of goods represents the wholesale cash price less trade discount for which goods (i) the like and quality are sold or are capable of being sold at the time and place of importation or exportation as the case may be without any abatement or deduction whatever, except that in the case of goods imported, of the amount of duties payable on the importation thereof, or (ii) where such price is not ascertainable the cost at which the goods of the like quality could be delivered at such place without any abatement or deduction except as aforesaid. Import valuation in practice corresponds to cost insurance and freight (c.i.f.), method. Export valuation is based on free on board (f.o.b.) inclusive of export duty and/or cess where leviable.

The data for Imports, Exports and Re-exports given are according to the Indian Trade Classification Revision-2 adopted from April, 1977 and followed upto March, 1987. From April 1987, a new system of commodity classification known as Indian Trade Classification (based on Harmonised Commodity description and coding system) was adopted. From the trade point of view to specify the new commodities, omission of obsolete and unimportant products and modification of existing nomenclature, it has been revised time to time (i.e. in the year 1991, 1992, 1996, 2003 etc.). From April, 2008 onwards ITC (HS) 2007 is followed.

The Directorate General of Commercial intelligence and Statistics, Kolkatta 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. These statistics are compiled on a very comprehensive basis, covering a very large number of products, and extremely useful in undertaking region wise, country wise, product wise studies on the prospects of foreign trade.

Region specified by the Directorate General of Commercial intelligence and Statistics is defined in the following way.

**Region 01: Economic Community of West African States (ECOWAS)**

Benin; Burkina Faso; Cape Verde; Cote d' Ivoire; Ghana; Gambia; Guinea; Guinea-Bissau; Liberia; Mali; Mauritania; Niger; Nigeria; Senegal; Sierra Leone, Togo.

**Region 02: Southern African Development Community (SADC)**

Angola; Botswana; Congo. Demo. Rep.; Lesotho; Malawi; Mozambique; Mauritius; Namibia; Swaziland; Seychelles; South Africa; Tanzania Rep; Zambia', Zimbabwe.

**Region 03: Organisation of American States (OAS)**

Antigua and Barbuda; Argentina; Bahamas; Barbados; Belize; Bolivia; Brazil; Canada; Chile; Colombia; Costa Rica; Cuba; Dominica; Dominican Republic; Ecuador; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Mexico; Nicaragua; Panama Republic; Paraguay; Peru; St. Christopher and Nevis; St Lucia; St Vincent and the Grenadines; Surinam; Trinidad and Tobago; USA; Uruguay; Venezuela.

**Region 04: Association of Caribbean States (ACS)**

Antigua and Barbuda; Bahamas; Barbados; Belize; Colombia; Costa Rica; Cuba; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Mexico; Nicaragua; Panama Republic; St. Lucia St. Christopher and Nevis; St Vincent and the Grenadines; Surinam; Trinidad and Tobago, Venezuela.

**Region 05: Pacific Island Forum (PIF)**

Australia; Cook Islands; Fiji Islands; Kiribati Rep; Marshall Islands; Micronesia; Nauru Republic; New Zealand; Niue Islands; Palau; Papua New Guinea; Samoa (Ameri); Solomon Islands; Tonga; Tuvalu; Vanuatu Republic.

**Region 06: Organisation of the Petroleum Exporting Countries (OPEC)**

Algeria; Indonesia; Iran; Iraq; Kuwait; Libya; Nigeria; Qatar; Saudi Arabia; United Arab Emirates; Venezuela.

**Region 07: Asia Pacific Economic Cooperation**

Australia; Brunei; Canada; Chile; China P.R.P.; Hong Kong; Indonesia; Japan; Korea Republic; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Taipei (Taiwan); Thailand; USA; Vietnam Soc. Rep.

**Region 08: South Asian Association for Regional Cooperation (SAARC)**

Bangladesh; Bhutan; India; Maldives; Nepal; Pakistan, Sri Lanka.

**Region 09: Association of South East Asian Nations (ASEAN)**

Brunei; Cambodia; Indonesia; Lao PD RP; Malaysia; Myanmar; Philippines; Singapore; Thailand; Vietnam Soc. Rep.

**Region 10: Economic Cooperation Organization (ECO)**

Afghanistan; Azerbaijan; Iran; Kazakhstan; Kyrgyzstan; Pakistan; Turkey; Tajikistan; Turkmenistan; Uzbekistan.

**Region 11: European Union (EU)**

Austria; Belgium; Denmark; Finland ;France,Germany; Greece; Republic of Ireland; Italy; Luxembourg; Netherlands; Portugal; Spain; Sweden;U.K.

**Region 12: European Free Trade Association (EFTA)**

Iceland; Liechtenstein; Norway; Switzerland

**Region 13: Black Sea Economic Co-operation Group (BSEC)**

Albania; Armenia; Azerbaijan; Bulgaria; Georgia; Greece; Moldova; Romania; Russia; Turkey,Ukraine.

**Region 14: Council of Baltic Sea States**

Denmark; Estonia; Finland; Germany; Iceland; Latvia; Lithuania; Norway; Poland; Russia, Sweden.

## **Region 15: Commonwealth of Independent States (CIS)**

Armenia; Azerbaijan ; Belarus ; Georgia; Kazakhstan; Kyrgyzstan; Moldova; Russia; Tajikistan; Turkmenistan; Ukraine,Uzbekistan

### **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 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.

Quantum Index is derived by first deflating merchandise trade values at the sub-class-country level by their corresponding unit value indices to derive the deflated values. Deflated values for higher levels of aggregation are then obtained by summing up the deflated values of the components. The quantum indices based on changes in deflated values with respect to the base period can then be derived.

Gross terms of trade' is defined as the ratio of Quantum Index of Import and that of Export, 'Net terms of trade' is defined as the ratio of Unit-value Index of Export and that of Import while 'Income terms of trade' is defined as the product of 'Net terms of trade' and 'Quantum Index of Export'.

The adjustment of incomplete coverage is done based on the assumption that a particular Commodity head for which index is being calculated is homogeneous and thus the unit value index calculated based on the included/reported items in the basket for that head is applicable to all included or not-included items of that Commodity head. Both at Major/Commodity head and Sectional level the compilation of unit value indices are to be done based on the included items in the basket of index numbers. However, for the compilation of quantum indices, adjustment is to be done for incomplete coverage. This time it is recommended that there will not be any selected basket. All the items of any Section or Major (Commodity) head will be included provided the item codes of base & current year matched. So in the new series of indices, percentage of non-included items will be very less.

### **Formulas used For Commodity heads or section index**

A 'Commodity head' is a division or group or a cluster of them specially selected for the purpose of computation of Index numbers keeping in view the homogeneity of the commodities in the group. A 'Section' is a section head based on SITC in which the commodity heads are belong.

The link indices of chain base indices of unit value index or quantum index are to be calculated first and then the link indices would be multiplied to get the related chain index.

The link indices of chain base indices of unit value index (say UVI) are calculated using Fisher' formula.

### **Highlights**

- Since 2001-2002, imports rose much faster than exports, resulting in an unfavorable balance of trade. Imports rose by 21.2 % in 2002-03, 20.8% in 2003-04, 39.5% in 2004-05, 31.8% in 2005-06, 27.2% in 2006-07 and 20.4% in 2007-08. The exports did not show any significant increase during the same period and as a result in 2003-04, 2004-05 and 2005-06 the balance of trade came down by 56.2%, 91.2% and 62.2% respectively.

- During, 2008-2009, most of the commodities/commodity groups registered significant increase, generally more than 20%, in imports over the previous year. The commodities which registered a fall in the import are live animals, products of animal origin, cereals, Furskins and artificial fur, manufactures thereof etc.
- While in 2000-2001, U.S.A., Switzerland and Belgium were three countries accounting for about 30% of the total imports, in 2008-09 the major countries which accounted for the more than 30% of the import are China (10.7%), Saudi Arabia (6.5%), United Arab Emirates (7.7%) and U.S.A. (6.2%)
- Principal countries of destination for export from India in 2000-2001 were Hong Kong (5.9%), Japan (4.0%), USA (20.8%), United Arab Amirates (5.8%), U.K. (5.2%), and Germany (4.3%). The composition in 2008-09 has changed, and now the major countries of destination for export from India are China (5.1%), Singapore (4.5%), United Arab Amirates (13.1%) and USA (11.5%).
- Considering the regional grouping of countries, it is observed that Organisation of Petroleum Exporting Countries(OPEC) is having the largest import ( 23.1%) followed by Asia Pacific Economic Cooperation (29.6%) and then European Union (EU) (9.6%) with India. Export in these regions is also 16.3%, 29.5% and 15.5 % respectively. Other region which is having significant export is Organisation of American States (OAS) (12.3%).
- During 2007-08, the import of Fertilizers was ₹ 620827 crores, which was 24.0% of total import increased to ₹ 992911 in 2008-09. However import of Crude Fertilizer increased by 15.1% in 2007-08 over 2006-07 and **159.1%** in 2008-09 over 2007-08. Import of Fertilizer manufactured also increased by 52.3% and 196.8 % during the same period. Other items whose import increased in both the years are Milk and cream, raw cotton other than linters, sulphur, organic chemicals, Medicinal and pharmaceutical products etc.
- During 2007-08 and 2008-09, commodities registering significant increase in exports over the previous year are Basmati Rice, Oil meals, spices, Tea, Tobacco unmanufactured, Leather & leather manufactures, Footwear of leather etc.
- Exports of handmade carpet and Non-ferrous metals were estimated at ₹ 35064 crores and 92583 crores ₹ during 2008-09, recording a decline of 5.8% and 24.6 % respectively over the last year. These items have shown decline in 2007-08 also.
- During 2008-09, the items which are showing a negative growth in unit value price index for import are Beverages, non ferrous metals, tools for use in the hand or in machines, Reproducing Apparatus & Equipment, Other transport equipment, Other Transport Equipment, Instruments & Apparatus.
- In 2008-09 over 2007-08, the increase in unit value quantum index of import is by 272 points. The major sectors which are having more than 100 points increase and contributed to this are Beverages and Tobacco, Beverages, Inorganic Chemicals, Fertilizers Manufactured, Non-Ferrous Metals, Nails, screws, nuts bolts, rivets etc.
- In 2008-09, the increase in unit value quantum index of export is only 22 points. The sectors which have shown a declining trend in unit value quantum index of export during this period are Food and live animals, Cereals and cereal preparations, Crude Materials, Inedible, except Fuels, Textile Fibres & Their Wastes, Metalliferous Ores & Metal Scrap, Insecticides, rodenticides, Fungicides, Herbicides, Starches, Inulin & Wheat gluten, albuminoidal substances, glues, Leather, Leather Manufactures & Dressed Furskins, Power-Generating Machinery & Equipment.

**This chapter contains the following tables:**

**Table 18.1-** Foreign Trade: Overall Trade in Merchandise and Treasure

**Table 18.2-** Foreign Trade: India's Foreign Trade by Chapters and Section

**Table 18.3-** Value Of Imports Of Merchandise into India by Principal Countries Of Consignment

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