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). World Trade Organisation (WTO), as per its press release of September, 2014, has lowered the growth forecast of world trade to 3.1% (down from the 4.7%) forecast made in April) and estimate for 2015 has been cut down to 4.0% from 5.3% in April, 2014. This is still lower than 20 year average (1993-2013) of 5.2%.

• IMF in its World Economic Outlook (WEO) released on 20th January 2015 has projected global growth for 2015 and 2016 to be at 3.5% and 3.7% respectively, a 0.3% reduction in both years' projection individually from the October 2014 WEO. As per IMF, world output growth remained at 3.3% for 2014.

INDIA
World Bank's 'Trading Across Borders' Rankings over the years

Indicator	2015	2014	2013	2012	2011	2010	2009	2008
Overall ranking	126	132	127	127	100	94	97	90
Documents to export (number)	07	09	09	9	9	9	9	9
Time to export (days)	16	16	16	16	16	17	17	17
Cost to export ($ per container)	1,120	1,170	1,120	1,120	1,095	1,055	945	945
Documents to import (number)	10	11	11	11	11	11	11	11
Time to import (days)	20	20	20	20	20	20	20	20
Cost to import ($ per container)	1,250	1,250	1,200	1,200	1,150	1,105	1,040	1,040

18.5 Global Economic Situation and World Trade in 2014-15.

The year 2014-15 saw the world economy resuscitate itself from a long lasting financial and economic crisis. However, this recovery is taking place at a less decisive pace than had been expected. The global economy is facing numerous challenges, including the deteriorating economic situation in Euro Area, political situation in Greece, slow recovery of demand in Japan and a slowdown in Chinese economy. Financial markets also remain vulnerable to weaker growth in China and oil exporting Emerging Market Economies (EMEs) as growth has weakened for oil exporting countries due to fall in oil prices.
India maintained a percentage growth of 5.8% for 2014, registering a 0.8% increase from the previous year. India's growth projection for the year 2015 and 2016 is marked at 6.3% and 6.5% respectively. However, a noteworthy fact here is that India's growth forecast for the year 2016 surpasses that estimated for China by 0.2%. India's growth is projected to be higher than all the BRICS nation countries for the year 2016.

As per the revamped numbers (based on 2011-12 prices) released by CSO on February 9, 2015, Indian Economy had grown at a rate of 6.5%, 8.2%, 7.5% in Q1, Q2 and Q3 of 2014- 15. Going by advanced estimates, the Indian economy is projected to grow at 7.4% in 2014-15, outpacing China to become the world's fastest growing economy. In 2013-14, India had a surplus in services trade with services exports at US$ 151.47 billion and imports at US$ 78.5 billion. India's services trade surplus currently covers about 53% of the deficit in merchandise trade. Demographic dividend, if harvested properly, can boost our services exports further to neutralize the merchandise trade deficit.

Services contribute 57% to GDP, 28.1% to employment and 25% to trade. India is the most dynamic exporter of commercial services in the world, the highest among the top 10 exporters. India ranked 6th among the leading world exporters of commercial services in 2012 with a value of US$ 148 billion and a share of 3.24% and growth of 8%. EU and China, with a respective services contribution of about 73% and 44% to their GDP, have a share of 43.7% and 4.41% respectively, in world exports of commercial services. In contrast, India's services sector contributes 57% to the GDP but has a share of only 3.24% in the world exports of services. Thus, the services sector in India needs much focus, attention and roadmap for the way forward that can help us enhance the export of different services.

18.6 Integration with the Global Economy

A carefully calibrated global economic integration in keeping with our development objectives is the key to greater growth. Trade and investment are tools which can be used to our advantage. Trade for instance can help development through the creation of jobs and investment. It also affords greater commercial opportunities. However, we also need to be prepared to face greater competition from the outside world. The global economy is more closely intertwined than ever before. We have to therefore keep pace with developments all around.

While we reap the benefits of an open global system, the occasional shocks from the world economy also become unavoidable. However, shutting ourselves in is not an option any more. The need therefore, is to build a strong manufacturing base which requires huge investment. A well-developed manufacturing sector is also necessary to create more and better job opportunities. While promoting manufacturing, there is a need to be careful about adopting the most efficient technology, high and harmonised standards and also skill development. In order to ensure that we are not left out, constant updating of our knowledge, equipment and skill development should be a priority which must be an integral part of the plans for any factory or institution that we build.

In the area of trade, the WTO has played a vital role and the Doha Development Agenda is seen as a landmark for developing countries, disadvantaged as they are in a less than level playing field. India has liberalized its tariffs autonomously resulting in reduction of average tariffs for agricultural goods from 41% to 33.3% and for industrial goods from 32.5% to less than 9%.India's trade-GDP ratio crossing 50%, up from 20% in 1998. Small and medium enterprises are very important for our economic growth. These enterprises not only contribute about 8% of our GDP, 40% of our exports but also provide jobs to 60 million people.

18.7 India's Export Performance and Import:- India's merchandise exports reached a level of US$ 265.03 billion during Apr-Jan, 2014-15 registering a growth of 2.44 percent Despite the recent setback faced by India's export sector due to global slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 15 per cent from 2009-10 to 2013-14 (P).

As per the latest WTO's International Trade statistic Report 2014, in merchandise trade, India is the 19th largest exporter in the world with a (share of 1.7%) and 12th largest importer (with a share of 2.5% in) of merchandise trade in the world in 2013. China is the top ranked exporter and United States of America (USA) is the first largest importer of merchandise trade in the world. In Commercial Services India is the 6th largest exporter (with a share of 3.2%) and 9th largest importer (with a share of 2.8%). US is the top exporter as well as the top importer of commercial services trade in the world.

18.8 Composition of India's Exports : The compositional structure of India's trade basket for the period April 2014 to December 2014 shows that, petroleum and gems and jewellery are the first and second top commodities exported with respective shares of 1936% and 13.03%. Owing to inelastic demand of petroleum in India, arising due to domestic energy consumption and re-exports of refined petroleum, it has been the largest imported and exported commodity. Petroleum comprises of 33.26% share of India's total imports and gold is 7.35% of total imports.
However, both petroleum and gems & jewellery have high import content and a very low value added. The value added component is about 7-8% for petroleum products and 3% for gems & jewellery. Thus, in view of the high import content of our leading export products, the impact of depreciation in terms of increasing exports is not likely to be very effective.

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%). Exports recorded a growth of 2.44 per cent during April-January 2014-15 (QE) over the corresponding period of the previous year. The Government has set a target of US$ 340 billion for merchandise exports for 2014-15. Merchandise exports have reached US$ 265.04 billion in April-January 2014-15(QE).

18.9 Import:- Cumulative value of imports during April-January 2014-15 (QE) was US$ 383.41 billion growing by 2.17 per cent year-on-year in dollar terms. Oil imports were valued at US$ 124.75 billion during April-January 2014-15 (QE) which was 7.9 per cent lower year-on-year. Non-oil imports were valued at US$ 258.66 billion during April-January 2014-15 (QE), a growth of 7.8 per cent year-on-year. The long-term vision of the Department of Commerce is to make India a significant player in world trade by 2020 and enable it to assume a role of leadership in international trade organizations commensurate with India's growing importance. India's merchandise exports reached US$ 314.41 billion during 2013-14, registering a growth of 4.66 per cent as compared to a negative growth of 1.82 per cent during the previous year. Exports recorded a CAGR of 15.87 per cent from 2004-05 to 2013-14.

18.10 World Trade Scenario:- In the latest forecast by IMF in its World Economic Outlook (WEO) Update, January 2015, India is projected to grow at 6.3 per cent in output growth is projected at 3.5 per cent and 3.7 per cent for 2015 and 2016 respectively. While advanced economies are expected to grow at 2.4 per cent in both 2015 and 2016, growth of emerging and developing economies is projected at 4.3 per cent and 4.7 per cent for 2015 and 2016 respectively. Growth in world trade volume fell to 3.1 per cent in 2014 from 3.4 per cent in 2013, but is expected to recover to 3.8 per cent and 5.3 per cent by 2015 and 2016 respectively.

The Trade Facilitation Agreement (TFA),which was also endorsed by India at the Ninth Ministerial Conference, is basically aimed at greater transparency and simplification of customs procedures, use of electronic payments and risk management techniques, and faster clearances at ports. Trade facilitation was put on the agenda mainly by the developed countries while the issue of rules relating to public stockholding for food security purposes was put on the agenda by G-33 group of 46 developing countries including India.

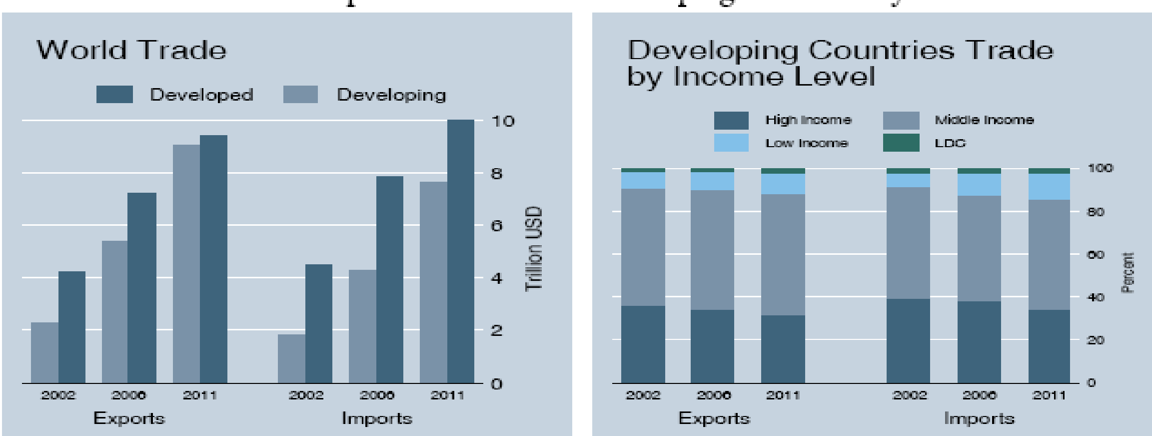
18.11 The agricultural trade rules in the WTO's Agreement on Agriculture do not bar public procurement and stockholding for food security.However, if food for such programmes is acquired at administered prices and not market prices, then this is deemed a support to farmers. As per WTO rules negotiated in the Uruguay Round, all such support has to be kept within a limit of 10 per cent of the value of production of the product in question. This cap can constrain procurement and food aid programmes in developing countries. The WTO rules, made keeping the interests of the developed countries uppermost, have overlooked the interests of the developing countries. The draft agriculture negotiating text of December 2008 seeks to change this. It contains a proposal to revise the rules, however, as the negotiations have not concluded, this remains an unfinished agenda. India, as part of a coalition of developing countries known as the G-33, proposed an amendment to the WTO's Agreement on Agriculture to change these rules. The G-33 proposals, as well as various alternatives suggested by the Group, met with resistance. Negotiations continued during the Bali inisterial Conference. The finally agreed text of the Ministerial Decision provides for Members to put in place an interim mechanism and to negotiate on an agreement for a permanent solution for adoption by the Eleventh Ministerial Conference of the WTO. In the interim, until a permanent solution is found and subject to certain conditions, Members were to be protected against challenge in the WTO under the Agreement on Agriculture in respect of public stockholding programmes for food security purposes. Post Bali, the focus of the developed countries was only on the implementation of the TFA. Concerned at this uneven progress, India took the stand in July 2014 that without a firm commitment to implement the other Bali Decisions, it would be difficult to join the consensus on the Protocol of Amendment to incorporate the TFA into the umbrella WTO Agreement.

18.12 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.

18.13 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.

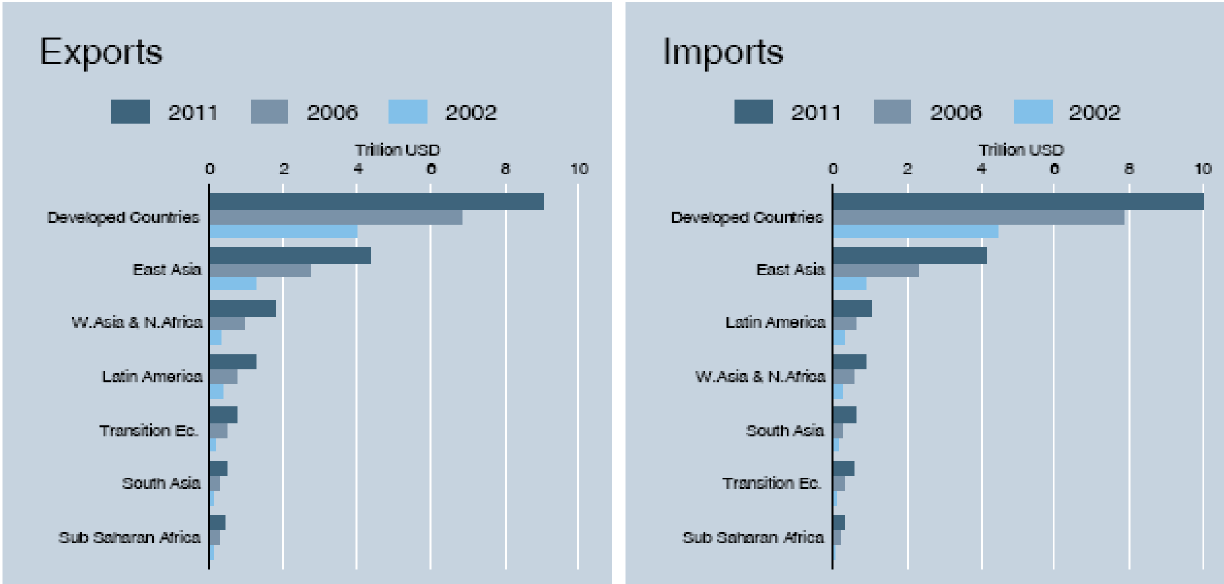
World Trade of Developed Countries and Developing Countries by Income Level



Source : Key Trends in International Merchandise Trade 2013, UNCTAD

18.14 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.

18.15 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. 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

18.16 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

18.17 **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

18.18 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).

18.19 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.

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.

18.20 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

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.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.

18.21 **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

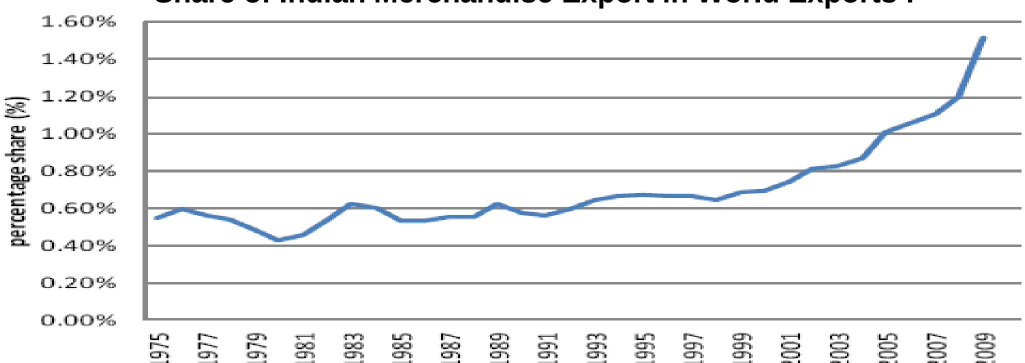
about data on principal commodity-wise has been reduced from 2 ½ months to 1 month. Further transaction level (8 digit level) data is now available within a period of 2 months.

- **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.

18.22 **Indian Merchandise Trade & Balance of Trade- Trends and Present Status :** Over the last ten years, India's merchandise trade (on customs basis) increased manifold from US$ 195.1 billion in 2004-05 to US$ 764.6 billion in 2013-14. As per the World Trade Organization (WTO), India's share in global exports and import increased from 0.8 per cent and 1.0 per cent respectively in 2004 to 1.7 per cent and 2.5 per cent in 2013. Its ranking in terms of leading exporters and importers improved from 30 and 23 in 2004, to 19 and 12 respectively in 2013. While India's total merchandise trade as a proportion of gross domestic product (GDP) increased from 29.0 per cent in 2004-05 to 41.8 per cent in 2013-14, India's merchandise exports as a proportion of GDP increased from 12.1 per cent to 17.0 per cent during the same two time periods. There were considerable differences in the growth rates within the two time periods which owed largely to the global uncertainty, prolonged weakness in some areas, and volatility in global commodity prices since 2008. In particular, global crude oil prices were a major factor in the process of elevated levels of merchandise trade deficit .

18.23 After registering very high growth of 40.5 per cent in 2010-11, growth of merchandise exports moderated to 21.8 per cent in 2011-12.The high growth in two years led to overall exports crossing the US$ 300 billion mark. In 2012-13,though exports were still above the US$ 300 billion mark, growth in exports could not be sustained and marginally declined by 1.8 per cent. During 2013-14, however, exports recovered to post a growth of 4.7 per cent (US$ 314.4 billion). In 2014-15 (April-January), growth of exports moderated to 2.4 per cent (US$ 265.0 billion vis-à-vis US$ 258.7 billion in the corresponding period of the previous year).4.7 India's merchandise imports grew by 28.2 per cent in 2010-11and the high growth continued through 2011-12 driven by broad-based expansion in imports of gold and silver, POL group and non-POL and non-gold and silver group. In 2012-13, there was only modest decline in the growth rates of gold and silver as well as non-POL imports, leading to continuance of elevated level of total imports of around US $ 490 billion. In 2013-14, in view of the sharp depreciation of the rupee owing to domestic and external factors, the government placed restrictions on gold imports which led to a sharp decline therein of 46.4 per cent. With domestic activity remaining weak, non- POL and non-gold and silver imports also declined by around 7 per cent, which along with the fall in gold imports led to overall decline in imports to US$ 450 billion. In 2014-15 (April-January),imports grew by 2.2 per cent to US$ 383.4 billion as compared to US$ 375.3 billion in 2013-14 (April-January). While the value of POL imports declined by 7.9 per cent in 2014-15 (April-January), gold and silver imports grew by 8.0 per cent in 2014-15 (April-January). Non-POL and non-gold and silver imports which largely reflect The imports needed for industrial activity grew by 7.8 per cent in 2014-15 (April-January), after registering a decline of 0.7 per cent and 6.9 per cent respectively in 2012-13 and 2013-14.

Share of Indian Merchandise Export in World Exports :



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).

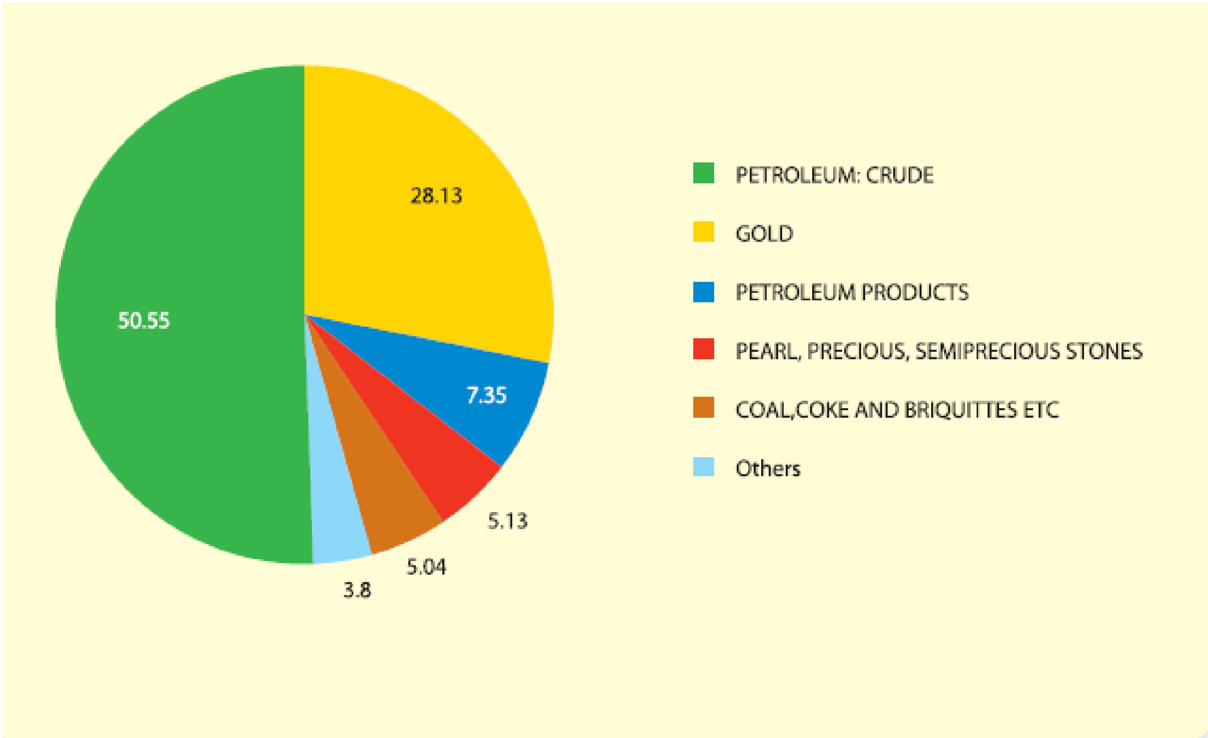
18.24 There has also been marked improvement in India's total merchandise trade to GDP ratio from 21.8 per cent in 2000-01 to 44.1 per cent in 2013-14 In the last five years, India's export growth has seen ups and downs, being in negative territory twice: in 2009-10 as an aftershock of the 2008 crisis 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.

18.25 Trade Deficit : In 2013-14, India's trade deficit (on customs basis) declined to US$ 135.8 billion from a high level of US$ 190.3 billion in 2012-13, mainly on account of a decline in the growth of imports (8.3 per cent), even though growth in exports was sluggish at 4.7 per cent. The decline in imports owed to lower growth in oil imports (0.4 per cent) and negative growth in gold and silver imports. However, in 2014-15 (April- January) trade deficit increased marginally by 1.6 per cent to US$ 118.4 billion as against US$ 116.5 billion in 2013-14 (April-January). Low export growth (2.4 per cent) and import growth (2.2 per cent), resulted in a modest increase in trade deficit by US$ 1.8 billion. Nevertheless in terms of levels, trade deficit being close to last year reflects on external-sector polices including trade policies.

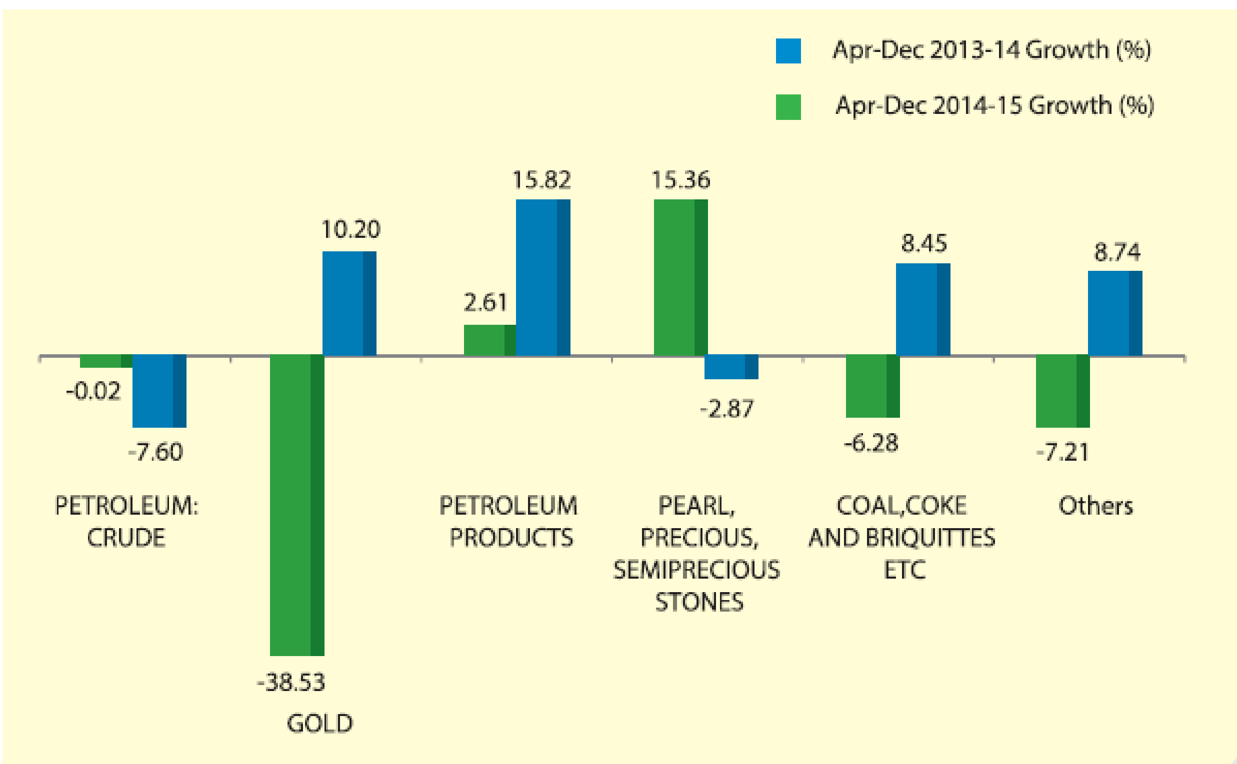
18.26 Growth in exports of petroleum and agriculture and allied products which had been in positive territory for the last four years, turned negative in 2014-15 (April-January). Gems and jewellery exports which exhibited a declining trend in 2012-13 and 2013-14, continued to register a declining trend in 2014-15 (April- January). In the case of electronic goods, there has been continuous decline in exports since 2012-13. During 2014-15 (April-January), some sectors like transport equipment; machinery, chemicals and related products, textile and allied products and base metals registered positive growth in exports. 4.13 Marine products and leather and leather manufactures recorded relatively high growth in 2012-13, 2013-14, and 2014-15 (April-January). While the shares in terms of nominal value of exports (conversely imports) may be high in some sectors, the import (export) component may also be high and therefore it would be instructive to look at value added.

18.27 One of the major items in India’s import basket is the POL group, which accounted for 36.6 per cent of India’s total imports in 2013-14. POL imports surged with a growth of 46.2 per cent in 2011-12, mainly on account of significant increase in global crude oil prices vis-à-vis 2010-11. The growth in imports of POL moderated to 5.9 per cent and 0.4 per cent respectively in 2012-13 and 2013-14. There was moderation in international crude oil prices (Brent) from US$109.8 per barrel in the first quarter of 2014-15 to US$ 76.0 per barrel in the third quarter which resulted in the value of POL imports declining by 7.9 per cent in 2014- 15 (April-January). Capital goods imports are another major group which declined continuously from 2011-12 onwards. Within capital goods, imports of machinery registered positive growth in 2014-15 (April-January). Gold and silver imports accounted for 11.4 per cent of India’s total imports in 2012-13 and 7.4 per cent in 2013-14. These imports declined by 9.0 per cent and 40.4 per cent respectively in 2012-13 and 2013-14 but registered a positive growth of 8.0 per cent in 2014-15 (April-January). Imports of pearls and precious and semi-precious stones grew by 5.4 per cent in 2013-14 and declined by 3.9 per cent in 2014-15 (April-January).

Share of Top Five Commodities in India's Import April-December 2014-15



Growth of Top Five Principal Commodities Imports during 2013-14 &2014-15



18.28 Direction of Trade : There has been significant market diversification in India's trade in recent years –a process that has helped in coping with the sluggish global demand, which owes to a great extent to the weakness in the euro zone. Region-wise, India's export shares to Europe and America have declined over the years—from 23.6 per cent and 20.1 per cent respectively in 2004-05 to 18.6 per cent and 17.2 per cent respectively in 2013-14. Conversely, the shares of India's exports to Asia and Africa have increased from 47.9 per cent and 6.7 per cent respectively in 2004-05 to 49.4 per cent and 9.9 per cent respectively in 2013-14. The change in direction immediately prior to the global financial crisis and since 2010-11 indicates the process of diversification underway. A comparison of India's trade in the pre-crisis (2004- 05 to 2007-08) and post-crisis period (2010-11 to 2013-14) shows that India's exports and imports from Europe, the USA, and Singapore have declined, while its trade with Asia and Africa has increased . In 2014-15 (April-December), India's exports to the European region grew by only 0.2 per cent. India's exports to Africa and America grew by 12.9 and 14.5 per cent respectively.

Export and Import Shares of Regions/Countries in India's Trade

Region/ countries	Exports			Imports			Exports to imports Ratio		
	2004-05 to 2007-08	2010-11 to 2013-14	Change in share	2004-05 to 2007-08	2010-11 to 2013-14	Change in share	2004-05 to 2007-08	2010-11 to 2013-14	Change
Europe	**23.3**	**19.0**	**-4.3**	**21.6**	**18.0**	**-3.6**	**73.6**	**68.6**	**-5.0**
Germany	3.3	2.5	-0.7	3.9	3.0	-0.9	56.5	53.9	-2.5
Belgium	2.7	2.1	-0.6	2.6	2.2	-0.3	73.4	62.4	-10.9
Switzerland	0.4	0.4	0.0	4.5	6.2	1.7	6.7	4.2	-2.5
Africa	**7.8**	**8.9**	**1.2**	**6.3**	**8.5**	**2.2**	**84.0**	**68.1**	**-15.9**
Nigeria	0.7	0.9	0.1	2.1	2.9	0.8	23.8	19.7	-4.1
America	**18.9**	**16.6**	**-2.3**	**10.3**	**11.0**	**0.7**	**124.9**	**98.3**	**-26.6**
U S A	14.9	11.6	-3.3	7.1	5.1	-2.0	**143.5**	**148.5**	5.0
Asia	**48.5**	**50.2**	**1.7**	**48.9**	**60.2**	**11.3**	**67.7**	**54.4**	**-13.4**
Singapore	4.8	4.5	-0.3	2.8	1.7	-1.2	116.6	177.7	61.1
Indonesia	1.5	1.9	0.5	2.1	3.0	0.9	47.2	41.5	-5.8
United Arab Emirates	9.2	11.7	2.5	4.5	7.6	3.2	140.0	99.2	-40.8
Saudi Arabia	2.0	2.8	0.8	5.1	6.8	1.7	26.6	26.3	-0.3
Kuwait	0.5	0.4	0.0	2.1	3.4	1.3	15.4	8.5	-6.9
Qatar	0.3	0.2	0.0	0.9	2.8	2.0	22.0	5.6	-16.4
Iraq	0.2	0.3	0.2	1.8	3.6	1.9	6.2	5.5	-0.6
China	6.6	5.3	-1.3	9.0	11.2	2.2	50.4	30.8	-19.6
Hong Kong	4.0	4.1	0.1	1.3	1.9	0.6	210.1	137.7	-72.5
Korea	1.7	1.4	-0.3	2.7	2.7	0.0	43.6	33.8	-9.8
Total	**100.0**	**100.0**	—	**100.0**	**100.0**	—	**68.2**	**65.1**	**-3.1**

Source : Computed based on data of the DGCI&S.

18.29 **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 2013-14, India had a surplus in services trade with services exports at US$ 151.47 billion and imports at US$ 78.5 billion. India's services trade surplus currently covers about 53% of the deficit in merchandise trade. Demographic dividend, if harvested properly, can boost our services exports further to neutralize the merchandise trade deficit.

18.30 Services contribute 57% to GDP, 28.1% to employment and 25% to trade. India is the most dynamic exporter of commercial services in the world, the highest among the top 10 exporters. India ranked 6th among the leading world exporters of commercial services in 2012 with a value of US$ 148 billion and a share of 3.24% and growth of 8%. EU and China, with a respective services contribution of about 73% and 44% to their GDP, have a share of 43.7% and 4.41% respectively, in world exports of commercial services. In contrast, India's services sector contributes 57% to the GDP but has a share of only 3.24% in the world exports of services. Thus, the services sector in India needs much focus, attention and roadmap for the way forward that can help us enhance the export of different services.

18.31 Trade Quantum & Unit Values : developments in nominal terms broadly reflect the trends, it is useful to decompose the growth rates in terms of changes in quantity and price, which are best indicated by the quantum and unit value indices that reflect terms of trade The change in quantum index for exports broadly corresponds directionally with nominal growth in US dollar and rupee terms, albeit at much lower rates, 2012-13 being an exception when in US dollar terms there was negative growth as against a high positive growth rate in the quantum index. In the case of the quantum index of imports, there was greater directional divergence with the nominal growth rates expressed in US dollar and rupee terms. The changes in unit value indices of exports and imports were broadly in positive territory with the exception of 2009-10. The outcome in terms of trade was reflected in the deterioration evidenced in 2011-12. This deterioration owes to the oil price shock which could be reversing in the second half of 2014-15.

18.32 The oil price shock was amplified giventhe large import dependence that had kept imports at elevated levels since 2011-12 and the relative sluggish global demand constraining overall export growth. India's subsequent resilience owed to the diversification processes that encompass both commodity composition and direction of trade. 4.7 India's merchandise imports grew by 28.2 per cent in 2010-11and the high growth continued through 2011-12 driven by broad-based expansion in imports of gold and silver, POL group and non-POL and non-gold and silver group. In 2012-13, there was only modest decline in the growth rates of gold and silver as well as non- POL imports, leading to continuance of elevated level of total imports of around US $ 490 billion.In 2013-14, in view of the sharp depreciation of the rupee owing to domestic and external factors, the government placed restrictions on gold imports which led to a sharp decline therein of 46.4 per cent. With domestic activity remaining weak, non- POL and non-gold and silver imports also declined by around 7 per cent, which along with the fall in gold imports led to overall decline in imports to US$ 450 billion. In 2014-15 (April-January),imports grew by 2.2 per cent to US$ 383.4 billion as compared to US$ 375.3 billion in 2013-14 (April-January). While the value of POL imports declined by 7.9 per cent in 2014-15 (April- January), gold and silver imports grew by 8.0 per cent in 2014-15 (April-January). Non-POL and non-gold and silver imports which largely reflect the imports needed for industrial activity grew by 7.8 per cent in 2014-15 (April-January), after registering a decline of 0.7 per cent and 6.9 per cent respectively in 2012-13 and 2013-14.

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

(per cent change)

	Exports				Imports				Terms of trade	
	US$ terms	Rupee terms	Quantum index	Unit value index	US$ terms	Rupee terms	Quantum index	Unit value index	Net	Income
2001-02	-0.6	2.7	0.8	1.0	2.9	6.2	4.0	2.8	-1.7	-0.9
2002-03	20.3	22.1	19.0	2.9	19.4	21.2	5.8	14.3	-10.0	7.2
2003-04	21.1	15.0	7.3	7.5	27.3	20.8	17.4	3.1	4.3	11.9
2004-05	30.8	27.9	11.2	14.9	42.7	39.5	17.2	18.9	-3.4	7.4
2005-06	23.4	21.6	15.1	6.1	33.8	31.8	16.0	14.0	-6.9	7.1
2006-07	22.6	25.3	10.2	13.7	24.5	27.3	9.8	15.1	-1.2	8.8
2007-08	29.0	14.7	7.9	5.1	35.5	20.4	14.1	1.9	3.1	11.2
2008-09	13.6	28.2	9.0	16.9	20.7	35.8	20.2	13.8	2.7	11.9
2009-10	-3.5	0.6	-1.1	1.0	-5.0	-0.8	9.9	-10.0	12.3	11.0
2010-11	40.5	35.2	15.2	13.8	28.2	23.4	8.0	13.0	0.7	15.9
2011-12	21.8	28.3	8.9	20.2	32.3	39.3	-20.9	74.9	-31.3	-25.2
2012-13	-1.8	11.5	7.9	6.0	0.3	13.8	6.1	8.0	-1.9	5.8
2013-14	4.7	16.6	5.9	9.9	-8.3	1.7	-10.7	12.9	-2.7	3.1
2014-15(P)	3.4	5.0	4.8	3.6	1.5	3.9	0.8	3.3	0.2	5.0

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

Note : For the year 2014-15 growth rate relates to April to September. P : Provisional.

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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