Chapter- VI

PREDICTING FUTURE PROSPECTS OF OUR TRADE

6.1: INTRODUCTION

India has emerged as the largest player in the global trade just after China enhancing it's both exports as well as imports baskets remarkably. Section 6.2 gives an exposition of India as being a big partner in the global trade showing its performance in the foreign trade sector. The export growth and share in world exports of selected countries including India have been shown with supportive data. Section 6.3 describes India's future prospects of trade and trade related aspects.

6.2: INDIA AS A BIG PARTNER OF WORLD TRADE

In 2005-06 India's external trade, both in goods and services grew by 31.2 percent to US $361 billion. In the first half of 2006-07 growth rate was 27.5 percent, with value of such trade at US $ 212.5 billion. Trade in services has been growing faster than merchandise trade, and the share of services in total

external trade increased from 25.8 percent to 27.4 percent during 2004-05 to 2005-06. The share was 26.5 percent in the first half of 2006-07.

India's merchandise exports have been growing continuously at a high rate of more than 20 percent since 2002-03 and in 2005-06 it grew by 23.4 percent to cross the US $ 100 billion mark. Exports during 2006-07 after a slow start gained momentum and reached US $ 89.5 billion in April-December, 2006 with growth of 36.3 percent.

Till 2002-03, volume of growth dominated the export performance. In 2003-04, the trend was reverse, with increasing contribution of higher unit value in export performance. For exports, while volume increased by a record 45.4 percent (mainly petroleum products, chemicals and related products and machinery and transport equipment) during 2005-06, unit value increased by 20.4 percent. But there was a sharp decrease in both net and income terms of trade. The net terms of trade deteriorated as the unit value index rose by 49 percent (mainly due to increase in price of crude petroleum), because net terms of trade is equal to the ratio of unit value index of exports and value index of imports. Gross terms of trade fell with a decline in the quantum of imports.

Between 2003 and 2004 India's share in world merchandise exports remained fixed at 0.8 percent and reached 1.0percent in 2005, and in the first eighth months of 2006 it remained fixed. This increase was due to India's export growing at more than double the rate of growth of world exports since 2005. China has been a star export performer for year 2005 and the first eighth months of 2006, for the first time India's export growth conceal that of china.

In recent years, India's significant export growth was due to favourable external development and domestic policy initiatives. Besides, the growth of Indian export was aided by improved global growth and recovery. The opening up of the economy and corporate restructuring increased the competitiveness of Indian industry. We present below the performance of foreign trade sector in table 6.1.The export growth and share in world exports of selected countries have been shown in table 6.2.

Table 6.1: Performance of the Foreign Trade Sector

Year	Export Growth			Import Growth			Term of Trade	
	Value (In US $ term)	Volume	Unit Value	Value (In US $ term)	Volume	Unit Value	Net	Income
1990 - 00	7.7	10.6	8.4	83	12.4	7.2	1.5	11.7
2000 - 01	21.1	23.9	3.3	1.7	-1.0	6.2	-4.5	18.3
2001 - 02	1.6	3.7	-1.0	1.7	5.0	1.1	-2.1	1.5
2002 - 03	20.3	21.7	0.3	19.4	9.5	10.7	-9.4	10.3
2003 - 04	21.1	6.0	8.5	27.3	20.9	-0.1	8.6	15.1
2004 - 05	30.8	17.6	8.9	42.7	14.7	21.6	0.5	5.6
2005 - 06	23.4	45.4	20.4	33.8	-1.6	49.0	-27.4	-33.2
2006 - 07	36.3	-	-	36.3	-	-	-	-

Source: DGCI & S-Kolkata

Table 6.2: The Export Growth Share in World Exports of Selected Countries

Country	Growth Rate(Percent)				Share in World Export				Value (US$ billion)
	1995 to 2001	2004	2005	2006	2001	2004	2005	2006	2005
China	12.4	35.4	28.5	25.8	4.3	6.6	7.4	7.8	762.0
Hong Kong	3.6	15.6	11.6	8.6	3.1	2.9	2.8	2.6	289.0
Malaysia	6.6	26.5	12.1	15.1	1.4	1.4	1.4	1.4	140.9
Indonesia	5.7	11.2	18.2	17.4	0.8	0.8	0.8	0.9	84.6
Singapore	4.1	24.5	15.6	34.5	2.0	2.0	2.2	2.3	229.6
Thailand	5.9	20.0	14.6	20.6	1.7	1.1	1.1	1.1	110.6
India	8.5	25.7	30.0	40.4	0.7	0.8	1.0	1.0	99.5
Korea	7.4	30.9	11.8	13.7	2.5	2.8	2.7	2.7	284.6
Developing Countries	7.9	27.1	21.8	23.1	36.8	40.7	43.8	44.8	4530.3
World	5.5	21.2	13.9	16.4	100.0	100.0	100.0	100.0	10355.3

Source: IFS Statistics, IMF. January to August-2006

Deepening of domestic reforms required in order to reach the 1.5 percent targeted share of world exports by 2009, and maintaining and accelerating the long term current dynamic exports. These reforms are reducing constraints like infrastructure bottlenecks, outdated labour laws, small scale industries (SSI) reservations, and a high transaction costs, lowering custom duties and increasing export incentives.

Exporters gave more emphasis on non-price factors like product quality, brand image, packaging, delivery and after-sales service. The increase in foreign direct investment (FDI) in exports industries will increase the rate of investment and install new technologies and management practices in these industries and thereby increase exports.

The Export-Import Bank of India is financing different stages of exports. The main determinant of export performance is the availability of adequate export credit at competitive rates. In the recent decade, export credit as a proportion of net bank credit has gone down steadily. These reflect the growing strength of the Indian export sector. The export credit

outstanding as on March 24,2000, March 23,2001,March22, 2002,March21, 2003,March19, 2004,March18, 2005 and March 31,2006 is depicted in table 6.3 below.

Table 6.3: Export Credit Outstanding

Outstanding as on	Export credit Rs. Cr.	Variation (percent)	Export Credit as percent of NBC
March 24, 2000	39118	9.0	9.8
March 23, 2001	43321	10.7	9.3
March 22, 2002	42978	-0.8	8.0
March 21, 2003	99202	14.5	7.4
March 19, 2004	57687	17.2	7.6
March 18, 2005	89059	19.7	6.3
March 31, 2006	86207	24.8	5.7

Source: Reserve Bank of India, 2007

Merchandise imports grew by 33.8 percent to US $ 149.2 billion in 2005-06 due to the high POL prices. In 2005-06 volume growth of POL imports declined to 6.1 percent whereas in previous year it was 6.4 percent. During 2005-06 POL imports increased by 47.3 percent to US $ 44 billion whereas growth of non-POL imports was 28.8 percent. The growth of imports of gold between 2004-05 and 2005-06 decreases from 62.6 percent to 1.5percent due to high international price of gold and silver. Non-POL non-bullion imports grew by 39 percent in 2005-06.The imports of gems and jewellery declined by 3.1cpercent.Imports continue to grow in the current year.

Good performance in most of the sectors was the basis of export growth in 2005-06. During 2005-06 major drivers of export growth were petroleum products, engineering goods and chemicals. Petroleum products showed 66.2 percent growth in exports in 2005-06. Exports of ores and minerals grew by

17.4percent in 2005-06. Manufacturing growth was mainly consisting of engineering goods, chemicals and related products and textiles. The share of manufactured goods declined marginally from 74.2 percent in 2004-05 to 72.0 percent in 2005-06. Agriculture and allied exports show reasonably good growth of 19.8 percent.

The textile and clothing industries including readymade garments are important sectors of India in terms of both output and employment improved after removal of quota system in 2005. In 2005-06 exports of textile including RMG grew by 20.4 percent to reach US $ 14.8 percent billion, but in the second year of the quota free regime, such export growth by India was 11.7 percent in April-October 2006. During April-November 2006, from India to US textile and cotton exports grew by only 6.2 percent. India improved its share of the global textile and cotton trade from 2.4 percent in 2004 to 3.4 percent in 2005.

Engineering sector is the largest contributor of India's merchandise exports with a share of 2.3 percent well ahead of gems and jewellery. Gems and jewellery's contribution of India's total commodity exports in 2005-06 was 15 percent. In marine products India's share was 2.3 percent. Among marine products, foreign shrimp continued to be the largest export items, followed by frozen fish, cuttlefish, squid and dried items. The largest share of India's exports of marine products accounted to European Union, followed by the US and Japan.

Out of 99 commodity chapters at the two digit level India had a share of one percent or more of world exports only in 32 items. India had a significant world export share of 5 percent or more only in six items. The commodity composition of our exports is shown in table 6.4 and imports of principal commodities in table 6.5 below.

Table 6.4: Commodity Composition of Exports

Commodity Group		Percentage Share		Growth Ratio (in US$)	
		2004 - 05	2005 - 06	2004 - 05	2005 - 06
I	Primary Products	16.0	15.4	36.2	18.9
	Agriculture & Allied	10.5	10.2	11.7	19.8
	Ores & Minerals	5.5	5.2	136.5	17.4
II	Manufactured Goods	74.2	72.0	24.9	19.6
	Textile include RMG	14.9	14.5	5.3	20.4
	Gems & Jewellery	16.5	15.1	30.2	12.8
	Engineering Goods	20.7	20.7	40.2	23.4
	Chemical & Related products	12.2	11.6	33.9	17.3
	Leather & Manufacture	2.9	2.6	12.0	11.1
	Handicrafts	1.2	1.2	-7.0	30.2
III	Petroleum, Crude & Products (Incl. Coal)	8.5	11.5	91.2	66.2
Total Export		**100.0**	**100.0**	**30.6**	**23.4**

Source: DGCI & S, Kolkata.

Table 6.5: Imports of Principal Commodities

Commodity	Percentage Share		Growth Rate	
	2004 - 05	2005 - 06	2004 - 05	2005 - 06
POL	26.8	29.5	45.1	47.3
Pearls, Precious & Semi-precious Stones	8.4	6.1	32.2	-3.1
Capitals Goods	12.4	15.0	39.5	62.0
Electronic Goods	9.6	9.5	35.1	32.7
Gold & Silver	10.0	7.6	62.6	1.5
Chemical	6.2	5.7	38.3	23.3
Edible Oil	2.2	1.4	-3.0	-17.9
Coke, Coal & Briquettes	2.9	2.6	126.7	21.0
Metal ferrous Ores & Metal scrap	2.2	2.6	90.5	57.3
Professional instruments and Optical Goods	1.4	1.3	24.4	28.9
Total Imports	**100.0**	**100.0**	**42.7**	**33.8**

Source: DGCI & S, Kolkata

Since 2000-01, the share of 11 major trading partner of India, accounting for nearly a half of India's trade has not changed. The US is the largest trading partner of India, but with declining trend. China becomes the second largest trading partner of India. India is not only importing crude oil from but also is exporting refined POL products to the United Arab

Emirates (UAE). The third largest trading partner of India is UAE.

Table 6.6: India's Major Trading Partners, 2000 – 06.
Percentage Share in Total Trade (Exports + Imports)

Country	2000 - 01	2002 - 03	2003 - 04	2004 - 05	2005 - 06
US	13.0	13.4	11.6	10.7	10.6
UK	5.7	4.6	4.9	3.7	3.6
Belgium	4.6	4.7	4.1	3.6	3.0
Germany	3.9	4.0	3.8	3.5	3.8
Japan	3.8	3.2	3.1	2.8	2.6
Switzerland	3.8	2.4	2.6	3.3	2.8
Hong Kong	3.7	3.1	3.3	2.8	2.7
UAE	3.4	3.8	5.1	6.2	5.1
China	2.5	4.2	4.9	6.5	7.0
Singapore	2.5	2.5	3.0	3.4	3.5
Malaysia	1.9	1.9	2.1	1.7	1.4
Total	**48.6**	**47.9**	**48.1**	**48.2**	**46.1**

Source: DGCI & S- Kolkata

In 2005-06, the US continued to be the principal destination accounting for 16.8 percent of India's total exports, following by UAE (8.4 percent), China (6.5 percent), Singapore (5.4 percent) and the UK (5.0 percent). Region wise, Asia and ASEAN countries have emerged as major export destination. In April-October 2006, the share of Asia and ASEAN countries were 19 percent and China Republic, Hong Kong and Taiwan were 10 percent, accounts for half of India's total exports. During these period exports of Europe and America registered moderate growth.

India's merchandise export to South Asian Countries was 7.3 percent growth in 2004-05, which rose to 19.3 percent in 2005-06. The major items of India's exports to south Asian countries are: engineering goods, chemicals and related products, petroleum, crude and products, cotton yarn fabrics

and made ups and rice. Imports from South Asian countries increased by 40.1 percent in 2005-06. Major imports items are non-ferrous metals, textile yarn fabrics and made ups, iron and steel, spices, organic and inorganic chemicals, artificial resins and plastic materials, essential oil and cosmetic preparation and fruits and nuts.

In 2005-06 Asia and ASEAN continued to be the major and growing source for India's imports, accounting for 35.2percent of total imports. Imports from China were 75 percent growth in the previous year, while in the current year China recorded high growth of 51.3 percent. Growth of Imports from America was 12.7 percent and from EU 25 was 19.5 percent. Imports from major oil exporters like Saudi Arabia, UAE recorded rapid growth. With 9.1 percent share, China is the top import source of India recorded growth of 58.1 percent and import from the US was also cheerful at 30.2 percent with 5.7 percent share.

During the last few years, India registered high growth in the export of services. In 2005-06, with a growth of 42 percent, India's exports of services have increased threefold during the last three years, and it reached US $ 61.4 billion in 2005-06. The software services, business services, financial services and communication services recorded rapid rate of growth. India's share and ranking in world merchandise exports were 1 percent and 26 in 2005 and in world commercial services exports its share and ranking was 2.3 percent and 11 respectively.

6.3 OUR FUTURE PROSPECTS

With the progress of economic reforms in many countries of the world and deregulation of financial markets, the importance of private capital relative to government financing has been increasing rapidly. This is also true for Asia as a whole and India in particular. India has been successful in attracting a sizeable amount of private foreign capital majority of which are non-debt creating variety. These have helped improve balance of payments and increase resources in the economy. Over the years there has been a steady liberalisation of current account transations, opening up of sectors for foreign direct investment and portfolio investments. These have in fact facilitated to foreign investors in telecom, roads, ports, airports, insurance and many other major sectors.

The liberalisation of our domestic economy and increasing integration with the world economy in fact have helped comfortable improvement in GDP growth rate and reduction of poverty from 26 percent in 1999-2000 to 21 percent in 2007.A global comparison shows that India is the fastest growing country in the world just after China because of the fact that India has a largest domestic market and has competitive advantage in world market over many countries due to cheap labour and less polluted environment.

What India requires most is to concentrate on areas such as technological entrepreneurship, new business openings for small and medium enterprises, importance of quality management and new prospects in rural areas. The growth of the entire economy depends largely on rural participation in the global race where rural people can lead a decent standard of living with dignity from active participation in productive as well as consumption activities.

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