Table 7.3 : Export growth and share in world exports : India and other select countries

	Value (US$ billion)	CAGR	Growth rate % Annual			Share in world exports (%)				change in shares
	2011	2000-09	2010	2011	2012 (Jan-Oct.)	2000	2010	2011	2012 (Jan-Oct.)	2011/2000
EDEs	**7400**	**12.3**	**28.8**	**24.9**	**1.8**	**25.4**	**39.2**	**41.0**	**41.7**	**15.6**
of which										
China	1899	19.1	31.3	20.3	7.9	3.9	10.4	10.5	11.2	6.6
Russia	522	12.5	32.0	30.4	3.1	1.7	2.7	2.9	2.9	1.2
Mexico	350	3.6	29.8	17.3	7.0	2.6	2.0	1.9	2.1	-0.7
India	303	16.3	37.3	33.8	-5.1	0.7	1.5	1.7	1.6	1.0
Malaysia	228	5.4	26.2	14.8	-0.6	1.5	1.3	1.3	1.3	-0.3
Brazil	256	12.0	32.0	26.8	-5.2	0.9	1.3	1.4	1.3	0.6
Thailand	226	9.2	28.6	15.9	0.8	1.1	1.3	1.3	1.3	0.2
Indonesia	201	6.9	32.1	26.9	-6.2	1.0	1.0	1.1	1.0	0.1
South Africa	97	8.5	30.7	18.5	-9.8	0.5	0.5	0.5	0.5	0.1
NIAEs*										
Korea, Republic	557	8.6	29.0	19.3	-1.3	2.7	3.1	3.1	3.0	0.4
Hong Kong	429	5.2	22.5	9.9	1.4	3.2	2.6	2.4	2.4	-0.8
Singapore	410	7.8	30.4	16.4	0.3	2.2	2.3	2.3	2.3	0.1
Taiwan	308	3.6	34.8	12.2	NA	2.3	1.8	1.7	NA	-0.6
World	**18033**	**7.7**	**22.0**	**19.4**	**-0.2**	**100.0**	**100.0**	**100.0**	**100.0**	**-**

Source **: Computed from IMF, International Financial Statistics, January 2013.**
Note : * Newly Industrialized Asian Economies, NA : Not Available.

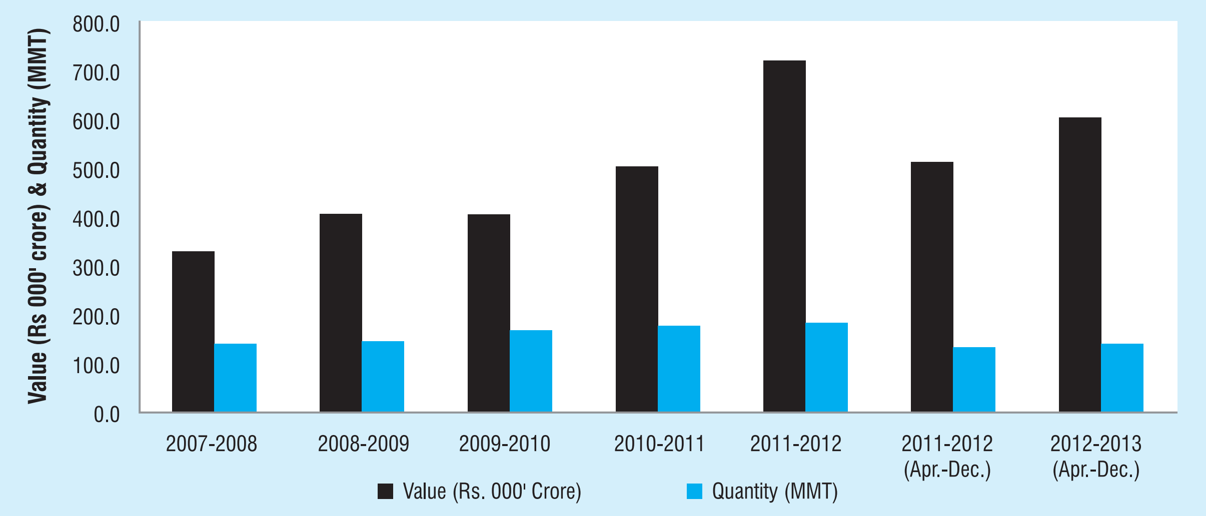
cent in 2010 and 1.7 per cent in 2011. It declined marginally to 1.6 per cent in 2012 (January-October), mainly due to its relatively negative export growth of - 5.1 per cent compared to world export growth of - 0.2 per cent (Table 7.3). In contrast China's share increased to 11.2 per cent in 2012 (January -October) with a positive export growth of 7.9 per cent.

7.13 Latest monthly growth rates of exports and imports of some of India's major trading partners have been low or negative. The EU's import growth has been negative for most of the months in 2012. There has been a slight but unsteady pick-up in import growth in the last two or three months in countries like the US, Hong Kong, and Singapore and in December 2012 in China.

India's import growth

7.14 After recovering in 2010-11 from the previous year's fall, India's merchandise imports increased further to US$ 489.2 billion with a growth of 32.3 per

Figure 7.3: POL imports



Source **: Based on Ministry of Petroleum and Natural Gas data.**

Box 7.2 : Gold Imports and Policy Measures

India is one of the largest importers of gold in the world, with import growth of 11.2 per cent in terms of quantity and 39.0 per cent in terms of value during 2011-12. Gold is the second major import item of India after POL and constitutes 11.3 of its imports in 2011-12 in value terms. The rise in imports of gold is one of the factors contributing to India's high trade deficit and CAD in 2011-12, forming 30 per cent of its trade deficit. The RBI in its draft report of the Working Group to Study 'Issues Related to Gold Imports and Gold Loans by NBFCs in India' has stated that if gold imports in India had grown by 24 per cent (an average of growth in world gold demand during past three years) instead of 39 per cent in 2011-12, the CAD would have been lower by approximately US$ 6 billion and the CAD-GDP ratio would have been 3.9 per cent instead of 4.2 per cent. Globally, the demand for gold is rising, mainly due to demand from emerging economies like China and India. The major source countries for import of gold include Switzerland, responsible for 52 per cent of the total imports by India of raw gold during 2011-12 (which has led to an unfavourable bilateral balance of trade for India), followed by the UAE (17.6 per cent), and South Africa (11.5 per cent). The rise in gold imports is due to many factors.

The love of Indians for the yellow metal is well known. India is one of the largest consumers of gold in the world with consumption increasing from 721.9 tonnes in 2006 to 933.4 tonnes in 2011 and 612 tonnes in the first three quarters of 2012, accounting for around 27 per cent of world gold consumption in 2011, and 26.4 per cent in 2012 (total of first three quarters). As per the Annual Report 2011-12 of the Ministry of Mines, domestic production of gold is estimated at only 2.8 tonnes in 2011-12 and can meet around 0.3 per cent of the demand. This has inevitably led to its import. Gold is also used for trading/investment. Net retail investment constitutes 39.2 per cent of the India's total gold consumption in 2011 and 32.5 per cent during the first three quarters of 2012 in terms of quantity. As stated in the RBI report, one of the major components of gold demand in recent years has been investment demand at global level. Rising gold prices in recent years have not deterred the acquisition of gold in India, implying that investment in gold is becoming price inelastic. India also imports gold for manufacturing purposes and exports a portion of it as jewellery. In the case of export of gold jewellery, the major export destinations include the UAE (57.9 per cent), Hong Kong (14.1 per cent), and the USA (12.0 per cent).

International gold price movements which have been volatile in recent years also have a bearing on the value of the country's gold imports. During the 2000 to 2012 period, international gold prices have grown at a CAGR of 16.2 per cent. In 2011-12 they increased by 23.4 per cent though they moderated to 4.3 per cent during April-November 2012 over the corresponding period in the previous year. Even with this moderation, gold prices were at a high level of US$1721 per troy ounce in November 2012 and currently at US$ 1672.3 per troy ounce (as on 5th February 2013). As stated by the RBI report, volatility in international gold prices in recent quarters is positively skewed, implying that it provides fewer large losses and a greater number of larger gains. The worsening global situation has also led to a rise in purchase of gold as a safety metal and a further rise in its price. Fluctuations in international gold prices get automatically reflected in India's gold prices along with the markup due to duties and taxes. Substantial increase in gold prices seems to have fuelled positive price expectations also contributing to sharp rise in the value of gold imports in recent years.

To restrict the rising trend in gold imports which is adversely affecting India's balance of payments, measures were and are being taken by the government. In Budget 2012-13, import duty on standard gold and platinum was raised from 2 per cent to 4 per cent and non standard gold from 5 per cent to 10 per cent. On 21 January 2013, the Import duty on gold and platinum was increased from 4 per cent to 6 per cent. It has also been proposed to provide a link between the Gold ETF (Exchange Traded Fund) and Gold Deposit Scheme with the objective of unfreezing or releasing a part of the gold physically held by mutual funds under Gold ETFs and enabling them to deposit the gold with banks under the Gold Deposit Scheme. The value of gold imports during April-December 2012 declined by 14.7 per cent to US $ 38.02 billion and quantity of imports fell by 11.8 per cent compared to same period of previous year. Total gold consumption has also declined by 23 per cent during the first three quarters of 2012. While the supply of gold through organized channels can be constricted, there is need to be vigilant regarding gold inflows through unauthorized channels. Ultimately, the best way to reduce gold imports in a sustainable way will be to offer the public financial investment opportunities that generate attractive returns. This means bringing down inflation as well as expanding the range of investments investors have easy access to.

Source: **Compiled from reports and data of the RBI, EXIM Bank of India and the Gems and Jewellery Export Promotion Council.**

cent in 2011-12 (See Appendix Table 7.1 (B)). This was due to the increase in growth of petroleum, oil, and lubricant (POL) imports by 46.2 per cent and non-POL imports by 26.7 per cent. POL imports (with a share of 31.7 per cent in India's total imports) registered a high growth mainly due to increase in import price of the Indian crude oil import basket by 31.5 per cent in 2011-12 as against 22 per cent in 2010-11 (Figure 7.3).

7.15 POL import volume growth decelerated from 14.9 per cent in 2009-10 to 3.7 per cent in 2010-11 and 3.5 per cent in 2011-12. International oil prices (Brent) which reached a high of US$ 132.47/bbl in July 2008 declined sharply to US$ 40.35 /bbl in December 2008, following the global recession. From 2009 onwards, oil price has been increasing with intermittent volatility, reaching US$ 125.33/bbl in March 2012 and falling marginally with volatility in the following months. Currently Brent oil price is hovering around US$110/bbl.

7.16 Gold and silver imports (with a share of 12.6 per cent in India's total imports) grew by 44.5 per cent in 2011-12. Gold imports alone accounted for 91.7 per cent of the total imports of gold and silver. In 2011-12, gold imports grew by 38.8 per cent in value and 11.2 per cent in volume terms. Non-POL non-bullion imports increased by 23.3 per cent in 2011-12 compared to 29 per cent in 2010-11.

7.17 At US$ 406.9 billion imports in 2012-13 (April-January) registered a growth of 0.01 per cent. During 2012-13 (April-December), POL imports at US $ 125.2 billion grew by 12.8 per cent. Non-POL imports at US $ 239.8 billion declined by 5.1 per cent and gold and silver imports at US $ 39.3 billion declined by 14.7 per cent. Non-POL and non-bullion imports which basically reflect the imports of capital goods needed for industrial activity and imports needed for exports declined by 3.0 per cent.

Trade Deficit

7.18 Trade deficit (on customs basis) reached a peak of US$ 184.6 billion in 2011-12 from US$ 118.6 billion in 2010-11 with the highest growth of 55.6 per cent since 1950-1. Moderate export growth and high import growth, particularly in POL imports due to high prices and high gold and silver imports, led to the highest-ever trade deficit in India since 1950-1, contributing to a high current account deficit (CAD) of 4.2 per cent of GDP (also see Box 7.2).

7.19 The trade deficit of US $ 167.2 billion for 2012-13 (April-January) was 7.9 per cent higher than the US $ 154.9 billion in 2011-12 (April- January). While POL imports grew by 46.2 per cent in 2011-12, POL export growth was relatively lower at 34 per cent due to lower growth in the quantum of POL exports by 3.8 per cent, resulting in net POL imports increasing to US $ 99.3 billion in 2011-12. In 2012-13 (April-November), though POL import growth moderated to 11.7 per cent, POL export growth was negative at - 7.3 per cent which was also due to the decline in the volume of POL exports by - 0.9 per cent. As a result the share of net POL imports in total imports increased to 23.5 per cent in 2012-13 (April-November) compared to 20.3 per cent in 2011-12 (whole year).

Trade Composition

Export composition

7.20 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 per cent 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).

7.21 The destination-wise exports of major items to the major trading partners from 2009-10 to 2012-13 (April-November) show great changes in the composition of exports to USA and China (Table 7.4). In the case of India's exports to the USA, the share of exports of primary products has increased from 6.8 per cent in 2009-10 to 21.3 per cent in 2012-13 (April-November), mainly due to the rise in share of agriculture and allied products, while the share of manufactured goods in India's exports to the USA has fallen from 89.1 per cent to 74.2 per cent during the same period. This decline has been mainly due to the fall in growth rates of exports of textiles and

Table 7.4 : Composition of exports by major markets

	Percentage share						Growth rate*				
	2000-01	2009-10	2010-11	2011-12	2011-12 (Apr.-Nov.)	2012-13 (Apr.-Nov.)	2009-10	2010-11	2011-12	2011-12 (Apr.-Nov.)	2012-13 (Apr.-Nov.)
I **Primary products**											
World	16.0	14.9	13.2	15.2	13.3	16.0	3.8	23.9	39.8	37.2	11.2
USA	9.4	6.8	8.0	14.5	11.9	21.3	-13.5	52.8	149.5	123.7	101.6
EU	13.1	8.6	8.2	9.7	9.0	9.9	-5.7	22.2	33.8	38.3	-2.0
China	45.2	65.7	51.6	55.2	49.5	38.4	26.9	4.7	24.8	7.0	-42.1
others	18.9	13.1	11.7	13.1	11.7	14.9	-1.7	31.7	35.7	41.9	17.5
(a) Agri. & allied products											
World	14.0	10.0	9.7	12.4	10.7	14.0	1.1	36.1	53.9	60.8	21.1
USA	9.0	5.8	7.1	13.7	11.0	20.4	-12.1	58.7	165.7	139.3	107.3
EU	11.9	7.1	7.1	8.1	7.6	8.7	-6.4	27.7	30.4	37.9	1.3
China	18.9	14.8	16.8	26.5	20.4	17.8	122.8	50.6	84.2	79.1	-35.0
others	16.8	11.3	10.2	12.0	10.7	13.8	-3.3	33.8	41.9	54.2	18.9
(b) Ores and minerals											
World	2.0	4.9	3.4	2.8	2.6	2.0	9.9	-1.3	-0.4	-14.3	-29.6
USA	0.4	1.0	0.9	0.8	0.9	1.0	-21.1	18.5	24.4	22.0	29.2
EU	1.3	1.5	1.2	1.6	1.4	1.2	-2.5	-3.5	54.6	40.7	-20.4
China	26.3	50.9	34.8	28.7	29.1	20.6	12.8	-8.7	-3.7	-16.6	-47.2
others	2.2	1.8	1.5	1.1	1.0	1.1	9.6	18.6	-7.4	-23.7	1.9
II **Manufactured goods**											
World	78.8	67.2	69.0	66.1	66.9	64.5	-5.9	44.2	16.2	27.7	-10.4
USA	90.6	89.1	87.4	81.4	83.3	74.2	-8.7	27.0	27.9	35.2	-0.2
EU	86.8	73.2	72.1	74.9	73.9	72.6	-15.4	25.8	18.6	34.4	-12.8
China	54.6	32.2	42.4	39.2	42.3	58.0	29.5	75.4	7.8	4.3	2.3
others	71.4	65.1	67.8	63.5	64.4	60.8	-2.5	53.4	13.6	25.7	-12.6
(a) Textiles incl. RMG											
World	23.6	10.5	9.1	8.7	8.6	8.7	-1.2	21.3	16.9	29.1	-6.4
USA	27.2	18.4	17.1	14.1	13.7	12.0	-7.6	20.2	13.0	19.2	-1.7
EU	29.2	18.5	16.3	16.3	15.7	14.4	-6.7	12.1	14.6	36.6	-18.7
China	9.3	1.8	2.8	4.1	3.7	8.6	47.0	104.2	68.5	51.4	73.6
others	20.2	7.4	6.4	6.2	6.3	6.5	6.2	27.1	17.9	27.3	-4.0
(b) Gems & jewellery											
World	16.6	16.2	16.1	14.7	14.9	15.4	3.7	39.6	10.8	38.6	-4.0
USA	29.3	24.2	20.8	19.5	22.3	18.0	2.8	11.7	28.5	52.7	-9.4
EU	11.5	6.7	6.8	9.2	9.2	7.1	-26.2	31.4	52.9	90.8	-31.5
China	0.0	3.8	0.5	0.7	0.7	0.7	-41.4	-81.0	42.8	25.0	-25.5
others	14.4	19.2	19.5	16.6	16.4	18.0	10.7	49.1	3.6	30.5	1.5
(c) Engineering goods											
World	15.7	18.2	19.8	19.2	19.2	19.3	-18.7	53.0	17.3	15.8	-6.4
USA	13.4	17.1	20.2	19.8	20.5	17.1	-33.9	53.0	34.5	37.9	-6.6
EU	14.0	20.8	20.9	21.0	20.8	21.5	-25.1	28.6	14.6	26.3	-8.4
China	9.9	12.4	25.8	18.8	20.7	24.4	63.6	177.9	-14.8	-21.3	-11.9
others	17.5	18.2	18.9	18.6	18.4	18.9	-15.8	53.2	19.3	14.6	-5.2
(d) Chemicals & related products											
World	10.4	12.8	11.5	12.2	11.8	13.7	0.9	26.0	28.6	35.4	7.4
USA	5.7	17.2	17.7	16.9	15.9	17.2	7.4	33.2	30.9	28.9	21.1
EU	9.7	12.5	12.8	14.1	13.6	15.1	-11.8	30.9	25.6	36.6	-1.2
China	15.5	10.2	9.4	11.1	12.1	15.5	40.8	23.3	37.7	48.5	-4.5
others	12.4	12.4	10.4	10.9	10.6	12.4	1.7	22.9	28.2	35.6	8.0
(e) Leather & leather mnfrs											
World	4.4	1.9	1.6	1.6	1.6	1.7	-5.5	16.3	22.6	36.0	-2.8
USA	3.7	1.5	1.4	1.3	1.3	1.4	-17.8	17.4	26.6	29.3	20.8
EU	11.4	6.3	5.5	5.8	5.9	5.8	-2.1	12.6	20.2	39.7	-12.5
China	1.1	0.4	0.5	0.7	0.7	1.1	-2.2	55.5	65.2	74.3	12.9
others	1.6	0.7	0.6	0.6	0.6	0.7	-9.9	24.8	24.2	26.4	12.8
(f) Handicrafts including carpet handmade											
World	2.8	0.5	0.5	0.4	0.4	0.4	-10.6	35.7	-12.9	-6.7	7.4
USA	6.0	1.5	1.6	1.2	1.2	1.3	-14.6	40.4	2.4	14.6	16.5
EU	4.4	1.1	1.0	0.7	0.7	0.8	-7.5	8.4	-12.1	-3.8	-2.9
China	0.3	0.1	0.0	0.1	0.1	0.1	106.9	-40.9	40.1	16.3	-2.4
others	0.8	0.2	0.3	0.2	0.2	0.2	-13.1	80.1	-29.2	-27.9	8.5
III **Petroleum, crude & products**											
World	4.3	15.8	16.5	18.3	18.7	18.6	2.3	47.1	34.0	54.3	-7.3
USA	0.0	2.3	3.7	3.5	4.5	3.7	180.3	110.9	30.1	139.9	-8.0
EU	0.0	16.9	18.8	15.0	16.5	17.0	45.4	42.7	-9.4	19.2	-8.7
China	0.0	0.8	5.3	6.3	8.6	3.2	-8.4	745.2	38.1	608.2	-72.2
others	8.1	19.9	19.4	23.5	23.3	23.5	-3.9	43.6	47.0	59.4	-6.5
Total exports											
World	100.0	100.0	100.0	100.0	100.0	100.0	-3.5	40.5	21.3	32.7	-7.0
USA	100.0	100.0	100.0	100.0	100.0	100.0	-7.6	29.5	37.4	43.9	12.2
EU	100.0	100.0	100.0	100.0	100.0	100.0	-8.4	27.9	14.1	31.4	-11.2
China	100.0	100.0	100.0	100.0	100.0	100.0	24.2	33.3	16.8	12.4	-25.4
others	100.0	100.0	100.0	100.0	100.0	100.0	-3.4	47.2	21.3	33.3	-7.6

Source : Computed from DGCI&S data. * Growth rate in US dollar terms.

Notes: 1. RMG stands for ready-made garments.
2. Share in a particular item means share of each country in total exports of India to that country.
3. Totals may not add up mainly due to some unclassified items.

Box 7.3 : Market vs Product Diversification

India has been fairly successful in diversifying its export markets from developed countries like the US and Europe to Asia and Africa, which has helped to a great extent in weathering the global crisis of 2008 and the recent global slowdown (Table 1).

Table 1 : 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

***Source* : Computed from DGCI&S data.**

However, in terms of product diversification a lot more needs to be done as can be seen from the following:

- In the top 100 imports of the world at the four-digit HS level in 2011, India has only 6 items in the top 50; it has only 5 items with a share of 5 per cent and above and 18 items with a share of 2 per cent and above (Table 2), with 6 new items with high export growth (India) entering the list and 3 going out of the list in 2011 compared to 2010. The new items are medicaments consisting of mixed or unmixed products for therapeutic use; other articles of iron and steel; men's or boys' suits, ensembles; cruise ships, excursion boats, ferry-boats, cargo ships, barges and similar vessels; cane or beet sugar and chemically pure sucrose in solid form; and maize.

Table 2 : Export Items of India with 2 per cent and above Share in Top 100 World Imports at Four-digit level

Rank# World 2011	HS4	Items	India share in world 2011	Growth rate in 2011 India (Export)	Growth rate in 2011 World (Import)
2	2710	Petroleum oils and oils obtained from bituminous minerals, etc.	6.7	49.0	39.4
7	3004	Medicaments consisting of mixed or unmixed products for therapeutic use	2.1	36.0	5.7
11	2601	Iron ores and concentrates, including roasted iron pyrites	2.3	-32.3	37.8
14	7102	Diamonds, whether or not worked, but not mounted or set.	23.8	44.7	14.7
34	7403	Refined copper and copper alloys, unwrought	3.2	-53.7	12.2
39	8803	Parts of goods of heading no. 88.01 or 88.02.	3.5	45.4	1.2
51	6403	Footwear with outer soles of rubber	3.1	23.0	9.2
52	6204	Women's or girls' suits, ensembles, jackets, blazers, dresses	4.9	34.8	9.2
55	7210	Flat-rolled products of iron or non-alloy steel	2.8	0.8	12.2
56	7113	Articles of jewellery and parts thereof, of precious metal	28.5	83.6	13.4
61	2902	Cyclic hydrocarbons.	4.4	47.8	27.8
68	7326	Other articles of iron or steel.	2.0	97.9	13.9
69	3902	Polymers of propylene or of other olefins, in primary forms.	2.8	46.0	17.3
72	6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, etc.	2.3	31.5	16.4
92	6109	T-shirts, singlets & other vests, knitted or crocheted	6.0	22.1	12.1
97	8901	Cruise ships, excursion boats, ferry-boats, cargo ships, barges, and similar vessels	2.2	40.0	-25.8
99	1701	Cane or beet sugar and chemically pure sucrose, in solid form.	6.0	123.1	20.1
100	1005	Maize	3.4	103.1	34.1

***Source*: Computed from UN Comtrade data extracted on 9 January 2013.**
***Note*: # Rank is in top 100 world imports.**

- India has a very high export share in world imports in the case of only two four-digit HS items, jewellery and diamonds. While India can increase its shares further in the other 16 items given in the table, there are many other simple items in the top 100 world imports with high demand where India has developed its competence. Most of the items come under the three Es, electronic, electrical, and engineering items and some textiles items. Greater focus on these items could lead to a perceptible increase in India's share of exports in world imports.

***Source*: Internal study, Economic Division, Department of Economic Affairs.**

gems and jewellery. In the case of India's exports to China, the share of primary products has fallen from 65.7 per cent in 2009-10 to 38.4 per cent in 2012-13 (April-November) due to the fall in share and growth rate of ores & minerals. The share of manufactures in India's exports to China has increased from 32.2 per cent to 58.0 per cent during this period, mainly due to the rise in share of engineering goods, textiles, and chemicals and related products. In the case of India's exports to the EU, there has been a marginal rise in the share of primary products and petroleum products and a fall in the share of manufactured goods.

7.22 The reason for India's export growth in 2012-13 (April-November) being more negative than in 2009-10 in the aftermath of the global recession can be seen from India's commodity-country export performance. India's exports to EU and China have been more negative during the recent global slowdown than in 2009-10, while its performance to USA has been better for most of the sectors except gems and jewellery. The performance of India's exports to EU of textiles and readymade garments, gems and jewellery and ores: and to China of manufactures, engineering goods, chemicals gems and jewellery and ores was worse off in 2012-13(April-November) compared to 2009-10. India's POL export growth to all major markets also decelerated in 2012-13 (April-November) compared to 2009-10. Thus, the Euro Zone crisis and the Chinese slowdown have affected India's exports more during the recent slowdown than in 2009-10

Export diversification

7.23 In 2011, India had a global export share of 1 per cent or more in 53 out of a total of 99 commodities at the two-digit harmonized system (HS) level. While noticeable changes can be seen in India's market diversification, the same is not the case with its export basket diversification (Box 7.3).

Import composition

7.24 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 10.5 per cent following a negative growth of - 20.4 per cent. The import share of pearls, precious and semi-precious stones also fell sharply in 2011-12 to 6.1 per 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-November) following a negative growth rate of - 6.5 per cent. Among capital goods, the import shares of all items machinery except electrical and machine tools, transport equipment, project goods, and electrical machinery fell, clearly signaling a slowdown in industrial activity. The share of electronic goods, which includes both consumer electronics and capital goods, also fell in 2012-13 (April-November) (See Table 7.5 and Appendix Table 7.2(B).

Direction of Trade

7.25 There has been significant market diversification in India's trade. Region-wise, while India's exports to Europe and America have declined, its exports to Asia and Africa have increased (See Box 7.3). 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).

7.26 In 2012-13 (April- November), compared to 2000-01, the share of India's imports from Europe has declined to 16.7 per cent from 27.6 per cent, while that from Asia has increased substantially to 61.1 per cent from 27.7 per cent. The share of America in India's imports also increased to 11.5 per cent from 7.9 per cent. India's top 15 trading partners have nearly 60 per cent in share in its trade with the top three contributing nearly half of this share. While Iran and UK are out of this top 15 list in 2011-12, Iraq

Table 7.5 : Commodity Composition of India's Imports

Commodity Group	Percentage share 2000-01	2010-11	2011-12	2011-12 (Apr.-Nov.)	2012-13 (Apr.-Nov.)	CAGR 2000-01 to 2009-10	Growth rate[a] 2010-11	2011-12	2011-12 (Apr.-Nov.)	2012-13 (Apr.-Nov.)
I. Food and allied products, of which	**3.3**	**2.9**	**3.1**	**3.1**	**3.5**	**22.7**	**2.2**	**44.4**	**38.0**	**11.6**
1. Cereals	0.0	0.0	0.0	0.0	0.0	24.3	15.8	-34.2	-46.6	6.8
2. Pulses	0.2	0.4	0.4	0.4	0.4	38.3	-23.1	27.2	11.3	9.2
3. Edible oils	2.6	1.8	2.1	2.1	2.5	17.2	19.0	57.7	55.3	18.0
II. Fuel, of which	**33.5**	**30.9**	**37.4**	**34.3**	**38.0**	**21.0**	**22.4**	**59.7**	**52.3**	**9.8**
4. POL	31.3	28.7	31.7	30.7	34.6	21.0	21.6	46.2	50.6	11.7
III. Fertilizers	**1.3**	**1.9**	**2.4**	**2.3**	**2.2**	**29.0**	**4.8**	**72.1**	**32.2**	**-6.8**
IV. Capital goods, of which	**10.5**	**13.6**	**14.1**	**12.6**	**11.9**	**26.1**	**19.2**	**36.9**	**25.6**	**-6.5**
5. Machinery except electrical & machine tool	5.9	7.0	7.2	6.7	6.3	24.4	24.0	35.8	28.2	-5.8
6. Electrical machinery	1.0	1.0	1.0	1.0	0.9	22.7	25.1	33.1	26.6	-5.5
7. Transport equipment	1.4	3.1	3.0	2.5	2.3	36.4	-0.9	31.8	13.1	-8.3
V. Others, of which	**52.5**	**49.6**	**49.0**	**47.6**	**44.3**	**19.3**	**43.2**	**30.8**	**29.6**	**-7.6**
8. Chemicals	5.9	5.2	5.1	5.0	5.1	19.5	29.6	31.8	24.3	1.1
9. Pearls, precious, semi-precious stones	9.7	9.3	6.1	6.1	4.1	14.0	116.9	-13.3	4.3	-32.3
10. Gold & silver	9.3	11.5	12.6	13.0	10.5	23.0	43.0	44.5	59.2	-20.4
11. Electronic goods	7.0	7.1	7.1	7.0	6.5	21.6	28.4	31.7	22.2	-7.7
Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**21.5**	**28.2**	**32.3**	**36.2**	**-0.8**

Source: Computed from DGCI&S data. [a] Growth rate in US dollar terms

and Kuwait are the new entrants. The musical chairs for the top slot among the top three trading partners seems to be continuing with the USA relegated to third position in 2007-8 from first, UAE relegated to second position from first in 2011-12 by China, and China in turn relegated to second position by the UAE in 2012-13 (April-November). The final word for 2012-13 is not yet out as the USA is inching closer to China with its share increasing by around one percentage point and that of China falling.

7.27 At 10 per cent in 2011-12 India's trade deficit as a per cent of GDP is one of the highest in the world. Export-import ratios reflecting the bilateral trade balance (Table 7.6) show that among its top 15 trading partners, India had bilateral trade surplus with four countries in 2011-12, viz. the UAE, USA, Singapore, and Hong Kong. In 2012-13 (April-November), India's trade balance with the UAE has turned slightly negative while it has improved further with the USA and Hong Kong. Another important trend is the growing trade deficit of India with China and Switzerland, increasing from US$ 28 billion and US$24.1 billion in 2010-11 to US$ 39.4 billion and US$ 31.3 billion respectively in 2011-12. In 2012-13 (April-November), the export-import ratio with China worsened further to 0.23 from 0.31 in 2011-12.

World Trade In Services

7.28 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. The export growth rate of commercial services which was at 11 per cent in 2000-5 and became negative at -12 per cent in 2009, has taken a full turn to reach 11 per cent again in 2011. As per the WTO's International Trade Statistics, Europe recovered from its 4 per cent growth of commercial services exports in 2010 to 11 per cent in 2011, while North America

Table 7.6 : India's Trade Share and Export-Import Ratio with Major Trading Partners

Sl. No.	Country	Share in total trade					Export/Import ratio[a]				
		2009-10	2010-11	2011-12	2011-12 (Apr-Nov.)	2012-13 (Apr-Nov.)	2009-10	2010-11	2011-12	2011-12 (Apr-Nov.)	2012-13 (Apr-Nov.)
1	China	9.09	9.50	9.52	9.62	8.95	0.38	0.36	0.31	0.29	0.23
2	U A E	9.31	10.72	9.03	8.99	9.74	1.23	1.03	1.00	0.98	0.92
3	USA	7.82	7.30	7.46	7.29	8.23	1.15	1.26	1.42	1.42	1.51
4	Saudi Arabia	4.50	4.04	4.63	4.57	5.43	0.23	0.23	0.18	0.17	0.28
5	Switzerland	3.27	4.11	4.22	4.30	3.50	0.04	0.03	0.03	0.03	0.04
6	Singapore	3.01	2.73	3.21	3.30	2.53	1.18	1.38	1.96	1.85	1.75
7	Germany	3.37	3.00	3.05	3.02	2.75	0.52	0.57	0.49	0.50	0.48
8	Hong Kong	2.70	3.18	2.97	3.09	2.53	1.67	1.10	1.21	1.09	1.51
9	Indonesia	2.51	2.52	2.68	2.69	2.50	0.35	0.57	0.46	0.38	0.34
10	Iraq	1.61	1.56	2.48	2.49	2.73	0.07	0.08	0.04	0.03	0.07
11	Japan	2.22	2.21	2.32	2.19	2.29	0.54	0.59	0.52	0.46	0.47
12	Belgium	2.09	2.32	2.22	2.21	1.91	0.62	0.67	0.69	0.71	0.52
13	Kuwait	1.93	1.96	2.21	2.02	2.38	0.09	0.18	0.07	0.08	0.06
14	Korea RP	2.57	2.29	2.20	2.20	2.30	0.40	0.36	0.33	0.35	0.29
15	Nigeria	1.86	2.08	2.19	2.19	2.14	0.19	0.19	0.18	0.18	0.20
	Total of 15 countries	57.84	59.50	60.40	60.16	59.91	0.56	0.55	0.51	0.49	0.50
	India's trade	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**0.62**	**0.68**	**0.62**	**0.62**	**0.58**

Source : Computed from DGCI&S data.

Note : [a] A coefficient of export and import ratio between 0 and 1 implies that India's imports are greater than exports and if the coefficient is greater than one, India exports more than what it imports.

maintained the same growth rate of 9 per cent. The Commonwealth of Independent States (CIS) was the most dynamic region followed by South and Central America with 19 per cent and 13 per cent growth respectively in 2010. Asian economies saw their growth rates more than halved to 11 per cent in 2011 from 23 per cent in 2010 due to slower growth in transportation and other commercial services. All the three broad categories of commercial services, namely transport, travel, and other commercial services registered reasonably good growth in 2011. In 2012, services trade growth has decelerated as is evident from the WTO's first quarter to third quarter data for 2012 which shows that export and import growths were zero per cent and 1 per cent in Q2 of 2012 and -2 per cent and -1 per cent in Q3 of 2012 over corresponding period of the previous year. Europe had a very high negative growth of -7 per cent in both exports and imports.

India's Services Trade

India's Services Exports

7.29 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. Growth in services exports decelerated further to 4.3 per cent during H1 of 2012-13 as against 22.7 per cent during H1 of 2011-12 (Table 7.7).

7.30 Growth moderation in services exports was observed in almost all categories. Miscellaneous services, accounting for nearly 75 per cent of total services exports in H1 of 2012-13, grew by 8 per cent during this period as compared to 20.2 per cent in corresponding period of the previous year. Within miscellaneous services, growth in exports of software services, accounting for nearly 46 per cent of total services exports, was in single digit at 9.8 per cent in H1 of 2012-13 compared to the 21.8 per cent in H1 of 2011-12. Some categories like travel, transport, and insurance services showed a negative growth rate leading to lower growth in overall services exports. For 2012-13, NASSCOM has projected a lower export growth in IT and business process management of 8.4 per cent mainly due to reduced spending on technology by US corporations and continued crisis in Europe. While the challenges facing global economic growth persist, Gartner has projected that worldwide IT spending will increase by 4.2 per cent in 2013 (from US$ 3.58 trillion in 2012 to US$ 3.73 trillion in 2013). Among non-software services, business services export growth was high at 23.9 per cent in the first half of 2012-13. However, export growth of this category of services has been very erratic in recent years. Communication services export growth was also high at 16.5 per cent.

India's Services Imports

7.31 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. However, imports of services resurged in H1 of 2012-13 and grew sharply by 10.3 per cent as compared to a decline of 0.5 per cent in H1 of 2011-12. This rise in import of services was mainly on account of higher imports of software and business services which increased by 89.7 per cent and 22 per cent respectively during H1 of 2012-13 as against a decline of 47.5 per cent and 4.4 per cent respectively in H1 of 2011-12. However, financial services showed a decline of 34.7 per cent as against an increase of 17.7 per cent in H1 of 2011-12, which is perhaps a reflection of the fragile global financial conditions. Similarly, imports of transportation, travel, insurance also recorded a decline in H1 of 2012-13 as against positive growth in H1 of 2011-12 (Table 7.8).

Table 7.7 : India's Export of services

Commodity Group	Percentage Share				CAGR	Growth Rate[a]			
	2001-02	2011-12	2011-12 (Apr.-Sept.)	2012-13 (Apr.-Sept.)	2001-02 to 2011-12	2010-11	2011-12	2011-12 (Apr.-Sept.)	2012-13 (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.

Table 7.8 : India's Import of services

Commodity Group	Percentage Share				CAGR	Growth Rate[a]			
	2001-02	2011-12	2011-12	2012-13	2001-02 to	2010-11	2011-12	2011-12	2012-13
			(Apr. - Sept.)		2011-12			(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.

India's Balance of Trade in Services

7.32 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. During H1 of 2012-13, with slower growth in services exports and rise in services imports, the surplus at US$ 29.6 billion was 2.8 per cent lower than in H1 of 2011-12, financing 32.6 per cent of trade deficit. Going forward, downward risks to export of services persist as global economic conditions remain less conducive .

Trade Credit

7.33 Trade credit is a critical component of global trade. Internationally active firms rely extensively on trade credits. As per a recent WTO study using quarterly country-level data of export credit insurers from the Berne Union for the period 2005 to 2011, a 1 per cent increase in trade credit granted to a country leads to a 0.4 per cent increase in real imports of that country. This effect does not vary between crisis and non-crisis periods. Thus both availability and cost of trade credit are important in the current environment of financial uncertainties when the banking system is likely to be tempted to reduce exposure to cross-border banking.

Trade Credit: Indian scenario

7.34 Reflecting improved global financial conditions, the gross inflow of short-term trade credit (up to 1 year) to India reached ₹ 392,526 crore during end September 2012, which represented a year-on-year increase of 24.6 per cent (but a quarter-on-quarter decline of 1.1 per cent in Q2 of 2012-13). Inflow of trade credit in H1 of 2012-13 at US$ 57.6 billion was 14 per cent higher than in 2011-12 and growth in outflow of trade credit was lower at 7.7 per cent. As a result, net trade credit grew by 60.1 per cent in H1 of 2012-13 and stood at US$ 9.5 billion as compared to the decline of 14.4 per cent in H1 of 2011-12.

7.35 Export credit has been decelerating since 2011-12. In 2012-13 (up to 30 November 2012), it has grown by 4.7 per cent over end-March 2012 compared to 7.7 per cent in full FY 2011-12. Export credit as a per cent of net bank credit which was at 9.8 per cent as on 24 March 2000 has been decelerating almost continuously over the years. It further decelerated in 2012 to 3.7 per cent as on 30 November 2012 (Table 7.9). Taking note of the global

Table 7.9 : Export Credit

Outstanding as on	Export credit (Rs Crore)	Variations (Per cent)	Export credit as per cent of NBC
24 Mar. 2000	39118	9.0	9.8
23 Mar.2001	43321	10.7	9.3
22 Mar. 2002	42978	-0.8	8.0
21 Mar. 2003	49202	14.5	7.4
19 Mar. 2004	57687	17.2	7.6
18 Mar. 2005	69059	19.7	6.3
31 Mar. 2006	86207	24.8	5.7
30 Mar. 2007	104926	21.7	5.4
28 Mar. 2008	129983	23.9	5.5
27 Mar. 2009	128940	-0.8	4.6
26 Mar. 2010	138143	7.1	4.3
25 Mar. 2011	168841	22.2	4.3
23 Mar. 2012	181852	7.7	3.9
30 Nov. 2012	185803	4.7*	3.7

Source : RBI.

Notes *: Variation over 18 November 2011.

NBC: Net Bank Credit.

Data pertain to all scheduled commercial banks excluding regional rural banks (RRBs) availing of export credit refinance from the RBI.

slowdown and the deteriorating global conditions for exports, the RBI has taken several measures to facilitate availability of bank credit to exporters (see Box 7.4)

Trade Policy

Recent Trade policy measures

7.36 The government has announced many trade policy measures in the Annual Supplement to Foreign Trade Policy (FTP) released on 5 June 2012. Many measures were also taken by the government in Union Budget 2012-13 and the RBI in its monetary and credit policies during the course of the year to help exports (Box 7.4).

Policy for Promoting State-wise Exports

7.37 The top five states in India's exports in 2011-12 were Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh, and Karnataka, accounting for 63.4 per cent of India's exports. While in 2011-12, these five states had high robust growth (except Gujarat with 5.5 per cent growth) in 2012-13 (April-November) all of them had negative growth. In fact all the other states in the top 15 except Odisha had positive growth in 2012-13 (April-November) with Kerala, Rajasthan, and Punjab having high export growth in 2012-13 on top of robust growth in 2011-12. Export growth of Haryana was also relatively high in 2012-13 (April-November) though it was low in 2011-12. The state-wise exports are only indicative as there are certain weaknesses in the data as stated in Economic Survey 2011-12.

7.38 The Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme provides assistance to state governments / union territory (UT) administrations for creating appropriate infrastructure for development and growth of exports. The budget outlay for financial year 2012-13(R.E.) under the ASIDE scheme is ₹ 655.5 crore of which ₹ 573.22 crore has been sanctioned/ released till the end of January 2013. The outlay has two components: state (80 per cent of the total outlay) and central (20 per cent of the total outlay). State-wise allocation under the state component of ASIDE shows that the top five states in terms of allocation in 2012-13 are Gujarat, Maharashtra, Tamil Nadu, Karnataka, and Andhra Pradesh which are also the top five states in India's exports. Among the north-eastern states, those with significant allocation are Assam, Meghalaya, and Tripura.

Special Economic Zones

7.39 Since the Special Economic Zones (SEZ) Act and Rules were notified in February 2006, formal approvals have been granted for setting up of 579 SEZs, of which 384 have been notified. Of the total employment provided to 9,45,990 persons in SEZs as a whole, that to 8,11,286 persons is incremental employment generated after February 2006 when the SEZ Act came into force. This is apart from the million mandays of employment created by the developer for infrastructure activities. While in 2010-11 physical exports from SEZs were worth ₹ 3,15,867.85 crore, in 2011-12 the figure had gone up ₹ 3,64,477.73 crore in 2011-12, registering a growth of 15.4 per cent. The total physical exports from SEZs in the first half of the current financial year have been to the tune of ₹ 239628.78 crore approximately, registering a growth of 36 per cent over exports in the corresponding period of the previous year. The total investment in SEZs till 30 September 2012 was ₹ 2,18,795.41 crore approximately, including ₹ 2,14,759.90 crore in the

Box 7.4 : Some important trade policy measures

Budget related

- Imports of equipment for initial setting up or substantial expansion of fertilizer projects fully exempted from basic customs duty of 5 per cent for a period of three years up to 31 March 2015; and basic customs duty on some water-soluble fertilizers and liquid fertilizers other than urea reduced from 7.5 per cent to 5 per cent and from 5 per cent to 2.5 per cent.
- Concessional import duty available for installation of mechanized Handling Systems and Pallet Racking Systems in mandis or warehouses extended for horticultural produce.
- Full exemption from basic customs duty for coal-mining projects.
- Basic customs duty on plant and machinery imported for setting up or substantial expansion of iron ore pellet plants or iron ore beneficiation plants reduced from 7.5 per cent to 2.5 per cent.
- Full exemption from basic customs duty of 5 per cent for automatic shuttle-less looms and reduction in basic customs duty on wool waste and wool tops from 15 per cent to 5 per cent.
- Basic customs duty increased on standard gold bars; gold coins of purity exceeding 99.5 per cent and platinum from 2 per cent to 4 per cent and on non-standard gold from 5 per cent to 10 per cent.

Credit related

- In November 2011, the RBI increased the all-in cost ceilings for External Commercial Borrowings (ECBs) increased to 350 basis points (bps) over 6-months Libor/Euro Libor/Euribor for a maturity period between three and five years and 500 bps over 6-months Libor/Euro Libor/Euribor for a maturity period more than five years. Accordingly the all-in cost ceiling on trade credits has also been increased to 350 bps over 6-months Libor/Euro Libor/Euribor until 31 March 2013.
- With effect from 5 May 2012, banks were allowed to determine their interest rates on export credit in foreign currency with the objective of increasing the availability of funds to exporters.
- On 18 June 2012, the RBI enhanced the eligible limit of the export credit refinance (ECR) facility for scheduled banks (excluding regional rural banks [RRB]) from 15 per cent of the outstanding export credit eligible for refinance to 50 per cent, with effect from 30 June 2012. The objective was to provide additional liquidity support to banks of over Rs 300 billion. The rate of interest charged on the ECR facility was retained at the prevailing repo rate under the liquidity adjustment facility (LAF).
- The 2 per cent Interest Subvention Scheme, earlier meant only for handlooms, handicrafts, carpets, and SMEs, was extended on 1 April 2012 to 31 March 2013 for labour-intensive sectors also, viz. toys, sports goods, processed agricultural products, and readymade garments. This was further extended upto 31 March 2014 and 134 tariff lines of engineering goods were also included in the scheme.

Foreign Trade Policy Measures in 2012-13

- Incentive on Incremental Exports: Incentives to be granted on incremental exports made during the period January-March 2013 over the base period January-March 2012. The incentive to be granted to an Importer and Exporter Code (IEC) holder at the rate of 2 per cent on incremental growth of exports made to the USA, Europe, and Asian countries during this particular quarter, i.e. January-March 2013.
- Export Promotion Capital Goods (EPCG) Scheme: Zero Duty EPCG Scheme extended up to 31t March 2013 and its scope enlarged. Export obligation under this scheme to be 25 per cent of the normal export obligation for export of products from north-eastern states and export of specified products through notified Land Customs Stations of the north-eastern region provided additional incentive to the extent of 1 per cent of Free on Board (FOB) value of exports.
- Support for Export of Green Technology Products: To promote exports of 16 identified green technology products, export obligation for manufacturing of these products under the EPCG Scheme reduced to 75 per cent of the normal export obligation.
- Support for Infrastructure for the Agriculture Sector: Status holders exporting products under ITC (HS) Chapter 1 to Chapter 23 (both inclusive) are getting Duty Credit Scrip equivalent to 10 per cent of FOB value of agricultural products so exported. Import of 14 specified equipments have now been notified in Appendix 37 F for setting up of pack- houses besides import of capital goods and equipment for cold storage units, pack-houses, etc.
- Incentives for Promoting Investment in Labour-intensive Sectors: Status holders issued status holders incentive scrip (SHIS) to import capital goods for promoting investment in upgradation of technology of some specified labour-intensive sectors like leather, textile & jute, handicrafts, engineering, plastics and basic chemicals. Up to 10 per cent of the value of these scrips will be allowed to be utilized to import components and spares of capital goods imported earlier.

(Contd....)

Box 7.4 : Some important trade policy measures (Contd...)

- Market and Product Diversification: Seven new markets have been added to the Focus Market Scheme (FMS) and seven to the Special Focus Market Scheme (Special FMS). Forty-six new items have been added to the Market Linked Focus Product Scheme (MLFPS). The MLFPS has been extended till 31 March 2013 for exports to the USA and EU in respect of items falling under Chapter 61 and Chapter 62. Around 100 new items have been added to the Focus Product Scheme (FPS) list. Three new items have been added to the Vishesh Krishi and Gram Udyog Yojana (VKGUY). Additional measures announced as trade facilitation measures by widening and deepening of export incentives under chapter 3 of FTP in December, 2012 to be made effective from 01.01.2013. These include addition of 5 new markets to FMS, one new market to Special FMS, 62 new items to MLFPS and 102 new items to FPS.
- Simplification of Procedures: Import under advance authorization (AA) permitted at any of the Electronic Data Interchange (EDI) ports, irrespective of the EDI port in which the AA has been registered. There would be no requirement of Telegraphic Release Advice (TRA). Export shipments from Delhi and Mumbai through post, courier, or e-Commerce to be entitled for export benefits under the FTP.
- New 'e-BRC' Initiative: A major EDI initiative the 'e-BRC' launched which would herald electronic transmission of foreign exchange realization from the respective banks to the Directorate General of Foreign Trade (DGFT) server on a daily basis. The exporter will not be required to make any request to the bank for issuance of a bank export and realization certificate (BRC).

newly notified zones. As per the provisions of the SEZ Act 2005, 100 per cent FDI is allowed in SEZs through the automatic route. A total of 160 SEZs are exporting goods and services. Of this 93 are IT/ITES, 17 multi-product and 50 other sector-specific SEZs. The total number of units in these SEZs is 3308.

Contingency Trade Policy and Non-Tariff Measures

7.40 Anti-dumping investigations initiated by all countries, at a high in 2001 declined almost steadily till 2007. They picked up once again in 2008 but started declining to reach a low in 2011. However, in 2012 they have again increased with 114 investigations (up to June) compared to 68 in 2011 (up to June). In 2011 India topped the list of countries initiating such investigations, but in 2012 (up to June) Brazil is at the top followed by Argentina and Canada. India, the US, and EU with seven investigations each are at fourth spot (Table 7.10)

7.41 During 2012-13 (1.4.2012 to 31.12.2012), 10 fresh cases have been initiated by the Directorate General of Anti-dumping and Allied Duties (DGAD). The countries involved in these investigations are China PR, the European Union, Korea RP, Malaysia, Mexico, Taiwan, Thailand, Turkey, Saudi Arabia, and the USA.

Table 7.10 : Investigations initiated by top ten users of Anti-Dumping Measures 1995-2012

Country	1995	2001	2002	2003	2005	2007	2008	2009	2010	2011	2011 Jan.-June	2012 Jan.-June	1995-2012*
India	6	79	81	46	28	47	55	31	41	19	10	7	663
United States	14	77	35	37	12	28	16	20	3	15	9	7	465
European Union	33	28	20	7	24	9	19	15	15	17	8	7	444
Argentina	27	28	14	1	12	8	19	28	14	7	4	10	301
Brazil	5	17	8	4	6	13	23	9	37	16	11	26	258
Australia	5	24	16	8	7	2	6	9	7	18	2	6	241
South Africa	16	6	4	8	23	5	3	3	0	4	1	0	216
China	0	14	30	22	24	4	14	17	8	5	0	4	195
Canada	11	25	5	15	1	1	3	6	2	2	0	10	165
Turkey	0	15	18	11	12	6	23	6	2	2	1	6	154
All countries	157	372	315	234	201	165	213	209	172	155	68	114	4125

Source : WTO *Upto June 2012.

7.42 While the OECD (Organization for Economic Cooperation and Development) - WTO - UNCTAD (United Nations Conference on Trade and Development) joint report of October 2012 on G-20[Group of 20] Trade and Investment Measures has pointed towards a slowdown in trade-restrictive measures, the persistence of the global crisis has added to political and economic pressures on governments to resort to contingency trade policies and non-tariff measures (NTMs). Moreover the new measures implemented over the past five months that can be considered as restricting or potentially restricting trade add to the restrictions adopted since the outbreak of the global crisis. The trade coverage of the restrictive measures put in place since October 2008, excluding those that have been terminated, is estimated to be around 3 per cent of world merchandise trade and 4 per cent of the trade of G-20 economies.

WTO Negotiations and India

7.43 The Doha Round of trade negotiations in the WTO which began in 2001 remains unfinished due to differences among members on various issues. The Eighth Ministerial Meeting of the WTO which was held in December 2011 in Geneva provided political guidance to the members to resolve the issues involved. However, there was no significant progress in 2012. Efforts are being made for an early harvest on some issues in time for the Ninth Ministerial Conference of the WTO (MC9) to be held in December 2013. India is of the view that any early outcome of the negotiations should invariably address issues of interest to the developing countries, especially the least developed countries (LDCs) and the small vulnerable economies (SVEs).

7.44 A Draft Consolidated Negotiating Text on Trade Facilitation was worked out by the WTO members on 14 December 2009. The Draft Text has since been revised fourteen times (till December 2012) through discussions in the meetings of the Negotiating Group on Trade Facilitation (NGTF). India is actively engaged in these negotiations and has also tabled a few proposals on 'Customs Cooperation', 'Rapid Alerts System of Customs Union', and 'Appeal Mechanism'. The Draft Text, however, lacks internal balance. The developed countries are holding up the laws and procedures of their own countries as benchmarks and want the developing countries to replicate them. Developing countries have by and large adopted a defensive approach in the negotiations. The developed countries and a few developing countries are making efforts to harvest 'Trade facilitation' for an early outcome, in time for MC9. India along with most of the developing countries wants issues of market access and trade facilitation to be balanced with developmental issues such as duty free quota, free market access for LDCs, and acceptance of the modalities for reducing cotton subsidies. The G33 group of countries, which is a coalition of 46 developing countries, including India, has tabled a proposal on food security in the WTO on 16 November 2012. The proposal is for an amendment to certain provisions of the WTO Agreement on Agriculture to allow developing countries greater flexibility in their public stockholding operations for food security purposes. The issue of food security is very important for India and any concession on the trade facilitation front needs to be balanced by acceptance of the G33 proposal in any package deal for MC9.

7.45 During the current year, some of the developed country members of the Information Technology Agreement (ITA) of WTO viz. the USA, European Union, and Japan, have proposed expansion of the agreement (called ITA-2) to increase the coverage of IT products on which customs duty would be bound at zero, addressing non-tariff measures, and expanding the number of signatory countries to include new signatories such as Argentina, Brazil, and South Africa. The proponents of ITA expansion have prepared a consolidated list containing around 350 IT products (combining products of interest to all proponents of ITA-2) on which tariff reductions are being sought. This is under active discussion in the WTO and India is carefully examining the proposal.

7.46 Negotiations in services have continued primarily in the plurilateral format. Intensive negotiations were held in 2009, 2010, and also till the first half of 2011.These efforts culminated in a report by the Chair of the Committee on Trade in Services - Special Session (CTS-SS) and all subsidiary bodies under the CTS in April 2011. The Chair's report puts forth two views. The developed countries' view is that further progress on market access could include the binding of autonomous liberalization where possible, improved levels of access under commercial presence mode, that is, Mode 3 (including restrictions on foreign equity participation and

Box 7.5 : India's Regional Trading Arrangements: Recent Developments

- **Agreement on South Asia Free Trade Area (SAFTA):** The SAFTA Agreement was signed on 6 January 2004 and came into force on 1 January 2006. Under SAFTA, India has granted zero basic custom duty to all LDCs, viz. Afghanistan, Bangladesh, Bhutan, and Maldives, on all items except 25 items relating to alcohol and tobacco. Under the SAFTA Agreement, India has reduced the SAFTA Sensitive List for non-LDCs from 878 to 614 by reduction of 264 tariff lines w.e.f. 6 September 2012. As per the schedule of Tariff Liberalisation Programme (TLP) under SAFTA, India has brought down its peak tariff rates to 5 per cent w.e.f. 1.1.2013
- **India-Thailand FTA, Early Harvest Scheme (EHS) under the Framework Agreement for establishing India-Thailand FTA:** On 9th October 2003, India and Thailand signed a Framework Agreement for establishing an India-Thailand FTA, which includes trade in goods, trade in services, investment, and other areas of economic cooperation, to be concluded as a single undertaking. Under the EHS, tariff has gradually been eliminated on a list of 82 common items simultaneously by both sides between 1 September 2004 and 31 August 2006. Under the India-Thailand FTA, it is proposed to provide ASEAN plus tariff concessions. So far 26 rounds of the India-Thailand Trade Negotiation Committee (ITTNC) meetings have been held. The last round was held on 26-27November 2012 in New Delhi.
- **India-ASEAN Comprehensive Economic Cooperation Agreement (CECA):** Services and Investment Agreements. The Trade in Goods Agreement, which was signed on 13 August 2009 under the broader framework of the CECA between India and ASEAN has already come into force. Conclusions of negotiations for the Services Agreement and Investment Agreement have been announced during the ASEAN-India Commemorative Summit held on 20 December 2012 in New Delhi. Legal scrubbing for these Agreements will be finalized by February,2013. The Agreement will be signed during ASEAN Economic Ministers (AEM)-India Consultations in August 2013.
- **Regional Comprehensive Economic Partnership (RCEP) Agreement among ASEAN + 6 (Australia, China, India, Japan, Korea, and New Zealand):** During the 20th ASEAN Summit held in Cambodia in April 2012, ASEAN States agreed to move towards establishing an RCEP involving ASEAN and its FTA partners. The objective of launching RCEP negotiations is to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among the ASEAN member States and ASEAN's FTA partners. The RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues.
- **India - EU Broad Based Trade and Investment Agreement (BTIA):** Fifteen rounds of negotiations and a number of intersessional and Chief Negotiator level meetings have been held till date. The 15th round was held during 4-7 December, 2012 in New Delhi. Chief negotiator level meeting was held on 29-30 January, 2013 in New Delhi.
- **Global System of Trade Preferences (GSTP):** The Agreement establishing the GSTP among developing countries was signed on 13 April 1988 at Belgrade following the conclusion of the First Round of Negotiations. Forty-three countries have ratified the Agreement and become participants. India has offered tariff concessions on 70.08 per cent of dutiable tariff lines with an across-the-board margin of preference (MoP) of 20 per cent on the applied tariffs prevailing on the date of import. India has also unilaterally offered special concessions to LDC participants by granting an MoP of 25 per cent on 77 per cent of all its dutiable tariff lines. The Cabinet Committee on Economic Affairs (CCEA), in its meeting on 23 August 2012, has granted approval for implementing India's schedule of concessions. The tariff concessions are to be implemented thirty days after a minimum of four participants ratify their schedules of concessions. So far India and Malaysia have ratified their schedules.

Source: **Department of Commerce, Ministry of Commerce and Industry, Government of India.**

forms of commercial presence), as well as a robust and satisfactory outcome in Mode 4 (presence of natural persons). The developing countries' view is that there is an imbalance in market access negotiations, as evidenced by the fact that developing country flexibilities have not been taken into account in other members' requests, sectors of export interest to developing countries are not being fully reflected in developed members' offers; developing countries have already made a significant contribution to the Doha Round; and some plurilateral requests and recent proposals have embodied a level of ambition going beyond that agreed in Annex C of the Hong Kong Ministerial Declaration. India has already made considerable improvement in its revised offer (from 37 sub-sectors in the Uruguay Round to 95 in the Revised Offer). Some of the major developed country members have shown nil or little movement in their Mode 4 offers, which is an area of interest to us.

Bilateral and Regional Cooperation

7.47 While India has always stood for an open, equitable, predictable, non-discriminatory, and rule based multilateral trading system(MTS), it has also been active in recent years with regional trading arrangements (RTAs), to serve as 'building blocks' for achieving trade liberalization and complementing the MTS. So far, India has signed 10 free trade agreements (FTAs) and 5 preferential trade agreements (PTAs) and these FTAs/PTAs are already in force. Further, India is currently negotiating 17 FTAs, including review/expansion of some of the existing ones. (See Box 7.5)

Box 7.6 : Diversifying Technology-intensive Export Products through the Regional Process

Two trends in international trade are of great importance in the current global economic environment. One, the growing importance of technology-intensive exports and two, the increasing role of regional trade.

Tradable products can be classified into five different groups based on the technology intensity. (1) Primary products have very little technology basis for retaining comparative advantage, (2) resource-based products having competitive advantages, generally arising from local availability of natural resources and using simple and labour-intensive technology, (3) low technology products having simple technologies mainly embodied in capital equipment, with labour constituting a major element of cost in competitiveness and operating under low-scale economies with low entry barriers, (4) medium technology products comprising skill- and scale-intensive technologies in capital and intermediate products where product development takes place with complex technologies, involving high level of research and development (R&D) expenditure and which require lengthy learning periods and are subject to high entry barriers, and (5) high technology products having advanced and fast changing technologies with emphasis on product design requiring high R&D investment, sophisticated infrastructures, high levels of specialized technical skills, and close interactions between firms and universities/research institutions. Trends in global trade indicate that there has been a proliferation of trade in technology-intensive manufacturing products. Among the globally dynamic products of trade, a significant proportion of items are high and medium technology-intensive items. India has been diversifying into technology intensive products with a fair amount of success with exports of high technology and medium technology products growing faster than the total exports of India during 2004-2011 (Table 1). Further, diversifying India's exports to include more technology-intensive product groups is of vital importance.

Table 1 : India's Trade with technology Intensive products

		CAGR		
		2004 to 2007	2007 to 2011	2004 to 2011
1	Primary products	25.3	17.6	20.8
2	Resources based products	32.4	20.0	25.2
3	Low technology products	13.3	14.5	14.0
4	Medium technology products	27.0	20.0	23.0
5	High technology products	26.6	26.9	26.8
	Total exports	24.3	18.8	21.2

In the present global trading environment, export promotion is more strategically pursued through the regional approach. India's export compound annual growth rate (CAGR) is faster with most of the 21 RTAs (covering more than 100 countries) considered here (based on India's level of exports with them, India's membership in some of them, and India's engagement with other continents including Africa), than its overall export CAGR of 19.1 per cent during 1999-2000 to 2010-11 (Table 2). Asia is emerging as the most important destination for India's exports through the regional process.

Export potential in medium and high technology-intensive products varies across different RTAs. Decomposition of export potential products into their technology intensities in different regional blocs shows possibility of trade diversification for India in hi-tech product segments. Empirical evidence suggests that India can diversify its exports of technology-intensive products to RTAs. The EU, NAFTA, RCEP, APTA, ASEAN, IOR-ARC, etc. could be some important export destinations with sizeable trade opportunities for technology-intensive exports, though some of these regional arrangements overlap.

(Contd....)

Box 7.6 : Diversifying Technology-intensive Export Products through the Regional Process (Contd..)

Table 2: India's Export Performance with Selected RTAs/FTAs

RTA	Year of Eestabils-hment	Value of exports (US$ million) 2010-11	Share in export % 1999-2000	Share in export % 2010-11	Export CAG 2010-11 over 1999 2000	Trade Ropport-unities (US$ billion	Share in total opportunities available in each RTA(%) Primary Products	Resource based	Low tech-nology	Medium tech-nology	High tech-nology
1	2	3	4	5	6	7	8	9	10	11	12
With India's membership											
IOR-ARC	1997	77097	17.9	30.7	25.1	51.8	22.5	17.5	11.3	28.0	20.6
RCEP/EAS	2005	51723	14.7	20.6	22.8	155.3	27.3	18.9	8.5	23.3	22.0
BIMST-EC	1997	11673	4.8	4.7	18.6	9.1	38.0	10.8	11.9	24.9	14.4
SAARC	1985	11634	3.9	4.6	21.0	2.5	33.1	25.4	9.7	23.1	8.7
IBSA	2003	7948	1.1	3.2	30.6	11.2	19.8	17.2	7.9	38.8	16.3
With/proposed tradeaAgreement											
EU	1992	45980	26.2	18.3	15.3	205.2	19.9	17.8	16.6	30.4	15.3
GCC	1981	42395	8.7	16.9	26.5	10.0	14.8	17.0	17.1	40.6	10.4
ASEAN	1967	25600	6.1	10.2	24.8	35.1	24.7	17.9	9.8	24.5	23.1
COMESA	1994	7128	2.3	2.8	21.6	3.8	21.1	29.7	10.5	30.5	8.2
MERCOSUR	1991	4730	0.7	1.9	30.4	12.2	14.1	18.6	9.2	41.9	16.2
SACU	1969	4118	0.8	1.6	27.2	3.7	22.9	17.8	9.9	34.5	14.9
Without trade agreement											
NAFTA	1992	27538	24.8	11.0	10.6	93.8	17.8	13.1	14.9	33.6	20.6
APTA	1975	25887	5.9	10.3	25.4	79.5	25.0	19.6	6.2	24.9	24.3
SADC	1992	8158	1.9	3.3	25.3	5.3	19.1	24.1	10.2	34.0	12.6
LAIA	1980	7443	1.5	3.0	26.4	28.4	12.1	17.4	12.9	39.2	18.4
EAC	1967	3994	0.7	1.6	29.0	0.9	12.9	47.1	7.3	25.3	7.3
ECOWAS	1975	3842	1.5	1.5	19.6	3.3	29.8	31.6	12.3	20.6	5.6
CIS	1991	2607	2.9	1.0	8.5	14.8	12.3	15.1	14.2	42.0	16.4
ECCAS	1985	1122	0.1	0.4	33.6	0.3	13.7	30.0	14.9	33.0	8.3
With bilateral trade agreement											
ISLFTA	2000	3503	1.8	3.9	27.7	0.6	20.2	19.1	6.3	20.5	34.0
ISCECA	2003	9816	1.4	1.4	19.4	0.1	25.8	30.7	16.1	22.5	4.9

* Year of establishment / entered into force.

Focused product-market diversification trade and marketing strategies should necessarily entail diversifying India's trade basket, particularly in favour of high and medium technology-intensive products in the targeted RTAs. While this type of focus could also help in avoiding the adverse effects of some RTAs concentrating on primary products involving livelihood concerns of a significant portion of our agricultural and rural communities, care should be taken to avoid inverted duty structures in the 'quid-pro-quo' during RTA negotiations.

Source: **Based on study by S. K. Mohanty, (2013), 'Examining Diversification of India's Exports to Developing Countries in a Situation of Partially Affected Global Economy by Recession', Backgrounder for the Economic Survey, MoF, GoI.**

Note: **The RTAs included in the analysis are: Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), Regional Comprehensive Economic Partnership (RCEP)/ East Asian Summit (EAS), Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMST-EC), South Asian Association for Regional Cooperation (SAARC), India-Brazil-South Africa Initiative (IBSA), the European Union (EU), Gulf Cooperation Council (GCC), Association of South East Asian Nations (ASEAN), Common Market for Eastern and Southern Africa (COMESA), Southern Common Market (MERCOSUR), South African Customs Union (SACU), North American Free Trade Agreement (NAFTA), Asia-Pacific Trade Agreement (APTA), South African Development Community (SADC), Latin America Integration Association (LAIA), East African Community (EAC), Economic Community of Western African States (ECOWAS), Commonwealth of Independent States (CIS), Economic Community of Central African States (ECCAS), India-Sri Lanka Free Trade Agreement (ISLFTA), India-Singapore Comprehensive Economic Cooperation Agreement (ISCECA).**

7.48 In the current situation when WTO negotiations are stalled, world trade has slowed down, and the shadow of protectionist measures looms large, a strategy of diversifying technology intensive exports through the regional process could lead to further trade promotion with trade liberalization (Box 7.6).

Box 7.7 : Reviving and Accelerating India's Trade: Micro, Sector- and Port-specific issues

Some trade-related issues and suggested policies at the micro, sector-specific and port-specific levels are as follows:

Infrastructure Related: Even the best of Indian ports do not have state-of-the-art technology as in Singapore, Rotterdam, and Shanghai. Port Infrastructure issues include poor road conditions and port connectivity, congestions, vessel berthing delays, poor cargo handling techniques and equipment., resulting in multiple handlings, increased lead time, high transaction costs and thus loss of market competitiveness.

Port-specific infrastructure issues include restriction in port access points to Chennai Port, various surcharges like congestion surcharge and Chennai trade recovery charge on the users of Chennai Port, container relocation charges, imbalance surcharge, etc. levied without any legal sanction with the charge on the trade component being very low and port congestion at the Jawaharlal Nehru Port Trust (JNPT) Port at Mumbai, entry gates closing prematurely resulting in export consignments being dumped in the buffer yard at a very high cost and delay in shipments, and many vessels bypassing the JNPT Port carrying containers to be delivered at their next voyage thereby delaying vital raw materials for the industry.

Trade Facilitation Measures: While India is ranked 132 in the 'ease of doing business', on 'trading across borders' India is ranked 127 with Singapore at first rank and China at 68th as per the World Bank and IFC 'Doing Business 2013'. India requires 9 export documents to be cleared, while China needs 8, with good practice economies like France needing 2. Time to export is 16 days for India and five for Denmark. Cost to export is $1120 per container, compared to $580 in China and $435 in Malaysia. Number of import documents that need clearance is 11 in India, 5 in China, and 2 in France. Time to import is 20 days in India and 4 in Singapore. Cost to import is $1200 per container in India, $615 in China, and $439 in Singapore. There are many trade facilitation measures that can help the export sector without any cost to the government exchequer. These include simplification of the multiple documentation procedures as on an average an Indian exporter is required to sign at about 130 places to complete an export transaction (from pre-shipment till receiving export related benefits) as per the Federation of Indian Export Organisations (FIEO). These procedures and costs need to be reduced to the barest minimum.

Other procedural and documentation reforms include abolishing the system of printing and certifying export promotion(EP) copies of shipping bills, implementing 24x7 system for Container Freight Stations (CFSs) , reducing unnecessary paper work related to renewal of letters of undertaking (LUT) for export without payment of duty, discouraging the practice of insistence by banks for L/Cs through their branches in foreign countries, merging or streamlining the Market Access Initiative (MAI) & Marketing Development Assistance (MDA) schemes, removing the annual average export performance condition under the EPCG scheme, and addressing the issue of trade litigations.

Some port-specific trade facilitation measures include addressing the issues of high terminal handling charges (THC) and increase in cut-off time resulting in containers missing the intended vessels and non-availability of electronic data interchange (EDI) facility inside the International Container Transhipment Terminal (ICTT) in Vallarpadam Port; and streamlining the timing of the Customs office at the Precious Cargo Customs Clearance Centre (PCCC), Mumbai, as it is open till 1.30 p.m. while the timing for receiving goods/parcels for exporting is till 4.00 p.m..

Tax and Customs Duty Related: These include fixing a time limit for disbursal of duty drawback, service tax refunds, and central excise rebate claims to the exporters as delays in the release of these claims adversely affect working capital, making them less competitive; crediting payment of central excise rebate claims directly to the bank account of the exporter; introducing value added tax (VAT) refund system for purchases in India by foreigners which can increase purchases in India by foreign tourists; and reviewing inverted duty structure under the India-Thailand FTA as finished jewellery imports from Thailand are cheaper than primary gold (raw material) available in India.

Source: **H.A.C. Prasad, (2012). 'Emerging Global Economic Situation: Its impact on India's Trade and some Policy Issues', Working paper No 1/2012-DEA, Ministry of Finance.**

Challenges and Outlook

Outlook

7.49 The prospects for world trade and India's trade are still uncertain. Some green shoots seem to have appeared with the import growth rates of the world and some of India's important trading partners like the USA, China, and Hong Kong showing slight upward movement in the last two months. However, the Baltic Dry Index (BDI), a good proxy for the robustness of world trade, which started falling from its peak (in the last five years) of 11709 on 19 May 2008 has not recovered even halfway. The small bouts of recovery in the BDI, like the recent recovery in November-December 2012 which is among the highs in recent months, can in no way be compared to the highs of 2008. Even this upswing has been short-lived, being succeeded by a downswing in the beginning of January 2013 causing it to reach a low of 698 on 2 January2013. There has since been a marginal recovery for the BDI to its current level of 792 (28.1.2013).

7.50 This also suggests that the outlook for India's merchandise trade and shipping services which are directly dependent on merchandise trade is still uncertain. While there has been some pick-up in import growth rates of some of our trading partners like the US, Hong Kong, Singapore and China in the last two months as stated earlier, a look at their import growth rates from India in recent months shows a rather mixed picture. While the US's and Japan's imports from India grew by 12.6 per cent and 1.8 per cent respectively in 2012 (January-November), China's and Hong Kong's imports from India fell by 19.6 per cent and 17.9 per cent respectively in 2012 (full year) and Singapore's imports from India fell by 8.3 per cent in 2012 (January-November).

7.51 Import moderation on the other hand may be limited despite fall in gold imports (as a result of the policy measures taken by the government), as international gold prices are still high and oil prices continue to hover around the US$ 110 per barrel mark.

7.52 Services export growth being equally dependent on global growth and trade has been very erratic in the post global crisis period. On the other hand, if imports of services continue to rise and the positive balance of trade in services continues to fall as in the first half of 2012-13, the cushion available for lowering the trade deficit would be limited.

Challenges

7.53 The challenges for India on the trade front are many. While India has successfully diversified its export basket, more needs to be done on the product diversification front. It also has to reposition itself in its traditional areas of strength like textiles and leather & leather manufactures where it has lost considerable ground, while at the same time making forays into new areas. With multilateral trade negotiations stalled, and RTAs on the rise, India also has to follow a strategic regional trading policy focusing on the potential technology-intensive items in the more important RTAs. Though geopolitical considerations are important, India may have to bargain more in its regional trade negotiations, particularly in cases where livelihood concerns of large pockets of the population are involved, There is also need to address the inverted duty structure in sectors like electronics, textiles, and chemicals and the artificial inverted duty structure caused by some FTAs/RTAs. On the services front, a gold mine of opportunity in sectors like tourism including health tourism is waiting to be tapped.

7.54 The recent global slowdown has thrown up new challenges for India with its export growth being continuously negative since May 2012 compared to very high growth rates of even above 50 per cent in some months of the previous year. With limited fiscal space available for the government and with protectionist measures of trading partners showing signs of rising, the policy options left are more at the micro level as indicated in Box 7.7.

7.55 Thus there are many micro, port-specific and sector-specific issues that need urgent attention. These are related to infrastructure, trade facilitation, tax and tariffs, and credit, and can realistically be addressed in the short and medium term. Addressing these issues, as is currently being done by the government, can exponentially promote India's export growth.