CENTRE FOR TRADE, GLOBALISATION & DEVELOPMENT

CETGLAD

Policy Brief

Crafting Equinox for Fair Trade, Equitable Globalisation & Inclusive Development

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India's Direction of Trade and Trade Composition: Challenges and Opportunities

In recent past India's Trade composition has changes slightly from its traditional items e.g. handloom, handicrafts to petroleum products and machineries. On the other hand the direction of trade is also changing from US and Europe to emerging Asian market. It is both a challenges to retain its traditional trade partners and opportunity to diversify its trade composition. Yogesh Bandhu-Economist with CETGLAD is analyzing the recent phenomenon.

India's foreign trade policies have undergone significant changes. Policy towards integration of Indian economy with the world economy was initiated since late seventies. Reports of various committees includingP. C. Alexander Committee on Import Export Policies and Procedures chaired by, Abid Hussain Committee on Trade Policies, Raja Challiah Tax reform committee etc. have contributed a lot in the changing foreign trade policy of India and integration of Indian economy with the world economy Composition of India's export basket is changing gradually over the year. There also have been some significant compositional changes in import basket in recent year. India's export covers over 7500 comodities to 190 countries, while over 6000 commodities are imported from about 140 countries.

Significant changes have taken place in the direction of India's foreign trade since 1991, and more particularly during the last two-three years. What's most significant is the emergence of China, Singapore, Hong Kong, South Korea & Malaysia as important trading partners of India from the Asian region. However, India need to cultivate more trade relations with Africa, South America and Middle-East Asian Countries as these rich countries would offer huge markets for India's export. An aggressive and refurbished "Look East" trade policy will enable India to actually achieve its realistic positioning in the competitive and dynamic world economy.

World trade in 2009 was dominated by the worst financial and economic crisis in decades. Global output shrank. So did the volume of international trade. China, Brazile and India saw export drop by between a fifth and a third in thesecond half of 2008.

A very large number of external economic factors transactions with the rest of the world. Internal economic and non economic factors also undoubtedly influence the performance of India's economy, whereas the changing dynamics of external trade in an inter-dependent and increasingly competitive global economy also affected the trade performance. Although India has steadily opened up its economy, its tariffs continue to be high when compared with other countries, and its investment norms are still restrictive. This leads some to see Indiaas a 'rapid globalizer' while others still see it as a 'highly protectionist' economy.

India's foreign trade policies have undergone significant changes reflecting the changing perception towards external sector and development strategies. Policy towards integration of Indian economy with the world economy was initiated since late seventies. Liberalisation process remains slow in the beginning but gained momentum in second half of eighties. But the comprehensive trade policy measures were initiated since 1991 as a part of economic reform process. Reports of various committees including P. C. Alexander Committee on Import Export Policies and Procedures chaired by, Abid Hussain Committee on Trade Policies, Raja Challiah Tax reform committee etc. have contributed a lot in the changing foreign trade policy of India and integration of Indian economy with the world economy.

In line with this, several measures were undertaken to enhance the competitiveness of the export industries through simplifications of licensing procedures and shift from 'controls' to 'development', minimization of quantitative restrictions and reduction in tariff barriers. The policy of 'growth led export' rather than 'export led growth' resulted in the harmonization of foreign trade policy with the other economic policies. Foreign Trade Policy (FTP) 2004-2009 takes an integrated view of the overall development of India's foreign trade and essentially provides a roadmap for the development of this sector. The main objective of this policy is to double the share of global merchandised trade by 2009 and using foreign trade as an instrument of economic development and employment generation. All these measures had a significant impact on the foreign trade of India. India's exports has increased form $US 1269 million in 1950-51 to US$ 80540 million in 2004-05. During the same period imports also increased from US$ 1273 million to US$ 109173 million. During this period imports have grown faster than exports. Post-independence, India witnessed marginal increase in the volume of trade. It took a leap after 1992 when the country ushered into liberalization regime; but this too couldn't contribute remarkable share of India's trade in the world's total trade. Till the early 1990s, India was a comparative less open economy; average tariffs were exceeded 200 percent, quantitative restrictions on imports were extensive, and there were stringent restrictions on foreign investment. The country began to cautiously reform in the 1990s. Since then, trade reforms have produced remarkable results. India's Trade -GDP ratio has increased from 15 percent to 35 percent of GDP between 1990 and 2005, and the India is now among the fastest growing in the world. India's share in world trade was 1.78 percent in 1950, which further declined to 0.6 percent in 1995. Only two financial years 1972-73 and 1976-77 witnessed surplus trade of Rs 1,040 million and 680 million respectively. However, India's share in merchandise exports witnessed a constant rise, from 0.8 percent in 2003 and 2004 and 1.0 percent in 2005 to 1.1 percent in 2006 and 2007. Trade policy 2004-09 had set a target of 1.5 percent in world trade by 2009. World Trade Report 2011, released by WTO, states that India has improved its rank both in merchandise and service trade during 2010. In merchandise trade, it is placed at 20th rank, while its rank is 10th in service trade. India is now aggressively pushing for a more liberal global trade regime, including trade in services. It has assumed a leadership role among developing nations in global trade negotiations, and played a critical part in the multilateral trade negotiations. In recent years, the government's approach on trade and investment policy has displayed a marked shift from protecting 'producers' to benefiting 'consumers'. This is reflected in its Foreign Trade Policy for 2004/09 which states that, "For India to become a major player in world trade ...we have also to facilitate those imports which are required to stimulate our economy." The Trade Policy 2009-14 aimed to accelerate export and discourage imports to ensure surplus trade in five years. The policy envisages doubling India's export of goods and services by 2014 and also doubling its share in global trade by 2020. The policy shifted its focus to 26 new countries to discourage demand slump in traditional markets, which proves a wise decision in view of global economic slowdown as, India is not affected as much as other open developing economies.

Composition of India's Foreign Trade:

The India's export witnessed major compositional changes in last one decade with 10 percentage point fall in shares of manufactures, a 12.6 percentage point growth in shares of petroleum crude and products, and 3.3 percentage point fall in shares of primary products. The composition of import also saw changes in last one decade. The share of food and allied products which fell to 2.1 percent in 2008- 09 from 3.3 percent in 2000-01, increased to 3.7 percent in 2009-10 and fell to 3.2 percent in first half of 2010- 11, with slight fall in import share of edible oils and pulses. The share of fuel import remained at 33 percent. The remarkable change can be seen in the growth of capital goods import from 10.5 percent in 2000-01 to 15 percent in 2009-10 and then again fall to 13.1 percent in first half of 2010 - 11. The share of gold, silver and electronic goods underwent down in first half of 2010 - 11 compared to last two corresponding financial years. The share of pearls, precious and semi-precious stones witnessed a see-saw movement in last one decade.

Composition of India's Export:

Compositional of India's export basket gradually have been changing over the years. While the share of primary products in India's exports fell over the years from 16 per cent in 2000-01, it regained the share of 16 per cent in 2012-13 (April-November). 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. It is matter of immense concern as these sectors provides a job to a good number of populations. 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). 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. 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 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 good.s .

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. .

Composition of India's Import: :

There have been some significant compositional changes in India's import basket in recent years. The share of POL imports increased with a very high growth rate from 28.7 per cent in 2010-11 to 31.7 per cent in 2011-12 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 semiprecious 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 cen. t .

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).).

Direction of India's Trade:

India's export cover over 7500 commodities to 190 countries, while over 6000 commodities are imported from about 140 countries. During first half of 2011- 12, exports grew by 52.1 percent to USD 160 billion and import witnessed 32.4 percent increase by USD 233.5 billion, leaving a trade gap of USD 73.5 billion. The foreign trade in India trend showed an upward movement with 15 trading partners contributing to 60 percent of India's total trade in 2007- 08. The trend however was constant till first half of 2011- 12. USA which was at first position in 2007-08, relegated to third position in 2008- 09. UAE replaced USA and China was placed at second position. The trend continued till first half of 2010-11. UAE replaced USA only because of exports and imports of gems and jewellery items. India had bilateral trade surplus with five countries- UAE, USA, Singapore, UK and Hongkong in 2009-10 and continued till first half of 2010 - 11.

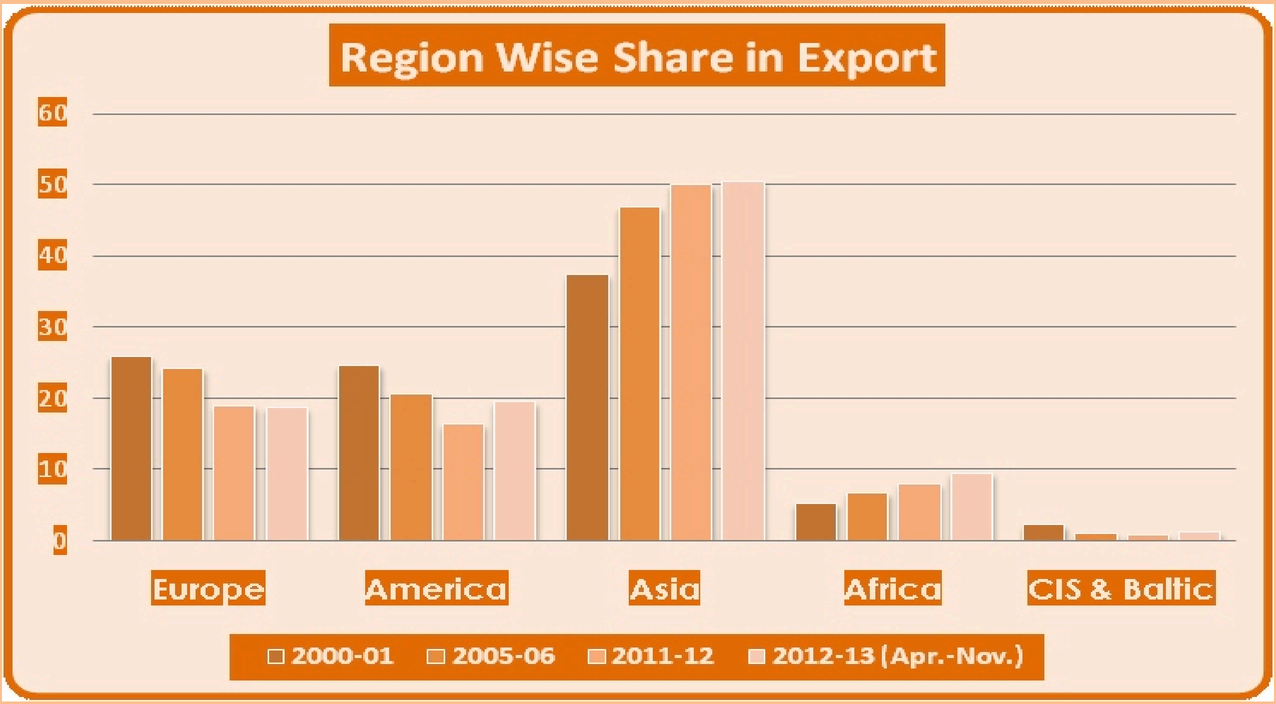
There has been significant market diversification in India's trade. Region-wise, while India's exports to Europe and America have declined, its exports to Asia and Africa have increased. However, in 2012-13 (April- November), the share of India's exports to the USA increased to 13.5 per cent. Within 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).

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 to61.1 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 and Kuwait are the new entrants in this race. 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 in2011-12, 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.

Box-1: Market Diversification

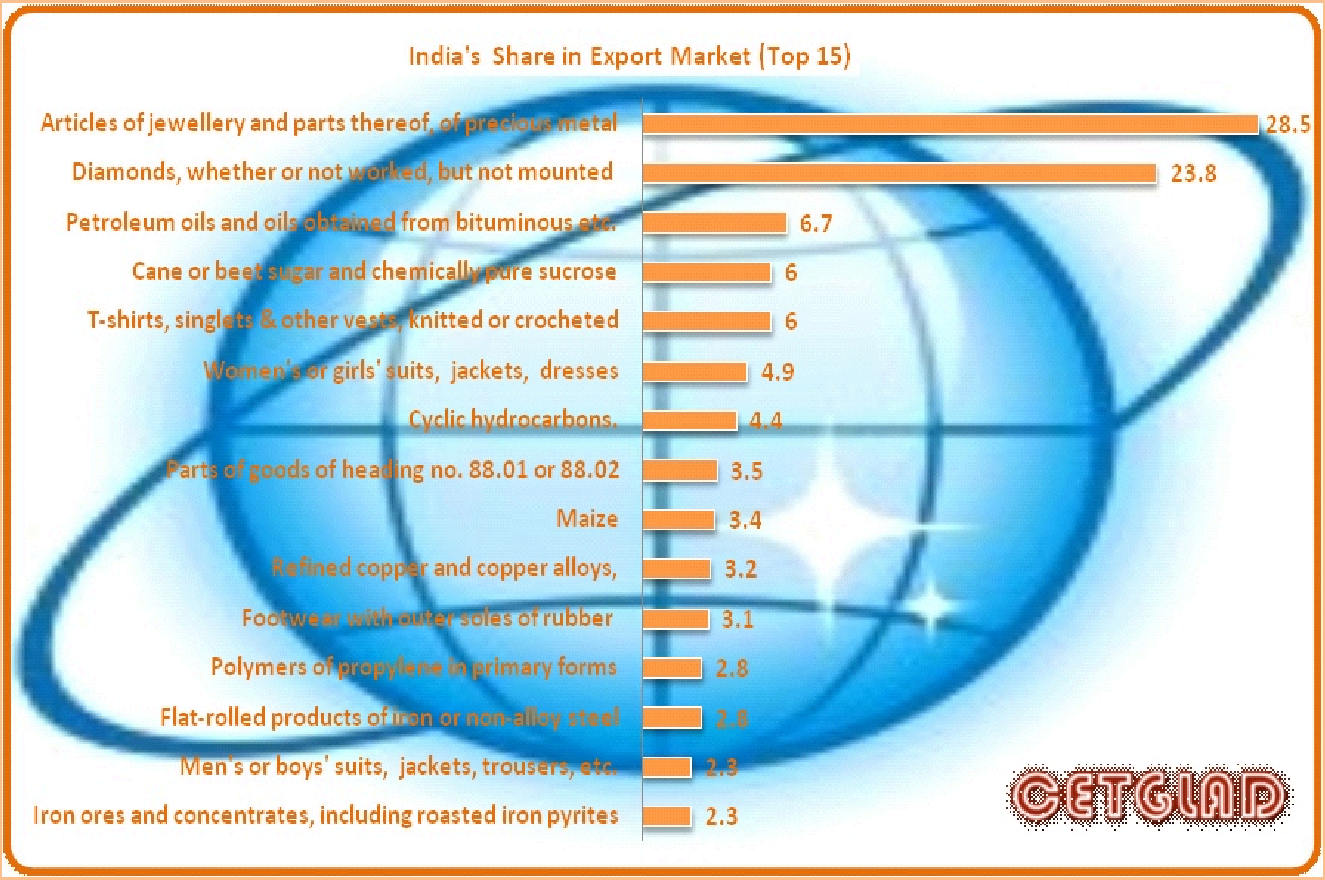
India has been fairly successful in diversifying its export markets from developed countries like the US and Europe to Asia and Africa, which has helped to a great extent in weathering the global crisis of 2008 and the recent global slowdown In 2011, India had a global export share of 1 per cent or more 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.



Data from for the last 15 years the Department of Commerce point out that the direction of Indian trade is changing. Trade as measured by the sum of the value of exports and imports put together; USA was India's top trading partner for the longest time (1997-2007). Between 2008 and 2010, UAE takes place as India's leading trade partner and in 2011 it was displaced by China. However, this change cannot be acknowledged as a phenomenon because the basis for shift was temporary and attributed to the 2008 recession in the US. But, there are evidences to suggest that the shift in the direction is not superficial. The Indian exports are gradually moving towards the Southern countries, particularly Asia and Africa region.

Box-2: Product Diversification

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. Therefore, in terms of product diversification a lot more needs to be done as can be infers from above facts.



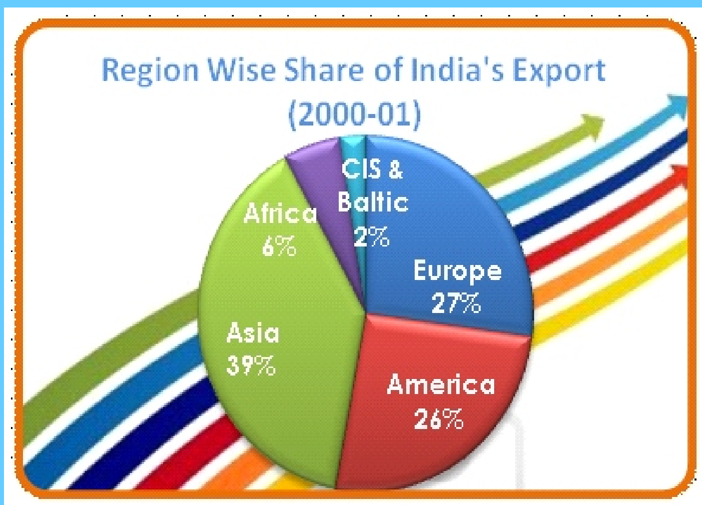
Source: Computed from UN Comtrade data extracted on 9 January 2013.
Note: # Rank is in top 100 world imports.

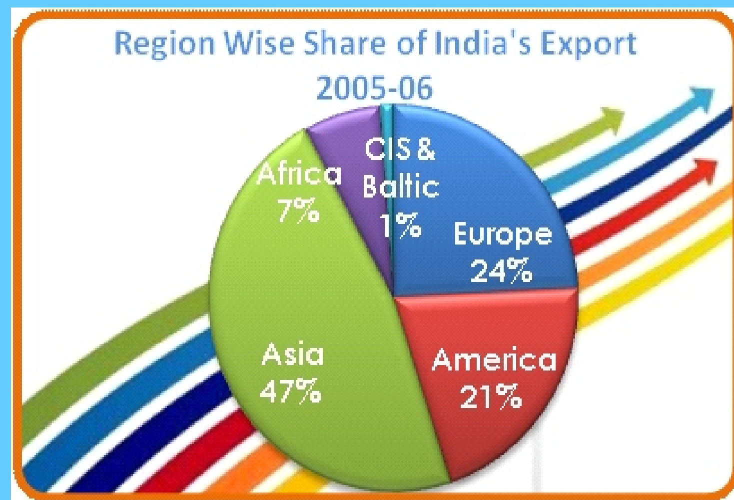
India has a very high export share in world imports in the case of only two four-digit HS items, jewellery and diamonds. While India can increase its shares further in the other 16 items given in the table, there are many other simple items in the top 100 world imports with high demand where India has 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.

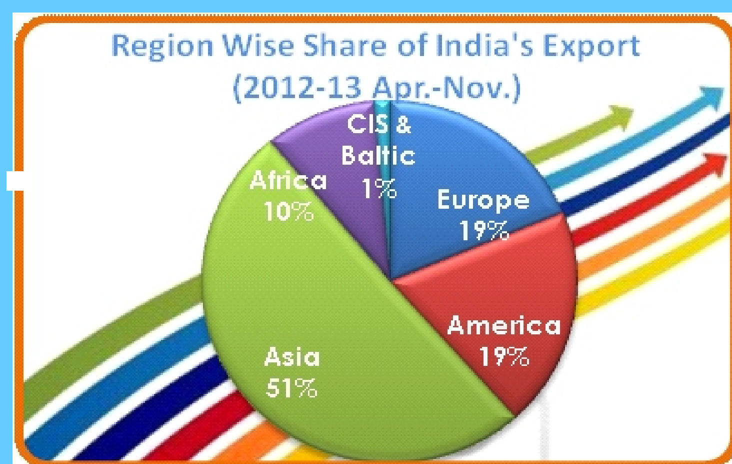
Source: Economic Division, Department of Economic Affairs, GoI

South is the New West

India's Export Market is Shifting from West to South of the Globe







Source: All figures are computed by CETGLAD Staff from DGCI&S data, January 2013

The figures above clearly indicate that over the years, directions of India's export are sharply moving towards the Southern countries, particularly Asia and Africa region. Share of Asia and Africa regions has increased sharply between 2001 to 2011. 1.

Significant changes have taken place in the direction of India's foreign trade since 1991, and more particularly during the last two-three years. What's most significant is the emergence of China, Singapore, Hong Kong, South Korea & Malaysia as important trading partners of India from the Asian region, Switzerland from OECD countries, and UAE & Indonesia (which left OPEC in 2008) from OPEC countries. s.

However, India should cultivate more trade relations with Africa, South America and Middle-East Asian Countries as these rich countries would offer huge markets for India's export. An aggressive and refurbished "Look East" trade policy will enable India to actually achieve its realistic positioning in the competitive and dynamic world economy.

The diversification of India's exports has fetched a cheaper source of imports and a bigger market for exports. India has established herself in the highly competitive world market in the recent years. Therefore; India needs to formulate a strategic policy framework for continuously ensuring efficient import substitution ultimately leading to efficient export promotion in niche products and services and niche markets among the regional trading blocs of greater relevance to ensure that India emerges as a significant trading nation in the world accounting for a reasonable market share in the world. The experience of post-1991 economic reforms shows that India has been overcautious and slow implementer of its harder second generation of economic reforms. Globalization is an irreversible phenomenon and India should calibrate its response to globalization for suiting its particular conditions. India must continue to further open up its economy and to further intensify its linkages with the global economy as well as the relevant regional trading partners. This approach will help India to sustain higher growth of its exports in the long run.

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The international trading landscape is being changed by globalization, which are affecting development prospects everywhere. The trade driven globalisation has reached unprecedented pace, scope, and scale with spawning new opportunities and realities as well as persistent challenges to the acceleration of economic growth, development and poverty reduction.Globalisation worldwide has opened up, new and extensive opportunities for development. There are huge challenges of developing such possibilities at the national, regional and multilateral levels constrained by lack of awareness, capacity and right direction of policy initiatives. Since poverty alleviation and welfare is the primary aim of economic development, therefore domestic sector must be able to benefit from increased trade and globalisation. Hence, any strategy aimed at strengthening capacity must be people-centred, giving full recognition to the social dimension of development. To this end, initiatives to foster grassroots development look for merit attention. There is also need for more acute and greater coherence of policies and consistency in enhanced participation of common people in global decision-making. (CETGLAD) is committed to build a different model and a different future for most ordinary people and envisage a moral alternative to economic globalization.

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