

## Merchandise trade

### Global demand

6.18 According to the World Trade Organization (WTO) statistics, world merchandise trade growth at 8 per cent in real (i.e. constant price) terms in 2006 was higher than the 6.5 per cent growth in 2005. The growth of merchandise trade in 2006 was the second highest since 2000 and well above the average annual growth of the last decade (1996-2006). Growth of world demand for exports accelerated to 8 per cent in 2006 from 6.5 per cent in 2005, pulled up by a sharp acceleration of European imports to 7 per cent (from 4 per cent). However, import growth in United States, which is one of the most important markets for Indian exports, decelerated from 6 per cent in 2005 to 5.5 per cent in 2006 (Table 6.5).

### India's merchandise trade

6.19 The Foreign Trade Policy (2004-09), announced by the Government in August 2004, had visualized a doubling of India's merchandise trade in five years. With an enabling policy framework and concerted efforts by the Government for facilitating a favourable environment for international trade, exports have nearly tripled between 2001-02 and 2006-07. India's merchandise exports (in US dollar terms and on customs basis), which have grown continuously at more than 20 per cent since 2002-03, posted 22.6 per cent growth in 2006-07. The value of merchandise exports reached US\$ 111 billion in April-December 2007

with a growth of 21.6 per cent. For the year 2007-08, an export target of US\$ 160 billion was set and during the first nine months of the current year, 69.4 per cent of the export target has been achieved despite the appreciating rupee.

6.20 Export performance was dominated by volume growth till 2002-03. There was a reversal of this trend in 2003-04, with increasing contribution of higher unit value in export performance. Subsequent years witnessed a surge in exports both in terms of volume and unit value with a relatively higher growth of volume (Table 6.6). During 2006-07, export volume increased by 15.8 per cent mainly due to items like crude materials, machinery and transport equipment, and mineral fuels and lubricants. The unit value of such exports increased by 8.1 per cent mainly due to the three categories : manufactured goods classified chiefly by materials; food and food articles; and mineral fuels and lubricants.

6.21 Growth of the unit value index of exports, decelerated in the late 1990s and early 2000s to reach a negative value of -1 per cent in 2001-02. Since then it has accelerated smartly to average a growth of 8.6 per cent per annum during 2003-04 to 2006-07. In contrast, the growth rate of the unit value index of imports has fluctuated wildly since 2000-01 partly due to fluctuations in the global prices of oil and other commodities and partly due to unit value changes in machinery and transport equipment and chemicals and related products. Though the quantum/volume of imports

**Table 6.5 Merchandise trade by regions/ countries (annual growth at constant prices – per cent)**

	Exports			Imports		
	2004	2005	2006	2004	2005	2006
World	10.0	6.5	8.0	—	—	—
United States	8.5	8.0	10.5	11.0	6.0	5.5
Europe	7.0	4.0	7.5	7.0	4.0	7.0
Asia	15.5	11.5	13.5	14.5	8.0	8.5
Japan <sup>b</sup>	13.5	5.0	10.0	6.5	2.0	2.0
China	24.0	25.0	22.0	21.5	11.5	16.5
India	15.5	20.5	11.5	16.0	20.5	12.0
South and Central America <sup>a</sup>	13.0	8.0	2.0	18.5	14.0	10.5
Commonwealth of Independent States (CIS)	12.0	3.5	3.0	16.0	18.0	20.0
Africa and Middle East	8.0	5.0	1.0	14.0	13.0	8.5

Source: WTO.

<sup>a</sup> Includes the Caribbean.

<sup>b</sup> Trade volume data are derived from customs values deflated by standard unit values and an adjusted price index for electronic goods.

**Table 6.6 Performance of the foreign trade sector (annual per cent change)**

Year	Export growth			Import growth			Terms of trade	
	Value (in US\$)	Volume	Unit Value	Value (in US\$)	Volume	Unit Value	Net	Income
1990-00	7.7	10.6	8.4	8.3	12.4	7.2	1.5	11.7
1990-95	8.1	10.9	12.6	4.6	12.9	7.6	5.0	16.5
1995-00	7.3	10.2	4.3	12.0	11.9	6.9	-2.0	7.0
2000-01	21.0	23.9	3.3	1.7	-1.0	8.2	-4.5	18.3
2001-02	-1.6	3.7	-1.0	1.7	5.0	1.1	-2.1	1.5
2002-03	20.3	21.7	0.3	19.4	9.5	10.7	-9.4	10.3
2003-04	21.1	6.0	8.5	27.3	20.9	-0.1	8.6	15.1
2004-05	30.8	17.6	8.9	42.7	14.7	21.6	-10.9	5.0
2005-06	23.4	11.8	9.0	33.8	48.2	-10.7	22.7	36.9
2006-07	22.6	15.8	8.1	24.5	24.1	2.7	5.2	21.8
2007-08 <sup>a</sup>	<b>21.6</b>			<b>25.9</b>				

Source: DGCI&S, Kolkata.

<sup>a</sup>April-December 2007.

has shown a rising trend since 2000-01, the 48.2 per cent growth in 2005-06 was way above this trend. This was due to a rise in imports of machinery and transport equipment needed for industrial activity and infrastructure development and imports of food items, particularly cereals, to meet domestic supply shortages.

6.22 The net terms of trade, which measures the unit value index of exports as a proportion of unit value index of imports, fell sharply in 2004-05 and rose in 2005-06 due to the sharp rise/fall in unit value index of imports. It moderated in 2006-

07 registering a growth of 5.2 per cent with unit value index of imports growing by a nominal 2.7 per cent while unit value index of exports at 8.1 per cent growth continued its steady growth of 8-9 per cent registered since 2003-04. Income terms of trade, reflecting capacity to import, continued its sharp growth in 2006-07 on top of a high growth in 2005-06. This was due to high growth of 15.8 per cent in volume of exports in 2006-07. Even gross terms of trade, which measures the volume index of imports as a ratio of volume index of exports, grew by 7.3 per cent in 2006-07 on top of a 32.3 per cent growth in 2005-06.

**Table 6.7 Export growth and share in world exports of select countries**

Country	Value (US\$ billion)	Growth rate (%)					Share in world exports (%)				Change in shares 2007/2001
		CAGR 2000-04	Annual			2001	2005	2006	2007 <sup>a</sup>		
			2005	2006	2007 <sup>a</sup>						
1 China	969	24.2	28.5	27.2	27.6	4.3	7.3	8.0	8.4	4.1	
2 Hong Kong	317	6.4	11.6	9.7	10.0	3.1	2.8	2.6	2.4	-0.7	
3 Malaysia	161	6.4	12.1	14.0	7.7	1.4	1.4	1.3	1.3	-0.1	
4 Indonesia	104	2.0	22.9	19.0	13.6	0.9	0.8	0.9	0.8	-0.1	
5 Thailand	131	8.6	14.6	19.1	13.7	1.1	1.1	1.1	1.1	0.0	
6 Singapore	325	10.2	11.8	14.4	36.2	2.4	2.7	2.7	2.7	0.3	
7 India	120	15.9	29.8	21.0	14.5	0.7	1.0	1.0	1.0	0.3	
					20.3 <sup>b</sup>						
8 Brazil	138	15.2	22.7	16.0	19.6	0.9	1.1	1.1	1.1	0.2	
9 Mexico	250	3.2	13.2	16.8	4.3	2.6	2.1	2.1	2.0	-0.6	
10 Russia	305	14.7	33.3	25.0	8.4	1.7	2.3	2.5	2.4	0.7	
11 Korea	272	9.6	15.6	18.4	-8.7	2.0	2.2	2.3	2.2	0.2	
12 Developing countries	5458	12.1	22.0	19.7	15.5	36.8	43.8	45.3	45.0	8.2	
13 World	12040	9.4	14.1	15.7	13.8	100	100	100	100	0.0	

Source: IFS statistics, October, 2007 IMF.

<sup>a</sup> January-June 2007

<sup>b</sup> January-December 2007, DGCI&S data.

6.23 India's share in world merchandise exports, after remaining unchanged at 0.8 per cent between 2003 and 2004, reached 1 per cent in 2005, and remained there in 2006 and also in the first six months of 2007 (Table 6.7). The increase in China's share of world exports between 2001 and 2007 at 4.1 percentage points is one-half of the total increase in the share of developing countries over this period. While China's exports continued to grow at more than 27 per cent both in 2006 and the first six months of 2007, India's export growth was lower. Thailand and Brazil, with higher value of exports than India in absolute terms, also registered good export growth rate for the above period.

6.24 The simple average growth of India's exports from 2000 to 2006 was 19.3 per cent per annum. The growth of 29.8 per cent in 2005 was above the trend, due to a rise in the export of refined petroleum products and textiles and clothing in the year of dismantling of the quotas. Though the 14.5 per cent growth in January-June 2007 is below the trend, the Directorate General of Commercial Intelligence and Statistics (DGCI&S) data indicates a 20.3 per cent growth for January-December 2007.

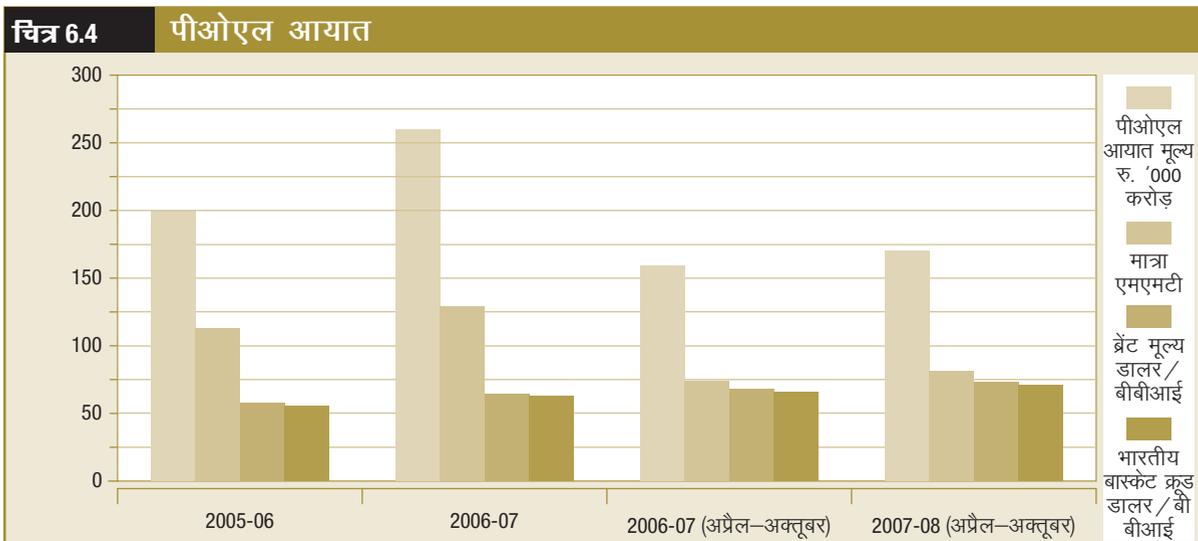
### India's merchandise imports

6.25 Merchandise imports grew by 24.5 per cent to US\$ 185.7 billion in 2006-07 due to the high growth of 30 per cent of POL and 22.2 per

cent of non-POL. POL import growth was due to both volume growth by 13.8 per cent and increase in import price of the Indian crude oil import basket by 12.1 per cent. While the price of Indian crude basket continued to be lower than the Brent price, the rise in Brent price at 10.8 per cent was lower than the rise in price of the Indian crude import basket (Figure 6.4). Non-POL import growth was due to increase in gold and silver imports at 29.4 per cent compared to 1.5 per cent in the previous year. Non-POL non-bullion imports grew by 21.4 per cent reflecting the growing needs of imports for industrial activity and as inputs for exports.

6.26 In the current year (April-December 2007) import growth at 25.9 per cent by value was primarily due to the growth in non-POL imports at 31.9 per cent. Gold and silver imports grew by 29.3 per cent and non-POL non-bullion imports by 33 per cent. The former was due to higher domestic demand both to meet festive demand and pick up in gems and jewellery exports and the latter due to the growing demand by the industrial sector. POL import volume growth was subdued at 9.3 per cent in April-October 2007.

6.27 Trade deficit increased to US\$ 59.4 billion (as per customs data) in 2006-07 and US\$ 57.8 billion in the first nine months of the current year. However, net POL import growth peaked at 41.4 per cent in 2005-06 and decelerated sharply to 19



**Table 6.8 Growth in POL trade and non-POL imports<sup>a</sup>**

	Total import	POL import	POL export	Net POL import	Non-POL import	Gold & silver	Non-POL, non-gold & silver
2001-02	1.7	-10.5	13.0	-13.9	7.2	-3.1	8.9
2002-03	19.4	26.0	24.0	26.4	17.0	-6.9	20.4
2003-04	27.3	16.6	37.9	12.7	31.5	59.9	28.5
2004-05	42.7	45.1	91.2	34.9	41.8	62.6	39.0
2005-06	33.8	47.3	66.2	41.4	28.8	1.5	33.1
2006-07	24.5	30.0	59.3	19.1	22.2	29.4	21.4
2006 (April-Sept)	23.5	41.2	101.2	22.3	16.1	-3.1	19.2
2007 (April-Sept)	27.7	16.9	27.6	11.4	33.2	71.0	28.2

Source: DGCI&S and own calculations.

<sup>a</sup> Growth rate in US dollar terms.

per cent in 2006-07, despite the 30 per cent growth in POL imports, as a substantial part was input for export production. In the first half of 2007-08, there was a further moderation in the growth of

net POL imports (Table 6.8). Imports of gold and silver are highly variable and have increased sharply in April-September 2007 after a decline in April-September 2006.