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Export Trade Performance of Indian Economy during and Following the Global Financial Crisis

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Towards the end of 2008 the effects of global recession started getting reflected in international trade. The fall in global demand and the slowing-down in economic growth translated into a substantial reduction in international trade. It affected the cross-border trade of virtually all countries and economic sectors. Indian exports trade could not remain unaffected in a situation where external demand was dwindling globally. The present paper reviews India's export performance during and following the global financial crisis. Indian exports started to decline in July 2008. It declined from US$ 17,095 million in July 2008 to US$ 11,516 million in March 2009, which accounts for almost 33 per cent decline. This growth contraction has come after a robust 25 per cent-plus average export growth since 2003. But, as a result of government policy measures and recovery in global economy, India's exports growth turned positive and exports grew by a whopping 54.1 per cent in March 2010 and recorded the highest growth rate among the world's top 70 economies in merchandise exports. India's merchandise exports during April 2010 at US$ 16.9 billion recorded a growth of 36.3 per cent as compared with a decline of 32.8 per cent registered in April 2009. Exports witnessed huge annualized growth of 56.9 per cent to $25.9 billion in May 2011 in a bright spot for the Indian economy, which is battling high inflation amid signs of a slowdown.

Keywords: Global Financial Crisis, Trade, Exports, Policy, India.

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Introduction

The global financial crisis which was actually triggered by the US sub-prime mortgage market in early 2007, started to show its ripple effects in the end of 2007 and morphed into a global economic crisis with the collapse of Lehman Brothers on 23rd September 2008[1]. Today, no one any longer doubts that was the most serious crisis that the world economy has faced, at least since the 1930s[2] (Subramanian and Williamson, 2009). The global financial crisis imposed great harm to the world economy and affected virtually almost all areas[3]. In most countries of the world, GDP declined (Figure 1) significantly due to global financial crisis. For the first quarter of 2009, the annualized rate of decline in GDP was 14.4 per cent in Germany, 15.3 per cent in Japan, 7.4 per cent in UK, 18 per cent in Latvia, 9.8 per cent in Euro area and 21.5 per cent in Mexico. Italy's economic growth in 2008 decreased 1.0 per cent, largely due to the global economic crisis and its impact on exports and domestic demand. GDP contracted further as the Euro zone and world economies slowed. Some developing countries that have seen strong economic growth saw significant slowdowns during global financial crisis. For example, growth in Cambodia fell from more than 10 per cent in 2007 to close to zero in 2009, Kenya growth declined from 7 per cent in 2007 to only 2 per cent in 2008 and 2009 due to global financial crisis. India recorded a GDP growth rate of 9 per cent during 2007-08. The declining output of the manufacturing sector[4] pulled down the economic growth rate in the fourth quarter of 2008-09 to 5.8 per cent and 6.7 per cent in the entire fiscal year. According to a Report of United Nations (UN) on *'Word Economic Situation and Prospects, 2009'*, at least 60 developing countries (of 107 for which data are available) suffered with declining per capita income, whereas only 7 recorded per capita GDP growth 3 per cent or higher-considered as the minimum required growth rate for achieving significant reduction in poverty-down from 69 countries in 2007 and 51 in

1 The reasons for the crisis are varied and complex. Some of these include boom in the housing market, speculation, high-risk mortgage loans and lending practices, securitization practices, inaccurate credit ratings and poor regulation.

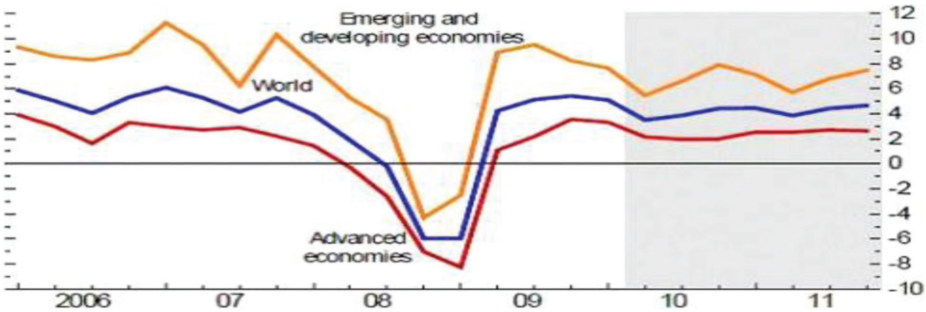
2 The Great Depression was a worldwide economic decline in 1930s. It was the most difficult and the longest period of unemployment and low business activity in modern times. The Depression began in October 1929, when the stock values dropped very quickly. Many stockholders lost large amounts of money. Banks, factories, and stores closed and left millions of Americans jobless and penniless. Most families had to depend on charity to provide food. By 1932 the unemployment rate had soared past 20 percent.

3 However, the impact on economic activity has varied widely across countries. A priori, this may reflect differences in exposure and vulnerability to the real and financial jitters emanating from the financial centres, but also heterogeneity in the macroeconomic and institutional frameworks as well as in the policy responses.

4 Impacted by the global financial crisis, manufacturing sector output during the fourth quarter (January-March) dipped by 1.4 per cent against an increase of 6.3 per cent in the corresponding period a year earlier.

2008. Growth rate of Commonwealth of Independent States (CIS) declined by 5.4 per cent in 2009, down by more than 10 per cent from the growth of 2008 and the average of preceding seven years. Growth rate also declined in many African countries. The economies of Angola, Nigeria, for instance were contracted by 4.2 per cent and 0.5 per cent respectively in 2009. The economies of Australia, Canada and New Zealand also declined in 2009, suffering from falling global demand and commodity prices.

Figure 1: Global GDP Growth (Percent; Quarter-over-Quarter, Annualized)



Source: IMF Staff Estimates

Further, around the world the stock markets fell, exports growth tumbled, credit flows dried up (Sumanjeet, 2010), money market interest rate spiked to above 20 per cent and remained high for few months[5], large financial institutions collapsed or been bought out by their competitors at low prices, and governments in even the wealthiest nations had to come up with rescue packages to bail out their financial systems[6]. But, despite enormous write downs and massive financial sector rescue operations by governments, problems have not gone away. Between September 2008 and May 2009, the market capitalization of banks in US and Europe declined by 60 per cent (US$ 2 trillion). Crisis also contributed to the failure of key businesses. It is estimated that US$ 14.5 trillion, or 33 per cent of the value of the world's companies wiped out by the crisis. Exports from world's major exporters like Germany, China and Japan plummeted by more than 35 per cent in the last quarter of 2008. These declines in economic activity have caused the rise in the extent of unemployment worldwide. A rapid rise in unemployment has been witnessed since 2008[7]. According to the International Labour Organization (ILO, January 2010) estimates, nearly 34 million more were added to the unemployed people during the crisis of 2008-09. As a result, the total number of unemployed people worldwide soared to 212 million at

5 Exchange rate movements during the global financial crisis of 2007-09 were unusual. Unlike in two previous episodes - the Asian crisis of 1997-98 and the crisis following the Russian debt default in 1998-in 2008 a large number of currencies depreciated sharply even though they were not at the centre of the crisis. Moreover, during 2009, the crisis-related movements reversed strongly for a number of countries. Two factors likely have contributed to these developments. First, during the latest crisis, safe haven effects went against the typical pattern of crisis-related flows. Second, interest rate differentials explain more of the crisis-related exchange rate movements in 2008-09 than in the past. This probably reflects structural changes in the determinants of exchange rate dynamics such as the increased role of carry-trade activity.

6 According to Bloomberg, alone US spent some $ 9.7 trillion till October 2009 and UK and other European countries have spent some US $ 2 trillion on rescue and bailout packages.

7 Lessons from the past crises indicate that it typically takes four to five years for unemployment rates to return to pre crisis levels after economic recovery has set in. This is because massive rise in long term unemployment and greater labour market "informalization"-exacerbated by return migrants and large scale reverse migration from urban to rural areas-are very difficult to reverse.

the end of 2009 (i.e. 6.6 percent of world total workforce). Job losses in economies with well-developed and highly integrated financial service industries, such as Hong Kong, China; Japan; Republic of Korea (Korea); and Singapore, occurred immediately, especially among white-collar workers. However, in developing countries in Asia, the labour market was more deeply affected when the exports declined due to the crisis. As overseas consumer demand fell, labour-intensive export industries such as textiles, garments, and electronics faced increasing pressures to lay off workers, while the local construction industry likewise contracted due to decreased domestic consumer confidence (Hyun and Emmanuel, 2009). Moreover, already gloomy employment prospects were exacerbated due to the slowdown of foreign direct investment (FDI) in the region, which put a brake on creating new enterprises and jobs. The reduction in employment and income opportunities has led to a considerable slowdown in progress towards poverty reduction and fight against hunger. Department of Economic and Social Affairs of United Nations Secretariat (UN-DESA) estimated that between 73 and 103 million more people would remain poor or fall into poverty in comparison with a situation in which pre-crisis growth would have continued.

Global Financial Crisis and World Export Performance

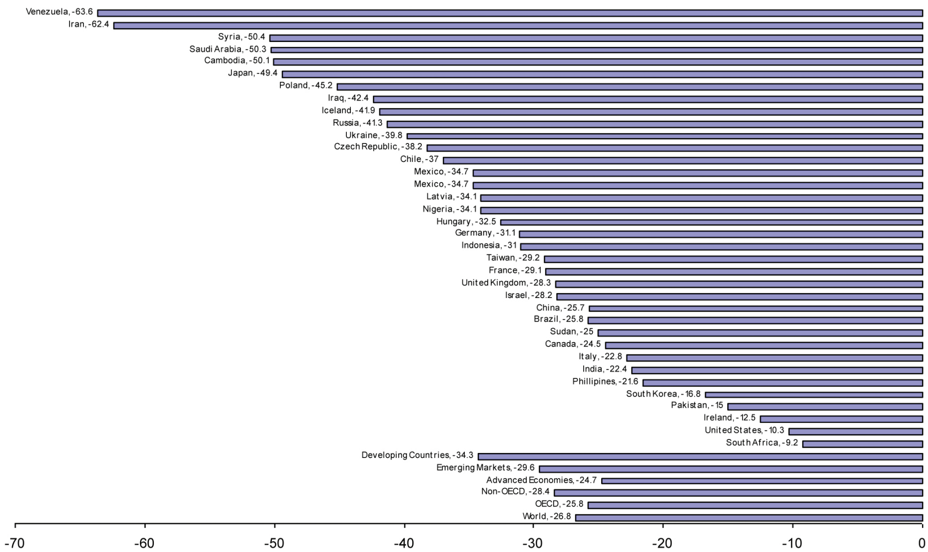
From the above discussion it is clear that the crisis of 2007-09 was globally intensive in its impact. With its impact, both in scope and depth worldwide, the crisis posed a significant challenge to the world economic and social development. Broadly, the impact of financial crisis on the world economy has been transmitted through three distinct channels, *viz.,* the financial sector, exchange rate and trade. But, recession in trade volume was the main channel of transmission of crisis to exporters of manufactures and service[8]. Towards the end of 2008 (around October) the global recession started to manifest itself in international trade. The fall in global demand and the slowing-down in economic growth translated into a substantial reduction in international trade that has affected the cross-border trade of virtually all countries and economic sectors. During the global financial crisis exports trade volume dropped significantly[9]. This collapse in trade was global in nature and dramatic in magnitude (UNCTAD, 2009). For instance, while GDP of US between 2007-09 declined by 3.9 per cent from its peak; real exports fell by 15.2 per cent and imports 18.6 per cent during the same period. The growth of trade volume experienced a strong slowdown since mid-2007, to a rate of around 2 per cent by September 2008 (UNDP, 2009). In October 2008, of 41 countries reporting monthly data (the EU countries counted as one), about 18 countries reported a decrease in exports compared with the same month in 2007. The limited downturn in October 2008 became more widespread in November, and

8 Two transmission channels may explain this sharp decrease in international trade: a steep reduction in global demand and a significant tightening of external financing that limited the firm’s ability to obtain operating capital to satisfy demand for their products.

9 In recent decades, world trade has shown two important characteristics. First of all, it has tended to expand more rapidly than world production, a process that has been accompanied by a rapid diversification in the trade structure. Thus, during the recent boom, in 2003-2006, world trade grew at an annual rate of 9.3per cent, more than twice the rate of growth of world output (3.8per cent). Second, these rates of growth have been highly elastic to world output through the business cycle and have, therefore, been more volatile than world production. A major implication of this characteristic is that, although trade enhances world business cycle upswings, it equally tends to multiply downswings. Trade volumes contracted in 2001 and will again contract in 2009.

deteriorated further in December and in January 2009. In January 2009, all reported decreases in exports, and about half of the countries for which data isavailable reported substantial export declines of over 30 per cent. According to a report of UN-DESA on *'World Economic Vulnerability Monitor'* (February 2010), global trade flows dropped at an annualized rate between 30 per cent and 50 per cent during the end of 2008 and second quarter of 2009. Figure 2 shows estimates of the change in export levels in February 2009 compared with that a year previous.

Figure 2: Change in Merchandise Exports Levels for Selected Regions and Countries



Note: Percent Change in Exports 2/2008-2/2009

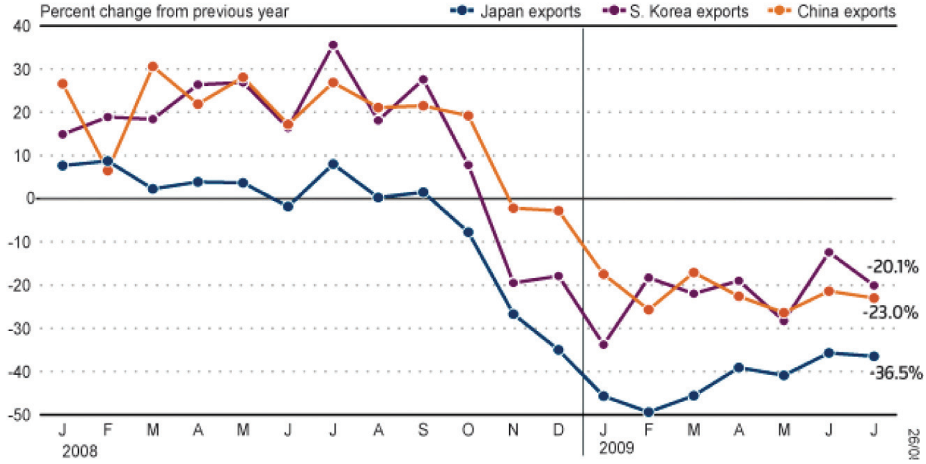
Source: Congressional Research Service, March 14, 2009

For the world, advanced economies, and emerging markets, exports were estimated to be down about 25 per cent. For developing countries, however, exports were down by more than a third. Exports were down from 9 per cent to 64 per cent for the other countries indicated (Venezuela -63.6 and Iran -62.4). The sharpest decline in export trade has been observed among the Asian countries, in some case at annualised rate of 50 per cent or more. Comparisons of May 2008 and May 2009 demonstrate that monthly exports of China, India, Japan, Korea, Malaysia, Taiwan and Thailand plummeted by 26.3 per cent, 7.1 per cent, 49.4 per cent, 15.4 per cent, 29.8 per cent, 26.6 per cent and 44.4 per cent respectively. Monthly imports fell by 43.1 per cent, 37.3 per cent, 42.7 per cent, 24.3 per cent, 30.3 per cent, 40.3 per cent and 56.6 per cent respectively, reflecting in part the oil price decline. The key point is that, among these countries, Korea's trade performed the best, with a smaller drop after the initial onset of the crisis, followed by a swift rebound. Japan's trade was hit the most, with a severe and prolonged decline on both the export and import sides- a far cry from its halcyon days of export excellence in the post-war era that stretched for a prolonged spell. Further, exports of China, Japan[10] and South Korea declined 36.5 per

10 The severe downturn in global demand, particularly for automobiles, information technology and machinery , has led to a collapse of Japanese exports, causing sharply falling corporate profits, tightening financial conditions, rising unemployment, declining household wealth and weakening domestic demand.

cent, 20.1 per cent and 23.0 per cent respectively in October 2009 (Figure 3). Other manufactured exporters, such as Botswana, Mauritius, Morocco and Tunisia, suffered similarly from recession in Europe and US[11]. The value of total exports from Latin America and Caribbean in 2009 fell by 24 per cent with regard to the previous year due to global financial crisis, according to the new estimates released by WCLAC (Women's Center for Legal Aid and Counseling). In January 2009 a substantial number of countries, including Chile, Hungary, the Philippines, the Russian Federation, Singapore and Sweden, recorded export declines of more than 40 per cent relative to January 2008. These are historic drops in trade volume. However, since the second quarter of 2009, world trade started to rebound and export dependent economies are benefiting from this improvement. According to the report of International Monetary Fund (IMF) on *'World Economic Outlook, April 2010'*, world trade volume in goods and services experienced an average negative growth rate of 10.7per cent in 2009 (SESRIC, 2010).

Figure 3: Decline in Exports of China, Japan and S. Korea (as on October 2009)



Source: Ministry of Knowledge Economy, General Administration of Customs, China

Since most economists agree that international trade is one of the important factors in explaining financial crises, it seems natural and logical to ask the reverse question: what are the effects of financial crises on international trade? Surprisingly, little research on this subject has been done. Perhaps the reason is that the answer appears to be obvious. Conventional wisdom would predict that a financial crisis, by bringing about a recession in the macro economy, would lead to a drop in imports. Exports, however, may rise because of both a decline in domestic demand and devaluation of the domestic currency. A weakening or collapse of the financial system, in particular the banking system, however, might weaken the country's export capability (Sumanjeet, 2009). So the aggregate effects of a financial crisis on the export trade are unclear. This paper tries to ascertain whether the ambiguity can be resolved. The present paper reviews India's export trade performance during and following the global financial crisis.

11 However, net food exporters in the regions were less affected, as the demand for food products has been relatively inelastic vis-à-vis the global downturn, although these countries are facing lower export prices compared with 2008.

India's Trade Performance During Global Financial Crisis

India's export sector has exhibited remarkable resilience and dynamism in the recent years. India's merchandise exports recorded an average annual growth rate (AAGR) of 23.9 per cent during the five year period from 2004-05[12] to 2008-09, as compared to the preceding five years when the exports increased by a lower AAGR of 14.3 per cent. According to latest WTO data (2009), India's share in the world merchandise exports increased from 0.8 per cent in 2004 to 1.1 per cent in 2008 (Kirpalani, 2009). India improved its ranking in the leading exporters in world merchandise trade from 30th in 2004 to 27th in 2008 compared to China at 2nd. In commercial services exports India ranked at 9th compared to China at 5th (Table 1). The high export growth in 2007-08 was due to high growth of all three major categories of exports, namely, petroleum products with 53.6 per cent growth, manufactured goods with 21 per cent growth and primary products with 41.9 per cent growth.

Table 1: India's Sector Wise Rank and Share in World Exports/Imports of Services

Services		Rank	Share 2000	Share 2008	Per Cent Change 2008
Transportation Services	Export Import	11 5	0.6 2.1	1.2 4.0	23 34
Travel Services	Export Import	14 15	0.7 0.6	1.2 1.1	10 17
Other Commercial Services	Export Import	4 9	--	4.1 2.0	18 3
Communication Services	Export Import	4 13	--	3.3 1.1	10 22
Construction Services**	Export* Import*	9 11	--	1.3 1.1	-- --
Insurance Services**	Export Import	7 7	--	2.1 2.7	35 19
Financial Services **	Export Import	8 5	--	1.4 2.9	121 175
Computer & Information Services**	Export* Import*	2 4	--	18.1 4.4	--
Other Business Services**	Export* Import*	5 6	--	4.0 3.0	--
Personal, Cultural and Recreational Services	Export* Import	6 --	--	1.6	--

Notes: *WTO Secretariat Estimates; Data relate to 2007

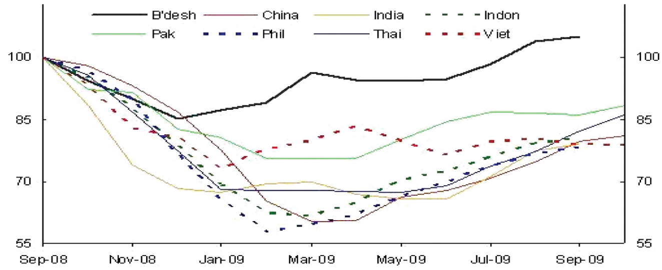
Source: Compiled from WTO, International Trade Statistics, 2009

In the primary products sector, exports of agriculture and allied products grew by nearly 45 per cent. Export growth in manufactures was powered by high growth of imported items like gems and jewellary at 23.2 per cent, chemicals and related products at 22 per cent, moderate growth of engineering goods at 14.5 per cent and textiles including ready-made garments (RMG) at 11.8 per cent. In 2007-08, Indian exports have shown

12 In 2004-05, export growth was a record of 28.5 per cent, the highest since 1975-76 and the second highest since 1950-51. The good performance of exports (growth of 23.49 per cent and 22.6 per cent) continued in 2005-06 and 2006-07 and culminating in a new record of 28.9 per cent in 2007-08.

massive directional changes in terms of source of demand of Indian goods[13]. But, The economic crisis in US in 2007 resulted in fall in GDP from 2.8 per cent in 2006 to 2.0 per cent in 2007. A consequent fall in US import growth started affecting world's export. Exports from Asia shrunk heavily. Among Asian countries, Philippines, China and India were most affected (Figure 4).

Figure 4: Export Performance of Selected Asian Countries (September 2008-09)

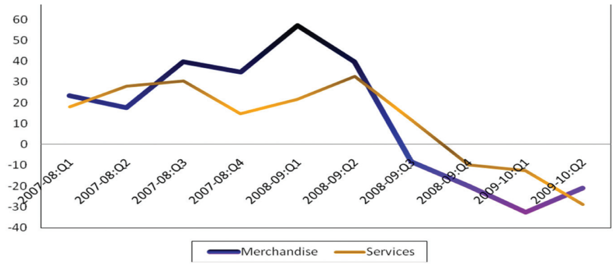


Source: CEIC Asia Database

Merchandise Export Performance

As a result of global financial crisis, India's export performance started to decline in 2008-09. India's merchandise exports reached to a level of US $ 185.3 billion during 2008-09 registering a growth of 13.6 percent as compared to a growth of 29.1 percent during the 2007-08 (Reddy, 2009). India's rank slipped marginally from 26th in 2006-07 to 27th in 2008. Figure 5 shows that until 2nd quarter of 2008-09 merchandise export growth was positive, and since then it has been consistently posting a negative growth rate. Similarly services export is in negative territory since 3rd quarter of 2008-09 (Arora *et al*, 2010). India's export growth rate started plummeting from the high 40 per cent to 63 per cent range witnessed during April to August 2008 to 26.1 per cent in September, turning negative from October 2008 to October 2009 except for December 2008[14] with a low of 4.3 per cent estimates. This type of situation was not witnessed in the last 24 years[15]. The government had set an export target of US$ 200 billion for 2008-09 which was revised to US$ 175 billion.

Figure 5: Year-on-Year Export Growth (in Percent)



Source: Handbook of Statistics on Indian Economy, Reserve Bank of India

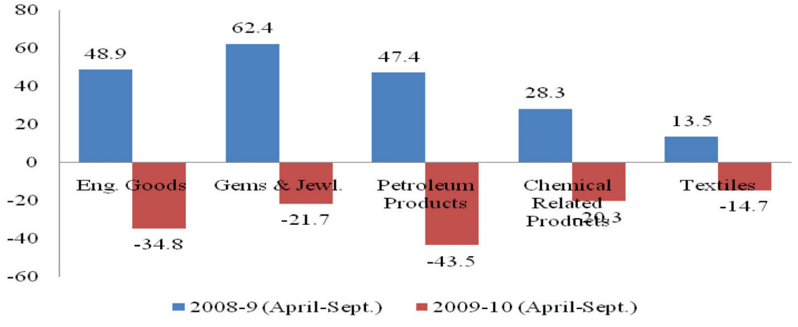
13 Till 2003-04, North America (US and Canada) and EU market shared nearly 19 per cent and 24 per cent respectively of total export trade and rest of the world absorbed the balance. In 2007-08, exports to Asia increased to 50 per cent from 46 per cent in 2003-04. This was mainly due to the buoyancy in demand in Asia, especially from China. Exports to the ASEAN regions also experienced an increase during 2007-0. The biggest leap in Indian exports was to the WANA regions.

14 An increase in exports of pharmaceuticals, some engineering products and certain agricultural commodities has improved the overall export performance in December 2008, which has a sign of recovery during the month.

15 Even in 2001-02 and 1998-99 when export growth was negative at -9.9 per cent there was a similar situation with continuous negative growth for 12 months.

During 2008-09 (April-Sept.) exports grew by 48.1 per cent with almost all the major commodity groups, except marine products and handicrafts. In the second half of the year 2008-09 (October-March), exports declined by (-) 14.7 per cent with almost all the major commodity groups, except gems & jewellery, readymade garments (RMG), electronics goods, recording significant negative growth. Commodities like Engineering Goods[16], Other basic chemicals, man-made yarn, leather & leather manufactures, and spices which recorded overall positive growth during the year, as a whole, also recorded negative growth during the second half. However, despite the significant decline in the second half of the 2008-09, exports registered an overall growth of 13.6 per cent for the year. But, the above discussion reveals that the export growth picture of India during crisis was not very bad and India weathered the crisis better than the other countries. With merchandise exports reaching US$ 185.3 billion in 2008-09, the target (US$ 175 billion) was surpassed by 5.9 per cent which is no mean achievement in trying times like these. The beginning of 2009-10 also saw acceleration in fall in export growth with further deepening of financial crisis. Cumulatively exports were down by 31.3 per cent at US$35.45 billion in the first quarter of 2009-10 (April to June) against the US$ 51.55 billion in the corresponding quarter of 2008-09. The decline in exports continued for the tenth consecutive month in July 2009. As the Indian export markets like US, EU and Japan were reeling under recession, India's exports slipped 28.4 per cent in July to US$ 13.62 billion as against US$ 19.04 billion in the same month of last year. The export growth rate was -29.6 per cent in April-September 2009-10. The decline in export growth was mainly due to significant fall in the exports of Engineering Goods, Gems & Jewellery, Petroleum Products, Agriculture and allied products, Chemical & related products and Ores & Minerals (Figure 6).

Figure 6: Growth of Top Five Exports Commodities Group in India's Export (2008-09 to 2009-10: April to September)



Source: DGFT, Ministry of Commerce and Industry

Added to this, export of Leather and Leather Manufactures recorded a negative growth of 24.0 per cent during 2009-10 (April-September). The value of exports decreased to US $ 1531.0 million from US $ 2013.0 million during the same period of 2008-09. Exports of Leather and Manufactures have registered a negative growth of 28.5 per cent and Leather Footwear also registered a negative growth of 18.2 per cent. Exports of Ores and Minerals were estimated at US $ 2884.1million during 2009-10 (April-

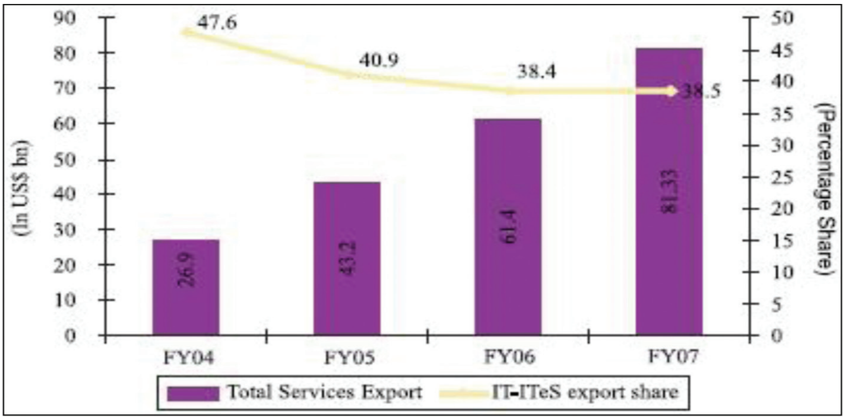
16 In rupee terms India's export of engineering goods and services are valued at Rs. 218766.90 crores during 2008-09 which is 32.10per cent higher than Rs. 135806.8 crores during 2007-2008.

September) registering a negative growth of 35.5 per cent over the same period of the previous year.

Service Sector Performance

India is also moving towards a services-led export growth. The share of India's service exports in the world has gone up from 0.6 per cent in 1995 to 2.2 per cent in 2005, largely driven by offshoring of IT & ITeS-BPO sector[17]. The trend withstands India's position in the Global IT map, where India remains an attractive destination for IT-ITeS services due to its low cost, high quality of product and services, skilled manpower and favourable government policies etc (Figure 7).

Figure 7: India's Service Exports and IT-ITes Industry Share



Source: NASSCOM

The impact of global financial crisis was relatively less on the India's service exports till December 2008. Service exports reached US$ 102 billion in 2008-09 with a moderate growth of 12.5 per cent over the previous year. The growth has been reasonably good in miscellaneous services category which has increased its share by 16.1 percentage points to 76.4 per cent in 2008-09 compared to 2000-01. The impact of global crisis was visible on the India's service exports, the growth of which was -21.4 per cent in the first half of 2009-10 compared to the high growth of 27.6 per cent in the corresponding period of the previous year. Except insurance all other sectors witnessed negative growth[18].

17 The industry has enhanced India's credibility as a business destination by creating a fundamentally new model of global 24X7 service delivery, forging relationship with 75 per cent of the Fortune 500 companies, generating immense savings for customers (savings from global sourcing for customers amounted to an estimated US $ 20 billion to US $ 25 billion in 2008) and promoting a focus on quality (65 per cent of all Capability Maturity Model Level 5 firms are based in India) in addition, the industry has fostered the emergence of a large number of first generation entrepreneurs. The total IT Software and Services employment is expected to reach 2.23 million in 2008-09 (excluding employment in hardware sector), as against 2.01 million in 2007-08, a growth of 10.9 percent end of year. This represents a net addition of 226,000 professionals to the industry employee base in 2008-09. The indirect employment attributed to the sector is estimated to be about 8.0 million. The industry has also set a precedent for talent practices in India. It has created career opportunities for the youth, provided global exposure and offered extensive training and development. Furthermore, the industry has been a front runner in diversity at the workplace (over 30 per cent of employees are women; over 60 per cent of industry players employ differently-abled people). The IT-ITES industry's contribution to the national GDP is estimated to increase from 5.5. per cent in 2007-08 to 5.8 per cent in 2008-09.

18 A negative growth rate of -8.2 per cent were registered in insurance sector during 2008-09 (April to December)

Table 2: India's Export of Services

Commodity Groups	Percentage Share				CAGR 2000-01 to 2006-07	Growth Rate (in US$)			
	2000-01	2008-09	2008-09	2009-10		2000-01	2008-09	2008-09	2009-10
Travel*	21.5	10.7	10.4	12.0	17.3	24.4	-4.0	22.0	-9.2
Transportation**	12.6	11.1	11.1	12.6	25.4	25.6	12.7	39.9	-10.6
Insurance	1.7	1.4	1.4	1.9	28.1	37.I2	-13.4	1.8	6.1***
GNIE	4.0	0.4	0.4	0.5	-14.6	30.8	17.5	30.2	-5.2
Miscellaneous	60.3	76.4	76.7	73.0	33.4	21.3	15.9	27.4	-25.2
1.Software Services	39.0	45.5	47.5	53.4	30.5	28.8	14.9	35.3	-11.5
2.Non-Software Services****	21.3	30.9	29.2	19.5	38.0	11.6	17.5	16.3	-47.5
(a) Business	2.1	16.2	16.5	12.7	87.6	15.3	-1.9	99.9	-39.5
(b) Financial Services	2.1	3.9	4.5	4.6	44.1	3.6	22.7	58.4	-19.2
(c) Communication Services	7.0	2.1	2.5	1.8	12.1	6.5	-9.8	11.0	-42.0
Total Service Exports	100.0	100.0	100.0	100.0	28.7	22.4	12.5	27.6	-21.4

Notes:

* Travel, which is represented by the Foreign Tourist Arrivals and Foreign Exchange Earnings, registered a higher year-on-year growth rate of 24.40per cent in 2007-08 as compared to the previous year growth rate of 16.17per cent. Foreign Tourist Arrivals during the year 2008 were 5.37 million as compared to Foreign Tourist Arrivals of 5.08 million during the year 2007. Foreign Exchange Earnings (FEE) in US$ terms during the year 2008 were US$ 11,747 million as compared to US$ 10,729 million in 2007. During April-September 2008, Travel Services registered a 22per cent growth rate as compared to 24per cent in the same period a year ago. However, the impact of global financial meltdown is evident in the latest numbers released by the ministry of tourism, India which reports foreign tourist arrivals at 1.461 million in 4Q 2008-09 were 13.75per cent lower as compared to 1.694 million in 4Q 2007-08. Also, foreign exchange earnings during the same period were lower at US$ 2,731 million as compared to US$ 3,935 million during January to March 2008.

** Export of Transportation services have slowed down in past few years registering 25.58per cent year-on-year growth in 2007-08 as compared to a growth rate of 46.02per cent in 2004-05 and 26.07 in 2006-07. Transportation was the only service recording a higher growth rate of 38per cent in April-September 2008 from a 10per cent growth rate in April-September 2007.

*** Insurance Services registered a higher year-on year growth rate of 37.15per cent over the previous year growth rate of 12.52per cent. During April-September 2008, Insurance Services observed a meager 1per cent growth rate as compared to a 29per cent growth rate in April-September 2007.

**** Non-Software services, under miscellaneous receipts, recorded a fall in year-on year growth rate from 29.34per cent in 2006-07 to 10.49per cent in 2007-08. Communication, business and financial services were the major contributors to the decline in non software services. Though Communication and Financial services recorded positive growth rates in 2007-08, the growth rates were substantially lower than previous year growth rates and similarly the decline was also attributable to a major negative growth rate recorded in export of business services. This slowdown is the result of the banking financial services and insurance sector being at the core of global economic slowdown. However, services such as Construction, News Agency, Royalties, Copyrights and License Fees and Personal, Cultural Recreational services registered higher year-on-year growth rates in the non-software category.

Source: Economic Survey of India, 2009-10, Government of India

From the above table, it is revealed that the services exports have not been as affected as the merchandise exports. The sub-sectors within services exports that have registered some contraction are travel, insurance, business and communication services. While fall in transportation exports is a reflection of the fall in merchandise trade, fall in travel service is also reflection of the decline in tourist arrivals which declined by 1.8 per cent in the first quarter of 2009-10. Foreign tourist arrivals (FTAs) at 5.11 million registered a negative growth of -3.3 per cent as compared to 4 per cent positive growth in 2008. The earning from foreign tourist arrivals which grew 9 per cent in 2008 fell to US$ 11.39 billion in 2009 with a negative growth of -3 per cent. The Indian software and services exports including ITeS-BPO exports is estimated at US $ 47 billion in 2008-09, as compared to US $ 40.4 billion in 2007-08, an increase of 16.3 per cent[19].

Policy Responses to Promote Export During Crisis

Trade propels economic growth and national development. The primary purpose is not the mere earning of foreign exchange, but the stimulation of greater economic activity. For India to become a major player in world trade, an all encompassing, and comprehensive view needs to be taken for the overall development of the country's foreign trade. The foreign trade policy (FTP) broadly spells out the priority segments in external trade and also gives incentives and disincentives depending on the country's need. As mentioned above, the year 2008-09 was marked by adverse developments in the external sector of the economy, particularly during the second half of the year. India's exports have suffered a decline since October 2008 significantly due to shrinkage of demand in the traditional markets of our exports due to global economic slowdown and the reduced international prices of commodities. India's exports in dollar terms showed a growth of about 48.1per cent from April to September, 2008 whereas from October, 2008, it started declining, bringing down the annual growth to 13.6per cent in 2008-09. The current account was affected mainly after September

19 With the BPO going strong for the past few years, the Knowledge Process Outsourcing (KPO) - which may be called the highest level of the BPO - is still at a nascent stage of development in the country. This evolution of the market to the KPO will drive trends that will ensure very high-value service. in off shoring. These opportunities in the KPO will help the Indian market climb the global value and knowledge chain. Though the IT-BPO sector is export-driven, the domestic market is also significant. The revenue from the domestic market (IT Services and ITES-BPO) is also expected to grow to about US $ 12.5 billion in the year 2008-09 as compared to US $ 11.7 billion in 2007-08 an anticipated growth of about 6.8 per cent. BPO demand in the domestic market has witnessed noticeable growth over the past few years. The phenomenal growth of the Indian IT Software & Services and ITES-BPO sector has had a perceptible multiplier effect on the Indian economy as a whole. It has created immense opportunities for employment and has contributed to the growth of national income. It has also spawned the mushrooming of several ancillary industries such as transportation, real estate, catering and has created a rising class of young consumers with high disposable incomes, triggered a rise in direct-tax collections and propelled an increase in consumer spending.

2008 through slowdown in exports. On a balance of payments (BoP) basis, India's merchandise exports recorded a sharp decline of 24.2 per cent in fourth quarter of 2008-09 as against an increase of 47.2 per cent in fourth quarter of 2007-08 (Table 3).

Table 3: Major Items of India's Balance of Payments

(US$ million)								
Item	April-June		July-September		October-December		January-March	
	2007-08 (PR)	2008-09 (PR)	2007-08 (PR)	2008-09 (PR)	2007-08 (PR)	2008-09 (PR)	2007-08 (PR)	2008-09 (P)
1	2	3	4	5	6	7	8	9
1. Exports	34,356	49,120	38,273	48,987	40,985	37,257	52,549	39,820
2. Imports	56,346	80,545	59,510	87,663	67,038	71,961	74,895	54,418
3. Trade Balance (1-2)	-21,990	-31,425	-21,237	-38,676	-26,053	-34,704	-22,346	-14,598
4. Invisibles, net	15,310	22,406	16,940	26,164	21,522	21,671	20,820	19,345
5. Current Account Balance (3+4)	-6,680	-9,019	-4,297	-12,512	-4,531	-13,033	-1,526	4,747
6. Capital Account Balance*	17,880	11,254	33,533	7,778	31,269	-4,848	26,516	-4,447
7. Change in Reserves#	-11,200	-2,235	-29,236	4,734	-26,738	17,881	-24,990	-300

Note: *Including errors and omissions;# On BoP basis (*i.e.* excluding valuation); P: Preliminary; PR: Partially Revised (-Indicates increase; + indicates decrease)

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India

To counter the negative fallout of the global slowdown on the Indian economy and export sector, the Government/RBI responded by providing carefully designed and calibrated stimulus packages in the form of fiscal, monetary and export promotion measures from time to time, including the announcements made in the Budget 2009-10 and in the Foreign Trade Policy (FTP) 2009-14[20], to provide support, particularly to employment intensive sectors to affect the export sector in general and the employment intensive sectors affected by the global financial crisis in particular (Table 4).

20 The short term objective of FTP (2009-14) is to arrest and reverse the declining trend of exports and to provide additional support especially to those sectors which have been hit badly by recession in the developed world. The long term policy objective for the Government is to double India's share in global trade by 2020.

Table 4: Change in Employment due to Economic Crisis in Selected Industries

	Non-Exporting Units	Exporting Units	Total
Gems and Jewellery	-8.43	-11.9	-8.58
Transport	0.00	-4.03	-4.03
Automobiles	-1.26	-4.79	-2.42
Metals	-2.60	-1.24	-1.91
Textiles	-1.29	0.32	0.91
Mining	-0.32	-0.33	-0.33
BPO/IT	-0.33	1.08	0.55
Total	-1.33	-0.81	-1.01

Source: Ministry of Labour and Employment, Government of India, 2009

Some trade policy measures taken by Government of India, RBI to promote exports, reduce inflation and increase employment opportunities in export oriented sectors during 2008-09 and 2009-10 include the following.

- Interest subvention of 2 per cent from December 1, 2008 to September 30, 2009 to the labour-intensive sectors of exports such as textiles (including handloom), handicrafts, carpets, leather, gems and jewellery, marine products and SMEs. This was further extended to March 2010 (Ministry of Textile, 2009).
- Inclusion of handicrafts[21] items in the Vishesh Krishi and Gram Udyog Yojana[22] (VKGUY);
- Provision of an additional Rs 1,100 crore to ensure full refund of CST/terminal excise duty/duty drawback claims on deemed exports.
- Extension of the DEPB scheme till the end of December 2010[23].
- Restoration of DEPB rates for all items where they were reduced in November 2008 and increase in duty drawback rates on certain items effective from September 1, 2008.

21 According to Export Promotion Council for Handicrafts (EPCH), exports of handicrafts in April-Nov 2008 were of $ 1074 millions lower by about 44per cent compared to the figures of $1927 millions in April-Nov 2007. Loss of employment has also been quite substantial running into lakhs (trade estimates) in the two sectors of textiles and handicrafts. In order to help its exporters out of these very difficult situation, EPCH has been trying its best to secure sops from government so that the intensity of pain of its exporters is lessened. Apart from usual demands such as increase in DEPB & drawback rates, lower interest rates on export credits, income tax relief, etc., EPCH approached government with a very ingenious demand to include handicraft items in the list of Vishesh Krishi & Gram Udyog Yojna (VKGUY), so that exports of handicrafts becomes entitled to 5per cent duty free scrip on annual exports. It is a matter of great achievement for EPCH that its demand has been accepted and a Public notice No. 115 dt. 15-12-2008 also issued in this regard.

22 In the last 5 years, around 900 products relating to ten sectors have been granted benefits under the Vishesh Krishi Upaj and Gram Udyog Yojana scheme and 100 products covering more than 10 sectors were granted benefits under the Focus Product scheme.

23 The DEPB scheme is popular amongst exporters as it reimburses customs duty paid by them on inputs through duty-free scrips that can be sold freely in the market. Since the reimbursement rates are pre-determined , based on the value of exports, exporters do not have to necessarily import inputs. In that sense, it is a kind of subsidy for exports. The government has been considering replacing it with a new scheme that would reimburse state taxes, as in the current DEPB scheme the reimbursement is not directly related to imports by exporters. However, due to legal complications and disagreement between state governments and the Centre over who would hand out the reimbursements, the new scheme could not take off. The scheme has, therefore, been extended on a piecemeal basis, the latest extension effective till December 31, 2010.

- Provision of additional fund of Rs 1,400 crore for the textile sector to clear the backlog claims of the Technology Upgradation Fund (TUF[24]).
- Excise duty reduction across the board by 4 per cent for all products except petroleum products and those products where the current rate was less than 4 per cent.
- Extension of the adjustment assistance scheme to provide enhanced Export Credit Guarantee Corporation (ECGC) cover at 95 per cent to badly hit sectors up to March 2010.
- Sections 10A and 10B related to sunset clauses for STPI[25] (Software Technology Park of India) and EOUs (Export Oriented Units) schemes respectively extended for the financial year 2010-11. Anomaly removed in Section 10AA related to taxation benefit of 'unit vis-à-vis assessee';
- Additional items allowed within the existing duty-free imports entitlement for some employment-oriented sectors like sports goods, leather garments, footwear and textile items.
- The guarantee cover under Credit Guarantee Scheme for Micro and Small Enterprises on loans doubled to Rs 1 crore with a guarantee cover of 50per cent. The guarantee cover extended by Credit Guarantee Fund Trust increased to 85per cent for credit facility upto Rs. 5 lakh. The lock-in period for such collateral-free loans reduced.
- Measures related to service tax which include, among others, exemption from service tax on services linked to exports like the transport of goods by road and commission paid to foreign agents.
- Diversification of exports to emerging markets of Africa, Latin America, Oceania and CIS countries under the Focus Market Scheme and Market Linked Focus Product Scheme[26].
- Setting up a Directorate of Trade Remedy Measures to support Indian industry and exporters especially the MSMEs, in availing of their rights through trade remedy instruments under the WTO framework.

24 The Indian Textile Industry has suffered from severe technology obsolescence and lack of economies of scale, which in turn diluted its productivity, quality and cost effectiveness, despite distinctive advantages in raw material, knowledge base, and skilled human resources. While the relatively high cost of state-of-the-art technology and structural anomalies in the industry have been major contributory factors, perhaps the single most important factor inhibiting technology upgradation has been the high cost of capital, especially for an industry that is squeezed for margins. Given the significance of this industry to the overall health of the Indian economy, its employment potential and the huge backlog of technology upgradation, it has been felt that in order to sustain and improve its competitiveness and overall long term viability, it is essential that the textile industry has access to timely and adequate capital, at internationally comparable rates of interest in order to upgrade the level of its technology. In the light of above, the Technology Upgradation Fund Scheme was launched on 01.04.1999 for a period of five years, which has been subsequently extended till 31.03.2007, the terminal year of the Xth plan.

25 Software Technology Parks of India (STPI), is a society set up by the Ministry of Information Technology, Government of India in 1991, with the objective of encouraging, promoting and boosting the Software Exports from India.

26 It has been endeavored to diversify products and markets through rationalization of incentive schemes including the enhancement of incentive rates which have been based on the perceived long-term competitive advantage of India in a particular product group and market. New emerging markets have been given a special focus to enable competitive exports. This would of course be contingent upon availability of adequate exportable surplus for a particular product. Additional resources have been made available under the Market Development Assistance Scheme and Market Access Initiative Scheme.

- Higher support for market and product diversification and additional resources under the MDA (Market Development Assistance[27]) and MAI (Market Development Initiatives).
- Introduction of EPCG at zero duty for engineering and electronic products, basic chemicals, pharmaceuticals, apparels and textiles[28], plastics, handicrafts, chemicals and allied products and leather and leather products till March end 2011.
- Duty drawback facilities on jewellery exports to neutralize duty incidence[29]. In an endeavour to make India a diamond international trading hub, it has also been planned that more diamond bourses will be established in key centres like Ahmedabad, Surat, Kolkata and Hyderabad. The one in Mumbai is nearing completion
- Expanding the Market Linked Focus Product Scheme to bicycle parts, motor cars and motor cycles, apparels and clothing accessories, auto components etc. for exports from April 4, 2009 to September 30, 2009.
- Enhancement of the Export Obligation Period under the Advance Authorization Scheme from 24 to 36 months without payment of composition fee.
- Widening the coverage of the ECGC by making available back up guarantee to the ECGC to the extent of Rs350 crore to enable it to provide guarantees for exports to difficult markets/products.
- Abolishing basic customs duty of 5 per cent on rough / unworked corals.
- Constituting two high-level committees, one chaired by the Prime Minister and the other by the Cabinet Secretary for regular monitoring.
- A Committee under the Chairmanship of Finance Secretary constituted to resolve all problems related to non-availability of dollar credit to exporters by the concerned Banks.
- To accelerate exports and encourage technological upgradation, additional duty credit scrips for status holders @ 1 per cent of the f.o.b. value of past exports for certain specified sectors upto March end 2011.
- New incentives in January 2010 by adding new products in FPS, new products and markets under MLFPS, new products under VKGUY and new markets under FMS.

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27 A Market Development Assistance Scheme is currently operated by the Ministry of Commerce with a view to encourage exporters (including SSI exporters) to access and develop overseas markets. The scheme offers funding for participation in international fairs, study tours abroad, trade delegations, publicity, etc. Direct assistance under MDA for small scale units is given for individual sales-cum-study tours, participation in fairs/exhibitions and publicity. SIDBI operates a scheme of direct assistance for financing activities relating to marketing of SSI products.

28 Textile has been one of the worst effected segments from the global downturn and resulting pressure in exports. While there has been some improvement in demand from the developed countries, the textile space has become increasingly competitive since the crisis began and industry insiders are contending that India was failing to compete with rival exporters like Bangladesh and China on pricing as these countries were giving greater support to their exporters. On the other hand, textile companies in India are facing increasing cost side pressures. Cotton and yarn prices too have increased considerably this year and despite a partial ban on exports, prices continue to remain significantly high on a year-on-year basis. This has not only put a lot of pressure on textile companiesâ€™ margins, but has also curtailed their ability to compete on pricing front, particularly for smaller companies. Another reason for decline in exports by small players is that domestic demand has remained robust and attractive, and these players therefore are preferring to cater to local buyers.

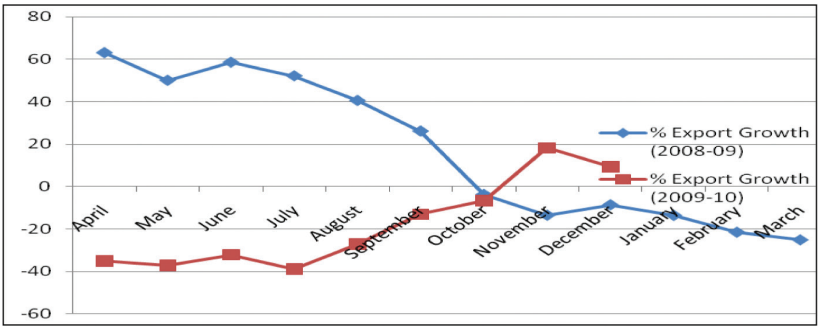
29 According to the provisional figures received from the Gem and Jewellery Export Promotion Council (GJEPC), the total export of cut and polished diamonds for the month of August 2009 is US $1082 million (Rs 5171 crores) as compared to US $1423 million (Rs 5970 crores) last year, declining by around 24 percent.

Reserve Bank of India has also taken some steps to boost export sector. A special re-finance facility has been put in place for banks for the purpose of extending finance to exports, micro and small enterprises, mutual funds and NBFCs. Provisioning requirements have been lowered. Export Credit Refinance facility for commercial banks increased to 50per cent of the outstanding Rupee Export Credit. Further, refinance facility has been granted to the EXIM Bank for an amount of Rs. 5000 crores for providing pre-shipment and post-shipment credit in Rs. or dollars.

Indian Export Performance in Post Recession Period

As a result of measures taken by Governments of India and slow recovery in international market, Indian exports started to recover since October 2008. However, India's merchandise exports during October 2009 at US$ 13.2 billion recorded a decline of 6.6 per cent, as compared with a decline of 3.7 per cent registered in October 2008. But, the rate of decline in exports witnessed in October 2009 was the lowest since November 2008. This was partly due to base effect[30]. The decline in exports which began since October 2008 reached the maximum level at 38.9 per cent in May 2009. Thereafter, the rate of decline in exports showed continues reduction. The export performance improved considerably since August 2009, as the monthly rates of decline in exports during August-October 2009 were much smaller than those in all the previous months in 2009-10, i.e., April-July 2009. India's merchandise exports during November 2009 at US$ 13.2 billion recorded a growth of 18.2 per cent as compared with a decline of 13.5 per cent registered in November 2008[31]. India's merchandise exports during December 2009 at US$ 14.6 billion recorded a growth of 9.3 per cent as compared with a decline of 8.6 per cent registered in December 2008. The decline in exports which began since October 2008 continued for twelve consecutive months. The exports turned around by exhibiting an increase of 0.3 per cent in October 2009. The positive growth in exports continued in November 2009 at 18.2 per cent and in December 2009 at 9.3 per cent[32](Figure8).

Figure 8: Month Growth in US$ Value of Exports During 2008-09 & 2009-10



Source: Ministry of Commerce

30 When changes in the CPI in the base month have a considerable effect on twelve-month measured inflation, this is commonly referred to as a base effect. Base effects are therefore the contribution to changes in the annual rate of measured inflation from abnormal changes in the CPI in the base period.

31 Cumulatively, exports during April-November 2009 stood at US$ 104.2 billion, posting a decline of 22.4 per cent as against a growth of 32.7 per cent during April-November 2008.

32 Cumulatively, exports during April-December 2009 stood at US$ 117.5 billion, posting a decline of 20.4 per cent as against a growth of 27.5 per cent during April-December 2008.

Thus, India's merchandise exports started to increase since November 2009 and continued even in the month of December 2009. But the real recovery started in Month of January 2010. India's merchandise exports during January 2010 at US$ 14.3 billion recorded a growth of 11.5 per cent as compared with a decline of 13.6 per cent registered in January 2009. India's merchandise exports grew by 34.8 percent to US$16.09 billion for the fourth consecutive month in February following revival of economies in developed countries. The rise for the fourth straight month in February comes after 13 successive months of decline since October 2008 due to the global meltdown. India's exports in February 2010 were valued at US$16.09 billion, which was 34.8 per cent higher in dollar terms (26.7 per cent in rupee terms) compared to the corresponding month last year at US$119.41 billion. However, exports during the April-February period declined by 11.3 percent in dollar terms and 6.1 percent in rupee terms to US$153 billion from US$172.3 billion in the same period last fiscal. Maintaining an upward trend for the fifth consecutive month, India's exports grew by a whopping 54.1 per cent to US$ 19.908 billion in March this year as compared to US$ 12.916 billion in the same month of 2009. Evidently, India recorded the highest growth rate (in value) among the world's top 70 economies in merchandise exports by clocking a 13 per cent increase during the March quarter over previous quarter. In other words, India raked in 13 per cent more dollars from merchandise exports valued at US$50,342 million during March quarter as against US$44,417 million in the December quarter. It surpassed global majors such as China, US, Japan, France, the UK and Germany, in the growth rate during the quarter, according to the World Trade Organisation data[33] (Table 5).

Table 5: Merchandise Exports of Top Countries

	March 2010 (quarter)	December 2009 (Quarter)	per cent Change (in Million US$)
India	50,342	44,417	13
US	296,651	293,986	1
Japan	176,894	185,144	1
Germany	302,995	320,173	-5
UK	94,527	100,419	-6
France	129,796	131,104	-2

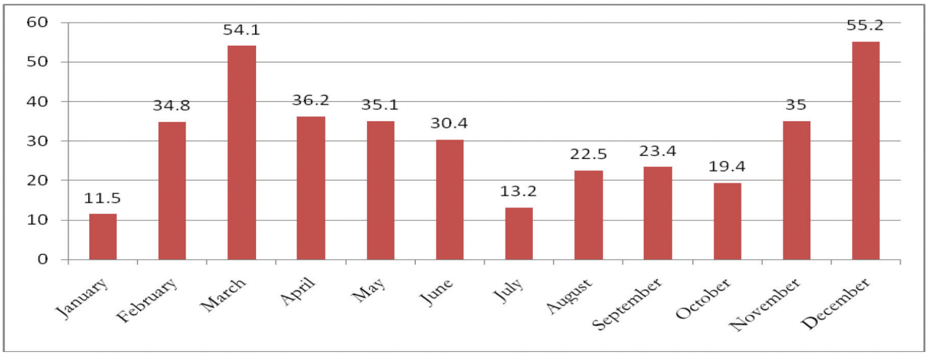
Source: International Trade Statistics, WTO

The data for about 70 economies representing about 90 per cent of world trade show that merchandise trade declined in January and February 2010, then rose sharply in March (Simhan, 2010). This trend was also seen in India. In March, 2010 exports rose to $19,908 million as against US $16,091 million in February and US$14,343 million in January, the WTO data show. India's merchandise exports in May rose by 35 percent to US $16.14 billion compared to $11.9 billion in the year-ago period. The exports touched US$ 17.75 billion in June 2010, posting a 30.4 per cent growth as compared to the corresponding period in 2009. But, merchandise export rose at its slowest pace

33 The value of world merchandise trade was around 25 per cent higher in the first three months of 2010 compared with the same period of 2009, according to the WTO figures. Global exports rose by 27 per cent while imports rose at 24 per cent, the WTO report says.

in July 2010. During the month, exports grew by 13.2 per cent to US$ 16.24 billion, compared to US $ 13.62 billion in the month last year. India's export growth, which had slowed down to 13.2 per cent in July, bounced back to 22.5 per cent in August 2010 (Figure 9).

Figure 9: Monthly Exports Growth Rate During 2010-11



Source: Ministry of Commerce and Industry

India's exports have registered a growth of 23.4 per cent during September 2010, at US$ 18.02 billion. But, the exports declined to 19.4 per cent in October 2010. Exports again increased in November 2010 and stood at 35 per cent and 55.2 per cent in December 2010. Through export growth decelerated from July to September after high spurts in Feburary 2010 to June 2010, cumulative export growth in April-December 2010-11 was good at 29.5 per cent with cumulative exports reaching US$ 164.7 billion during this period. India's export value figures reflected significant growth during January 2011 at US$ 20.6 billion as compared to US$ 15.55 billion in the corresponding month in 2010. India's exports have registered a growth of 49.8% during February 2011, at US $ 23.6 billion[34]. India's export grew 44 per cent in March 2011[35]. India's merchandise exports have reached to US $245.6 billion during 2010-11 (April-March) and recorded a growth of 37.8 % over the corresponding period of previous year as against a decline of 2.5% during 2009-10. In short, fiscal year 2010-2011 ended with exports recording the highest ever growth rate of 37.7 per cent. The strong growth of in 2010-2011 indicates that the world economy has struggled off the adverse effect of the crisis, leading to higher global demand. UAE, USA, China, Singapore and Hong Kong were the top five destinations for India's exports[36]. These five countries together accounted 38.9 per cent of India's total exports.

34 During April-February 2010-2011, the following sectors have done well viz., engineering, 81% ($ 52.7 billion); gems & jewellery, 5.4% (26.9 billion); POL, 34% ($ 32.9 billion); RMG, 2% ($ 10 billion); manmade fabrics, 14% ($ 3.7 billion); cotton yarn, 43% ($4.9 billion); electronics, 40% ($ 7 billion) plastics, 41% ($ 4.1 billion); chemicals, 22% ($ 7.5 billion); pharmaceuticals, 15% ($ 9.1 billion); carpets, 37% ($ 0.9 billion); leather, 11% ($ 3.3 billion); and marine products, 20% ($ 2.3 billion).

35 Total exports during March was $29.1 billion, compared to an average of $20 billion per month for the full year. Exports were in their teens during the early part of last year. After remaining in the $7-8 billion range for several months (and registering year-on-year declines), India's oil import bill again started climbing in March.Oil imports during March was $9.4 billion, 8.2% higher than March 2010, reflecting the stress put by galloping crude prices on the Indian economy. India imports around 75% of its consumption, though the recently started Rajasthan block production helped bring the zooming bill under control. For the full year, oil imports were at US$ 101.7 billion, an increase of 16.7% over the $87.1 billion during 2000-10.

36 Exports to China recorded the fastest increase of 77 per cent during April to January 2010-2011. Exports to other five markets increase in the range of 16-36 per cent.

The trend of robust growth in exports that commenced in the second half of 2010-11 continued in 2011-2012. In April 2011, exports grew by 34.4 per cent to US$ 23.8 billion. The increase was over an equally hefty rise of 42 per cent in April 2010. India's Exports during May, 2011 were valued at US $ 25941.28 million (Rs. 116488.01 crore) which was 56.93 per cent higher in Dollar terms (53.82 per cent higher in Rupee terms) than the level of US $ 16530.85 million (Rs. 75730.31 crore) during May, 2010. Cumulative value of exports for the period April-May 2011 -12 was US $ 49790.60 million (Rs 222307.44 crore) as against US $ 34272.98 million (Rs154681.89 crore) registering a growth of 45.28 per cent in Dollar terms and 43.72 per cent in Rupee terms over the same period last year.

Recovery in Service Exports: as mentioned in the paper, Indian exports of services did not decline much due to global financial crisis[37]. In fact, considering net exports of total services and services in IT sector, each quarter of 2008-09 performed better than the corresponding quarter of 2007-08. As per the WTO press release, India ranked at 9th position in world trade in commercial services. However, slowdown in services export witnessed during 2009-10, but it was not much. Overall performance of service exports during and post financial crisis is satisfactory.

Table 6: Indian Services Export (2007-08 to 2009-10)

Year	2007-08	2008-09	2009-10
Services Exports	90342	101678 (PR)	93791(P)
Merchandise Exports	166162	189001(PR)	182163(P)
Total Exports	256504	290679	275954

Note: P- Preliminary; PR-Partially Revised

Source: Reserve Bank of India

But, the recent protectionist measures put in place by the US against IT outsourcing will undoubtedly hit Indian IT firms. However, we believe that the impact will not be as large as the local media suggests and that the US is unlikely to pile on significantly more protectionist measures going forward, although we do not rule out more political bluster ahead of congressional elections in November. Recent protectionist moves by the US, including the near doubling of IT-related visa fees for companies which hire a large number of foreign employees, and a decision by the State of Ohio to ban government projects from being outsourced, will deal a blow to India's IT companies.

Concluding Remarks

India's trade has increased rapidly, by 11 per cent a year since 1978. Though its export share also went up from 0.4 per cent to 1.2 per cent, it is still a rather minor player in the world economy. In recent years India has also made rapid stride in services exports

37 Services growth slowed in 2009-10 as a result of the global recession, but the decline was less pronounced than the slowdown in merchandise export growth, and has recovered rapidly in the first half of 2010-11 with a growth of 27.4 per cent. The overall openness of the economy reflected by total trade including services as a percentage of GDP shows a remarkable increase from 29.2 per cent in 2000-01 to 53.9 per cent in 2008-09, though it dipped to 46.1 per cent in 2009-10 due to the global crisis. The dip was more due to fall in share of merchandise trade to GDP to 35 per cent in 2009-10 compared to 41 per cent in 2008-09. The fall in the share of services trade to GDP was less than 2 percentage points from 12.9 per cent to 11.2 per cent.

and improved its share in worldwide exports from 1.2per cent in 2000 to 2.7per cent in 2008. India's rank among leading services exporters in the world moved up from 22 to 9, with the value of commercial services exports from India rising from US $17.6 billion to over US $102 billion in the same period. Share of Services exports to the gross domestic product (GDP) ratio currently stands at around 9 per cent. Further, it is expected that India will continue its growth in trade and economy, rendering the country a more significant role in the world, especially as China's future expansion may be constrained by rising costs. Notably, during the time global financial crisis, India's export performance was satisfactory compared to other Asian economies (China, Japan, South Korea, Malaysia, Taiwan and Thailand). In fact, Indian merchandise exports grew the fastest in 2008-09 with Korea a close second. India's exports increased from US$ 44 billion in 2002-03 to US$ 163 billion in 2008-09 (CAGR of 24.5 per cent). However, in October 2008, India's exports growth rate turned negative (-12.1 percent) which continued till October 2009 (negative export growth rate for 13 months). Thus, the picture was different in 2009-10. South Korea was the best performer with negative growth in only four months and a smaller decline than other countries. With the recovery of global economy and strong initiatives of government of India, exports growth rate turned positive in November 2009 and continue till date. The latest figures gave hope to policymakers on meeting the exports target of US$ 450 billion by 2014[38]. The export performance of service sector was highly satisfactory during global financial crisis. IT software and service exports from the country has grown from US$ 17.7 billion in 2004-05 to US$ 47.7 billion in 2008-09. However, the overall services exports declined by 7 per cent during January-March 2009 and by 3 per cent in the subsequent quarter as compared to a positive growth of 14 per cent and 22 per cent respectively in the first two quarters of 2008. Main reason for this dip in software service export was deep recession in North America, UK and European markets that account for more than 85 per cent of Indian software and services exports. Thus, it is expected that India has the capability to double its share in the global services exports in the next four-five years.

Thus, slowdown in economies of US and Europe has seriously affected Indian exports. The crisis was real and big in exports sector; affected some sectors very badly. The fall in exports from India has proved to be disastrous as it has led to the closure of businesses and the loss of employment running into lakhs. Thousands of migrant labourer who lost their employment due to crisis, had return to their villages. To quote Sainath (2009):

The collapse of the export market in urban Gujarat has had hard to imagine ramifications in Orissa's villages. That collapse has seen nearly 50,000 of close to half a million (overwhelmingly male) migrants in Surat, to return to Ganjam. Migrant remittances are mainstay for Ganjam's roughly 3.5 million people.

Therefore, it is a major challenge for India to properly manage the fallout from the current global slowdown on its export sector and limit the adverse consequences for employment situation in the country. To build resilience of the economy to

38 But it has also left them worried over the mounting trade deficit.

trade shocks and improve competitiveness of the exports, it would be useful for the government to consider some mitigating strategies. First, labour intensive sectors such as textiles and handicrafts which were the worst affected by the crisis are proposed to be given special attention[39]. Second, there is need to diversify the destinations, and making exports to emerging economies like Africa, Latin America, Oceania and CIS countries are more viable. Third, India has potential to significantly increase its exports from the current level (potential products) or start exporting the new product. As a first step in harnessing this potential, it may be useful for the industry and government to identify specific reasons why India's comparative advantage in these products has not translated into export gains. As India is in the process of negotiating free trade agreements with most of these countries, this opportunity could be used to address border and behind-the-border trade-related constraints identified in the importing country. Fourth, during 2008, Indian currency depreciated more than 20 per cent against the US dollar. Despite the remarkable depreciation of Indian rupees, exports declined significantly during 2008-09. Thus, there is a need to understand the fact that India's exports depend less on the value of rupees and more on the quality and reputation of products. Evidently, in 2007-08 in the phase of appreciation of Indian rupee, India achieved significant growth of 27 per cent, while after the rupee depreciate, September 2008, registered an export growth of only 10.4 per cent. Fifth, though India continues to be the most preferred destination for global IT sourcing due to its talent pool, top-quality management and security and quality focus, there are certain short-to-medium term challenges that need to be addressed swiftly. For merchandise export, it is suggested that India needs to map out its technological gaps and invest heavily on R&D so that it makes products and sells goods & services of supreme quality so that Indian products can create space for themselves. Investment in R&D in India is just negligible; as a result it still imports equipments and processes for setting up power plants, oil & gas facilities, telecommunication infrastructure, engineering plants and so on and so forth.

39 As India's exports slow down, a worried UPA government on Monday induced fresh stimulus worth Rs 1,050 crore to labour intensive export sector such as handicraft, leather, handloom, silk carpets, toys, engineering items and sports goods. The sops include an additional benefit of 2per cent bonus (interest rate subvention for pre-shipment credit), over and above the existing 5per cent, to these sectors. Other measures include extension of schemes like EPCG and Duty Entitlement Passbook (DEPB). Government's objective is to avoid another spell of unemployment which might occur due to lack of orders from US and Europe.

JEL Codes: F10; F13; E6, E 44

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