

## India Trade Brief

### Trade Policy

India's trade regime has steadily opened since 1991, but it ranks among the top 20 percent of countries with the most restrictive tariff regimes, with an MFN Tariff Trade Restrictiveness Index (TTRI)<sup>1</sup> for overall trade of 12 percent. Much of this is due to the protection the government provides the agricultural sector, which employs over half of the labor force of the country, as demonstrated by a TTRI of 28 percent.<sup>2</sup> Tariff barriers to non-agricultural goods are much lower, with a TTRI of 11 percent. India's rank improved from 117<sup>th</sup> to 102<sup>nd</sup> of 125 countries, as cereal tariffs dropped. India's trade regime is only slightly more restrictive than that of the average South Asian country, which has a TTRI of 11.3 percent, but significantly more restrictive than regimes of lower-middle-income countries, which have an average TTRI of 8.6 percent. The simple average of the MFN applied tariff rate has decreased significantly to 14.1, less than half of its value in 2004. It still remains higher than the averages for both the regional and income group comparators. India's maximum tariff (including ad valorem equivalents of specific duties) on all goods (excluding alcohol and tobacco) now stands at 301 percent for cotton fabrics. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), stands at 35 percent.

The government also removed import tariffs on over 4,800 products from four neighboring countries on January 1, 2008, and in April 2008, the government announced that it was offering preferential market access to all least developed countries.<sup>3</sup> Over the period 1995–2008, India was the world's leading

initiator of anti-dumping investigations (564), followed by the United States (418) and the EU (391). Steel and chemical products faced the most anti-dumping investigations, and the top five targets were China, members of the Association of Southeast Asian Nations (ASEAN), the EU, the Republic of Korea, and Taiwan (China). Over the same period, the country initiated 18 safeguard actions, the most in the chemicals sector. Reform in the services sector has been pursued, involving banking, telecommunications, electricity, insurance, retail, and higher education. This included increases in the number of investors allowed (both local and foreign), and increased caps for foreign investment. Most sectors have automatic approval for 49 percent foreign ownership, except for restricted sectors such as telecom, defense production, air transport services, and broadcasting, which require government approval. However, India's commitment to services liberalization as reflected by the GATS commitments index is low, with a rank of 103<sup>rd</sup> among 148 countries.

In an attempt to contain rising food prices and maintain domestic food supply, in 2008 India banned corn, wheat, and rice exports, increased the minimum price of basmati rice, and removed import tariffs on several items such as wheat flour.<sup>4</sup> The government also eliminated tariffs on edible oil products in March 2008. Most of the export bans were lifted by November 2008 except the ban on wheat exports, which expired in May 2009, but was re-imposed 10 days later on fears of a poor harvest.<sup>5</sup> Rising fuel prices prompted the government to remove or considerably reduce import duties on crude oil and other petroleum products in June 2008.

In late 2008, as global growth slowed, India focused its trade policies on assisting domestic producers and exporters. Trade liberalizing measures have been accompanied by protectionist measures, with a particularly large increase in the use of trade remedy laws. Protection was provided through increased import duties on a range of iron and steel products and soybean oil.<sup>6</sup> Further, anti-dumping investigations increased to 54 in 2008 (from 44 in 2007), with 39 of them coming in the last quarter as external demand and GDP growth slowed. In the first half of 2009, India initiated 14 additional anti-dumping investigations. During the same period, India initiated

---

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at <http://www.worldbank.org/wti>.

If using information from this brief, please provide the following source citation: World Bank. 2010. "India Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at <http://www.worldbank.org/wti>.

eight global safeguard investigations and five specific to China, while it had only initiated two safeguard investigations in 2008.

In March 2009, the government removed import tariffs on soybean oil and pulses and extended these exemptions to sugar in April. That same month, it increased duties on steel imports and began to provide subsidies for cotton exporters.<sup>7</sup> The July 2009 budget contained several measures for exporters. These included new benefits to firms such as an increase in available credit to micro and small enterprises, which were hard hit by the downturn in exports, and tax exemptions on export-related activities. Tariffs were increased on gold bars and other forms of gold and silver and reduced for certain electronics products, pharmaceutical products, bio-diesel fuel, and some forms of agricultural waste.<sup>8</sup> Foreign investment policy was liberalized further in February 2009<sup>9</sup> for most downstream investments by Indian companies with foreign shareholdings. However, government approval requirements were extended beyond the initial investment to transfer of ownership and control to non-resident entities in the restricted sectors.

## External Environment

India's Market Access TTRI<sup>10</sup> for 2007 (including preferences) stands at 3.5 percent for all goods, improving its ranking to 55<sup>th</sup> (of 125 countries) from 59<sup>th</sup> the year before. India's agricultural and non-agricultural exports face similar barriers. They are lower than for the typical South Asian country (MA-TTRI of 7.6 percent) but higher than for an income group comparator (2.4 percent). The simple average of the rest of the world tariff faced by Indian exports is 9.8 percent. When taking into account the volume of exports, it is 3.8 percent, with the rate faced by agricultural goods and non-agricultural goods significantly different at 12.6 and 3.1 percent, respectively. In 2008, India had seven anti-dumping investigations and one countervailing duty investigation initiated against it, which was almost double the number from 2007. In 2009 India has so far faced one anti-dumping investigation. Over the course of 2008 the Indian rupee depreciated against the U.S. dollar by 5.2 percent, with an 11 percent depreciation in Q4 2008, helping exporters. The first quarter of 2009 marked a 5.1 percent depreciation of the rupee, which was followed by a 6 percent appreciation in Q2 2009.

India is currently involved in negotiating a number of free trade agreements (FTAs). An FTA with ASEAN

was signed in 2009,<sup>11</sup> and a comprehensive economic partnership agreement (CEPA) with Korea was substantially concluded in September 2008. India has an FTA with Sri Lanka, has signed onto the South Asian Free Trade Agreement (SAFTA), and has implemented a CEPA with Singapore. India is negotiating a trilateral FTA with Brazil and South Africa, as well as deals with Malaysia, Mauritius, Thailand, the Southern Africa Customs Union, the EU, and the European Free Trade Association (EFTA).

## Behind the Border Constraints

India's regulatory environment is not highly favorable to operating a business, as evidenced by its rank of 133<sup>rd</sup> in the Ease of Doing Business for 2009 out of the 183 countries ranked in the Doing Business index. The Logistics Performance Index, a measure of the ease of trade facilitation, rates India at 3.07 on a scale from 1 to 5 with 5 being the highest performance. This compares with 2.3 for the South Asia region and 2.47 for countries in the lower-middle-income group. These scores correspond to India being ranked 39<sup>th</sup> in the world and 1<sup>st</sup> in the South Asia region. India performed best in the timeliness of shipments in reaching their destination, but needs most improvement in increasing the efficiency and effectiveness of customs procedures.

By the end of 2008, the Reserve Bank of India increased the availability of trade finance to exporters by more than doubling the funds available to banks to refinance export credit. However, in February 2009 it was forced to raise interest rates on trade financing due to increased costs of raising foreign funds.<sup>12</sup> The July 2009 budget extended trade finance benefits to exporters that began in late 2008.

## Trade Outcomes

India's high average growth rate of total trade in goods and services during 2005–07 of 19.8 percent slowed in 2008, when total trade grew by 15.6 percent in real (constant 2000 U.S. dollars) terms. Growth in both real exports and imports declined, and they are projected to fall by 3 percent and rise by 1 percent respectively in 2009. However, in nominal dollar terms, annual total trade grew by 34.1 percent in 2008, which was more than a 50 percent increase over 2007 (20.9 percent). Total exports increased by 25 percent, driven by a 28 percent growth in goods exports and a 20 percent growth in services exports. In 2009,

exports are expected to shrink by 8.2 percent, due to a dramatic decrease in goods exports. Quarterly data trace the fall in goods exports to Q4 2008 when exports growth tumbled to negative 12.5 percent compared to the same period a year earlier, from an average of 33 percent growth for Q1–Q3 2008. The first quarter of 2009 marked a further decline of exports by 24 percent, and growth prospects are tied to recovery in export markets. On the import side, rising fuel and commodity prices in the first half of 2008 pushed import growth to an average of 47 percent during Q1–Q3 2008, and the fall in fuel prices in the latter half of the year contributed to the slowing down of import growth to only 6 percent in Q4 2008. First quarter 2009 estimates registered a large drop in imports of 25 percent.

Total trade of goods and services as a share of GDP for India jumped to 55 percent in 2008 from 46 percent in 2007. The largest component of India's exports is engineering goods, which made up 23.9 percent during the fiscal year (FY) ending March 2009, while textiles comprised 10.7 percent (down from 23.6 percent of all exports in FY 2001). Over a third of India's imports were fuel over FY 2009.<sup>13</sup> India continued to be the largest recipient of remittances (US\$52 billion in 2008), reflecting a growth in nominal terms as well as an increase from 3.3 percent of GDP in 2007 to 4.3 percent of GDP in 2008. Foreign direct investment (FDI) as a share of GDP grew to 3.8 percent in 2008 from 2.1 percent in 2007. National sources indicate a 40 percent drop in the dollar value of FDI inflows in the first half of 2009, compared to the same period in 2008.<sup>14</sup>

## Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. World Bank, 2006, p. 126.
3. ESCAP, 2008, February (p. 5), April (p. 4), August (p. 3), June (p. 4)
4. FAO, 2009.
5. WTO, 2009, p. 69.
6. PREM, 2009, p. 3.
7. WTO (2009) p. 68
8. Global Trade Alert, July 2009.
9. Ministry of Commerce and Industry, February 2009.
10. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.

11. Bilaterals.org, 2008a-b; 2009a-d.
12. Chauffour and Farole, 2009, p. 21.
13. National Informatics Centre, 2008, pp. 145–121.
14. Ministry of Commerce and Industry, June 2009.

## References

- Asian Development Bank. 2009. *Asian Development Outlook 2009: Rebalancing Asia's Growth*. June 26, 2009. <<http://www.adb.org/Documents/Books/ADO/2009/ado2009.pdf>>.
- Bilaterals.org. June 5, 2008a. "India-Burma BIT Approved." July 8, 2009a. <<http://www.bilaterals.org>>.
- . December 24, 2008b. "Kenya, India Strengthen Bilateral Trade." July 8, 2009. <<http://www.bilaterals.org>>.
- . January 23, 2009a. "India, Jordan Signs BIPPA." July 8, 2009. <<http://www.bilaterals.org>>.
- . April 2009b. "India-ASEAN." June 29, 2009. <<http://www.bilaterals.org>>.
- . June 29, 2009c. "India May Approve India-South Korea FTA Next Week." July 8, 2009. <<http://www.bilaterals.org>>.
- . August 14, 2009d. "India Signs FTA with ASEAN amidst Protests." <<http://www.bilaterals.org>>.
- Chauffour, Jean-Pierre, and Thomas Farole (PRMTR). June 19, 2009. "Trade Finance in Crisis: Market Adjustment or Market Failure?" June 26, 2009. World Bank, Washington, DC.
- Economic and Social Commission for Asia and the Pacific (ESCAP). 2008. *E-TISNET Monthly News* (February, April, May, June, August, December). United Nations, New York, NY.
- Economist Intelligence Unit (EIU). August 2009. *Country Report: India*. Economist Intelligence Unit. EIU.
- Food and Agriculture Organization of the United Nations (FAO). 2009. "Policy Measures Taken by Governments to Reduce the Impact of Soaring Prices (As of 15 December 2008)." FAO, New York, NY.
- Global Trade Alert. June 2009. "India: Imposition of a 20% Duty on Imported Soybean Oils." <<http://www.globaltradealert.org/>>.
- . July 8, 2009. "India: Union Budget's Implication for Tariffs and Other Trade Policies." <<http://www.globaltradealert.org/>>.
- International Monetary Fund (IMF). 2009. *International Financial Statistics (Country Tables)*. IMF, Washington, DC.

Ministry of Commerce and Industry, Government of India, June 2009 “Fact Sheet on Foreign Direct Investment.” New Delhi.

———. February 2009, *Press Notes* No. 2, 3 and 4.

National Informatics Centre. 2009. *Economic Survey 2008–2009*. July 1, 2009. New Delhi: Ministry of Finance, Government of India.

Poverty Reduction and Economic Management (PREM) Trade Group, The World Bank. April 21, 2009.

“Update on Trade Measures and Sector-Specific Support.” World Bank, Washington, DC.

World Bank. 2006. “India Development Policy Review.” World Bank, Washington, DC.

World Trade Organization (WTO). July 15, 2009. “Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments.” WTO, Geneva.