

BACKGROUND PAPER ON EXIM EXCELLENCE

Confederation of Indian Industry,
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Table of Contents

1. **Global Merchandise Trade and India's Contribution**
 - 1.1 **Region-wise Global Merchandise Trade**
 - 1.2 **Growth Drivers**
2. **India's Merchandise Trade Trend**
 - 2.1 **India's Export and Import Basket**
 - 2.2 **Major Exported and Imported Product and Services**
 - 2.3 **Major Merchandise Export Destinations and Import Sources**
3. **India's Export and Import Blocks**
 - 3.1 **ASEAN**
 - 3.2 **EU Countries**
 - 3.3 **Latin American Countries**
 - 3.4 **Africa**
 - 3.5 **WANA**
 - 3.6 **CIS Countries**
 - 3.7 **India's Export Potential in these Blocks**
4. **India's Exim Policy—Procedures**
 - 4.1 **Export Promoting Measures and Schemes**
 - 4.2 **New Exim Policy Supplement to Exim Policy 2004-09**
5. **Importance of Finance in Trade**
 - 5.1 **Insurance**
 - 5.2 **Forex Management**
6. **Special Economic Zones – Export Trend**
 - 6.1 **SEZs in Andhra Pradesh**
7. **Export potential in Andhra Pradesh**
 - 7.1 **AP's Major Export's**
 - 7.2 **Export Promotion Initiatives and Schemes**
 - 7.3 **Potential Region-Rayalaseema**
8. **Port Infrastructure in Andhra Pradesh**
9. **Potential of Vizag–Kakinada Corridor**
10. **Future Outlook**

1. Global Merchandise Trade and India's Contribution

The emergence of globalisation has made the world economy more open and integrated. Countries are more engaged in international trade and capital flows more freely among them. In recent times, Free Trade Agreements (FTA) are considered as the innovative tools to strengthen trade climates by eliminating or reducing tariffs, opening government procurement opportunities, and easing investment rules among the countries. The global economy has entered 2006 with moderate growth momentum gained in 2005. The world economy has expanded by 3.5% and world merchandise trade (both exports and imports of goods) grew by 6.5% (at constant prices) during 2005.

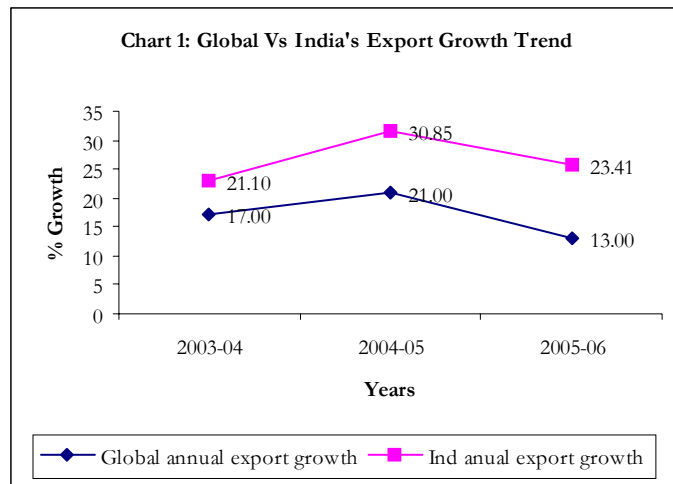
Global merchandise exports as well as imports rose by 13% (in value terms) in 2005-06 compared to 21% and 22% respectively in 2004 and exceeded the US\$10 trillion-mark. Due to developments in oil market and rise in exports of Africa and Middle East, the regions recorded their largest share in world merchandise exports in 2005-06. The export and import growth rates of Europe and North America decelerated moderately. The Asian merchandise trade grew by 15%, exceeding the global trade average of 13% in 2005.

India is gaining strength in the global economy as is evident in the robust growth of the merchandise as well services trade. Global capital has been flowing into the economy by way of foreign direct investments. The merchandise exports in 2005-06 were US\$103 billion, has grown at a rate of 23% over the previous fiscal, which is faster than the global export growth rate of 13%. Maintaining the same growth rate, the merchandise exports will cross the figure of US\$120 billion in the current fiscal. Merchandise imports were US\$149 billion, has grown at a rate of 33.8%. It showed a declining rate from 42% in 2004. With growing industrial and consumer demand and anticipation of the same growth rate, India expects to reach its proposed target of 1.5% of global merchandise trade by 2009.

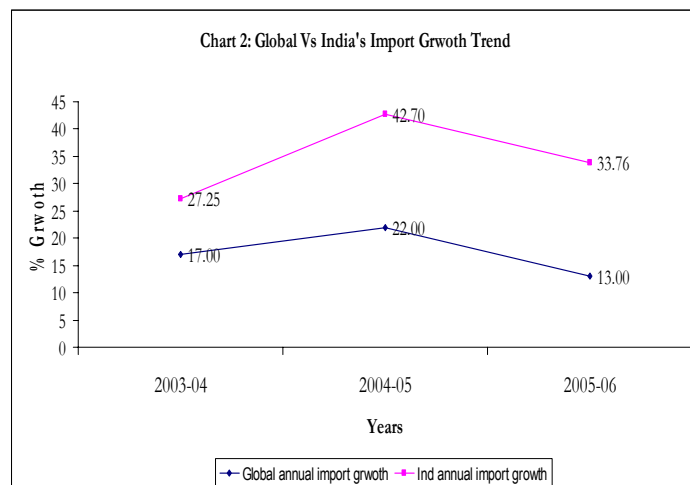
1.1 Region-wise Global Merchandise Trade: 2005

Due to the slower economic growth worldwide in 2005-06 and of fuel market developments, merchandise trade growth decelerated in real terms. The slowdown of the trade was most evident in the developed markets with an exception of some emerging markets, which are oil-importing countries. Real

merchandise imports of the US, the EU (25) and Japan recorded a slowdown in 2005. Economic growth in the regions of South and Central America, Africa, and the Middle East averaged around 4-



Source: WTO, DGFT



Source: WTO, DGFT

5%. China and India, again reported outstanding GDP growth in 2005 at 9.9% and 8.4% respectively.

The Commonwealth of Independent States (CIS) recorded strongest real import growth rates above the global average. Oil price increases is a significant reason for this performance in many of the countries concerned.

Several factors contributed to this outcome:

- Many developed countries today have a lower oil intensity of output than three decades ago as the services sector accounts for a larger part of GDP.
- The slack in production capacity combined with moderate wage increases in many developed regions lowered the possibility of passing on higher energy costs to consumers.
- Core consumer price inflation, that is all items excluding energy and food, decreased in the Euro region and the US and stagnated in Japan in 2005.

Table 1: World merchandise trade by region and selected countries, 2005
(US\$bn)

Regions and Selected Countries	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2005	2000-05	2003	2004	2005	2005	2000-05	2003	2004	2005
World	10,121	10	17	21	13	10,481	10	17	22	13
North America	1,478	4	5	14	12	22,85	6	8	16	14
US	904	3	5	13	10	1,733	7	9	17	14
South and Central America	351	13	15	29	25	294	7	6	28	22
Europe	4,353	11	19	20	8	4,521	10	20	20	9
EU (25)	3,988	10	19	19	7	4,120	10	20	20	8
CIS	342	19	27	36	29	216	21	27	31	25
Russian Federation	245	18	27	35	34	125	23	25	28	28
Africa	296	15	26	30	29	248	14	21	29	16
Middle East	529	15	20	30	36	318	15	15	26	19
Asia	2,773	11	19	25	15	2,599	12	20	27	16
Japan	596	4	13	20	5	516	6	14	19	14
China	762	25	35	35	28	660	24	40	36	18
India	103	16	16	33	23	149	21	26	42	33
Developing economies	3,443	13	19	27	22	3,024	12	17	28	17
Developing Asia	2,050	13	21	27	18	1,932	13	22	30	17

Source: WTO, DGFT

India has emerged as 29th leading exporter in world merchandise trade in 2005-06 by moving from 30th place in 2004-05. The UAE and Russia moved up and become 24th and 13th largest merchandise exporters respectively in 2005. Similarly, Saudi Arabia and Brazil moved up and become the 18th and 23rd largest exporters.

On the import front, Japan became the fourth largest importer, as its imports exceeded those of the UK and France. India (the 17th largest importer in 2005), the Russian Federation (19), the UAE (28) and Brazil (27) recorded higher rankings in world merchandise imports.

Table 2: Leading Exporters and Importers in World Merchandise Trade, 2005
(US\$ bn)

Rank 2005	Exporters	Value	Annual % change	Rank 2005	Importers	Value	Annual % change
1	Germany	970.7	7	1	United States	1,732.7	14
2	US	904.3	10	2	Germany	774.1	8
3	China	762.0	28	3	China	660.1	18
4	Japan	595.8	5	4	Japan	516.1	14
5	France	459.2	2	5	UK	501.2	6
6	Netherlands	401.3	12	6	France	495.8	5
7	UK	377.9	9	7	Italy	379.7	7
8	Italy	366.8	4	8	Netherlands	357.9	12
9	Canada	359.6	14	9	Belgium	320.4	12
10	Belgium	329.6	7	10	Canada	320.1	14
	World	10,393.1	13		World	10,753.1	13

Source: WTO

1.2 Growth Drivers

The US is one of the largest drivers of growth in world trade. Greater demand from developing nations is a major factor behind the changing trade routes. In 2005-06, the share of global exports purchased by the US fell to 17.9% compared to 21.8% in 2000 since consumer and business demand increased in the European Union (EU), Japan, China and India and in Eastern European countries. Exporting nations in Europe and Asia are on the edge to grab a larger share of world markets. Increased investments, strong performance of key industries (steel, pharmaceuticals, IT) and growth-oriented trade policies are the key growth drivers of Indian economy in recent years. For more than 25 years, economic growth in China is driven by exports and fixed-asset investment, but consumption is seen as a new driver of growth.

Recently, Japan proposed a 16-Nation Economic Bloc, including ten Southeast Asian nations, China, Japan, South Korea, India, Australia and New Zealand. According to International Monetary Fund, the 16-nation Economic Bloc will expand trade amongst these countries at the expense of trade with the US. With a trade volume of US\$1.7 trillion good and services, the US remained the largest importer from the rest of the world in 2005, followed by Germany, China and Japan. According to the World Bank, the US is no longer the single pivotal player in world trade that it was, because China and India and other nations in the EU are emerging as major part of the engine of global growth.

According to Goldman Sachs report, the so-called BRICs economies - Brazil, Russia, India and China - accounted for about 30% of world growth in the past five years. Domestic demand is picking up in many parts of the world, and that's the biggest driver of economic growth and world trade.

2. India's Merchandise Trade Trend

Indian economy has been growing at an average annual growth rate of nearly 6% since two decades, and at over 8.4% during 2005-06. The main objective of the recent trade policies is to double India's share in global merchandise trade by 2009 to 1.5% and to give thrust to employment generation, especially in semi-urban and rural areas. On the same lines, in merchandise exports segment, India emerged as 29th leading exporter in world merchandise trade in 2005 by moving from the 30th place in 2004. India's exports (including services) stood at US\$126 billion with a share of 0.9% in 2005, registering a growth of 25.57%. At US\$149 billion of merchandise imports, India registered an increase of 33% during 2005. India has moved to 17th slot from 24th on the list of world's 30 leading importers in merchandise trade in 2005.

2.1 India's Export and Import Basket

In 2005-06, Indian merchandise exports were steadily supporting the country's economic growth by surpassing US\$100 billion-mark, rising at the rate of 23% over the previous year. In fact, the growth decelerated as compared to the annual growth rate of 2004-05. The present trend in the Indian merchandise export scenario shows that India's exports have become less volatile because the major 5-7 products and services constitute 78% of total exports; services exports account a larger share and the Indian companies are making gains in markets like Africa and Latin America.

Table3: India's Export Basket Composition (Value terms)

(US\$m)

Products/Services	2002-2003	2003-2004	2004-2005	2005-2006	Growth Rate % 2005-06 Y-o-Y
Agro-Agro Based	6,895.5	7,608.17	8,642.51	9,782.97	13.20
Textiles	12,489.35	14,256.19	15,236.83	18,907.33	24.09
Chemicals & Fertilisers	9,803.48	12,667.46	20,808.75	28,737.42	38.10
IT / ITeS	9,600	12,800	17,200	23,400	36.05
Ferroys	3,070.33	4,121.15	6,528.47	6,628.11	1.53
Non-Ferroys	798.37	1038.65	1,559.33	2,264.07	45.20
Engineering	5,296.9	7,385.32	9,432.24	12,755.24	35.23
Pharmaceuticals	1,400.78	1,620.09	2,061.68	2,444.18	18.55
Wood & Furniture	44.53	60.07	84.97	100.83	18.67
Ceramic & Glass	620.09	741.68	735.94	1,005.18	36.58
Leather	1,326.43	1,559.14	1,689.02	1,856.62	9.92
Gems & Jewellery	90,92.26	10,761.62	14,436.22	15,857.96	9.85
Others	450.89	588.9	795.91	961.81	20.84
Miscellaneous	1,430.56	1,434.51	1,524.11	1,788.8	17.37
Total Export	62,319.47	76,642.95	100,736	126,490.52	25.57

Source: DGFT, NASSCOM

2.2 Major Exported and Imported Products and Services

The export growth has been broad across major commodity groups and the top five contributors to total exports in 2005-06 were: Chemical and fertilisers (a share of 22.72%), IT/ITeS (18.51%), textiles (14.95%), gems and jewellery (12.54%), engineering products (10.8%) and agro-agro based products (7.73%). On the IT/ITeS services front, India is now one of the world's preferred destinations and is steadily moving up the value chain. Since Information and Communication Technology (ICT) is vital to success in the global economy and a tool for raising living standards, the government created a wide range of initiatives to make India a global player in the ICT arena. Partly in response to this governmental initiative, a significant number of Fortune 500 companies have established their R&D facilities in India. IT has given India tremendous brand equity in the global market. The Indian IT exports were worth over US\$23.6 billion in 2005-06 and have registered an annual growth rate of over 30% over the previous year.

Table 4: India's Major Exports in 2005-06 (Value terms)
(US\$m and percentage)

Products/Services	2004-2005	2005-2006	Growth Rate % 2005-06 Y-o-Y	% Share in total Exports
Chemicals & Fertilisers	20,808.75	28,737.42	38.1	22.72
IT / ITeS	17,200	23,400	36.05	18.51
Textiles	15,236.83	18,907.33	24.09	14.95
Gems & Jewellery	14,436.22	15,857.96	9.85	12.54
Engineering	9,432.24	12,755.24	35.23	10.08
Agro-Agro Based	8,642.51	9,782.97	13.2	7.73
<i>Source: DGFT</i>				

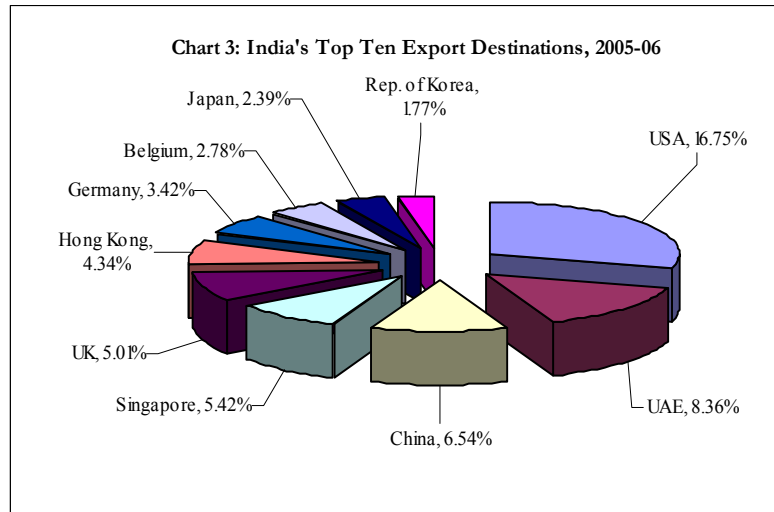
India's imports in 2005-06 totalled US\$149 billion, representing a growth rate of 33.76%. It showed a declining rate from 42% in 2004 when imports valued at US\$111billion.

Table5: India's Imports from Other Regions Composition (Value terms)
(US\$m)

India's Imports	2002-2003	2003-2004	2004-2005	2005-2006	Growth Rate % 2005-06 Y-o-Y
Agro-Agro Based	3,319.19	4,096.91	4,587.6	4,716.12	2.80
Textiles	1,670.94	2,057.82	2,297.37	2,776.81	20.87
Chemicals & Fertilizers	26,797.5	31,870.87	47,685.41	67,411.70	41.37
Ferrous	15,47.14	2,417.01	4,242.29	6,754.03	59.21
Non-Ferrous	943.32	1,267.17	1,733.38	2,661.67	53.55
Engineering	13,657.05	18,551.01	25,336.22	37,843.37	49.36
Pharmaceuticals	238.06	250.24	289.95	440.25	51.84
Wood & Furniture	412.19	723.68	907.41	955.54	5.30
Ceramic & Glass	244.86	344.77	498.25	675.8	35.63
Leather	213.22	244.58	298.33	336.02	12.63
Gems & Jewellery	10,475.34	14,155.10	20,784.38	20,690.51	-0.45
Others	1,064.18	1,459.44	1,737.04	2,220.44	27.83
Miscellaneous	829.13	711.02	1119.8	1683.48	50.34
Total Import	61412.13	78149.61	111517.44	149165.73	33.76
<i>Source: DGFT</i>					

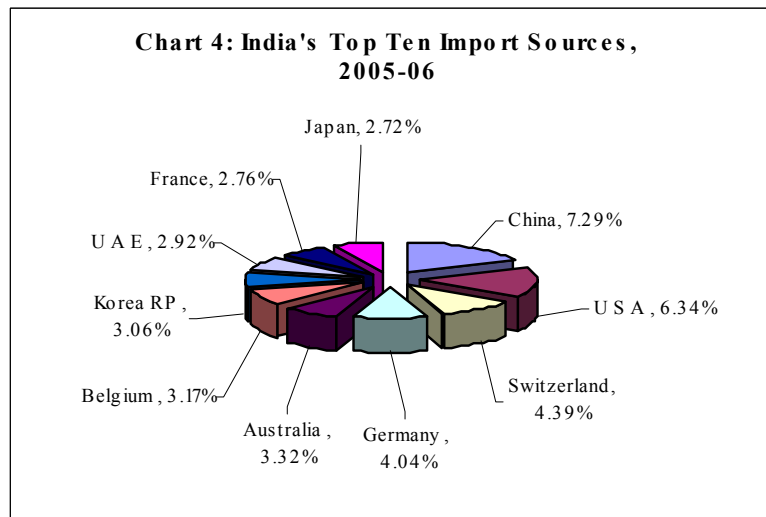
2.3 Major Merchandise Export Destinations and Import Sources

The outward orientation of India has increased considerably. The destination wise Indian export has remarkably changed, whereby the importance of developing countries as an export market has considerably increased. The US continued to lead with a total share of 16.75% in India's total merchandise exports in 2005-06. UAE stood second with US\$8,591.79m, contributing 8.36% to India's total exports.



Source:

Likewise exports, India's imports from developing countries increased at a relatively higher rate than those from the developed countries in 2005-06. Among the major India's import sources, China enjoyed the highest share of 7.29% at amounted US\$10868.05m in 2005-06, witnessed a growth rate of 53.11% over the previous fiscal. The US is the second largest source for Indian imports with a share of 6.34% in 2005-06 followed by Switzerland and Germany.



Source: DGFT

3. India's Export and Import Blocks

India's direction of external trade has been changing to move beyond conventional trade partners like the US and the EU. There has been high growth in trade with Eastern Europe, ASEAN, WANA, CIS, China, Latin America and other regions. Regional Trade Agreements are under negotiation with various countries and regional groupings such as ASEAN and MERCOSUR.

3.1 ASEAN

Between 2002-03 and 2005-06, India's exports to ASEAN have been increasing consistently. India's export to ASEAN (Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia) in 2005-06 was US\$10.4 billion (in value terms), representing a growth rate of 23% over the previous year. On the imports front, India imports were about US\$10.8 billion.

Table 6: India's Exports to and Imports from ASEAN, 2005-06 (US\$m)

Region	2002-2003	2003-2004	2004-2005	2005-2006
India's Exports to ASEAN	4,618.54 (8.76)	5,821.74 (9.12)	8,425.89 (10.09)	10,411.3 (10.10)
India's Imports from ASEAN	5,150.17 (8.39)	7,433.16 (9.51)	9,114.66 (8.17)	10,883.68 (7.30)
<i>Note: Numbers in the parenthesis are percentage figures of India's total exports and imports</i>				
<i>Source: DGFT</i>				

Though India's exports to ASEAN surged by 23% in 2005-06, it is far behind in making a dent into this market. India accounts for a mere 1.5% of ASEAN's total import market. Given such barrier as the ASEAN Free Trade Association (AFTA), which provides tariff concessions among ASEAN members, it is imperative for India to form an FTA with ASEAN for better opportunities. Apart from this, India's increasing joint ventures with a number of NRIs in these countries will reap the benefits of the expanding ASEAN market. India's major exports to ASEAN include gems and jewellery, meat and meat preparations, cotton yarn, fabrics, made-ups, engineering goods, transport equipment, machinery and instruments, electronic goods, marine products, fruits and vegetables, rice, drugs and pharmaceuticals and chemicals.

Among the ASEAN countries, Singapore is the largest trading partner of India. India's exports to Singapore have been growing at an average growth rate of 57.78% during 2002-03 to 2005-06. This growth can be the result of Comprehensive Economic Co-operation Agreement between India and Singapore.

3.2 EU Countries

The total trade between India and the EU almost doubled from 2002-03 to 2005-06. The EU is India's largest trading partner, accounting for 22% of India's global trade in 2005-06. India was the 10th largest trading partner of the EU in 2005-06, up from 15th slot in 2004-05. India's exports to the EU consist of primary goods and finished products. These include readymade garments, cotton including accessories, gems and jewellery, primary and semi-finished iron and steel, and machinery and instruments. On the contrary, EU exports to India mostly include intermediate products. The top five items are pearls, precious and semi-precious stones, gold, electronic goods and organic chemicals.

Table 7: India's Exports to and Imports from EU, 2005-06 (US\$m)

Region	2002-2003	2003-2004	2004-2005	2005-2006
India's Exports to EU	11,847.87 (22.47)	14,443.58 (22.62)	18,118.30 (21.69)	23,120.38 (22.43)
India's Imports from EU	12,780.42 (20.81)	14,991.80 (19.18)	19,115.68 (17.14)	25,704.03 (17.23)
<i>Note: Numbers in the parenthesis are percentage figures of India's total exports and imports</i>				
<i>Source: DGFT</i>				

Today, with more than US\$45 billion bilateral trade, the EU is India's largest trading partner. In addition, the EU is one of the major sources of technology transfer. Of a total 26,466 technical and financial collaborations approved till now, about 10,000 are from the EU. Studies have shown that implications of the European single currency also seem to be positive for India. In the long run, Euro as a stable international currency, and growth and price stability in the Euro zone may open up many new opportunities. Since 2000, India and the EU have established the institution of annual summit meetings. With this special relationship, Indian companies can also penetrate in a big way

with rapidly growing European outsourcing. Indian products can benefit if there are less non-tariff barriers. Similarly, India can offer special treatment to EU companies in the financial sector.

3.3 Latin American Countries (LAC)

India's exports to the Latin American bloc (Argentina, Brazil, Chile, Columbia, Mexico, and Peru) have grown at a rapid pace during the last four years. The percentage share of India's exports to this region has shown an increasing trend. The Latin American region has greater potential on the following ground, which encourages the exporters:

- The second fastest growing region in the world
- The region accounts for nearly 5% of world trade
- The recent liberalisation process has resulted in integration of these economies with the global economic system
- Privatisation and liberalisation of financial markets
- In many countries, inflation has been controlled and the debt crisis has been overcome
- Reduction of tariff/non-tariff barriers

Table 8: India's Exports to and Imports from LAC, 2005-06 (US\$m)

Region	2002-2003	2003-2004	2004-2005	2005-2006
India's Exports to LAC	1,295.80 (2.46)	1,138.81 (1.78)	2,160.71 (2.59)	2,993.47 (2.90)
India's Imports from LAC	1,046.04 (1.70)	1,192.67 (1.53)	2,054.80 (1.84)	2,662.75 (1.79)
<i>Note: Numbers in the parenthesis are percentage figures of India's total exports and imports</i>				
<i>Source: DGFT</i>				

India's trade with the Bloc has increased from US\$2,341.84m in 2002-03 to US\$5,656.22m in 2005-06, registering an average increase of over 38.72% growth in four years. Three product categories—textiles, engineering products and chemicals - constitute nearly 80% of India's exports to LAC. In the textiles sector, ready-made garments, made-ups, fabrics, yarn, carpets and handicrafts are fast moving export items. In the engineering segment, automobiles, auto components, electrical appliances, machinery and computer software have good scope for exports. Bulk drugs, pharmaceuticals, dyes and intermediates, agrochemicals, plastic products, naphtha, resins, essential oils, molasses, tyres for buses, trucks and cycles are also important items in the chemical products sector. This provides a greater scope for the Indian exporters to concentrate on the above-mentioned products and services to capture the Latin American markets.

3.4 Africa

India's bilateral trade (in value terms) with African countries has shown an impressive performance of 25% in 2005-06 over the previous year. In the export segment itself, 29% growth has been registered during 2005-06. It has been observed that over the last four years, from 2002-03 to 2005-06, India's exports to African countries has been growing at an average growth rate of 30%.

Of the African countries, South Africa is on the top of the pack with largest share in merchandise trade with India. During 2005-06 India's exports to South Africa was valued at US\$1,526.87m, accounting for a growth rate of 108% over the previous financial year. It constitutes 28% of India's total exports to Africa. Major Indian exports to South Africa includes: motor vehicles, rice, manufactures of metals, cotton including accessories, cotton yarn and fabrics made ups, finished

leather, primary semi-finished iron steel, drugs, pharmaceuticals and fine chemicals, machinery and instruments and inorganic\organic\agro-chemicals. South African exports to India includes: gold and silver, coal, iron and steel, metalifers ores and metal scrap, organic chemicals, fertilisers crude, transport equipment and fertilisers.

Table 9: India's Exports to and Imports from Africa, 2005-06 (US\$m)

Region	2002-2003	2003-2004	2004-2005	2005-2006
India's Exports to Africa	2,457.82 (4.66)	3076.69 (4.82)	4,218.24 (5.05)	5,441.70 (5.28)
India's Imports from Africa	2,889.31 (4.70)	2,735.05 (3.50)	3,354.42 (3.01)	4,041.40 (2.71)
<i>Note: Numbers in the parenthesis are percentage figures of India's total exports and imports</i>				
<i>Source: DGFT</i>				

India's exports to Nigeria (US\$874.03m), Kenya (US\$576.54m), Tanzania Rep (US\$243.45m) and Djibouti (US\$230.36m) showed a tremendous growth over 50% during 2005-06 as compared to 2004-05. Recently, African countries are emerging as good markets for Indian agro and agro-based commodities, petroleum products and heavy and light machinery products and chemicals.

The Indian Government is initiating promotional measures to enhance India's trade with African countries. The Government has announced Focus Africa Programme, through which it extends special assistance to Indian exporters and Export Promotional Councils to visit the African countries and organise trade fairs, and invite African trade delegation to visit India. This will facilitate India's export basket to be further expanded in the African region.

3.5 West Asia and North Africa

West Asia and North Africa (WANA) region occupies an important position in India's foreign trade, accounting for nearly 14.4% of India's global exports. WANA region comprises 19 countries, categorised into: six GCC countries - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and U.A.E; seven West Asian countries - Iran, Iraq, Israel, Jordan, Lebanon, Yemen, Syria and six North African countries - Algeria, Egypt, Libya, Morocco, Sudan, Tunisia.

India's trade with this region is performed on the basis of mutual Most-Favoured-Nation (MFN) treatment. Principal exports from India comprise gems and jewellery, textiles, yarn and apparels, manufactures of metals, rice, machinery and instruments, meat and preparations, drugs, pharmaceuticals and chemicals and tea. On the other hand, imports consist of petroleum, crude and products, inorganic and organic chemicals, pearls and precious/semi-precious stones, metalliferous ores and metal scrap and fertilisers.

During 2005-06, India's exports to WANA region touched a figure of US\$16,685.21m as compared to US\$7,528.76m in 2002-03, registering an average growth rate of 30.75% over the four years. Non-oil imports from this region to India touched US\$10,853.89m in 2005-06, registering an increase of 13% over the previous year. As an overall export-import scenario, India's trade with WANA region has been growing at an average growth rate of 36.36% over the last four years, registering a trade surplus of US\$5,831.32m in the India's account in 2005-06.

Table 10: India's Exports to and Imports from WANA, 2005-06 (US\$m)

Region	2002-2003	2003-2004	2004-2005	2005-2006
India's Exports to WANA	7,528.76 (14.28)	10,185.03 (15.95)	14,232.44 (17.04)	16,685.21 (16.19)
India's Imports from WANA	3,587.09 (5.84)	4,926.23 (6.30)	9,526.51 (8.54)	10,853.89 (7.28)
<i>Note: Numbers in the parenthesis are percentage figures of India's total exports and imports</i>				
<i>Source: DGFT</i>				

3.6 CIS Countries

Overall trade between India and the CIS Region has grown drastically from US\$1,641.21m in 2002-03 to US\$3,959.62m in 2005-06, registering an average increase of 34.22% over the period. India's export to CIS Region has been growing consistently over the couple of years and has shown an impressive growth of 17.3% in 2005-06 as compared to the previous fiscal. On the contrary, India's import from this region has registered over 50% growth in 2005-06, leaving a negative trade balance in the India's account. But due to the following initiatives of the government and trade promotion schemes, the emerging markets of the CIS Region could be the new markets of the future:

- The potential for expansion of trade and investment is great since this region is very rich in natural resources.
- Of all the countries of the CIS Region, Russian Federation, Ukraine and Belarus are technically very advanced.
- This region is endowed with vast opportunity for the setting up of Food Processing Sector.
- Above all, the people of this region are well aware of Indian products since the Soviet era and this can prove to be an added advantage in enhancing trade relations with countries of the CIS Region.

Table 11: India's Exports to and Imports from CIS, 2005-06 (US\$m)

Region	2002-2003	2003-2004	2004-2005	2005-2006
India's Exports to CIS	836.13 (1.59)	884.71 (1.39)	920.04 (1.10)	1,079.16 (1.05)
India's Imports from CIS	805.08 (1.31)	1,210.68 (1.55)	1,897.78 (1.70)	2,880.46 (1.93)
<i>Note: Numbers in the parenthesis are percentage figures of India's total exports and imports</i>				
<i>Source: DGFT</i>				

Major trading partners in the CIS region are Russia, Ukraine, Kazakhstan, Uzbekistan, Kyrgyzstan, and Belarus, constituting more than 90% of India's total bilateral trade. India's major items of export to this region are: cotton yarn, fabrics, cotton including accessories, human made fibres, wool, drugs, pharmaceuticals and fine chemicals, coffee, tea, tobacco (unmanufactured), rice (other than Basmati), machinery and instruments, processed minerals, electronic goods, footwear of leather and other leather goods and miscellaneous processed items. India's major imports from this region constitute fertilisers, news print, non-ferrous metals, iron and steel, machinery except electrical and electronic, inorganic chemicals and other crude minerals.

3.7 India's Export Potential in these Blocks

Trade liberalisation in India has led to a perceptible change in the performance of the external sector; still it needs to enhance volume of trade with the rest of the world. The potential direction of exports assumes greater importance in the context of India's ongoing efforts to reach 1% of world trade by 2007 as well as to become a major player in world trade. According to a study conducted by Indian Council for Research on International Economic Relations, India's global trade potential reveals that the magnitude of the country's trade potential is the highest in the Asia-Pacific region, followed by Western Europe and North America. The potential for expansion of trade is highest with countries like China, the UK, Italy and France and also with countries like Georgia, Turkmenistan and Uzbekistan.

4. India's Exim Policy (2004-09)—Procedures

Foreign trade plays a significant role in the country's overall economic scenario. In order to increase India's share in world trade, the Government of India has adopted new foreign trade policy of 2004-09 to envisage a road map for merchant and manufacturing exporters, business and industry. The Government would play a constructive role in increasing India's share in world trade by adopting various measures and schemes to nurture a constructive and conducive atmosphere for investment and hence exports of the country. This new foreign trade policy is primarily a road map for the development of India's foreign trade. The important policies and measures are follows:

4.1 Export Promotion Measures and Schemes

The Government of India has decided to double the country's share in global trade within five years, and invariably to increase the employment opportunities in the urban, semi-urban and rural areas. The Government would take some special measures to increase the country's exports share in agriculture, handlooms, handicrafts, gems and jewellery, leather and marine products.

4.2 New Exim Policy Supplement to Exim Policy 2004-09

Recognizing the dynamic nature of international trade and the consequent need for continuous realignment of India's international trade strategies, contemporary issues are being addressed in the supplement.

Objectives

- Identifying and nurturing special focus areas, which would generate additional employment opportunities, particularly in semi-urban and rural areas
- Unshackling of controls and creating an atmosphere of trust and transparency by further simplifying procedures and bringing down transaction costs
- To look at those products and markets, which suffer from inherent bottlenecks
- To provide further encouragement to traditional rural industrial products that generate more employment per unit of investment compared to other products
- To increase export to countries mainly in developing world where Indian exports are abysmally low
- To take the benefits of foreign trade to the rural and semi-urban areas

Focused Schemes

Focus product

The Scheme allows duty credit facility at the rate of 2.5% of the Freight On Board value of exports to 50% of the export turnover of notified products such as value-added fish and leather products, stationery items, fireworks, sports goods, handloom products bearing handloom mark and handicraft items.

Focus market

Exporters will have the option to avail the benefits in respect to the same exported products under only one of the three schemes ie the Focus Market Scheme, the Focus Product Scheme or the Vishesh Krishi and Gram Udyog Yojana. The benefits of the Scheme will accrue to exports made with effect from April 1, 2006.

Vishesh Krishi and Gram Udyog Yojana

Under the scheme, an incentive is provided to the export of village and cottage industry products by awarding duty free scrip at the rate of 5% of Freight On Board value of exports under the expanded Vishesh Krishi Upaj Yojana, which has been renamed as Vishesh Krishi and Gram Udyog Yojana.

A built-in incentive has been introduced under Vishesh Krishi and Gram Udyog Yojana for exporters utilising domestic raw material for export production. Such exports would now get additional benefits under the Vishesh Krishi and Gram Udyog Yojana at the rate of 1.5% of Freight On Board value of exports compared to those who use imported agricultural inputs, getting benefits at a reduced rate of 3.5%.

Served from India Scheme

Service exports in Indian Rupees, which are otherwise considered as having been paid for in free foreign exchange by RBI, will now qualify for benefits under the Served from India Scheme. In addition, the foreign exchange earned through International Credit Cards and other instruments as permitted by RBI for rendering of service by the service providers shall be taken into account for the purpose of computation of entitlement under the Scheme.

Stand-alone restaurants will now be eligible for benefits under Served from India Scheme at the rate of 10% of Freight On Board value of exports (instead of the earlier 20%).

Schemes for Gems and Jewellery

- Import of precious metal scrap/used jewellery will now be allowed for melting, refining and re-export.
- Gems and jewellery exporters will now be allowed to re-import the rejected precious metal jewellery subject to refund of duty exemption benefits on the inputs only and not the duty on jewellery as was being done earlier.
- Gems and jewellery exporters will now be allowed to export jewellery on consignment basis and will be allowed to export precious and semi-precious stones for treatment and subsequent re-import, within a period of 120 days.
- To boost export of plain gold/platinum/silver jewellery, articles and ornaments and enhance their international competitiveness, the value addition norm for such items is being reduced from 7% to 4.5%.

Schemes for Automotive Sector

Provision to allow import of new vehicles by auto component manufacturers for R&D purposes without homologation is being introduced.

Schemes for Aviation Sector

Supplies of stores (food, beverages and other supplies) and refuelling of long distance flights being brought on equal footing with other exports and supplies of stores on board of the foreign going vessel/aircraft shall be treated as exports for the purpose of availing benefits under various Export Promotion Schemes.

Schemes for BPO and ITES Companies

Procedural changes have been effected in order to enable BPO/ITES companies to avail refund of Central Sales Tax.

Schemes for Marine Sector

The list of specialised inputs used in the marine sector has been expanded to include additional items of chemicals and other additives within the present duty-free entitlement of 1%.

Duty Free Import Authorisation Scheme

The salient features of the advance licensing scheme (which allows imports before exports) and Duty Free Replenishment Certificate (which allows transferability of import entitlements) have been clubbed to evolve a new scheme named as Duty Free Import Authorisation Scheme. The new scheme offers the facility to import the required inputs before the exports. It allows transferability of scrip once the export obligation is complete. The Scheme allows duty-free import of specified inputs for export production as per Standard Input Output Norms. Imports made under this authorisation will be exempt from payment of basic custom duty, additional customs duty, education cess, antidumping duty and safeguard duty, if any. A minimum 20% value addition will be required for issuance of such authorisation except for items in gems and jewellery sector and items for which specified value addition is prescribed.

Benefit of Un-rebated Service Tax and Fringe Benefit Tax under Various Schemes

Incidence of un-rebated Service Tax and Fringe Benefit Tax on exports will be factored in the various duty neutralisation and remission schemes. Details are being worked out and will be announced separately.

EPCG Schemes

It has been decided as an export facilitation measure to extend the export obligation period by two years on payment of 50% of the duties payable in proportion to the unfulfilled export obligation.

EOU

Procurement and export of spares/components up to one and half percent of the FOB value of exports will be allowed to the same consignee/buyer of the export article within the warranty period. The exports of such spares/components could be effected separately from the capital goods. New units engaged in export of agriculture/horticulture/aquaculture products have been now allowed to remove capital goods/inputs to the Domestic Tariff Area (DTA) farm on producing BG equivalent to the duty foregone on the capital goods/input proposed to be taken out.

The EOU units in the textiles sector are allowed to dispose off the left over material/fabrics up to 2% of CIF value of imports, on consignment basis. Recognising that settling the accounts for every consignment is complex and time consuming, it has been decided to allow disposal of left over material on the basis of previous year's imports.

Fast Track Clearance Procedure for Units in EOU

Foreign Trade Policy provides for a Fast Track Clearance procedure for status holders. To operationalise this provision, Department of Revenue is issuing similar instructions. Now units

having physical turnover of Rs150m will be allowed to submit consolidated procurement certificate and preauthenticated procurement certificates.

Advance licensing liberalised where norms are not fixed

In cases where standard input-output norms are not fixed, advance licences can now be obtained for five times the value of previous year's export instead of the earlier limit of 200%.

Pre-shipment Certificates in lieu of Test Report for Faster Clearances

Clearance of import/export consignments are held up for want of test reports of samples drawn at the time of import/export. Therefore, to accelerate cargo clearances, it has been decided to allow pre-shipment test certificates from accredited international agencies in lieu of test reports.

5. Importance of Finance in Trade

The absence of an adequate trade finance infrastructure is a barrier to trade. Limited access to financing, high costs, and lack of insurance or guarantees are likely to hinder the trade and export potential of an economy, and particularly that of small and medium-sized enterprises. One of the most important challenges for exporters involved in a transaction is to secure financing. The faster and easier the process of financing, more trade will be facilitated.

Exporters require working capital (ie, short-term financing) to support their activities. Exporters will usually require financing to process or manufacture products for the export market. Such financing is known as pre-shipping finance. Conversely, importers will need a line of credit to buy goods overseas and sell them in the domestic market. In most cases, foreign buyers expect to pay only when goods arrive, or later still if possible, but certainly not in advance. They prefer an open account, or at least a delayed payment arrangement. Being able to offer attractive payments term to buyers is often crucial in getting a contract and requires access to financing for exporters. Therefore, governments whose economic growth strategy involves trade development should provide assistance and support in terms of export financing and development of an efficient financial infrastructure. There are many types of financial tools and packages designed to facilitate the financing of trade transactions.

5.1 Insurance

In recent times, insurance plays a leading role in trade, especially in the exports scenario. It includes claims on damage during the export process. General Insurance Corporation of India (GIC) and its subsidiaries are the leading insurance organisations in the country. Insurance is inevitable for exporters for the following reasons:

- To avoid unexpected losses during the shipment of the products, marine insurance is very crucial from export point of view.
- Insurance company has to bear any losses or damage during the shipment of the products, but it depends upon the conditions of the insurance policies.
- Unless the cargo is insured for the full period of shipment and insurance is available for safety of exporters until ownership of the goods passes on to buyers, the exporter will be responsible for financial losses apart from foreign exchange loss caused by damage/loss to the goods.
- If the export is covered by an irrevocable letter of credit opened by buyer then exporter will not be responsible for losses. Hence, it is essential for the exporters to verify insurance details to avoid all risks of loss or damage during the entire transit before the products are shipped out of the country.

- Export credit guarantee insurance is one of the important sectors in exports. It protects exporters from default or delayed payment by their buyers or incurring loss due to political risks.

5.2 Forex Management

Forex and trade are uniformly important for smooth functioning of trade in any economy. Payment for exports and imports takes place through foreign exchange market and payments for purchases and sales of assets is called as “consumer” foreign exchange market. With the floating exchange rates, exporters benefit from the minute-by-minute fluctuations in value, which is traded in the foreign exchange market. Thus, forex management is an important factor to boost the exports.

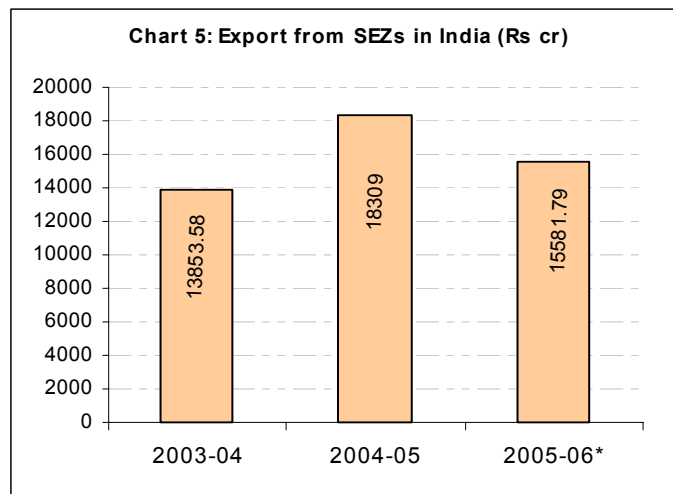
Indian exporters should expand their opportunities to those destinations where exchange rate movements are less volatile so that there will be stability. Depreciation of rupee value against the country’s currency to which one is exporting gives the exporter more impetus to export. With increasing inflow of FDI and FIIs investments, India’s foreign exchange reserves continue to stay high. According to the data released by Reserve Bank of India, India’s forex reserves increased by US\$940m to US\$166.482 billion during September 2006.

6. Special Economic Zones – Export Trend

In the year 2000, the Government of India introduced a policy to set up of Special Economic Zones (SEZs) to provide internationally-competitive and hassle-free atmosphere for export trade in the country. The SEZs can be set up for manufacture of goods and services also. The units will be the foreign exchange earners. The policy has provision for setting up of SEZ’s in the public, private, joint sector or by state governments. It was also envisaged that some of the existing Export Processing Zones would be converted into SEZs. This policy was a major legislation, which aims to provide duty-free environment, single window clearance, and most significantly tax sops to the SEZs. This is driving India’s export growth, making it an engine of the booming economy.

Currently, in India, there are total 14 functional SEZs and total 117 SEZs waiting for the approval of Board of Approval.

Exports from SEZs in India are flourishing. During April-December 2005-06, exports from SEZs have recorded a growth rate of 17.82% against the same period of the previous year. Currently, there are around 948 units in operation in the SEZs, which are providing direct employment to around 1.10 lakh people out of which around 40% are women. Private investment by entrepreneurs for establishing units in the SEZs is over Rs2,000 crore.



*April-December 2005-06

Source: www.sezindia.nic.in, Ministry of Commerce

Schemes and initiatives

- A selected duty-free enclave, which is to be treated as foreign territory for trade operations and duties and tariffs
- Provision for monitoring of the performance of SEZ by Unit Approval Committee
- Import licence is not required under this category
- Exemption from customs duty on import of capital goods, raw materials, consumables and spares
- Exemption from central excise duty on procurement of capital goods, raw materials and consumable spares from the domestic market
- Supplies from DTA to SEZ units treated as deemed export.
- Reimbursement of central sales tax paid on domestic purchases
- 100% income tax exemption for a block of five years, 50% tax exemptions for two years and up to 50% of the profits ploughed back for next 3 years
- Carry forward of losses
- 100% income tax exemption for 3 years and 50% for 2 years
- Reimbursement of duty paid on furnace oil, procured from domestic oil companies to SEZ units as per the rate of drawback notified by the Directorate General of Foreign Trade
- SEZ units are also meant for manufacturing, trading or service activity
- SEZ unit to be positive net foreign exchange earner within three years
- Performance of the units to be monitored by a Committee headed by Development Commissioner and consisting of customs.
- 100% foreign direct investment in manufacturing sector allowed through automatic route barring a few sectors
- Facility to retain 100% foreign exchange receipts in EEFC Account
- Facility to realise and repatriate export proceeds within 12 months
- Re-export imported goods found defective and goods imported from foreign suppliers on loan basis
- "Write-off" of unrealised export bills up to 5%
- Commodity hedging by SEZ units permitted
- Capitalisation of import payables
- No cap on foreign investment for SSI reserved items
- Exemption from industrial licensing requirement for items reserved for SSI sector
- Profits allowed to be repatriated freely without any dividend balancing requirement
- Domestic sales on full duty subject to import policy in force
- No fixed wastage norms
- Full freedom for subcontracting including subcontracting abroad
- Subcontracting facility available to jewellery units
- Duty-free goods to be utilised in 5 years
- There is no routine examination by customs of export and import cargo
- No separate documentation required for customs and Exim policy
- In house customs clearance
- Support services like banking and post office clearing agents provided in zone complex
- Developed plots and ready-to-use built up space
- Exemption from custom/excise duty on goods for setting up units in the zone

6.1 SEZs in Andhra Pradesh

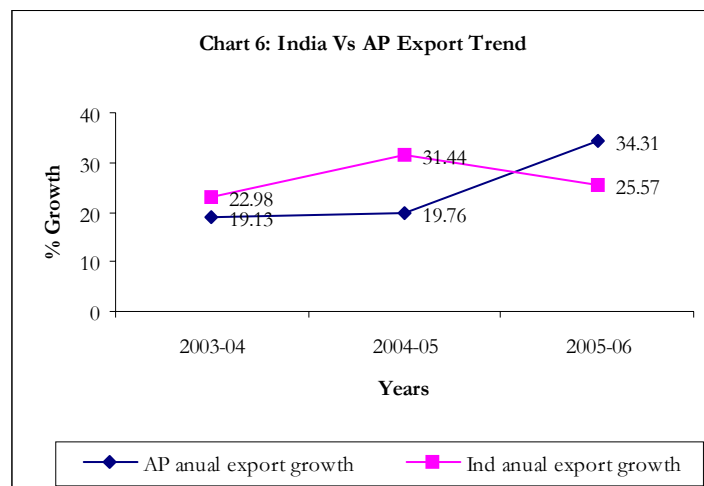
In 2005-06, the Board of Approvals (BoA) of the Union Commerce Ministry cleared 21 of the 31 proposals for Special Economic Zones (SEZ) in Andhra Pradesh. Of the 21 cleared SEZs, 12 are from IT and ITeS, two from pharma and one each from auto components, apparel, leather, multi-product, building products, formulation industry and services sector. The largest is multi-product SEZ, measuring 1000 hectares in Hindupur in Anantapur district.

Three SEZs (IT / ITeS) have been cleared at Qutbullapur village (29.85 ha), Medchal mandal (14.16 ha) and in Serilingampally (15.92 ha), in Ranga Reddy district. On the pharma front, two proposals have been cleared, one in Medak district (105 ha) and the other in Srikakulam district (110 ha).

The government of AP estimated that, 4.5 lakh employment opportunities will be generated through these SEZs in the next two years. The most employment oriented SEZs will be gems and Jewellery, footwear and leather, apparels. In regard to multi-products SEZs being developed for HPCL at Visakhapatnam and ONGC at Kakinada, the Govt. of AP is preparing long term projects, which will generate about 50,000 jobs in the manufacturing sector.

7. Export Potential in Andhra Pradesh

Today, global forces are creating unprecedented opportunities for growth. Many growth opportunities have also emerged from India's ongoing economic reforms. Andhra Pradesh (AP) is trying to capture these opportunities and capitalise on its strength by transforming itself from being primarily a controller of economy to a facilitator and catalyst of its growth. According to the contribution to the state's economy, the key sectors identified in the state are pharmaceuticals, manufacturing, IT and textiles.

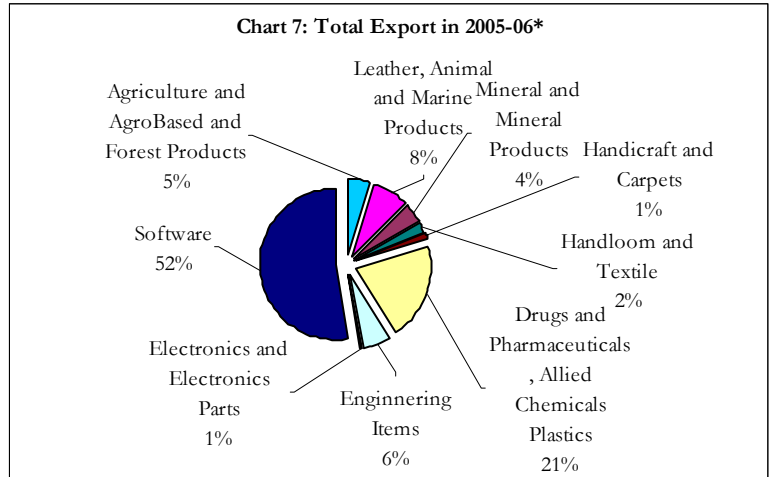


Source: DGFT, Commissioner of Industries, Commerce and Export Promotion. AP 2005-06 estimated

During 2005-06, the GSDP for Andhra Pradesh is estimated to have registered an excellent growth rate of 11.18% at current prices to Rs2250.54 billion against the previous year. Andhra Pradesh is a mineral-rich state, ranking second in India in terms of mineral wealth. The state has about one third of India's limestone reserves at about 30 billion tonnes. The state ranks first nationwide in hydro electricity generation with national market share of over 11%. Andhra Pradesh is a land of minerals which include coal, oil and natural gas, bauxite, limestone, gold, diamonds and more. However, there is a large unexploited potential in the broader view of exports. The state government is providing all the infrastructural facilities to attract investors for setting up export-oriented units in the state. During 2005-06, 32.52% growth in exports was achieved and total export rose to Rs238.78 billion from Rs180.91 billion in 2004-05.

7.1 AP's Major Export's

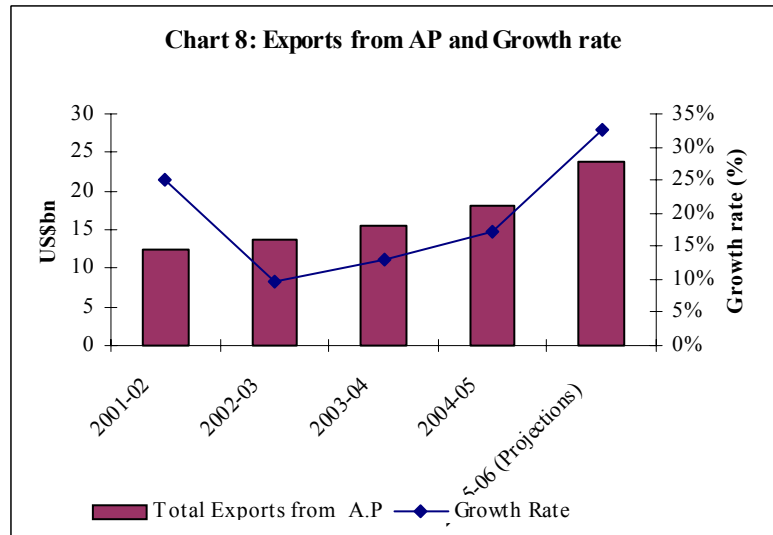
Andhra Pradesh government is taking all steps to sustain and increase their economic growth. It is creating institutions for cluster development, catalysing human resource development through various initiatives, encouraging entrepreneurship, promoting a favourable environment through policy measures and enabling rapid growth through proactive infrastructure development. Andhra Pradesh is the second most desired place after Karnataka for the investors in the IT sector.



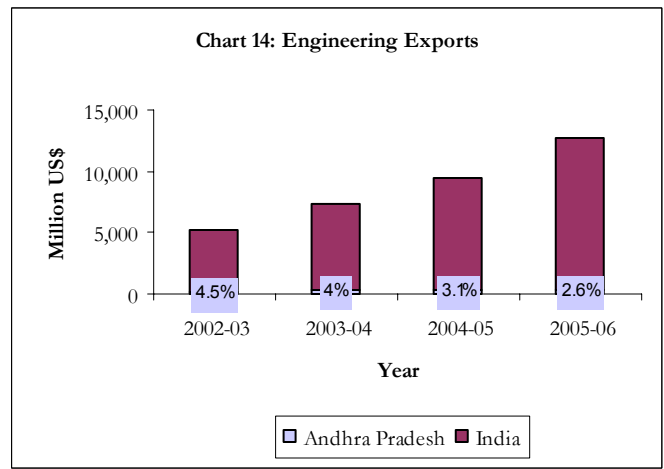
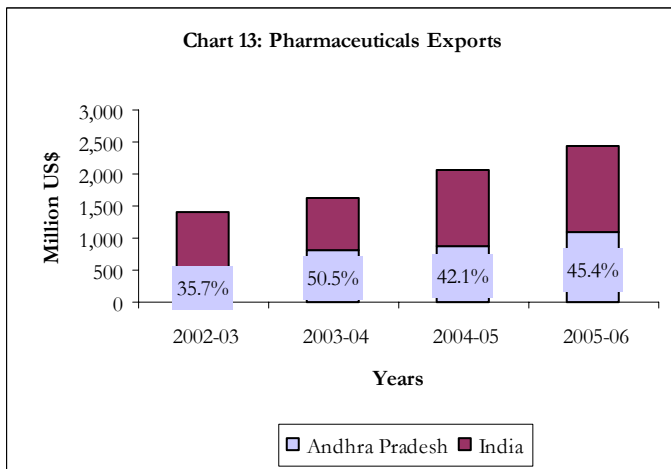
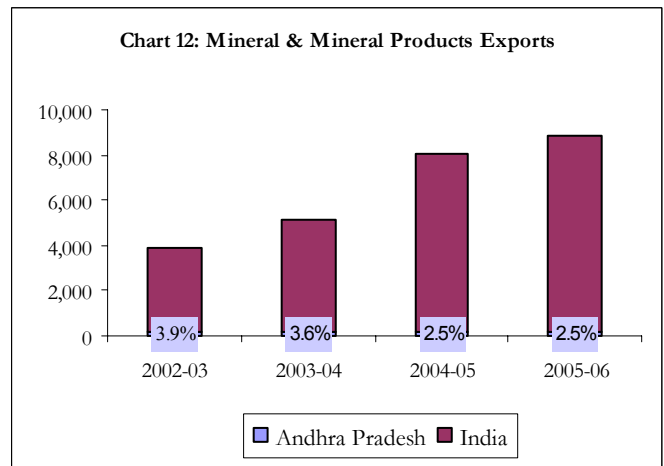
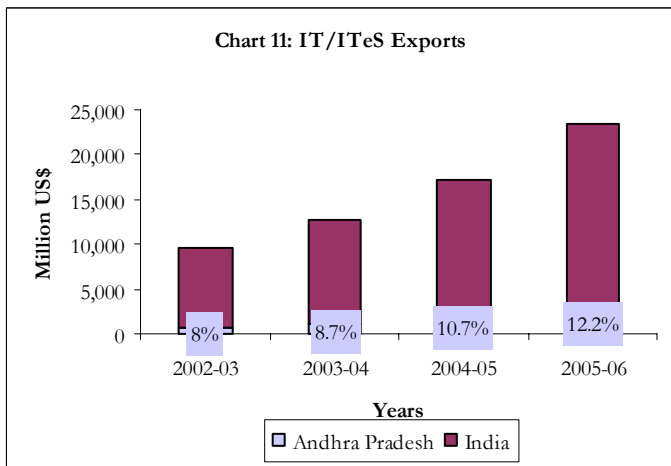
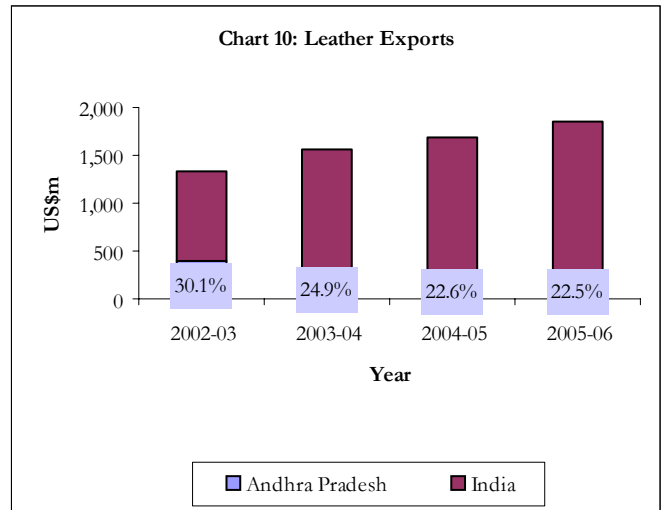
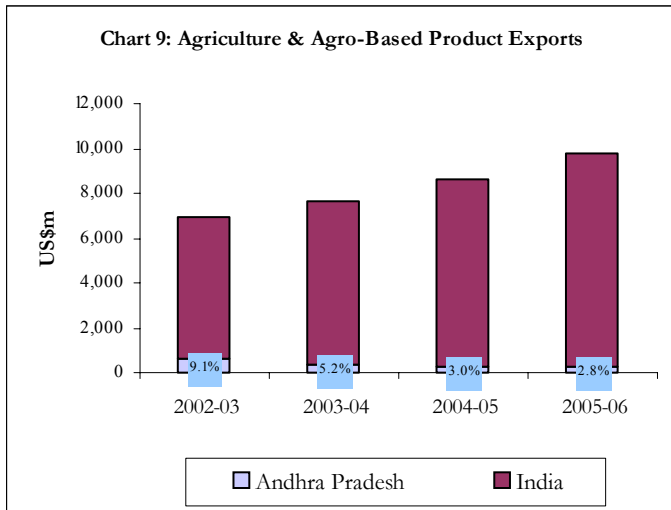
Source: Commissioner of Industries, Commerce and Export Promotion, AP *2005-06 estimated

The state possesses a well-built infrastructure to promote the growth of IT industry. IT/ITES exports from Andhra Pradesh have increased to Rs125,000m in 2005-06 against Rs82,700m in the previous year. This has increased the state's share in national software exports to around 15% this year compared to around 11% last year. By 2010, the contribution of the state to software exports of the country would be around 25% of the national projected figure of US\$60 billion.

IT/ITES has been the major contributor towards the state's exports in recent years and would continue to do so. Total exports from software increased by 53.73% from Rs81,450m in 2004-05 to Rs125,210m in 2005-06. Drugs and pharmaceuticals products are second largest contributors of the state's export basket, registering export growth of 26% from Rs39,000m in 2004-05 to Rs49,140m in 2005-06. It has huge potential and would continue to explore in the coming years.



Source: Commissioner of Industries, Commerce and Export Promotion, AP *2005-06 (Estimated)



7.2 Export Promotion Initiatives and Schemes

Andhra Pradesh's strength lies in its fully-diversified industrial base, with the thrust on high-tech sectors including IT, pharmaceuticals, biotechnology and nano-technology and traditional sectors such as textiles, leather, minerals, and food processing.

On the industrial infrastructure front, the state government has taken several initiatives for development of industrial infrastructure for the consistent growth. The government, in association with Andhra Pradesh Industrial and Infrastructure Corporation Ltd (APIIC), has initiated a set of projects that includes industrial infrastructure, social infrastructure and infrastructure for the specific sectors. The state-owned corporation APIIC has already set up 272 industrial estates and specialised parks like ICICI Knowledge Park, SP Bio-tech Park, Marine Bio-tech Park, Agri Bio-tech Park, SEZ, Pharma City, Hardware Park, HITEC city, Leather Parks, Food Processing Park and Agri Export Zones.

The state has one major port at Visakhapatnam, which handles largest tonnage among all Indian ports and minor ports at Kakinada, Krishnapatnam, Vadarevu and Gangavaram. The state has undertaken wide-ranging measures to nurture its industries. These include simplified, less restrictive regulations, labour and fiscal reforms and incentives. In line with this objective, the government has enacted a law for single-window clearances. AP is the first state in the country to have a law for single-window clearances, which ensures that all clearances to investors are given within a set period.

7.4 Potential Regions - Rayalaseema

Cuddapah and Kurnool

Andhra Pradesh is an energy-starved state, which depends on other states for its energy requirements. It is high time for the state government to consider the possibility of harnessing high velocity winds that blow across the vibrant region of Rayalaseema. According to a study, the wind speed in this region, especially in Kurnool and Cuddapah districts, reaches as much as 100kmph, enough to drive big windmills. Therefore, there is a huge potential in Rayalaseema to generate wind power. The government has to take proper initiatives in developing an alternative energy source to meet the electric power deficiency to some extent; it has to encourage commercial exploitation of wind power. Notwithstanding windmills' natural constraints, they offer an eco-friendly, inexpensive solution to increase power output. It may be a humble step but a big leap forward for a dry arid region to achieve a modicum of self-sufficiency in power.

The single largest deposit with an estimate reserve of 70m tonnes grey barytes occurs in Mangampet, Cuddapah. With oil and exploration activity high all over the world, the demand for barytes, used for oil drilling, is expected to go up.

Anantapur

Anantapur has the greatest potential for wind power generation in the state with its hilly topography. The fact that more than three-fourths of wind power generation in the state is from Anantapur district alone, is ample proof of its potential in tapping the renewable non-conventional energy source. Of about 125MW installed capacity of wind power generation in the state, Anantapur district alone accounts for 95MW with 27 private and public sector developers setting up wind mills at four places. The remaining wind power is being generated in Kurnool, Chittoor and Nellore districts.

According to the Non-Conventional Energy Development Corporation of AP, the state has the potential to tap 800MW of wind power. Studies by the Centre for Wind Energy Technology, the nodal agency for windmills in the country, indicate that about 20 stations in Rayalaseema are suitable

for wind power generation. In this regard, the state government has introduced some incentives. Those who are interested in setting up windmills will get income tax benefits in the form of 80% cost depreciation. APTransco is helping the wind power projects by setting up sub-stations for evacuation of the power generated. Installation of a 15MW project at Tallimadugu is in the pipeline and another 23MW is in proposal stage at Kadavakallu and Kondameedipalli. Besides, potential of about 40MW has been identified at Nallakonda near Penukonda and Vajrakarur.

Anantapur has a locational advantage because of its closeness to Bangalore. Hindupur, about 80km from Bangalore, has an industrial estate. It has potential to be developed as an industrial and IT/ITeS Satellite of Bangalore. In the past, towns like Hosur (Tamil Nadu) and Tumkur (Karnataka) have developed by using this advantage.

Chittoor

Major industrial activities of the district constitutes fruit processing industries, sugar factories, confectionery units, granite cutting and polishing units, chemical industries, electrical and electronic industries, engineering and metallurgical industries and textile industries.

The agri export zones are acting as the gateway to the vast opportunities in the global market. These zones take a comprehensive look at specific produce/product for development and sourcing the raw material, their processing/packaging, leading to the final export by integrating an end-to-end approach. The Government of India, in association with the state governments, has identified 28 agri export zones in 21 states. A total investment of Rs13,250m is planned. The state has identified five agri export zones in different districts with specific produce.

The Chittoor AEZ envisages a total investment of Rs914m by private entrepreneurs, Government of Andhra Pradesh and the Government of India. The other AEZs are being developed jointly by the state and Central Governments with an investment of Rs951.5m. State government of AP has drawn an ambitious plan to achieve US\$2 billion exports by establishing Apparel Export Parks and Textile Parks in different parts of the state including Pamidi and Rayadurg (Ananthapur), Nagari (Chittoor) and Yemminganur (Kurnool).

8. Port Infrastructure in Andhra Pradesh

Over 90% of the India's trade is being carried out through the sea route. India's major trading partners are the EU, the US, Japan and China. During 2005-06, Indian ports have handled about 604.8m tonnes of cargo out of which 423.41m tonnes were handled by major ports in the country and the remaining cargo by the minor and intermediate ports. Ports in Andhra Pradesh play an important role in movements of goods. Andhra Pradesh, with its target of becoming a substantial stakeholder in India's growing export, needs to strengthen all its major and minor ports. The state has the longest coastline, over 972km, which has thrown open large opportunities to develop a number of major ports and minor ports along the coast. Visakhapatnam is the major port in AP and the largest in the country, in terms of cargo handling; Kakinada and Machilipatnam are the two intermediate ports of the state. The state also has minor ports at Krishnapatnam, Gangavaram, Mutyalampalem, Bhavanapadu, Kalingapatnam, Bhimuniapatnam, Narsapur, Nizamapatnam, and Vodarevu. The state government has identified Kakinada, Krishnapatnam, Vodarevu and Gangavaram ports for development through private investments.

The minor ports in Andhra Pradesh handled 15m tonnes of cargo during 2005-06; it is the second highest cargo-handling state in India. The state has prepared a perspective development plan in its

Vision 2020 document for the development of ports, according to which, 50m tonnes of cargo by 2009 and 173m tonnes of cargo by 2020 is programmed to handle.

The Visakhapatnam Port Trust (VPT) has emerged as the premier port in the country with highest cargo-handling of 55m tonnes. In 2005-06, VPT handled a record of 55.80m tonnes compared to 50.15m tonnes in 2004-05. The annual incremental traffic of 5.65m tonnes with a growth rate of 11.3% was the highest ever for the port in India. The Government is planning to expand its capacity to 70m tonnes from the existing capacity. Apart from the highest ever traffic handling, VPT also achieved all-time high in exports and imports at 25.15m and 25.5m tonnes respectively in 2005-06; unloading of steam coal, fertilisers, urea, muriate of potash, ammonium nitrate and coking coal. During 2005-06, Kakinada Deepwater Port handled a total of 12.8m tonnes of cargo, registering a growth rate of 21.9% compared to 10.5m tonnes in 2004-05. With the initiation of promotional measures and schemes by the Government of AP, the Port is expecting to raise its cargo-handling capacity to 25m tonnes in 2007-08 with a growth rate of 95%.

9. Potential of Vizag-Kakinada Corridor

The Government of Andhra Pradesh has identified the Vizag-Kakinada corridor as a vibrant region, having greater potential and advantage in terms of availability of land and water. The government is initiating promotional measures to boost the private investment in the major projects like oil and gas and setting up of SEZs.

According to the Government of India, the port city, Visakhapatnam has the potential to become a special economic region and attract an investment of US\$10 billion. It has proposed for developing an international airport and a Mass Rapid Transit System in Visakhapatnam. A belt of 200 miles from Vizag to Kakinada and to Srikakulam would be developed into a thriving business and industrial corridor. The Hindustan Shipyard Limited has proposed a plan to enhance the growth of shipping industry in the region. There is immense potential for development of petrochemicals industry in this region; Hindustan Petroleum Corporation Ltd planned to invest Rs80 billion to expand its refinery in this region. Reliance Industries Ltd doubled its investment Rs150 billion to about Rs270 billion to Rs325 billion, to tap the huge natural gas potential in the Krishna-Godavari (KG) basin.

In a special thrust to enhance the potential of the garment sector, the Government of AP has drawn plans to invest Rs3540m, which will help the state garner exports of about Rs9,6000m by the year 2010. It will also facilitate strategic tie-ups with companies such as Walmart and JC Penny to market the produce. With an investment outlay of Rs1230m, a garment city will be located at Gundlapochampally. Besides, three apparel parks are planned at Visakhapatnam, Warangal and Kuppam, which will result in the establishment of NIFT centres in these areas.

Apart from the Government of AP initiatives, the entrepreneurs from the ceramics sector proposed to project Visakhapatnam as an ideal ground for promotion of ceramic industries since it is richly endowed with all the resources for producing varied ceramic products. The Visakhapatnam port has created history by consolidating its position as the major port in the country by handling record cargo movement in 2005-06. Besides the various modernisation and capacity addition projects undertaken, the Port Trust has ambitious plans to handle a major share of the containerised cargo movement through the east coast with the licensing of the container terminal at the port to a private consortium. The Vizag port offers incentives by way of higher discount on vessel-related charges for container ships, something unmatched by any other Indian port

On the tourism front, the tremendous potential of the region has long been acknowledged by the Government of AP, which has declared it a special tourism area. The government has taken up the task of developing basic infrastructure, ropeways and circular trains with the private sector involvement on a build-operate-transfer basis. Besides, an MGM theme park is being set up at a cost of Rs100m, which is the first-of-its-kind in the state.

10. Future Outlook

India's trade relation has undergone a significant structural change, with developing economies in general and Asia in particular, accounting for a major share of India's merchandise trade in terms of non-oil imports. India is not only helping the global economy in producing low-cost goods and services but is also a rapidly-growing market in its own right, with a huge demand for consumer and capital goods produced all over the world. The ongoing buoyancy in the Asian region and the increasing trade among developing countries will have a greater impact on India's position in the world trade arena.

Total trade with other ASEAN blocs, especially with ASEAN (exports plus non-oil imports) has increased manifold from US\$6.7 billion in 2000-01 to US\$21.1 billion in 2005-06. India's exports to ASEAN stood at US\$105.5 billion and imports at US\$10.6 billion 2005-06. India has become a formal dialogue partner of ASEAN, and is keen to expand participation in SAARC institutions. Similarly, India's trade with SAARC, at present, stands at about US\$6.7 billion; there is vast scope for expansion. In order to boost regional trade and investment, India has entered into comprehensive economic cooperation agreements/trade agreements with several countries (China, Japan, Korea, Singapore, Thailand, Maldives, Bhutan, Bangladesh, Nepal, Sri Lanka) and regional blocs such as ASEAN.

Apart from merchandise traded products, exports of services (IT/ITeS) have been making a remarkable impact on the international market. Services constitute a major share of India's overall exports. The Government is initiating target-based export promotion schemes and incentives to attain higher growth in exports. The incentives under the target-plus scheme would be positioned on the basis of incremental growth achieved by eligible exporters. At present, India's share in global merchandise trade is 0.9%. The Government of India has set the target of doubling this figure in the next five years.