

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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TRADE POLICY REVIEW MECHANISM

INDIA

MINUTES OF MEETING

Chairman: Mr. A. Szepesi (Hungary)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Trade Policy Review of India was held on the 19 and 20 October 1993. The Chairman welcomed members of the Council, the Indian delegation, led by Mr. Tejendra Khanna, Secretary of the Ministry of Commerce, and the discussants, Mr. Armando Ortega and Ms. Anne Stoddart.
2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council's review was to be based on two reports, one by the Government of India, document C/RM/G/40, and the other, document C/RM/S/40, prepared by the GATT Secretariat. He reiterated the Council's new procedures for conducting reviews, as set out in document L/7208.
3. The discussants had circulated in document C/RM/W/11 an outline of the main issues they wished to raise during the review. Written questions submitted in advance by Australia, Canada, Hong Kong and the United States had been transmitted to the Indian delegation and made available to Council members.

## II. OPENING STATEMENT BY THE REPRESENTATIVE OF INDIA

4. The representative of India was pleased that India's trade-related policies were being reviewed by contracting parties at such a critical juncture in the country's reform programme. Launched in July 1991, the programme had already made substantial progress towards macroeconomic stabilization and structural reform. His delegation appreciated the Secretariat's comprehensive report. He stated that the tax exemption on export income referred to in the Secretariat's report partially offset non-rebated local taxes and duties, and provided Indian exporters with a subsidy of no more than 4-5 per cent.

5. India had achieved much over the past two years. The country's external and fiscal imbalances had been rectified. Structural reforms included measures on industrial sector delicensing; sectors reserved for public enterprises; trade delicensing; technology imports; direct foreign investment; and the foreign exchange system. The steps taken were irreversible. Such market-oriented reforms reflected a national consensus arrived at over a number of years. According to the current Eighth Five Year Plan, "... Planning and the market mechanism should be so dovetailed that one is complementary to the other ..." and "... it may be necessary to shed off some of the practices and precepts of the past which have outlived their utility and to adopt new practices and precepts, in the light of the experience gained by us and by the other nations." The Government firmly expected economic reforms to be continued, irrespective of domestic political developments.

6. The reform programme had been undertaken in an adverse international environment, characterized by recession and growing protectionism. Nevertheless, and reflecting the determination of reform, India's foreign reserves had increased since July 1991 from US\$1.5 billion to US\$7.8 billion; inflation had declined from a peak of 16 per cent to 7 per cent; exports had grown in U.S. dollar terms at an annual rate of 24 per cent during April to August 1993, while imports had fallen by 8 per cent; the trade deficit had shrunk during the same period from US\$2 billion to US\$233 million; and foreign inward investment, amounting to US\$600 million until last August, had already more than doubled 1992-93 levels, and was nearly five times above that of previous years. Export growth in U.S. dollar terms during 1993-94 was expected to be 20 per cent, and foreign direct investment inflows in that year were forecast at US\$1 billion.

7. Accompanying reform had been a sea change in the interface between the government and business sectors. The business community had taken advantage of the policy reforms, and established new enterprises, often involving foreign interests. Regulation had been reduced, and the government sector was now perceived by private enterprise to be much more receptive to business. Government was now supporting the private sector through reduced tax rates; freed financial markets, including increased access to bank finance; and relaxed foreign exchange restrictions.

8. The Government had shifted the focus of its reforms from the tradeable sector to the critical supply of non-tradeables, where many infrastructural weaknesses existed. Many of these areas were being opened up to private, including foreign, investment. Laws and regulations were being changed to enable private firms to obtain bank finance and invest in these areas at market-determined rates of return. The Government had already removed, for example, the public sector's monopoly over power generation, in which it was actively encouraging foreign and domestic investment. Some projects had already been approved, and the Government was looking at reforming the electricity pricing structure and distribution system. The public sector monopoly over value-added telecommunication services had also been removed last year; private investment was now permitted in the provision of main wireline services, as well as the operation of telephone networks. Major restructuring of the telecommunications sector was expected in the near future. In addition, India's "open skies" policies allowed export cargoes to be handled by foreign airlines, and permitted private Indian-based passenger air-taxi operators.

9. Many steps had been taken to deregulate the financial sector. These included access of public sector banks to capital markets for restructuring, with private equity allowed of up to 49 per cent; the entry of new banks; the continued lowering of the statutory liquidity ratio, targeted to be 25 per cent within 3 years, and the credit reserve requirement; and enabling banks to determine the number and location of branch offices. The Government's forthcoming policy paper would outline future financial sector reforms, including in the banking and insurance sectors and capital markets. Indian capital markets were now considered by his delegation to be the most developed of any developing economy; they were free of government control, and foreign institutions were permitted to invest them.

10. Financial reforms were being undertaken along with continued rationalization and simplification of the tax and import duty rates. Greater transparency had been achieved by changing the reporting format for India's balance of payments and external debt position, and by amending the Foreign Exchange Regulation Law. The import tariff was more transparent, although further work remained. A public consensus was emerging over the need for labour reforms, and the Government was considering, in the midst of a major electoral process that made speedy reform difficult, amendments to the Industrial Disputes and Trade Union Acts.

11. The future pace of Indian economic reforms would need to take account of such factors as India's immense population pressures; scarcity of capital resources; inadequate infrastructure; long history of over-regulation and bureaucratic procedures; and its democratic multi-party parliamentary system and a free press, whereby government policy was openly criticized and debated. As the population increasingly benefitted from economic reform, through increased economic activity, creation of new jobs, and improved access to better quality and priced goods, support for reform would generate its own self-reinforcing momentum, and successive Governments would be required to complete the reform process.

12. To succeed in its unprecedented reform process, India required a more helpful international economic environment. It was essential for success of India's reforms that the global economy be put back on a higher growth path, aided by lower inflation and interest rates. Improved coordination of macroeconomic policies among industrialized economies would help in this regard. Against this, however, were the uncertainties resulting from the apparent impasse over the Uruguay Round, which was adversely affecting international investment. Developed countries had to show greater understanding and cooperation on the genuine concerns and difficulties of developing countries in order to achieve a successful Uruguay Round, especially given the unprecedented unilateral reforms undertaken by India and many less developed GATT contracting parties. India required fair access to global markets in areas where it had competitive advantage; developed countries needed to provide improved market access for goods, and greater flexibility in services.

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### III. STATEMENT BY THE FIRST DISCUSSANT

13. The first discussant (Mr. Ortega) stated that India's ambitious reform programme deserved recognition for moving the country, in less than two years, from a virtually bankrupt economy to one based on healthier foundations. It had begun to overhaul its public finances; to deregulate its traditionally protectionist and centrally planned economy; and now managed a unified market-determined exchange rate. Such reforms, including the first signs of privatization and the effective promotion of foreign investment, had been implemented despite an unfavourable international climate, as well as a complex domestic political and economic situation.

14. For any economic reform programme to be successful, it was imperative that the business sector confidently saw the process as ongoing, through signs of certainty and irreversibility. It was vital that India's economic reform programme be deepened, especially in opening up trade, to remove major structural impediments and enable resources to be allocated efficiently. The momentum for reform must not be lost.

15. Lack of infrastructure was a major problem in India, recently exacerbated by reductions in public investment, which have accounted for about half of the decline in the fiscal deficit. India's level of domestic savings was low, the external sector represented only 17.2 per cent of GDP in 1991, and the tax system was heavily dependent on tariff revenue, which accounted for some 20 per cent of tax receipts. As well, there was an unproductive division of taxation powers between the Central and state governments. Modernizing the tax system was important for promoting structural reforms as well as for economic stabilization. Controlling the fiscal deficit was essential to prevent a resurgence of inflationary expectations; the latter could cast doubts over the sustainability of the adjustment process and adversely affect the balance of payments. The first discussant sought details on the specific measures planned by the Government to modernise the tax system, including changes to the division of taxation powers between governments, as recommended by the Chelliah Committee.

16. Reforming the public sector was critical to India's adjustment process. While significant changes had been made since mid-1991, including a reduction in the number of sectors reserved for public enterprises, the budgetary burden of some one thousand public sector units was enormous, amounting to Rs 71.8 billion for 1992-93 in direct support alone. These funds could be more effectively utilized elsewhere, such as in education, where a tremendous lag still existed. For India to shed its state ownership tag required the cooperation of the States; as well, past policies of granting public sector enterprises the rôle of middle-man in exporting and importing certain products had to be gradually abandoned. A U-turn on state aid to "sick industries", responsible for one-third of losses by state enterprises, was also needed.

17. Comments were sought on the Government's plans towards privatization, especially in the light of the Indian Finance Minister's recent statement that it would not imply job losses; to what extent did this latter condition impose a serious hinderance to privatization. He also requested details on the rôle envisaged for foreign investment in privatization, and on how the Government intended to overhaul its labour laws to remove rigidities affecting competitiveness.

18. India's broad programme for bureaucratic deregulation of inward foreign investment, including its recent signing of MIGA, had already yielded results. By 1992, approved projects totalled US\$3 billion, compared to annual levels previously of US\$150 million. India had flexibly handled free trade and export processing zones, and their wider use geographically might trigger export promotion. The first discussant requested information on the Government's plans concerning these arrangements.

19. Tariff reductions in India had apparently been smaller than the level of currency devaluations, thus potentially limiting the resource allocative gains from tariff reform. Tariffs remained at high levels, and their dispersion had increased. These developments may be undermining the efficiency gains stemming from trade-opening measures. Referring to the Government's stated objective of promoting an efficient, internationally competitive and self-reliant import substitution sector, the discussant asked the Indian delegation whether this clashed with India's desire to become fully integrated into the world economy.

20. India, despite commendable progress in its structural adjustment programme, must persevere with these reforms. Like many other developing countries, India was undertaking reforms that many developed countries had lacked the courage or political will to carry out. Its ambitious programme required a more favourable international climate, and a successful conclusion to the Uruguay Round that provided India with substantially improved market access, especially for textiles. This would be the most effective contribution that developed countries could make to India's reform process.

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#### IV. STATEMENT BY THE SECOND DISCUSSANT

21. The second discussant (Ms. Stoddart) welcomed the clear statement in India's Eighth Five Year Plan on the inherent limitations of an inward-oriented trade regime, and the definite indications from the Government that trade liberalization would continue. She noted, however, that the Plan appeared to set self sufficiency goals for food production, and questioned whether the new outward orientation applied to all sectors.

22. India's reform process coincided with a subdued international economic performance, as well as certain political developments, such as in the Gulf and Eastern Europe, that had disrupted India's foreign trade. Indian reforms had to continue, and it would understandably be more difficult for the Government to win the public debate on protection if signs from abroad indicated a flagging commitment by others to an open trading system.

23. Although simplified by recent reforms, India maintained a complicated range of import restrictions. The share of tariff lines covered by import licences had fallen from 80 per cent to 36 per cent, and the Government intended to phase these out by 1997, except in cases considered necessary for non-trade reasons. The Indian authorities justified the retention of import licences, which often amounted to a prohibition, on balance of payments grounds.

24. "Actual user" conditions on licensed imports further restricted the licensing system, and appeared unnecessary to safeguard the balance of payments. The licensing régime favoured capital goods over consumer items (including some agricultural goods such as fruits and vegetables), which were to be delicensed last. Domestic producers of consumer goods were highly protected (thus distorting investment decisions) and less likely to be competitive internationally. While the list of canalized items had been reduced, state-trading monopolies on certain imports and exports continued to operate as quantitative restrictions. The second discussant sought details on the Government's intentions to phase out these arrangements.

25. Tariffs, although made virtually redundant in the past by the comprehensive import licensing system, would increase in importance as India further liberalized. Binding tariff rates in the GATT would aid predictability for India's trading partners, and help India cement its reforms. It was encouraging that the Tax Reforms Committee had accepted the need for further tariff cuts. The proposed tariff structure reflected, however, the same hierarchy embedded in the licensing system, leaving "non-essential" consumer goods with a maximum tariff rate of 50 per cent. Such a tariff, combined with lower rates on imported material and capital inputs, could provide extremely high levels of effective protection to, rather perversely, so-called non-essential products. It was also worrying that the Committee had proposed extra tariff protection for infant industries for up to seven years, together with import surcharges in the event of sudden falls in world prices.

26. A high preferential price margin favoured domestic suppliers in government procurement. International tenders may also be distorted by government efforts to increase countertrade exports.

27. Wide-ranging export incentives appeared to go beyond measures designed to compensate for the direct costs imposed by the restrictive import regime. This raised the question of whether the incentives were not promoting exports in a way that was not sustainable without continued government support. It was interesting that a low labour-cost country, such as India, needed to make such efforts to encourage exports. Compensating exporters for high domestic input prices through dual pricing schemes was likely to reduce pressures for cost saving and efficiency, even if funded by the industry.

Juxtaposed somewhat oddly with these export incentives, were export controls on numerous foodstuffs and raw materials.

28. Production subsidies and budgetary support for public sector enterprises continued to make large demands on government finances. Despite remedial measures under the Sick Industrial Companies Act, considerable difficulties still existed in winding up firms considered non-viable by the Board for Industrial and Financial Reconstruction. No winding up orders sent to the High Court had yet been implemented. Taking over weak private firms by the public sector risked doing no more than increasing government losses, and strong resistance appeared to exist, especially at the state level, to reforms aimed at facilitating factory closures and redundancies. Implementing a suitable exit policy was essential for India to fully benefit from increased international trade.

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## V. STATEMENTS BY MEMBERS OF THE COUNCIL

29. Council members complemented the quality and scope of the reports submitted by the GATT Secretariat and the Government of India, and thanked the two discussants for their informative presentations.

30. The representative of Brazil stated that India's autonomous trade liberalization and economic reforms confirmed the tendency for developing countries to increasingly bear the responsibility for strengthening the multilateral trading system, in the face of counter-tendencies towards protectionism in developed economies. Continued economic reforms, still in their infancy, would enable India to join in the growth of other Asian countries; its future impact on the world economy was likely to be comparable to that of China.

31. Brazil encouraged India to accelerate its reforms, where feasible. India's trade relations remained too concentrated on traditional partners. The share of Latin American countries in India's exports over the period 1980 to 1991 was below 0.7 per cent, and their share in Indian imports had fallen from a peak of 2.8 per cent in 1985 to 1.8 per cent in 1991. India was therefore encouraged to take advantage of the opportunities arising in Latin American economies from trade liberalization, and to diversify its import sources. In this regard, Brazil would welcome early dismantling of India's self-sufficiency programmes in areas such as agriculture, steel, transport equipment, chemicals, electrical and non-electrical equipment. As well as requesting information on these programmes, the Brazilian representative sought details on the expected rôle of privatization in India's reform process.

32. The representative of the United States applauded the steps taken by India in reversing four decades of protectionism. Barriers to foreign trade and investment had been reduced, monetary and tax reforms initiated, and deregulation of the financial sector had begun. His Government fully supported the structural adjustment programme, and encouraged India to accelerate these reforms.

33. Tariffs, despite reductions in maximum rates from around 350 per cent to 85 per cent, remained high. These limited economic growth by inhibiting foreign trade and investment. "Additional duties" virtually across-the-board raised some tariff rates to over 100 per cent, and special levies applied to certain luxury goods. The complicated and non-transparent nature of the tariff structure was compounded by the widespread existence of discretionary general or specific tariff concessions, which reduced effective duties below standard levels and often created multiple rates within tariff lines. Greater uncertainty arose from the low, less than 1 per cent, share of bound tariffs.

34. Despite progress in dismantling the import licensing system, discretionary licensing, administered on a negative import list, continued to affect over one-third of all tariff lines, thereby insulating a substantial share of domestic production from foreign competition. Initial intentions to eliminate all import and export licences by April 1992 had not been achieved. The focus of licensing reforms was on freeing imports of capital and intermediate goods, particularly for exporters, while restricting imports of consumer goods, including electronics. The U.S. representative encouraged India to continue replacing quotas with bound tariffs, to be reduced over time. Government procurement practices non-transparently favoured local suppliers; he expressed the hope that India would adhere to the GATT Agreement on Government Procurement

35. Many export controls appeared to be unjustified on environmental, religious, or security grounds, and were inhibiting export-led growth. According to a recent World Bank study, 170 of India's 215 items covered by export controls had no apparent justification. He urged India to eliminate such export controls.

36. The United States supported the initial steps taken by India to improve copyright and trademark legislation. However, piracy of copyrighted materials, especially in the film and video industry, remained significant. He called upon the Government to address these concerns more vigorously, including in particular the absence of patent protection for pharmaceuticals and chemicals.

37. Turning to sectoral policies, the United States' representative noted that the import ban on textiles and clothing by India, a major exporter, seriously distorted the international trading system. He urged India to open its highly protected textiles and clothing sector. On services, he noted that all major tertiary industries were government owned, and that India needed to liberalize services if it was to achieve its potential as a supplier of services. Referring to the establishment by the Government of a Commission to study insurance industry reforms, including the privatization of insurance services, he expressed the hope that foreigners would be able to increasingly participate in these areas, as well as in the Indian telecommunications market. Bulk imports of agricultural commodities continued to be controlled through government monopolies.

38. The representative of Japan noted that India's traditional highly restrictive, inward-looking trade policies, combined with macro-economic mismanagement in the late 1980s and early 1990s, had created a severe economic situation, exacerbated by the Gulf crisis of 1990 and stagnant world growth. Against this backdrop, the incoming Government quickly took steps in July 1991, including an emergency stabilization package, to restore confidence and stem capital flight. The budget deficit was reduced, monetary policy tightened, interest rates increased, the rupee devalued and a dual exchange rate system introduced, which was later unified in the 1993-94 Budget, and foreign direct investment was partially liberalized.

39. Substantial liberalization had occurred under the new industrial policy of 1991, including amendments to the Foreign Exchange Regulation Act, as well as reductions in peak tariffs from 150 per cent in 1991-92 to 110 per cent in 1992-93, and now to 85 per cent. The Japanese representative hoped that this process would continue. He urged India to expand the coverage of industries, currently limited to 34, subject to automatic approval for foreign direct investment, and to abolish the foreign equity limit of 51 per cent; to legislate an exit policy that permitted disinvestment and firm closures so that foreign investors could freely withdraw unprofitable investment, currently hampered by the rigid review system of the Board for Industrial Reconstruction; to terminate local content requirements for foreign domestic manufacturers tied to tax exemptions, which may violate Article III of the GATT; to further lower tariffs from the current maximum rate of 85 per cent, which applied to one-quarter of tariff lines, as well as to raise bindings; to further deregulate the foreign currency deposit restrictions; and to completely liberalize the foreign remittance of business profits.

40. The representative of Turkey noted favourably the transformation of the Indian economy over the past two years to a more open one. Trade liberalization had supported stabilization measures, such as controlling the budget deficit, a tighter monetary policy, and moving to a unified, market-determined exchange rate. She agreed with the reforms focusing on tariff cuts and reducing import licensing through the introduction, and continued pruning, of negative lists for imports and exports. Although India's import licensing system was GATT consistent and maintained for balance of payments reasons, it restricted mainly consumer goods, and insulated many domestic producers from international competition.

41. India was encouraged to continue its commendable reforms, including a further narrowing of the negative import list, and achieving a less dispersed tariff structure. While reforms already undertaken, such as the virtual elimination of non-ad valorem tariffs and the merging of auxiliary duties with basic tariffs from April 1993, had improved India's tariff structure, greater rate uniformity was

needed, along with increased tariff bindings. For their part, major trading partners needed to support India's liberalization efforts through providing improved market access for India's exports.

42. The representative of Mexico congratulated India on its courageous economic reforms, which were generating positive results. India's pledge to bind half of its tariffs under the Uruguay Round would benefit trading partners and improve the credibility of its reform programme. The Mexican representative asked whether India intended to implement the Chelliah Committee's recommendations, to reduce the average tariff to 25 per cent by 1997-98 at the latest, and if plans existed to further reduce the coverage of import licences to below one-third of tariff items, mainly covering consumer goods. Self-sufficiency objectives in agriculture and certain key manufacturing sectors ran counter to India's competitive efforts, and subsidies, especially to state-owned enterprises, aggravated the budget deficit. India needed to avoid sending conflicting signals that would be destabilizing and create uncertainty.

43. The representative of Finland, speaking on behalf of the Nordic countries, welcomed the substantial progress by India in transforming its protectionist economy, previously aimed at achieving self-sufficiency, to a more open trading régime, along with its commitment, evident from the 1993-94 Budget, to on-going reforms. However, India remained a high tariff country, with an average rate of 71 per cent; lower duties, especially on raw materials used by the engineering industry, were necessary. India's tariff structure was complicated and non-transparent, and its low, only 1 per cent, share of tariff bindings generated uncertainty. The Finnish representative urged India to further cut tariffs and raise bindings during the Uruguay Round, and requested information on future plans in these areas.

44. Import licensing on practically all consumer goods, often preventing imports in commercial quantities, insulated domestic producers from foreign competition. "Actual user" conditions on licensed imports were particularly restrictive, and the representative of Finland asked for details of any plans to abolish this condition. She also sought information on any plans to further relax export controls over key goods, through decanalization, removing quotas or relaxing minimum export prices. While she welcomed India's initiatives at disinvestment and privatization of public sector enterprises, to inject greater private competition, the Finnish representative wondered whether plans existed to remove state-trading monopolies over imports and exports.

45. India was encouraged to join the Agreement on Government Procurement. The Government provided domestic suppliers with general price preference margins of 15, and up to 25 per cent, on procurement contracts. Investment rules, including freer remittance of dividends and royalty payments abroad, needed to be relaxed. More stringent and internationally-accepted legislation protecting intellectual property rights should be introduced. India's non-allowance of product patents was counterproductive to trade and investment in high-tech areas.

46. The representative of Argentina recognized the enormous challenge facing India in progressively moving its commercial policy into line with GATT objectives. This was a delicate task that required juggling the desire for a more market-oriented economy with maintaining economic stability and raising living standards for its large population. Although the structural reform programme was a significant step in the right direction, India still suffered from excessive state intervention. India's complex and bureaucratic trading régime was worsened by its complicated import licensing and tariff systems. Widespread tariff concessions, especially those based on end-use, were administratively difficult and added to traders' uncertainty. Temporary differential import duties had affected Argentinean exports of cutting and extracting lumber machines to India. It was essential for stable world growth and India's reform programme that a more favourable international environment be created for global trade.

47. The representative of Poland welcomed India's progress towards a liberal trading regime. He referred favourably to the joint Polish and Indian efforts since 1991 towards replacing rigid bilateral trade clearing arrangements with trade settled in convertible currencies, and for Indian authorities to allow escrow accounts. Poland believed that the subsequent drop in bilateral trade would be temporary. Both parties saw the new convertible currency régime as providing a stable and more effective basis for strengthening their bilateral trading relationship. He also noted the mutual initiatives taken by the two countries to conclude an agreement promoting and protecting capital investment. The Polish representative requested details on any financial incentives provided Indian exporters; an elaboration of the April 1993 changes in India's Export and Import Policy; and the rationale behind maintaining import licences for balance of payments reasons.

48. The representative of Switzerland appreciated India's shift, following the economic crisis of the early 1990s, from a highly protectionist system to an outward-oriented trading régime. However, substantial trade impediments remained. These included a complicated and relatively non-transparent tariff system, caused mainly by the widespread use of tariff concessions and other arrangements, often to benefit exporters. Their discriminatory effects could seriously undermine trader's confidence and misallocate resources. High tariffs, averaging 71 per cent, prevailed and while he welcomed India's intentions to bind half of all tariff lines in the Uruguay Round, these up until now had been modest at 1 per cent.

49. The Swiss representative expressed concern at the high incidence of discretionary import licensing, on over one-third of tariff lines, covering consumer goods as well as pharmaceuticals, chemical products, pesticides and insecticides. He pointed out that such a partial approach to removing licences, as for reducing tariffs, risked misallocating resources. Details were requested on the criteria used to issue import licences, as well as for allowing foreign direct investment in areas without automatic approval; and on any plans to further liberalize these areas. India was encouraged to fully integrate itself into the GATT system by joining all Tokyo Round Agreements, especially on Government Procurement. Domestic suppliers could receive preferential price margins of up to 40 per cent on public contracts, and rules governing foreign participation in procurement contracts were unclear. The Swiss representative sought clarification on the criteria for determining whether foreign tenders were necessary to ensure competition.

50. The representative of Korea noted the positive changes in India's trade and economic policies since July 1991, including the move towards more liberalized trade, exchange rate reform, control of public spending, privatization, greater foreign ownership, and rationalization of the tax system. India was encouraged to continue with these reforms, including the further relaxation of import restrictions on finished goods; a lowering of tariff peaks below their present maximum rate of 85 per cent; eliminating "additional" tariff rates; and simplifying the tariff system.

51. The representative of Pakistan commented favourably on the great strides taken by India in its new policy direction towards a more open trading régime. He emphasised the need to maintain a balance between market opening reforms, and the desire for governments to adopt a "human face" by taking account of the social dimensions of such economic policies. India needed international support to sustain its new policy direction, and successfully concluding the Uruguay Round in areas such as textiles and clothing as well as services, would certainly help.

52. The representative of Hungary noted the profound changes made to India's economic and trade policies since 1991, away from import substitution and self-reliance towards more liberalized foreign trade and investment régimes. This change reflected the Government's recognition of the limitations and constraints imposed on growth of its previous inward-looking strategies. Tariff reform, already

substantial in lowering the arithmetical average from 125 to 71 per cent and reducing the maximum rate from 355 to 85 per cent, needed to be pursued, despite budgetary constraints. The Hungarian representative further noted with satisfaction India's intention to reduce tariffs to an average of 25 per cent. He expressed concern over the insecurity generated by India's low level of tariff bindings, as well as its extremely complex and non-transparent tariff system.

53. Despite positive moves to liberalise India's import licensing system, including the introduction of a negative import list, the system remained non-transparent, and the government exercised considerable informal control over imports. Details were sought on the extent to which, and over what time frame, India would remedy the system's non-transparency. Referring to one study that cast doubts on whether India's canalization policies had met their objectives, the Hungarian representative requested information on any plans for further decanalization. Hungary shared Indian concerns over the collapse of trade with the former Soviet Union and the Eastern European countries, and expressed the hope that trade opportunities in this region would improve in line with the economic revival of these countries. He supported India's view that access to GSP preferences had aided its development, and emphasised that Hungary extended such preferences to India.

54. Hungary appreciated India's active participation in the Uruguay Round and its objective of a transparent multilateral trading system based on non-discrimination and equitable rules. A successful end to the Round was necessary to create an international climate conducive to India's reforms.

55. The representative of Morocco noted with satisfaction the economic and trade reforms undertaken by India since July 1991. Results were already encouraging; annual inflation had fallen to 5.4 per cent, foreign exchange reserves had risen to US\$750 billion, and economic growth was accelerating. A number of difficult areas remained, however, and it was important that India's trading partners supported its future reforms through ensuring stable access to their markets. The Moroccan representative sought details on India's centralized trading activities and public sector enterprises, as well as on its decision not to enter large scale regional trading arrangements.

56. The representative of Singapore, speaking on behalf of the ASEAN countries, commented favourably on India's efforts to open its economy, despite the short term social costs of industrial restructuring and the many obstacles, both at home and abroad. ASEAN countries had already benefited from these reforms, through greater trade and investment. Singapore's bilateral trade with India, for example, had grown to US\$2 billion a year, and its investment in India had jumped ten fold, albeit from a low base. ASEAN countries and India were keen to extend and promote investment and trade relations. The Singapore representative urged India to address its remaining trade restrictions.

57. The representative of Hong Kong complemented India on its far-reaching autonomous trade and economic reforms. Unlike some other countries, India had refrained from using anti-dumping arrangements to insulate domestic producers from the increased competitive pressures induced by trade liberalization. India was a strong supporter of the multilateral trading system, and was active in the Uruguay Round. The vital need for an external environment that provided impetus to India's autonomous reforms required major trading countries to assume their responsibility to successfully conclude the Round, including integrating textiles into the GATT.

58. The representative of Australia commended India for its reform process and encouraged India to further pursue these reforms. She welcomed Indian moves to tariffy import licensing restrictions and to lower tariff rates, but noted that India remained a high tariff country. Liberalization had yet to begin in a number of areas, especially consumer goods, where discretionary import licences, often amounting to bans, applied. Non-transparent self-sufficiency policies remained in a number of key

manufacturing sectors, and the Australian representative sought details on these. Further reforms to its tariff and non-tariff barriers on imported agricultural products would improve the efficiency of India's agricultural and food processing industries. Lower tariffs on wool, for example, would improve the competitiveness of India's woollen textile industry, which relies heavily on imported wool.

59. She encouraged India to establish a Tariff Commission to oversee tariff policy, and to submit to GATT a schedule of tariff bindings. Noting favourably India's reluctance to heavily engage in regional preferential trading arrangements, she expressed the hope that the South Asian Preferential Trading Arrangement (SAPTA) would create trade in an outward-looking manner, and not become a vehicle for extending inward-looking preferences among members.

60. The representative of Canada congratulated India for its policy redirection towards a more open and liberal trading system, and urged the Government to maintain the momentum of these reforms to improve the transparency of its trade regime. India's regulatory environment still constrained foreign investors as well as foreign and domestic exporters, through import and export controls, subsidies, industrial licensing, government monopolies and almost total protection for domestic producers of consumer goods. The Canadian representative requested information on the timetable envisaged for eliminating these measures, which insulated domestic firms from international competition and undermined the efficiency gains from tariff reductions. In the area of newsprint, for example, he expressed concern over the import allocation system run by the Registrar of Newspapers following the decanalization of imported newsprint, and questioned the GATT legitimacy of these mixing requirements.

61. Uncertainty was created for foreign exporters by the complex Indian tariff structure, which allowed many imports to enter under concessional arrangements. Few tariffs were bound. The Canadian representative sought details on future plans to simplify and improve the transparency of the Indian tariff and licensing systems. Their complexities made it difficult to evaluate the economic effects of the tariff structure, as well as the impact of recent reforms. State trading, sectoral policies aimed at self-sufficiency in several key manufacturing industries, and government procurement practices that favoured local suppliers further reduced transparency. India was asked whether it had any plans to modify such arrangements, as well as for privatizing state enterprises.

62. Canadian investors wishing to enter the Indian market still experienced bureaucratic obstacles, especially at the state level, in implementing approved investment projects. India needed to further improve the transparency of its industrial and investment policies, in cooperation with the States. Details were requested on how the Sick Companies Act was being changed to allow for industrial restructuring, and on how foreign financial institutions might be affected by proposed financial sector reforms.

63. The representative of the European Communities referred favourably to India's transition from an inward-looking, closeted economy to a more open régime, with the measures taken almost as a last resort to overcome its severe economic problems. Under previous policies, India's share in world merchandise trade had dwindled from 1.2 per cent in 1970 to 0.6 per cent in 1990. India should abandon forever past inward-looking policies and forge ahead with efforts to make the economy more competitive and less controlled. India, despite domestic political difficulties, had made courageous advancements in industrial restructuring and had instituted substantial cutbacks in public expenditure.

64. India still had several important obstacles to trade. Its market for consumer goods, despite some improvements, remained almost closed. Although relaxed on raw materials and capital goods, stringent import licences, tantamount to prohibitions and loaded down with bureaucratic interference, applied to consumer items. As well as creating inefficient parallel markets, their existence undermined

the credibility of India's reform process. Further efforts were also needed to introduce full rupee convertibility, and to change India's canalization policies on strategic products like petroleum, fertilizers, drugs, edible oils and grains, which disadvantaged the private sector and penalized the Indian consumer through higher prices. In the case of edible oils, for example, domestic prices were fourfold international levels. Tariffs remained very high, and India needed to bind more of its tariffs.

65. India's approach to liberalizing foreign investment had so far been timid. Although foreign investment approvals had increased, evidence indicated a large discrepancy between approvals and implementation, that no doubt reflected troublesome bureaucracy and non-transparent regulations and procedures. The Reserve Bank of India was encouraged to use its existing powers to improve transparency in this area by publishing all relevant data and procedures. Public sector restructuring had only just begun, and an appropriate exit policy, including labour market reforms, were urgently required to enable non-viable firms to close. Large consumer food subsidies on grains needed to be severely curtailed.

66. The representative of Egypt referred to the factors spurring the economic reforms in India, such as the 1991 crisis, and the decrease in trade with the ex-Soviet Union and central and eastern European countries. Egypt commended India for its liberalization, pointing out that the process needed to be gradual to take account of non-economic factors. India had to reform its tax system along more efficient lines, and attach greater importance to the private sector, including foreign investment.

VI. RESPONSE BY THE REPRESENTATIVE OF INDIA AND FURTHER COMMENTS

67. The Chairman suggested that the Council debate be structured along the main themes of macroeconomic and structural issues; trade policies and measures affecting imports and exports; sectoral aspects of trade policies; and India in the international trading system.

68. The representative of India recorded his delegation's appreciation of the interest shown by Council members in India's trade policy review. Careful note had been taken of all suggestions and, where appropriate, these would be borne in mind when formulating India's economic reforms.

(i) Macroeconomic and structural issues

Fiscal and external stabilization

69. The Indian representative said that his Government was committed to maintaining fiscal discipline to control the fiscal deficit. This was exemplified by the Finance Minister's announcement in the 1993/94 budget of a fiscal deficit target in that year of 4.7 per cent of GDP. Despite severe pressures, the medium-term target was to further lower the fiscal deficit to under 3 per cent of GDP by 1996/97. This would be achieved by reducing and redirecting budgetary subsidies; setting administered prices to recover the costs of providing infrastructural services, and checking the prices of tradeables through de-licensing of imports and exports, as well as lowering tariff levels; further reducing budgetary allocations to the public sector; tightening expenditure control; and tax reform.

70. The Government's medium-term reform strategy was discussed in a publication entitled "Economic Reforms Two Years After and the Tasks Ahead". This document outlined proposed reforms in areas such as tax policies, human resource development, finance and external sectors, agricultural infrastructure, employment and poverty alleviation.<sup>1</sup>

71. The first discussant enquired as to the connection between India's tax reforms and its efforts to restructure the public sector and reduce state intervention. Referring to the constitutional separation of indirect taxation powers between the Central and state governments and the latter's rôle in tax reform, he asked whether the Government's final objective was to implement a full value added tax. State governments also played a crucial rôle in labour market reform. The first discussant requested information on the expected rôle of foreign direct investment in privatization, and on steps envisaged for removing bureaucratic problems hampering inward investment, such as enabling foreigners to withdraw funds. He noted the limited geographical coverage and trade significance of export processing zones and wondered if India had any plans to increase their significance. While intellectual property rights and services were formally outside this review, he urged India, in the spirit of transparency, not to adopt an overly legalistic approach in responding to questions raised on these issues.

72. The representative of India noted that the Government had already moved to a "half way" house by allowing private equity, of up to 49 per cent, in public sector enterprises. Foreigners were free to invest in privatized firms. Foreign mutual funds could purchase shares of privatized public sector enterprises. Decisions on when to privatize and list shares were, however, being left for management to determine based on commercial factors. While foreigners needed approval from the

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<sup>1</sup>This paper was circulated at the meeting by the Indian delegation. Copies of the paper are available on request from the GATT Secretariat. Enquiries should be directed to the Director, Trade Policies Review Division, GATT, Rue de Lausanne, 1211 Genève 21, Switzerland (Phone 41-22-739-54-16).

Company Law Board to withdraw investment funds, this was no obstacle in the case of genuine business failures. Once approval had been obtained, investors could freely sell assets and transfer funds abroad, subject to more relaxed Reserve Bank guidelines. He noted that although the location of export processing zones was limited, identical benefits existed for so-called "100 per cent export oriented units" that could be established anywhere in the country. To allow some flexibility, these units could sell up to 25 per cent of their production domestically without losing benefits. In the case of agricultural and food processing industries, the limit was 50 per cent.

73. India wanted to ultimately introduce a full value added tax. However, as States had constitutional powers over indirect taxation, including sales taxes, this required the constitution to be amended. In the meantime, India was broadening its modified value added tax (MODVAT) to offset for indirect taxes paid on inputs of capital goods and services.

74. The representative of the European Communities commented on India's objective of levying a value added tax at the factory gate, and whether this would simplify tax collections. He also asked if it would be in the Government's political interests to accelerate the pace of reforms to generate benefits in advance of the next election due in three years.

75. The representative of India said that the introduction of a full value added tax required caution as it meant a constitutional change. On timing, he reiterated the irreversibility of the Indian reform process - this reflected a national consensus in favour of reforms and the absence of any real alternative. Determining the appropriate pace of reform was always going to be subjective, and India wished to implement change with a "human face". The Indian representative urged trading partners to support India's reform efforts with concrete action, most notably through opening their markets to Indian exports.

76. The representative of Australia favourably noted India's announcement that it had submitted a Uruguay Round offer to substantially increase tariff bindings. She emphasised that successfully concluding the Round to open world markets was one of the most important contributions that could be made to support India's autonomous reforms, and accelerating their implementation.

(ii) Trade policies and measures

Measures affecting imports

- Reform of tariff and tax systems

77. India's tariff rates, said the representative of India, had been lowered and the structure of import and excise duties simplified. Although only a start, the Government was continuing to phase out all commodity-specific and user-specific tariff exemptions, except for inputs used in exports. As announced by the Indian Finance Minister, and spelt out in the Chelliah Committee Report, average tariffs would be gradually reduced to 25 per cent by 1996-97, with maximum rates, previously as high as 355 per cent, to be further reduced to 50 per cent. Auxiliary duties had been abolished. Tariff reforms had to give due priority to raising the necessary revenue for meeting targeted reductions in the fiscal deficit. The tariff reform already undertaken and the sacrifices involved through foregone government revenue and industrial restructuring should not be under-estimated.

78. India accepted the theoretical "first best" economic arguments for a uniform tariff. However, developing countries needed to provide an escalating tariff structure to promote domestic value added industries. Nevertheless, the Government wanted to reduce tariff dispersion as rapidly as possible. As was noted by Council members, India had offered to bind more of its tariffs within the GATT,

and had recently submitted its consolidated and updated Schedule of Concessions. However, the final outcome on bindings would depend on what India could obtain in return from the Round.

79. The Government ultimately wanted to implement a broadly-based indirect tax system with moderate tax rates that promoted economic efficiency and growth. The division of taxation powers between the Central Government and the States was currently the subject of an independent finance commission. The commission was due to report before the end of 1993. As India was a federal polity with substantial taxation powers vested in the States, it was beyond the Union Government's jurisdiction to unilaterally impose on them changes in indirect taxation.

80. India's application of anti-dumping measures complied fully with GATT. Until now, very few cases had been examined by the designated Indian authority. The Government assured its trading partners that any action taken would be entirely within the GATT anti-dumping framework.

- Countertrade

81. India's countertrade policy, introduced on 1 April 1990, did not oblige public sector enterprises and agencies to engage in countertrade; such decisions were made by firms according to commercial considerations.

- Import licensing

82. Coverage of discretionary import licences had been drastically reduced since July 1991. Consumer goods, broadly defined, remained on the Negative Import List. The Government intended to phase out all licensing restrictions, including on consumer goods, by 1996/97, the end of the Eighth Five-Year Plan. By then, all consumer goods were expected to be on a tariff-cum-open general licence import régime, barring a few items to be licensed for social, environmental or health reasons. Given the skewed income distribution in India, and its fragile balance of payments, India could not yet allow large-scale imports of consumer goods.

83. Significant imports of consumer goods were allowed through relaxed passenger baggage rules and special import licences, tied to export performance, granted to export houses. The Government hope that consumer good imports could be liberalized prior to 1996/97, if India's balance-of-payments improved significantly. This would require improved market access for Indian exports.

- The actual user condition for licensed imports

84. Most licensed imports could only be effected by actual users, unless specifically exempted. Components of consumer durables, other than those contained in the negative import list, could be imported without licence, but subject to actual user conditions.

85. The "actual user" condition prevented price and supply distortions that would arise from allowing traders, merchants and stockists importing and selling to domestic users at premium prices. The Government might allow imports for "stock and sale" in the light of an improved balance of payments situation and a developing market network.

- Canalization

86. India's current Export and Import Policy (1992-97) had reduced drastically canalized goods to a limited number of product categories, such as petroleum, edible oils, cereals and drugs. Recent

products decanalized included kerosene, liquified petroleum gas (LPG); low sulphur heavy stock/low sulphur heavy residue oil; certain phosphatic fertilizers, namely di-ammonium phosphate (DAP), murate of potash (MOP), mono-ammonium phosphate (MAP) and sulphate of potash (SOP). The Government's policy was to progressively decanalize imports.

- Price preferences on government procurement

87. The representative of India stated that the 15 per cent price preference available to Indian suppliers on government contracts was normal practice in all countries, being sanctioned by the World Bank and other multilateral financial institutions. India's efforts to join the Government Procurement Code had not received encouragement from the Code signatories.

88. The second discussant drew attention to the continued protection accorded to domestic producers of consumer goods through import licences. She pointed out that economic efficiency considerations required a balance between the need for promoting industrial restructuring through removing import licences, and the possible political backlash of allowing what could be seen in India as frivolous consumption of imports by the rich. Although the Government justified tariff escalation on the grounds of promoting domestic value added production, this might adversely effect economic efficiency. She requested clarification of the Government's apparent intention to maintain tariff exemptions on inputs used in exports, and asked whether this would undermine the system's transparency.

89. The second discussant felt that "actual user" conditions on licensed imports created a rigid system that led to distributional and purchasing inefficiencies. These would be overcome by abolishing the "actual user" condition and permitting stockists and importers to buy and sell foreign products. The bureaucratic matching of import licences to specific production programmes also inhibited flexibility. She queried whether preferential price margins of between 15 and 25 per cent, or even greater in the case of small scale industries, were available to domestic suppliers for government procurement.

90. The first discussant asked to what extent tariff reductions in India had been more than offset by the currency devaluation, and whether this had undermined the production efficiencies normally associated with lowered tariffs. He also requested elaboration of the Government's stated plans to establish a Tariff Commission.

91. The representative of India reiterated the Government's objective of reducing tariff dispersion through phasing in a more uniform tariff structure. However, while desirable on "first best" economic grounds, the Government needed to meet its overriding fiscal deficit target, in which tariff revenue was important, and recognize differential needs for industrial protection. On tariff escalation, although the structure was not economically the most efficient, other countries usually had a degree of tariff escalation, and India needed to follow suit to promote domestic value added production and employment. With regard to tariff concessions, since improvements in the current account held the key for improving its balance of payments, India needed to boost exports through providing tariff exemptions on inputs used in exports.

92. Without "actual user" conditions on licensed imports, high tariffs would enable importers to earn rents on domestic sales. The need for "actual user" conditions, which had already been relaxed, would further diminish as tariffs were reduced. The Indian representative also thought that, on average, tariff reductions had exceeded the amount of the currency devaluation. Although still committed to establishing an independent Tariff Commission, the Government had decided not to do so until its main tariff reforms had been implemented. It felt that the Commission would be more effective at fine tuning tariffs in the light of changing developments, rather than it being exposed to the inevitable lobbying

pressures associated with wholesale tariff reforms. On procurement, in line with the Government's policy of promoting small scale manufacturing, such producers received additional preferential price margins on government purchases. No other preferences were available to domestic producers, apart from the general preference margin of 15 per cent.

93. The representative of the United States referred to the pledge by the Indian Finance Minister in December 1991 to remove all import and export licences by April 1992. In the light of this commitment not being met, he asked for details on the Government's current timetable for removing licences on both consumer and non-consumer goods, such as computers.

94. The representative of Australia urged the Indian Government to strongly consider the timely introduction of the Tariff Commission. Australia's experience with the Industry Commission, indicated that such an independent transparency institution could play an important rôle in furthering India's trade reforms in a balanced manner. As a domestic counterpart to the Trade Policy Review Mechanism, a Commission could review from an economy-wide perspective India's tariff and other assistance policies. She referred to the conflicting objectives often encountered in tariff setting between maximizing revenue and promoting resource efficiency.

95. The representative of India confirmed that, although imports of computers up to a value of about US\$4,500, were licensed to encourage local production, the domestic industry was predominantly an assembly operation that imported 80-85 per cent of its components, many coming from the United States. He reiterated the Government's commitment to phasing out import licences by 1996-97, or earlier, if India's balance of payments improved sufficiently.

#### Measures affecting exports

##### - Export licensing

96. The representative of India noted that India had removed over the last two years a large number of items from the Negative Export List. Products left in the Negative Export List were controlled for safety and security reasons, as well as in the case of some sensitive items, such as food grains, to maintain food security. Continued efforts were being made to prune the list of licensed exports. Further items were expected to be derestricted as from 1 April 1994 as part of the next annual review of India's import/export policy.

##### - Export incentive measures

97. The understanding that export incentives in India continued to be wide ranging was incorrect, according to the Indian representative. Following the abolition of the Cash Compensatory Support Scheme and other commodity-specific measures, export incentives were limited to macroeconomic parameters, such as the exchange rate and the direct tax concession on export earnings.

98. The second discussant sought clarification on the range and type of export incentives currently available in India, and whether specific incentives existed to promote exports of certain goods.

99. The representative of India stated that export restrictions were constantly being reviewed by the Government and reduced, where possible. Export prohibitions currently covered goods having strategic significance, such as certain minerals related to atomic energy; goods affected by safety or environmental factors under world conventions, such as dangerous chemicals and certain endangered species, like exotic birds and ivory; and logs and lumber products for conserving India's limited forests.

Quantitative export ceilings were applied to certain other products to prevent over exploitation or to ensure sufficient domestic supplies. Some of these export quotas had been relaxed in line with expanded domestic production, such as those for milk powder and certain other dairy products.

100. India provided no specific financial incentives to promote exports of certain sectors. India's exports were largely autonomously handled by numerous commodity boards, covering goods such as tea, coffee and spices, as well as some 25 independent export promotion councils, which, while receiving some government funding, were by and large self financing.

(iii) Sectoral aspects of trade policy

India's objective of self-sufficiency in various sectors

101. The representative of India said that self sufficiency clearly remained an objective in the agricultural sector, where it was linked to attaining food security in mainly cereals, pulses and edible oils. Given the distortions that currently plagued global agricultural markets, India could not rely on imports to meet its food requirements.

102. In other sectors, including steel, chemicals, electrical equipment and transport machinery, the Government's policy objective was to establish internationally competitive industries integrated into the world economy. For this reason, the Government had delicensed industrial production and imports as part of its ongoing commitment to economic reform.

Exit policies for sick industries

103. The Government, said the Indian representative, was taking steps to amend the Company Law in order to shorten delays and simplify legal and judicial requirements covering corporate closures and liquidation procedures. Recommendations of the Goswamy Committee on Industrial Restructuring, which would facilitate corporate closures, were being considered by the Government.

104. The Government was examining easing labour laws in order to facilitate modernization and industrial restructuring. It was currently considering amendments to the Industrial Disputes Act of 1947, to promote bipartism in settling industrial disputes; remove or relax certain restrictive provisions; provide superior compensation for retrenched workers; and to streamline regulations aimed at more harmonious industrial relations. The Trade Union Act would also be amended to reduce the number of trade unions through prescribing minimum membership for registration, and providing for elected office bearers to promote greater industrial discipline among trade unions.

105. India had already initiated an active voluntary retirement scheme for public sector units, which was financed from the National Renewal Fund. Already, some 26,000 workers from the National Textile Corporation and 1,500 employees of state trading companies had used the scheme. The scheme's coverage was expected to increase as more funds become available to the Fund from both budgetary and external (IDA) sources.

Public sector restructuring

106. India did not have a policy of wholesale privatization of public sector enterprises, said the representative of India. The Committee chaired by the Governor of the Reserve Bank recommend against such a blanket policy towards privatization, advocating instead a differential approach towards various categories of public sector units. The Government's policy over the past two years had

nevertheless been to disinvest up to 49 per cent of its equity in these enterprises. This policy was intended to provide public units with greater autonomy from government intervention, and provide through the capital markets greater discipline on their performance.

107. The Government had introduced a system of Memoranda of Understanding (MOUs) to provide a contractual basis for evaluating the performance of public sector enterprises, and to encourage greater efficiency. In 1992, 136 MOUs were signed. As well, the Government was imposing tight budgetary constraints on funding public sector enterprises, many of which were reducing over-manning levels through the voluntary retirement scheme financed by the National Renewal Fund. The Government no longer had a policy of taking over sick private sector units.

108. Public sector restructuring did not necessarily imply loss of jobs in India's case where rapid improvements in infrastructure were needed. Efforts would be taken to upgrade workers' skills through retraining and other measures, so that public sector units in these growth areas could gainfully absorb surplus labour.

#### Efficient import substitution

109. The Indian representative noted that India's Export-Import Policy defined as one of its objectives the promotion of an efficient import substitution sector so as to create internationally competitive industries capable of surviving in an open and deregulated economy. India believed this to be an essential strategy for efficient industrialization. This policy was not to be confused with that of promoting import substitution behind high protectionist import barriers such as quotas or tariffs.

#### Policies for direct foreign investment

110. Issues had been raised, said the representative of India, regarding India's policies for promoting foreign direct investment. Amendments to India's foreign exchange regulation laws had already liberalized many areas previously restricting foreign companies operating in India. Foreign firms were now free to own fixed and immoveable assets; to employ foreign technicians; and to repatriate dividends overseas within guidelines set by the Reserve Bank of India. Complete freedom over capital movements would only be possible, however, once the economy was strong enough to withstand full capital account convertibility of the rupee. India had taken the first steps towards establishing full currency convertibility with the introduction of a unified exchange rate along with virtual rupee convertibility on the trade account.

111. In the past two years, India had opened a large number of sectors to foreign investment, substantially increasing the number of industries where majority foreign equity participation was permitted. Foreign investment totalling more than US\$3 billion had been approved in the last two years, compared with less than US\$200 million in earlier years. Moreover, inward flows of over US\$600 million in equity and portfolio investment had been recorded between April and August 1993, and capital inflow for 1993/1994 were expected to be US\$1.1 billion. The Government visualized a greater rôle for direct foreign investment in India's industrialization and enhanced export orientation.

#### Intellectual property rights and services

112. Several delegations had raised questions on services and intellectual property rights, noted the Indian representative. India, however, viewed these issues to be outside the scope of the present Trade Policy Review Mechanism, which was limited to merchandise trade. As trade in services and intellectual property rights were under the Uruguay Round, India's trading partners had already received bilaterally

much of the information requested, including on India's autonomous liberalization of the financial services sector. India would willingly provide information on intellectual property rights if a broader review mechanism developed after the Uruguay Round.

113. The representative of the United States enquired as to whether the Indian delegation would wish to make any informal statements concerning intellectual property rights in India and, in particular, whether the Government intended to improve patent protection for pharmaceuticals.

114. The representative of India stated that there were no plans at the moment for changing patent protection for pharmaceuticals.

#### Agriculture and textiles

115. The first discussant questioned the continued rôle of export restrictions in agriculture where self reliance linked to food security was the objective. Since the sector accounted for some two-thirds of India's employment and contributed about 30 per cent of Indian GDP, structural reforms ultimately had to affect this sector, and he sought details of any plans to reform agriculture. He also raised the need to liberalise the textiles sector, still subject to high tariffs, to improve competitiveness, and the necessity of addressing the perennial problem of "sick" textile industries.

116. The representative of India confirmed that although export controls existed on major agricultural commodities to promote food security, these had been relaxed in some areas, such as for tea and cotton. While the representative agreed that export controls should be removed on a "first best" economic basis, the Government feared the possible disastrous consequences on Indian farming and food security of opening its farm sector to a highly distorted and subsidized global market for agricultural commodities. Nevertheless, major agricultural reform, including relaxation of export restrictions, was considered essential for achieving greater reliance on price signals and the market mechanism. Agricultural reform needed, however, to be handled cautiously given its sensitivity. Indian studies had indicated government policies were taxing agriculture overall, although this burden was being reduced by lowering industrial protection. The Indian representative was unsure as to whether domestic agricultural prices on important commodities had risen less than the amount of the rupee's recent depreciation. Domestic procurement prices had risen overall by more than 60 per cent over the past two years, somewhat more than the depreciation.

117. Textiles were currently part of the Uruguay Round, and India hoped for the sector's integration into the GATT. On "sick" industries, the Indian representative added that the Government was currently considering recommendations, such as the procedures for winding up non-viable firms; improving the indicators used for identifying sickness; and to expedite corrective measures. The Government wanted to wind back industrial sickness, but this needed to be handled carefully to protect employee's welfare, and take into account the interrelationships between the labour laws, banking laws and the financial sector generally.

118. The representative of the European Communities questioned the sustainability of India's current policies of taxing agriculture to meet food security objectives, given its demographic expansion and the limitations on farmland availability. He also raised the relationship between agriculture and food processing and, given that only some 1 per cent of India's agricultural output was processed, enquired as to any steps being taken to expand the food processing sector.

119. The representative of India stated that agricultural reform needed to ensure that farming was no longer heavily taxed. However, the extent of reforms would be influenced by the degree to which

global agricultural markets were liberalized. India's agro-processing industries were beginning to expand, as evidenced by their export growth of 37 per cent (in U.S. dollar terms) from last April to August, compared with total Indian export growth of 24 per cent over the same period. Although some financial incentives existed for food processing, the Government did not believe in special treatment for the sector. Food processing would continue to expand in line with reductions in the disprotection afforded agriculture, and reduced industrial protection. On food supply constraints, the Indian representative stated that considerable scope existed to raise farm yields in India to international levels.

(iv) India in the international trading system

120. The representative of India said that the proposed South Asian Preferential Trading Arrangement (SAPTA) was envisaged as a first step towards promoting trade and economic co-operation within the South Asian region. SAPTA was currently limited to merchandise trade and excluded services. Initial concessions were to be negotiated on a product-by-product basis. SAPTA also provided, however, for negotiations to be carried out on a number of fronts, such as across-the-board, by sector or through direct measures. The contracting States were currently identifying products of export interest with potential for trade creation. They had also agreed to take steps for developing and improving communication systems, transport infrastructure and transit facilities to accelerate growth in regional trade.

121. SAPTA provided for special treatment to the least developed countries in the South Asian regions, including Bangladesh, Bhutan, the Maldives and Nepal. Concessions could be extended exclusively to these States. The Agreement was based on the Global System of Trade Preferences (GSTP), and existing GSTP rules of origin were applied. India strongly believed that SAPTA should not distort or restrict trade flows from outside the region; member countries did not intend to raise external tariffs.

122. In response to a question from the second discussant concerning the proposed timetable for completing SAPTA, the representative of India said there was no fixed time frame for its conclusion. The present exchange of information between members was still in its initial stages. As SAPTA progressed, India would meet its obligation of informing GATT contracting parties.

123. The first discussant, while noting that India preferred a multilateral approach rather than regionalism, observed that there nevertheless seemed to be a gradual move in India's trading policies towards regionalism. He also wondered whether a product-by-product way of negotiating tariff reductions under SAPTA was the quickest way to proceed.

124. The representative of India confirmed Indian concerns over the emerging trend to regionalism and the diminishing proportion of m.f.n. trade. However, India was being forced into regionalism by the action of others; the multilateral trading system was becoming a less than ideal, with growing m.f.n. derogations and regionalism. SAPTA allowed for tariff reductions to proceed on several fronts; a product-by-product basis, across the board, sectoral or any combination of these. While an across-the-board approach was conceptually superior to the product-by-product approach, the latter was probably the most workable. Non-trade factors would influence the pace of these negotiations.

125. The representative of Australia complemented India for its constructive and cautious approach to regionalism, engaging in only a small proportion of preferential trade, at a time when the rest of the world was turning more towards regionalism. She noted that India's approach towards regionalism was based on its GATT commitments and the need for open regional arrangements, as provided for in Article XXIV.

126. The representative of India closed by saying that the review had failed to adequately recognize the need for the international community to support India's reform efforts through providing more open markets. India expected the Uruguay Round to take concrete steps in this respect, including in textiles.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

127. These concluding remarks are, as usual, made on my own responsibility and reflect my assessment of the salient features that have emerged from the Council discussion. The full discussion, including the introduction and replies given by the representative of India, will be reflected in the minutes.

(i) Macroeconomic and structural issues

128. Participants strongly commended India for the bold change in its economic policy direction since July 1991. Trade reforms had been supported by macroeconomic stabilization and structural adjustment measures, and were taken despite an unfavourable international economic environment and domestic political sensitivities. Reform had already generated results; external imbalances had shrunk, India's international reserve position had markedly improved, and the annual inflation rate had been more than halved to around 7 per cent.

129. Council members encouraged the Indian authorities to continue the reform process. They welcomed the Indian representative's assurance that the new policy direction, which reflected a national consensus in favour of market-orientation, was irreversible. Nevertheless, some concerns were expressed about the low level of savings relative to investment requirements, including from foreign sources; the scope of financial sector reform; the slow pace of privatization; assistance to "sick" industries; labour market rigidities and educational constraints. Members sought information about tax reform objectives, including the possible introduction of a value-added tax.

130. In reply, the representative of India stated that the Government was committed to maintaining fiscal discipline. The budget deficit was targeted to be cut to 3 per cent by 1996-97. Reform of the tax and public expenditure system was an essential complement to structural realignment of the economy. Introduction of VAT would, however, require a constitutional amendment affecting the relationship between the Union and the States.

131. The need for further financial sector reform had been recognized. The structure of assistance to "sick" industries was under review, as were labour market policies. Foreign direct investment had been liberalized to include automatic approval for foreign equity holdings of up to 51 per cent in many sectors; further liberalization was under consideration. Repatriation of capital was assured, provided legal requirements for divestment were fulfilled.

(ii) Trade policies and measures

- Measures affecting imports

132. Members recognized that tariffs had been reduced substantially since July 1991. However, the average and maximum rates remained high. Details were sought of the Government's plans to reduce tariffs and improve transparency of the system through removal of concessional arrangements. Lower and more uniform rates, together with a greater number of bindings, would enhance stability and predictability of the tariff system; in this respect, some members questioned the degree of dispersion and escalation arising from the Government's tariff reduction plans. It was suggested that the proposed establishment of an independent Tariff Commission, with a broad remit over tariff and non-tariff measures, could make a useful contribution to trade policy formulation.

133. Members noted that import licensing had been considerably reduced in scope. At the same time, discretionary, and often prohibitive licensing, remained on imports of consumer goods, broadly defined. Some members questioned the balance-of-payments rationale for licensing and the continuation of restrictive "actual user" requirements. Members sought additional details on criteria for the issuance of licences and plans for further liberalization of the régime.

134. Questions were asked concerning the criteria for, and operation of anti-dumping measures in India; it was recognized that India had made very little use of such provisions. Members also sought information on government procurement policies, in particular price margins for local suppliers, including small industries; and the canalization of "essential" supplies through state-trading enterprises.

135. In response, the representative of India emphasised that the objective of the tariff reform, initiated in 1991, was to reduce the average rate to around 25 per cent, with a maximum of 50 per cent, by 1996-97. A uniform tariff, though the ideal, was not considered feasible at present, both for revenue considerations and because value addition was an important aspect of industrial policy. It was expected that import licensing on consumer goods would also be removed by that date, or earlier if balance-of-payments conditions allowed. The actual user requirement had been eliminated in some areas and would be further reduced.

136. India's anti-dumping procedures were consistent with GATT. Government procurement preferences were applied in line with international practices; India's past efforts to accede to the Government Procurement Code had not received encouragement from Code signatories. Canalization of imports had been reduced and the policy of decanalization would continue.

- Measures affecting exports

137. Some members commented on the complexity, discretionary nature and lack of transparency in India's export incentive structure. In their view, export controls, some of which were implemented on social, religious, environmental or security grounds, could work against the Government's goal of promoting export-led growth.

138. In response, the representative of India stated that the scope and nature of the export incentive system had been misunderstood. The only direct incentives remaining were tax concessions on export earnings and rebates of internal taxes. India's policy was to phase out export controls except those necessary for conservation or other non-economic reasons.

(iii) Sectoral aspects of trade policy

139. A number of participants noted with concern the persistence of self-sufficiency as a policy aim in a number of sectors. Comments were made concerning local content provisions, including mixing requirements for newsprint. Participants sought additional information on the incidence and scope of sectoral policies, including criteria for industrial licensing, assistance to infant industries and policies implemented at the State level. In agriculture, where food security remained a major policy objective, some members expressed the view that tariff and non-tariff reforms would assist in encouraging greater efficiency, including in food processing.

140. In response, the Indian representative said that self-sufficiency was a goal only in agriculture, and was limited for food security reasons to foodgrains, edible oils and pulses. In other sectors, the objective was to create internationally competitive industries, in part through delicensing and import liberalization.

141. Questions were posed on aspects of intellectual property rights, including copyright, trademark and product patent protection. Members also sought information on planned financial sector reforms, including opening to greater foreign competition. The Indian representative said that information on these aspects, which did not fall within the scope of the trade policy review, would be provided on a bilateral basis.

(iv) India in the international trading system

142. Participants recognized India's active participation in, and commitment to, the Uruguay Round. As a founding member of GATT, India had a long tradition of support for the multilateral trading system. A favourable conclusion to the Uruguay Round, especially in areas of particular interest to India such as textiles, would assist India in furthering its autonomous trade reforms.

143. Members, while recognizing India's attachment to multilateralism in trade, sought information on India's participation in the South Asian Preferential Trading Arrangement (SAPTA). The hope was expressed that the arrangement would operate in an outward-looking manner; members also asked for information on the priority products for regional liberalization.

144. In response, the Indian representative said SAPTA had been instigated in response to movements elsewhere towards greater regionalism in world trade. India remained committed to the strengthening of the multilateral trading system. He emphasised that steps by its trading partners to improve conditions for India's exports were a vital element of support for the Indian reform process.

145. Finally, as a personal conclusion to this review, I would say that the Council has warmly welcomed the fundamental policy changes in India since 1991. Strong encouragement has been expressed for the determined continuation of these reforms. It is recognized that a more favourable external environment for India's trade will provide essential support for the reforms, and that, in this regard, the successful completion of the Uruguay Round will make a significant and lasting contribution.