

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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Committee on Balance-of-Payments Restrictions

CONSULTATION WITH INDIA
(Simplified Procedures)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the declaration on Trade Measures taken for Balance-of-Payments Purposes, adopted by the CONTRACTING PARTIES on 28 November 1979 (BISD 26S/207).

I. **Previous Consultations with India**

2. India has consulted regularly with the CONTRACTING PARTIES on its balance-of-payments restrictions, initially under Article XII, and, since 1960, under Article XVIII, section B (see BISD 8S, page 74, paragraph 3). Full consultations have been held in 1960, 1962, 1964, 1967, 1969, 1973, 1978, 1987, 1989 and 1992. Simplified consultations have been held in 1975, 1977, 1980, 1982, 1984 and 1986.

3. At the last consultation under Article XVIII: 12(b), held in March 1992, the Committee recognized the continuing fragility of India's balance of payments position. It commended India for launching its comprehensive reform programme, including measures introduced aimed at economic liberalization and reducing bureaucratic intervention, and encouraged India to pursue such reforms vigorously. India had, despite its weak external position in 1991, started dismantling trade restrictions by withdrawing cash compensatory support to exports, reducing very high tariffs, the scope of quantitative import restrictions, canalization and the replacement of Exim scrips with a dual exchange rate system. Trade restrictions nevertheless remained broad and complex, and India was encouraged to undertake further liberalization and, in the light of changes in its balance-of-payments position, to continue progressively phasing out trade restrictions maintained for balance-of-payments purposes.

II. **India's Trading Regime: General Background and Recent Developments**

Introduction

4. India has, since mid-1991, markedly reversed its import substitution policies and commenced moving towards an open market-oriented economy. By redirecting industrial and trade policies away from government intervention, India is progressively exposing itself to outside influences. Although trade restrictions have been progressively eased, substantial import barriers remain, such as the restrictive licensing of consumer good imports.

5. A major institutional change was the enactment in 1992 of the Foreign Trade (Development and Regulation) Act to replace the Imports and Exports (Control) Act of 1947. The new Act, necessitated

by the adoption of more liberal trade policies, provides for the development and regulation of foreign trade by facilitating imports into, and exports from, India. The Act authorizes the Government to introduce export and import policies, as reflected in the Export and Import Policy of 1992-97, and to make subsequent amendments. The Director-General of Foreign Trade is responsible under the Act for advising the Government in such policies and their implementation.

III. Changes Since the Last Consultation

6. Since the last consultation, the Government has continued the initial thrust of its policies towards greater trade liberalization, begun in the late 1980s and early 1990s. These changes have gone some way towards opening up the Indian economy to foreign competition, albeit still on a restricted basis.

a. Import Policy

7. A major trade liberalizing step was the introduction from 1 April 1992 of the Export and Import Policy 1992-97 to replace, ahead of schedule, the Import-Export Policy of 1990-93. This policy changed the basis of India's import licensing system by introducing a consolidated, albeit large, Negative Import List to replace the many positive and convoluted lists (numbering 26) previously requiring all merchandise imports to be licensed. The Negative Import List classifies imports into prohibitive items, restricted items and canalized items. All goods not on the Negative List are freely imported. This change considerably improved the transparency of the Indian import licensing system.

8. Under the current import licensing system, annual licences are awarded by the Director-General of Foreign Trade on a "first come first served" basis, and are valid until 31 March of the following year. The licence stipulates the importation conditions where applied, such as the export obligation, the value addition required and the minimum export price. Restricted items on the list may be imported against a licence or in accordance with a Public Notice issued in this behalf. Licences are refused where imports are considered to be prejudicial to the state's interests. Moreover, the "actual user" condition for all licensed imports, unless specifically exempted, requiring the importer to actually use the product, further impede foreign competition on the Indian market.

9. India imposes no formal quotas. Imports of tallow, fats and/or oils of animal origin, animal rennet, as well as wild animals, including their parts and products and ivory, are contained in the Negative List as prohibited imports.

10. The import licensing system nevertheless remains highly restrictive. Almost all consumer goods are on the Negative List and licensed as restricted items. Consumer goods, howsoever described, of industrial, agricultural, mineral or animal origin, whether in semi-or-completely knocked-down-condition or in any form, are covered by the list, as well as specific consumer electronic goods, telecommunications equipment, watches, alcoholic beverages and cameras.¹ Most consumer goods are effectively banned by these licensing arrangements. Some relatively minor liberalization of consumer goods has occurred through the relaxation of importation rules regarding passengers' baggage, tariff duties on which have been progressively lowered from 225 per cent to currently 100 per cent.

11. Also on the Negative List as restricted items are pesticides and insecticides; electronic items; pharmaceuticals and chemicals; seeds, plants and animals; precious, semi-precious and other stones;

¹Consumer goods are defined very broadly in the Export and Import Policy as "any consumption goods which can directly satisfy human needs without further processing and includes consumer durables and accessories, components, parts and spares of such consumer durables."

items relating to the small scale sector; and miscellaneous items such as natural rubber, coir, raw cotton and cotton yarn². Licensing restrictions may be conditional on certain requirements specified in Public Notices being met.³ Examples include mixing requirements applied to imports of newsprint; selling of surplus requirements of imported naphtha to oil refineries; restricting imports of written books etc to registered dealers; and importers of cloves required to meet an export obligation of double the import value. Although new capital goods are licence-free, second-hand imports of below 7 years, are licensed, except for certain sectors, including clothing, automotive components and leather processing.⁴

12. Despite substantial liberalization in areas such as iron and steel and minerals, imports of many key products contained in the Negative List, including petroleum products, fertilizers, edible vegetable oils and cereals, remain canalized i.e. exclusively importable by designated state-trading entities. In setting import levels of canalized products, the state-trading agency takes into account the availability of foreign exchange, the country's balance of payments position, and domestic and pricing conditions. Although in principle the Director General of Foreign Trade may grant licences to private parties to import canalized products, this happens rarely.

13. Progressive tariffs cuts introduced in the annual budget since 1991 have lowered the maximum standard tariff rate - including auxiliary import duties prior to 28 February 1993 when they were merged with the basic customs duty - on all goods, excluding mainly alcoholic beverages, from 355 per cent to 85 per cent in 1993, when the simple average standard tariff rate was 71 per cent (or 49 per cent on an import-weighted basis). Tariff peaks were further lowered to 65 per cent in the 1994-95 Budget. The Government plans to achieve an import-weighted tariff rate of 25 per cent by 1997-98 at the latest, comprising an escalating 8-tiered duty structure, with rates ranging from zero on essential agricultural goods up to 30 and 50 per cent on consumer goods.

14. The transparency and effects of the Indian tariff structure are seriously marred by the large number of concessional tariff rates applied in place of the standard duties. Tariff lines, which are set at the six-digit HS level, often have more than one duty rate, and the structure of applied (effective) tariff rates differs substantially to that based on standard rates. Unlike standard duties which can only be changed by legislation, the Government has wide discretionary power to exempt or apply different duties in cases where it is in "the public interest". Widespread tariff exemptions and concessions, including general concessions, end-use concessions, such as to the electronics industry, and concessional tariff schemes on capital goods used by exporters, distort the Indian tariff structure. They worsen tariff escalation, and make it difficult to evaluate India's tariff reforms.

15. The Government has taken steps to reduce the incidence of concessional tariff duties. Many exemption notifications have been withdrawn as tariff reductions in standard rates have made them redundant. Exemptions continue to be concentrated in the areas of minerals, chemicals, rubber, plastics, metal products and machinery. The number of end-use tariff concessions were cut by about half in the 1994-95 Budget.

²The Negative List also contains certain goods, such as firearms, ammunition, explosives and chloro-fluoro-hydrocarbons, for safety, security and related reasons.

³See GATT, Trade Policy Review - India, 1993.

⁴See GATT, Trade Policy Review - India, 1993. Second-hand goods, which must be under 7 years of age and have a minimum residual life of five years, are subject to actual user conditions.

16. Tariff reforms have focused mainly on cutting duties on capital and intermediate goods as a means of encouraging production and promoting exports. This approach, which favours the domestic production of consumer goods relative to capital goods, may however further distort domestic production and import patterns through providing increased effective assistance to consumer goods. Tariffs on capital goods, reduced from 55 to 35 per cent in 1993, were again lowered to 25 per cent in the 1994-95 Budget. Tariffs on a number of capital and intermediate goods were also lowered and rationalized.

b. Export policy

17. Although export restrictions have been removed and simplified in some areas in line with the Government's liberalization measures aimed at promoting export growth, exports of certain key goods remain controlled. These are generally contained in the Negative List of Exports included in the Export and Import Policy of 1992-97. These cover export prohibitions on goods such as beef, wildlife, unprocessed logs as well as certain sawn timber; export licences on mainly hides and skins, mineral ores, vegetable oils, pulses and rice; and canalized exports of a number of products, such as petroleum products, mineral ores and concentrates, onions, powdered milk and butter, to designated state-trading entities.

18. A number of other export restrictions were transferred from the Negative List of Exports to a Public Notice from 1 April 1993.⁵ These included export quotas on goods such as cotton, cereals and sheep and goat meat; minimum export prices, such as on rice, black pepper, flour and grains, such as wheat, maize and barley; and export taxes of 5 per cent on goat, sheep and bovine leather.⁶ Moreover, every exporter must be a member of relevant Export Promotion Council, and export requirements apply to many exports, such as the certification, registration, and inspection procedures on predominantly agricultural, chemical, textile and clothing products.⁷

19. On the other side, India has traditionally provided export incentives to partly compensate exporters for the penalties imposed on the sector by import restrictions. Offsetting for the anti-export bias still inherent in India's trading regime has been a major objective of the current Export and Import Policy with its "pronounced bias towards exports and strengthening of special schemes directed towards exports."⁸ India's development strategy, which has become heavily based on outward orientation to generate export-led growth, is being pursued through providing numerous complicated tariff and licensing incentives for exporters on imported inputs. These are usually linked to export performance, thereby indirectly assisting exporters and running counter to the Government's trade liberalization efforts.

⁵See Public Notice No. 15-ETC(PN)/92-97, Ministry of Commerce, 31 March 1993.

⁶The use of export taxes has been reduced considerably over recent years. Products that may be subject to export "tariffs" are given in the Second Schedule to the Customs Act, 1975.

⁷For example, contracts covering the export of de-oiled groundnut and rice-bran as well as groundnuts must be registered with the relevant association; buffalo, sheep and goat meat must undergo pre-shipment inspection by the State Directorate of Animal Health; and raw cotton must be certified by the Textile Commissioner regarding registration, allocation, quality and quantity. See GATT, Trade Policy review- India, 1993.

⁸Export and Import Policy, 1 April 1992-31 March 1997, p.(ii).

20. Although the Cash Compensatory Support Scheme was terminated in 1991 when Exim Scrips were introduced, substantial outstanding payments are still being paid, especially in relation to "deemed exports". Exim Scrips, which were freely traded import entitlements for duty-free goods, were abolished on 1 March 1992 when the dual market exchange rate system was introduced.⁹ Direct export assistance is provided mainly through concessional income tax provisions which, inter alia, fully exempt export income from taxation. Exporters also benefit from Reserve Bank directives for commercial banks to allocate at least 10 per cent of total advances to export credits, or risk penalties.

21. Export incentives are being delivered through the import trading regime which is becoming increasingly skewed in favour of exporters. In order to promote export growth, particularly in identified priority areas, numerous schemes extend tariff concessions to exporters on imported inputs. As well as operating a more conventional and economically-acceptable Duty Drawback Scheme to refund tariffs paid on imported inputs used in export production, India operates several schemes that encourage exports through tying tariff and licensing incentives directly to export performance. Exporters, under the Concessional Tariff Scheme on Capital Goods, may import capital and intermediate goods at a concessional tariff rate of 15 per cent, conditional on certain export performance obligations being met within a specified time period.¹⁰

22. The Duty Exemption Scheme permits licensed imports of raw materials, intermediates and components duty free used in exports. To be eligible, exporters must satisfy prescribed minimum value added requirements, which in general range across products from between 40 and 300 per cent. Special schemes, with varying value added requirements, operate for eligible exporters of pharmaceuticals, garments and electronics. Importers must satisfy export obligations within 12 months. In addition, special export promotion schemes apply to eligible diamond, gem and jewellery exporters. These enable exporters to replenish their supplies, subject to certain minimum value added requirements and export obligations being met.

23. Moreover, firms meeting certain export performance criteria and designated as export houses, trading houses or star trading houses, receive additional benefits, such as special licences to import a nominated range of restricted items, as well as tradeable special import licences equivalent to between 5 and 10 per cent of their value of exports. Special benefits, including duty free importation of licensed goods and tax concessions, are also provided to firms located in one of the seven export processing zones¹¹, or producing exclusively for export markets (so-called 100 per cent export Oriented Units)¹².

⁹Exim scrips were issued at a basic rate of 30 per cent of the f.o.b. value of exports, increasing to 40 per cent for certain products, including electronics, agricultural goods and advanced engineering goods as well as bulk drugs and formulations. See GATT, Trade Policy Review - India, 1993.

¹⁰The Concessional Tariff Scheme on Capital Goods enables manufacture-exporters to import all capital goods at 15 per cent (instead of the normal duty of 25 per cent), subject to him increasing, within five years, his direct exports above the average level for the preceding three years by an amount equivalent to four times the value of capital goods imported. The scope of the scheme was extended beyond manufacturing 1 April 1993 to include mining and agricultural and fishing activities. A similar scheme was extended at the same time to certain professional services, such as architects, doctors and economists.

¹¹Firms in export processing zones are permitted to sell up to one-quarter of their production domestically, except for jewellery, diamonds, precious and semi-precious stones/gems, motor cars, alcoholic beverages and silver bullion. As from 1 April 1993, agricultural-related activities have been able to sell up to 50 per cent of their production domestically.

Exporters meeting compulsory quality controls also receive tradeable special import licences equivalent to 1 per cent of their export value.

c. Sectoral policies

Agriculture

24. India has traditionally adopted agricultural policies of self-sufficiency to promote food security. To achieve these policies, the production, marketing and pricing of major agricultural industries have been heavily controlled and regulated by the Government. Statutory marketing boards control to varying degrees the distribution and sale of several important crops, such as spices, tobacco, rubber, tea and coffee. Price support and buffer-stock arrangements also apply to crops including rice, wheat and other main cereals, sugarcane, cotton, oilseeds, tobacco and jute. In addition, the production, pricing and distribution of most fertilizers are controlled as part of the subsidy arrangements in place to assist farmers in using fertilizers. Many of these domestic arrangements are underpinned by trade controls, and agricultural reforms have so far been minimal.

Industry

25. India's industrial development policies have historically been based on government regulation and control, including widespread public sector involvement in key industrial areas and a comprehensive industrial licensing system, aimed at achieving self sufficiency. However, several important reforms have been introduced to support efforts to improve the efficiency of the Indian economy.

26. The rôle of industrial licensing has been reduced in recent years. The 1991 Industrial Policy Statement abolished industrial licensing for all industries, except for 18 specified sectors which remained subject to compulsory industrial licensing for security, social and safety reasons, or as articles of "elitist consumption." This list was reduced to 15 items in 1993 with the delicensing of motor cars, whitegoods and leather (other than chamois leather). Compulsory industrial licensing currently covers goods such as coal, petroleum, sugar, cigarettes, plywood and other timber boards, hides and skins, paper and newsprint, electronic equipment, pharmaceuticals and consumer electronics.

27. The incidence, although still substantial, of price and distribution controls has been reduced. Major commodities still affected by such controls include bulk drugs, coal, urea fertilizers, petroleum products, non-ferrous metals and a number of agricultural commodities.

28. Despite recent attempts to tighten the procedures surrounding assistance provided to designated "sick" firms under the Sick Industrial Companies Act, industrial sickness continues to spread in India, especially in areas of textiles, engineering, chemicals, paper, iron and steel. Rescue packages continue to be financed by state and central governments, and very few firms recommended to the High Court by the Board for Industrial and Financial Reconstruction have been wound up. The Sick Industries Act was amended in 1992 to make mandatory the referral of public sector enterprises to the Board.

¹²To be eligible for benefits, units in export processing zones must achieve a minimum value addition of 20 per cent, although different, and in nearly all cases, higher, value addition norms apply to many electronic, textile, leather, jewellery, gems and other industries, such as granite, cigarettes, telecommunications and trawlers. The maximum value addition rate of 60 per cent applies to computer software and tissue culture plants.

29. The Government has attempted to reduce restrictions on firm closures and labour dismissals through reducing exit barriers and establishing in 1992 a government-funded National Renewal Fund.¹³ The Fund comprises three parts: a National Renewal Grant Fund, an Employment Growth Fund and a Contributory Insurance Fund. Its aim is to reduce the individual costs of labour adjustment associated with industrial restructuring, through the provision of Government subsidies to displaced workers, including especially those employed by sick industries. Workers displaced from the closure of sick industries following recommendations from the Board are to receive grants to facilitate adjustment.

30. The Government has introduced changes in its current industrial policy aimed at improving the efficiency of public sector enterprises (PEs). Direct budgetary support to PEs continues to be a major drain on government finances. The Government reduced in 1991 from 17 to 8 the number of industries exclusively reserved for the public sector. This was subsequently reduced to 6 with the opening up of mining of various ores and metals to the private sector. Apart from arms and ammunition and allied items of defence equipment and railway transport, the only other industries reserved for the public sector are in mining. The Government is attempting to inject greater private competition into markets normally controlled by PEs, including through share divestiture of up to 49 per cent of ownership for certain PEs. Efforts are also being taken to improve financial accountability and operational efficiency by "corporatizing" and "commercializing" PEs, such as through the introduction of Memoranda of Understandings with PEs on agreed performance criteria.

d. Foreign investment and exchange rate régimes

31. In July 1991, the Government liberalized the foreign investment regime by abolishing the requirement that FDI needed to be accompanied by technology transfer agreements, and opening up sectors to foreign investment. Thirty four, mainly manufacturing, sectors were made eligible for automatic foreign-investment approval within two weeks by the Reserve Bank, up to an equity limit of 51 per cent. Applications for FDI outside these areas are reviewed on a case-by-case basis by the Secretariat for Industrial Approvals within the Ministry of Industry. Other applications not falling under the Government's general policies, such as involving foreign equity above 51 per cent, are considered by the Foreign Investment Promotions Board.

32. In March 1992, the Government introduced a dual exchange rate system, called the Liberalized Exchange rate management System (LERMS), as a transitional move towards a market exchange rate system. The exchange rate system was unified in February 1993 when the rupee exchange rate became market-determined. Since then, the Government has taken further steps to ease capital restrictions and to implement current account convertibility for the rupee, as announced in the 1994-95 Budget. Remaining exchange controls on current account transactions were lifted in August 1994, when India accepted the obligations of Article VIII of the IMF Articles of Agreement.

¹³For instance, the Industrial Disputes act of 1947, as amended in 1984, requires government, including state, approval for lay-offs, retrenchment and closure of all plants with more than 100 employees.

IV. Macroeconomic and Trade Developments

33. In mid-1991, India was in the midst of a serious balance of payments crisis, during which foreign reserves declined to just three weeks of imports. The crisis prompted a stabilization effort, involving a substantial reduction in the public sector deficit, supported by currency depreciation and higher interest rates. Over 1991/92-1992/93, the policies contributed to higher domestic savings, lower inflation, narrower current account deficits and a stronger external reserve position. In the 1993/94 fiscal year, however, the fiscal deficit increased and the growth of monetary aggregates and prices accelerated. The balance of payments, nevertheless, continued to improve, and slower import growth contributed to a narrowing of the trade deficit in 1993/94. There was also an increase in the stock of foreign reserves.

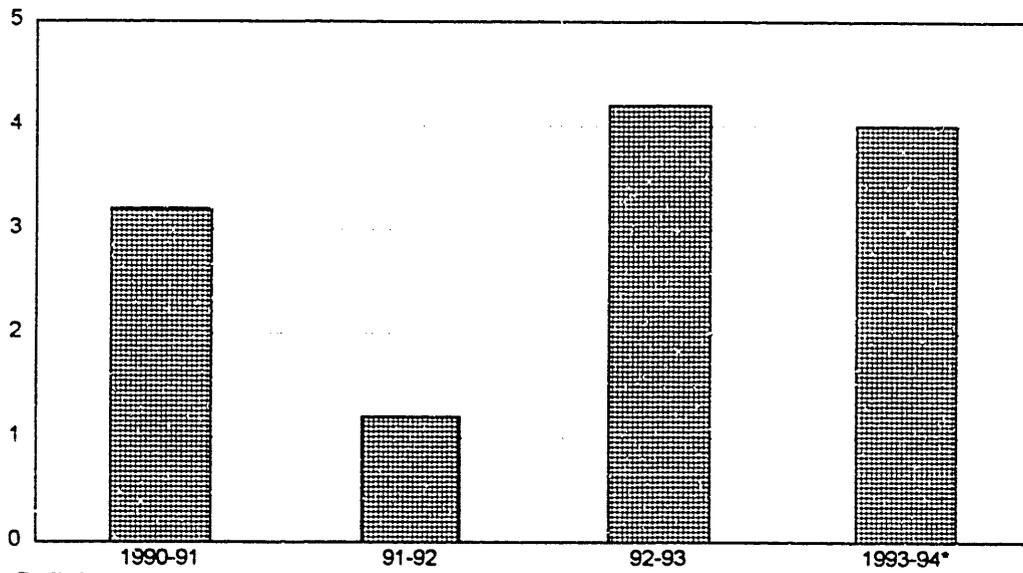
Output and prices

34. Preliminary estimates for 1993/94 indicate that real GDP grew by 4 per cent, a slight decline from the 4.2 per cent growth the previous year (Chart 1A). The favourable monsoon was estimated to have resulted in an agricultural output growth of over 3½ per cent, while industrial production was estimated to have increased by 4½ per cent. The rate of increase in wholesale prices, which had declined from 13.6 per cent in 1991/92 to 7 per cent in 1992/93, increased to 10.8 per cent in 1993/94 (Chart 1B).

35. Gross investment has consistently exceeded gross savings, but the gap between the two narrowed to 0.1 per cent of GDP in 1993/94 from 2.2 per cent the previous year (Chart 2A). The fiscal consolidation initiated in 1990/91 has altered the saving and investment pattern of the public and private sectors. During the 1980s, the rise in net private saving was more than offset by falling public saving. Between 1990/91 and 1992/93, private saving declined as a result of fiscal measures which affected real private incomes while public dis-saving, in the form of the budget deficit, declined. In 1993/94, however, preliminary estimates indicate that public dis-saving has again increased.

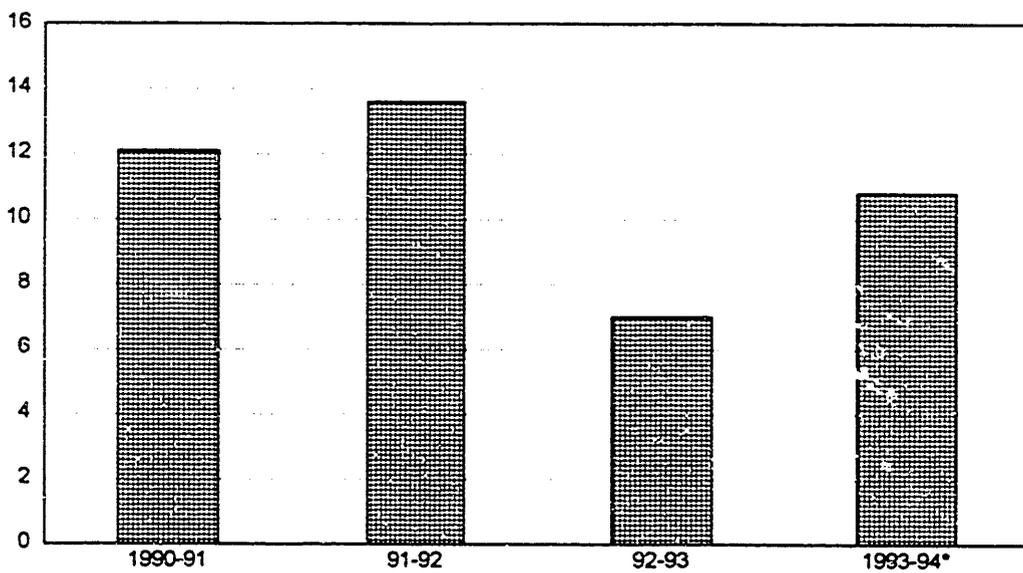
Chart 1 - India - Selected economic indicators, 1990-94

A. Real GDP growth at market prices (Percentage change)



*Preliminary.
Source: IMF.

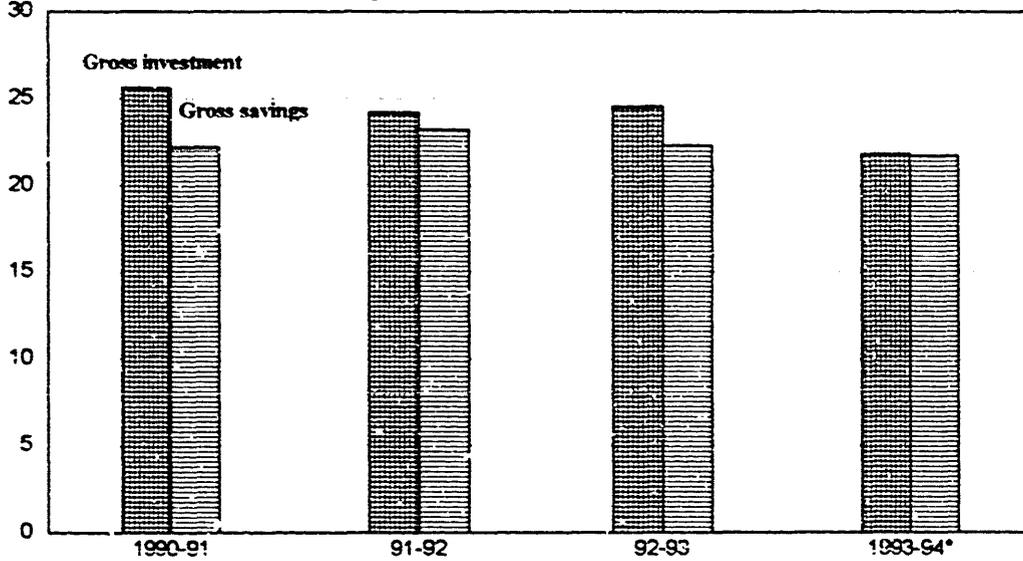
B. Wholesale prices (Percentage change; end of period)



*Preliminary.
Source: IMF.

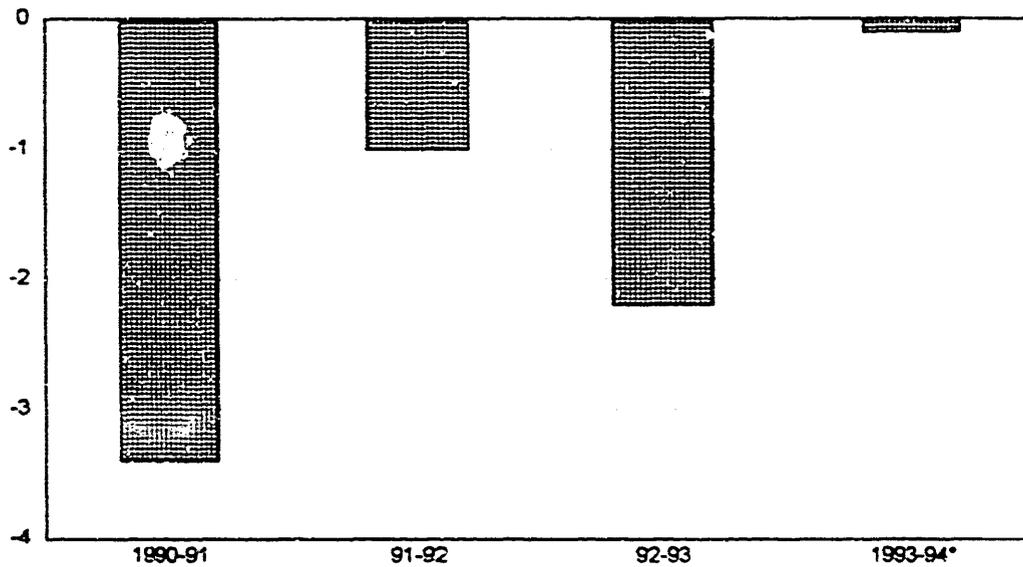
Chart 2 - India - Investment and savings and the current account, 1990-94
(In percentage of GDP)

A. Investment and savings



*Preliminary.
Source: IMF.

B. Current account balance
(Percentage of GDP)



*Preliminary.
Source: IMF.

Public finance

36. Significant fiscal adjustment was undertaken in 1991/92 and 1992/93. Reduced current spending, particularly on defense and subsidies, as well as sharp cuts in capital expenditure and net lending, along with a modest increase in revenue, yielded a decline in the overall public sector deficit from 11.8 per cent of GDP in 1990/91 to 8.8 per cent in 1992/93 (Table 1). However, the fiscal deficit is estimated to have widened by over 2 percentage points in 1993/94. This is attributable to the lower customs revenue collection, reflecting both the slow growth in industrial production and imports, and the tariff cuts. There have also been increases in food and fertiliser subsidies, and higher transfers to states. Central Government debt, which declined during the previous two years, is estimated to have risen to about 57 per cent of GDP in 1993/94, leading also to an increase in the debt service burden.

Table 1 - India: Consolidated Public Sector Operations, 1988/89-1993/94¹
(In percentage of GDP)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Total revenue and grants²	22.2	23.2	21.1	21.3	20.9	19.3
Tax revenue ²	16.9	16.8	16.3	15.7	14.9	13.4
Nontax revenue	5.1	6.2	4.7	5.4	6.1	5.8
Grants	0.2	0.2	0.1	0.2	0.1	0.2
Total expenditure and net lending³	32.3	34.7	32.9	30.9	29.7	30.4
Current expenditure	23.0	23.7	23.3	22.4	25.7	33.9
Capital expenditure	10.1	11.7	10.3	9.4	8.9	9.4
Loan repayments	0.8	0.7	0.7	0.8	0.6	0.5
Overall deficit (-)	-10.1	-11.5	-11.8	-9.7	-8.8	-11.1

1 The consolidation covers budgetary transactions at the levels of the Centre and State Government, the departmental undertakings of both levels of Government, the balance of the Oil Coordination Committee, and the central public enterprises.

2 Including internal resources of public enterprises indicated in footnote 1.

3 Including investment expenditure by public enterprises indicated in footnote 1.

Source: IMF.

Money

37. The fiscal adjustment during 1991-93 led to a marked decline in Government borrowing from the banking system. Reduced monetization of the deficit, together with a tightening of monetary policy and higher interest rates, contributed to slower growth in the broadly defined money supply. The growth of monetary aggregates increased in 1993/94, with a large proportion of the fiscal deficit financed by higher net borrowing from the Reserve Bank of India. Broad money growth increased from 15.5 per cent in 1992/93 to an estimated 17.8 per cent in 1993/94.

Exchange rate

38. Prior to 1992, the exchange rate was determined on the basis of a basket of currencies of India's major trading partners. In March 1992, a dual exchange rate system was created as a transitional measure in the move toward a more market-determined exchange rate. On 1 March 1993, the exchange rate was unified and made fully convertible for trade account transactions. Since unification, the Reserve Bank of India has intervened in the market to rebuild foreign reserves and to keep the nominal exchange rate stable. The rupee has remained at Rs 31.5 to the U.S. dollar, while the real effective exchange rate has appreciated by about 5 per cent since March 1993.

Balance of Payments

39. India's external position has strengthened significantly over the past three years. By 1992/93, the shrinkage of CMEA trade had run its course, and exports began to recover. Nevertheless, the current account deficit widened to 2 per cent of GDP in 1992/93 (Table 2 and Chart 2B) as a consequence of the surge in imports (12 per cent in volume terms). In 1993/94, the current account deficit narrowed to less than ½ per cent of GDP. Exports in U.S. dollar terms increased by an estimated 18 per cent, with agricultural products, textile and clothing, and various engineering goods all doing well. At the same time, imports increased only by a little over 1 per cent, reflecting lower international oil prices, slow industrial recovery and the effects of the earlier exchange rate depreciation. As a result the trade deficit for 1993/94 was estimated to be about 1 billion U.S. dollars compared to over 4 billion dollars in 1992/93.

Table 2 - India: Balance of Payments, 1988/89-1993/94
(In millions of U.S. dollars)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Current Account						
Trade balance	-9,077	-7,469	-9,437	-2,124	-4,106	-1,040
Exports, f.o.b. ¹	14,262	16,945	18,477	18,223	18,789	22,170
Imports, c.i.f. ²	23,339	24,414	27,914	20,347	22,895	23,210
Oil	3,021	3,765	6,028	5,364	6,100	6,200
Non-oil (customs)	16,483	17,487	18,045	14,047	15,626	15,810
Noncustoms	3,835	3,162	3,841	936	1,169	1,200
Invisibles balance (net)	283	-598	-703	-437	-1,171	333
Nonfactor services	731	800	980	677	220	755
Net investment income ³	-3,095	-3,687	-3,752	-3,799	-3,591	-3,722
Private transfers	2,647	2,289	2,069	2,685	2,200	3,300
Current account balance	-8,794	-8,067	-10,140	-2,561	-5,277	-707
Capital Account						
Direct and portfolio investment	298	341	112	200	390	5,250
Net aid	3,102	2,996	2,671	2,384	1,372	1,341
Loans	2,626	2,504	2,210	1,958	1,016	759
Disbursements	3,594	3,537	3,397	3,360	2,555	2,511
Amortization	968	1,033	1,187	1,402	1,539	1,752
Grants	476	492	461	426	356	582
Commercial borrowing	2,157	2,505	3,210	1,026	-1,758	478
Disbursements	2,862	3,146	4,924	2,126	-385	2,302
Medium- and long-term	2,609	2,229	4,042	2,708	888	2,052
Short-term (net)	253	917	882	-582	-1,273	250
Amortization	705	641	1,714	1,100	1,373	1,824
Private nonguaranteed ⁴	-105	-86	230	39	34	24 ^o
Disbursements	175	223	520	317	300	500
Amortization	280	309	290	278	266	251
Nonresident deposits	2,576	2,223	1,536	-454	1,949	895
Bilateral arrangement	182	-529	-1,628	-1,461	-1	-907
Other (including errors and omissions) ⁵	138	653	1,517	2,663	2,397	1,009
Capital account balance	8,398	8,103	7,648	4,397	4,187	8,315
Overall balance	-396	36	-2,492	1,836	-1,090	7,608

¹ Data prior to 1990/91 reflect a different classification and timing of military debt service (which was included in imports). They are thus not consistent with the more recent figures.

² Excluding crude oil exports.

³ Including net crude oil imports.

⁴ Includes accrued interest on nonresident deposits. Excludes interest paid on nonrepatriable nonresident rupee deposits. Excludes interest paid to the Russian Federation under the debt agreement; this is included in the bilateral arrangements line in the capital account, as these payments can only be used to finance Indian exports to the Russian Federation.

⁵ Medium- and long-term.

⁶ Includes valuation adjustment on non-U.S. dollar reserves.

Source: IMF

40. The invisibles balance was positive in 1993/94 for the first time since 1988/89. Net trade in nonfactor services, which include inter alia insurance, engineering, construction and telecommunication recovered to US\$755 million in 1993/94 after registering a low of US\$220 million in 1992/93. The net outflows of investment income were partially offset by the inflows of private transfers which included remittances from workers abroad.

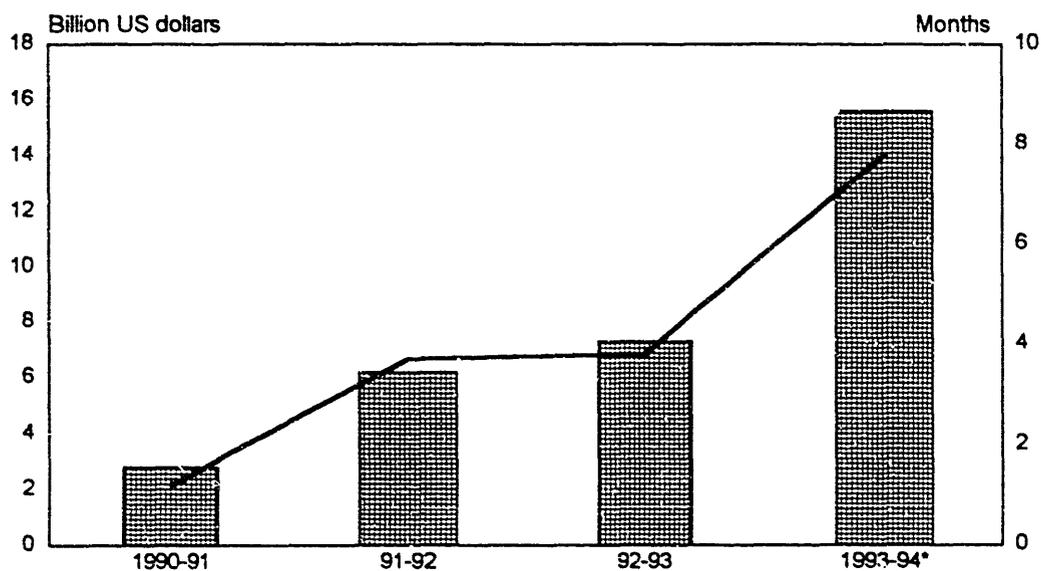
Capital account

41. The most striking development on the capital account was the increase in inflows of foreign direct and portfolio investment, from less than US\$400 million in each of the years between 1988/89, to over US\$5 billion in 1993/94. The increased inflows reflected the steps taken to attract foreign investment, which included the authorization to foreign institutional investors to purchase equity on local exchanges, and the reduction of the capital gains tax on such investments. In addition, there have been significant overseas shares issues by Indian companies and substantial direct investment has been approved in the petroleum and energy sectors.

42. The authorities have also made an effort to alter the composition of capital flows so as to lessen the magnitude and volatility of external debt service. A large share of the country's short-term obligations was repaid in 1991/92 and 1992/93, leading to a significant reduction in the stock of official short-term debt. In January 1993, India reached agreement with the Russian Federation on the treatment of debts owed to the former Soviet Union, the repayments of which are included under the item "bilateral arrangements."

43. The stronger current account position, together with substantial inflows of foreign direct and portfolio investment, pushed gross international reserves to over US\$15 billion at the end of the 1993/94 fiscal year, which was equal to nearly eight months of imports (Chart 3).

Chart 3 - India - Gross reserves, 1990-94
(End of period; billion US dollars and months of imports)



Note: The right-hand scale indicates months of imports.

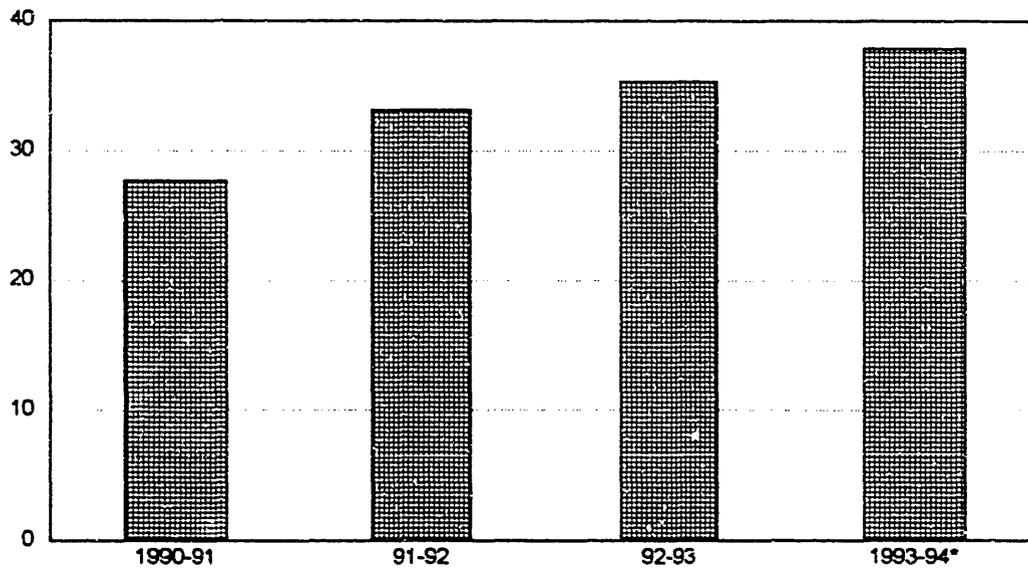
*Preliminary.

Source: IMF.

Foreign indebtedness

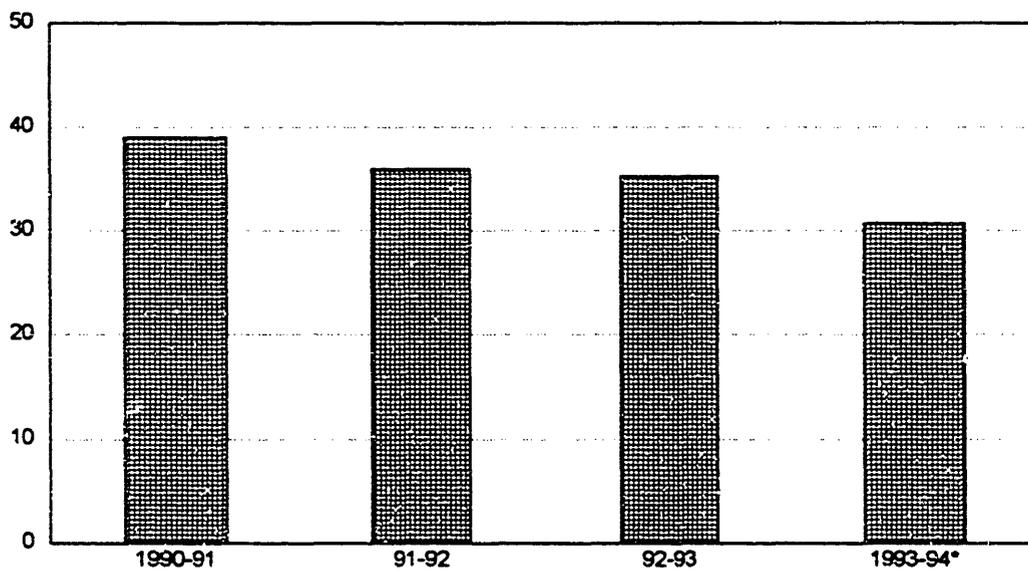
44. External debt has increased from nearly 28 per cent of GDP in 1990/91 to nearly 38 per cent of GDP in 1993/94 (Chart 4A). However, over the same period debt service as a percentage of current account receipts has declined from 39 per cent to less than 31 per cent due to lower international interest rates (Chart 4B). The debt service ratio is expected to increase temporarily in the mid-1990s as repayments on prior obligations fall due.

Chart 4 - India - External debt and external debt service, 1990-94
A. External debt (percent of GDP; end of period)



*Preliminary.
Source: IMF.

B. External debt service (percentage of current account receipts)



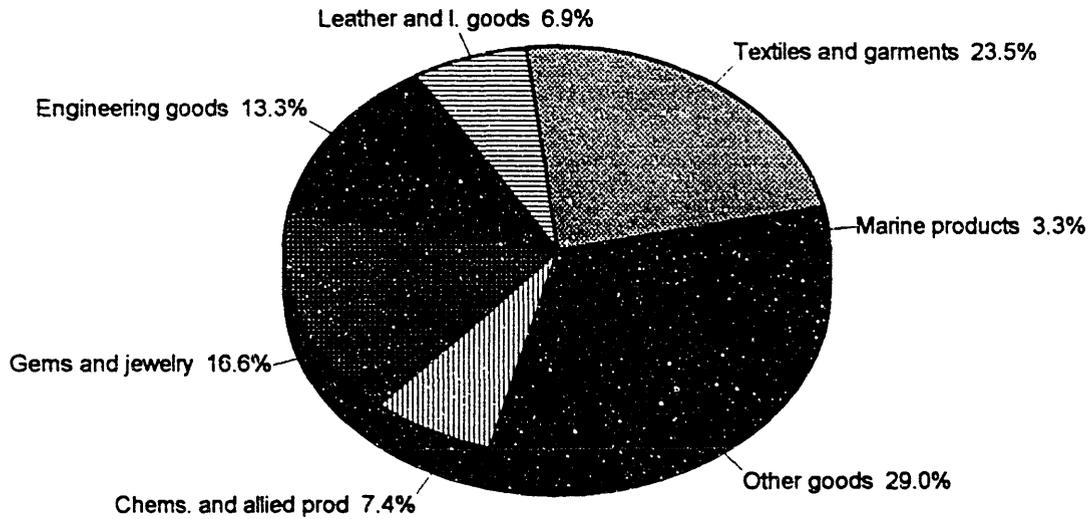
*Preliminary.
Source: IMF.

Pattern of Trade

45. India's principal exports in 1992/93 included textiles and garments (23.5 per cent of total exports), gems and jewelry (16.6 per cent), engineering goods (13.3 per cent), chemicals and allied products (7.4 per cent), and leather and leather goods (6.9 per cent) (Chart 5A). Compared to 1988/89, the share of textiles and garments, engineering goods and chemical and allied products has increased, while that of gems and jewelry and leather and leather goods has declined. The principal imports in 1992/93 included crude oil (18.4 per cent of total imports), machinery and transport equipment (14.9 per cent), gems (11.5 per cent), petroleum products (10.6 per cent) and chemicals (7.0 per cent) (Chart 5B). Compared to 1988/89, crude oil and petroleum products have increased significantly in importance, while the share of most other imports has either declined or stagnated.

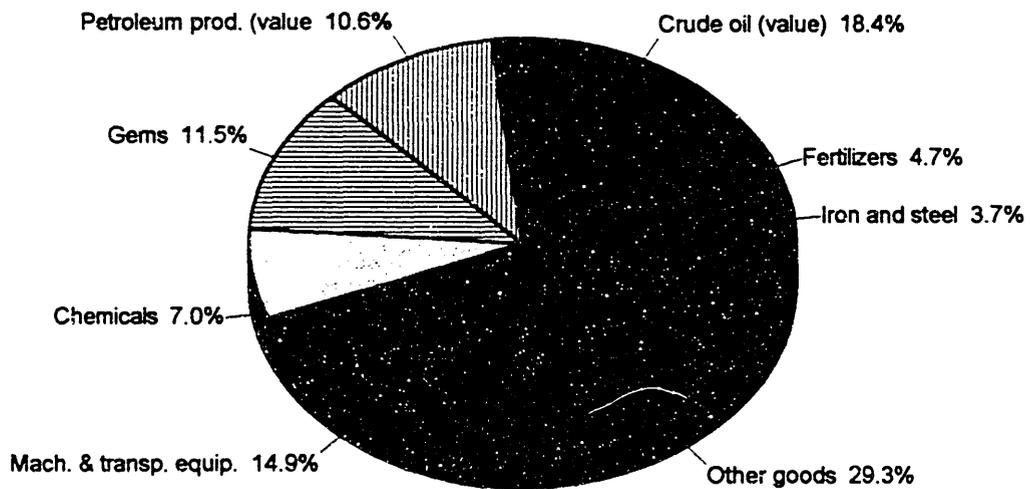
46. The European Community was India's most important trading partner in 1992/93, accounting for over 28 per cent of its exports and over 30 per cent of its imports (Charts 6A and 6B). Within the Community, Germany and the United Kingdom have the largest share, each accounting for around a quarter of the Community's exports and imports. The United States was the destination for nearly 19 per cent of India's exports and the source of nearly 10 per cent of its imports. The oil exporting countries bought less than 10 per cent of India's exports but provided nearly 22 per cent of its imports, while Japan accounted for nearly 8 per cent of exports and provided 6½ per cent of its imports. Eastern Europe, which accounted for nearly 17 per cent of India's exports in 1988/89 was the destination for less than 4½ per cent in 1992/93, while its share in imports declined from nearly 7 per cent to less than 3 per cent.

Chart 5A - India: Principal exports, 1992/93



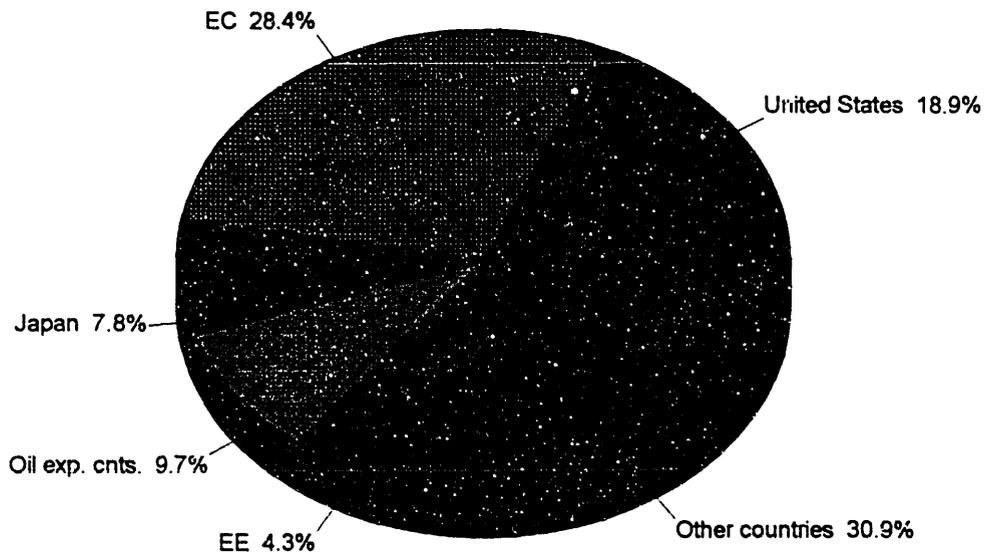
Source: IMF.

Chart 5B - India: Principal imports, 1992/93



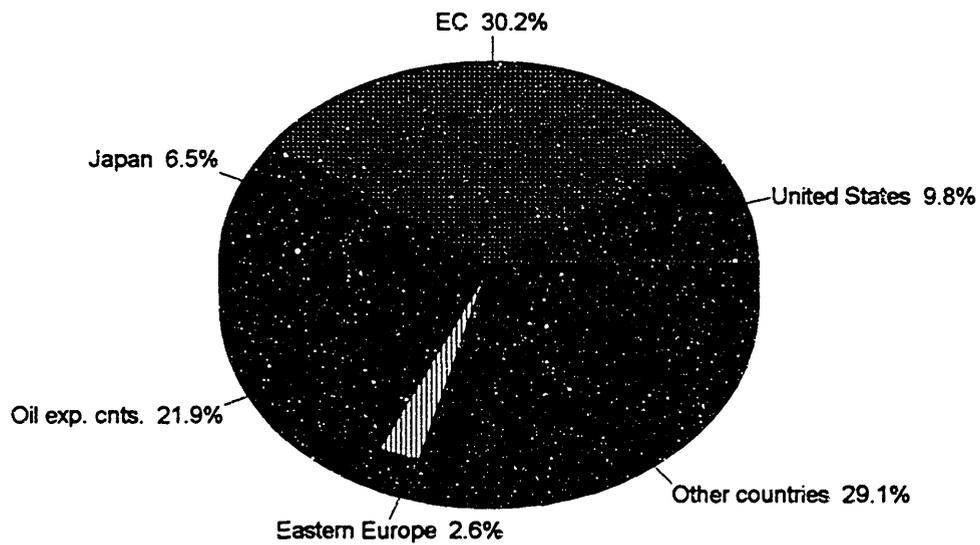
Source: IMF.

Chart 6A - India: Direction of trade, exports by destination, 1992/93



Source: IMF.

Chart 6B - India: Direction of trade, imports by origin, 1992/93



Source: IMF.