BOLD REFORMS ARE INCREASING INDIA'S INTERNATIONAL COMPETITIVENESS
BUT FURTHER MOVES ARE NEEDED - SAYS GATT

Recent reforms by India to create a less regulated, more market-oriented economy are improving resource efficiency and increasing India's international competitiveness on domestic and export markets, according to a GATT Secretariat report on the country's trade policies and practices. The report observes that the reforms are now "turning the economy's orientation outward ... a paradigm shift away from economic intervention towards greater reliance on the interplay of market forces."

The GATT report observes that the "bold structural and budgetary reforms" begun in mid-1991, in the wake of an economic crisis, have liberalized many foreign trade and financial policies, relaxed rules on foreign direct investment, abolished industrial licensing for certain products and reduced the number of industries reserved for the public sector.

The developments in the last two years mark a sharp departure from India's previous almost closed trading regime, which was characterized by widespread regulatory controls, central planning and overall objectives of self-sufficiency in agriculture and several key manufacturing sectors.
In the past, notes the report, tariff peaks, as high as 355 per cent, were widespread. Tariffs, which have been reduced progressively to a maximum 85 per cent in 1993 (with some exceptions), are expected to be gradually lowered to an (import-weighted) average of 25 per cent by 1997, when rates will range from zero to 50 per cent. The report states that, even though non-ad valorem duties have been virtually eliminated and revenue-raising auxiliary duties were merged with basic tariffs in April 1993, the Indian tariff structure remains distortive, complicated and non-transparent. "Complexity of the tariff concession system makes it difficult to evaluate and assess the economic effects of India's tariff structure, including the impact of recent reforms," says the report. "It is important for trading partners and the domestic economy that India pursues a movement towards lower, more uniform rates." At present, fewer than one per cent of India's tariff lines are bound within the GATT.

Other areas affected by the recent trade reforms include import licensing, agriculture, manufacturing and state-trading. Reforms have had positive effects on policies in these areas, but the GATT believes that further efforts should be undertaken to encourage greater efficiency of resource allocation. In particular, the report notes, liberalization of import licensing has focused on capital and intermediate goods, particularly for exporters; "the retention of stringent import licensing on consumer goods further escalates effective protection for such products, encouraging sub-optimal investment decisions."

The report notes that Indian agriculture, insulated from international price signals, has been directed primarily to satisfying the domestic market. By controlling trade and administratively setting internal prices, the Government has implicitly taxed production of many agricultural commodities. However, some crops, such as sugar and oilseeds, appear to benefit significantly from assistance.

Although the scope of state trading in India has been reduced since 1991, state enterprises retain monopoly control over certain imports (petroleum, fertilizers, drugs, edible oils and cereals) and exports (petroleum products and certain dairy goods). Moreover, several key manufacturing industries continue to be dominated by public sector enterprises, in areas often regulated by compulsory industrial licensing. The report also finds that governmental financial assistance, including subsidies, concessional loans and tax advantages, continues to support self-sufficiency in certain sectors.

The report notes that benefits linked to export performance have been increased. Such assistance, while aimed at counteracting the "still significant anti-export bias of India's trade policies," carries its own risk of resource misallocation. The report urges the Government to take "a more neutral stance ensuring that domestic producers are given unbiased signals as between sales on home and export markets." This, says the report, would maximise the benefits to the Indian economy from trade reforms.

India is a founding member of GATT, a signatory or observer to all the Tokyo Round MTN Agreements and an active participant in the Uruguay Round.

The report observes that "the performance of India's industrial sector in the 1980s is testimony to its potential under further liberalization". The future pace and depth of India's autonomous trade reforms would be helped by the maintenance of an open, stable and predictable global trading regime, underlining once again the importance of a successful conclusion of the Uruguay Round.

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Indian Government, will be discussed by the GATT Council on 19-20 October 1993. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT
member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The two reports, together with a record of the Council’s discussion and of the Chairman’s summing up, will be published in early 1994 as the complete trade policy review of India and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

3. The reports cover developments in all aspects of India’s trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

4. Since December 1989, the following reviews have been completed:
TRADE POLICY REVIEW MECHANISM

INDIA

Report by the Secretariat - Summary Observations

Since June 1991, India has markedly accelerated its movement towards an open outward-oriented trade policy. This new direction stands in sharp contrast to its earlier economic and trade strategies, which were based on promoting domestic industry and achieving self-sufficiency in many areas of the economy, through central planning, extensive Government intervention, a major rôle for the public sector and import substitution. The present economic orientation reflects a recognition that previous policies, with a highly protectionist trading régime and widespread regulatory controls, had contributed greatly to the economic crisis of the early 1990s.

During the 1980's, India's real GDP growth averaged some 5 per cent, fuelled initially by expansion of manufacturing following a degree of liberalization in industrial trade and exchange rate policies. However, in the latter part of the 1980s and early 1990s, expansionary fiscal policies, while leading to rapid growth (of almost 10 per cent in 1988) caused increasingly large budget deficits, a widening savings-investment gap, and a growing current account deficit, despite strong growth in the volume of merchandise exports. These macroeconomic imbalances, exacerbated by the effects of the Gulf crisis of 1991 on India's current account, led to capital flight and a virtual cessation of foreign lending; official reserves fell to only two weeks of imports. This critical situation helped to precipitate a dramatic shift in economic policies.

The measures undertaken in 1991 and 1992 to stabilize the economy included steps to reduce the budget deficit, tighter monetary policy, and the introduction of a unified, market-determined exchange rate. These macroeconomic measures were accompanied at an early stage by a paradigm shift in trade and industrial policies, under which the scope of import and industrial licensing has been much reduced and tariffs are being rationalized.

The stabilization measures have led to a marked reduction of inflation, export growth and improving balance of payments, and a rapid rise in foreign exchange reserves. However, overall economic growth is still low and the budget deficit higher than projected; real interest rates remain relatively high, although the Reserve Bank has reduced rates considerably since autumn 1992. The Government's concern is to stimulate growth and investments while maintaining prudent macroeconomic management.

By redirecting industrial and trade policies, India's reforms are increasingly opening the economy to world influences. Controls on imports and the establishment of industry are being liberalized. Tariffs are progressively replacing licensing as the main element in import protection, and are themselves being reduced and rationalized. Although significant steps remain to be taken, a notable shift has taken place in India's trade and industrial policies and practices. Given the important rôle played by state governments in sectoral development, it is essential that reforms be complemented at the state level.

India in World Trade

Under its former highly restrictive, inward-looking policies, India largely isolated itself from the world economy. This led to long periods of stagnant trade performance. India's participation in world trade declined from 3.6 per cent in 1950 to 1.2 per cent in 1970. During this period, real GDP
growth averaged some 3.8 per cent, leading to per capita income growth of around 1.7 per cent. The average level of per capita income is still low, standing at almost US$300 in 1991.

The partial economic reforms of the 1980s led to an increase in the share of exports in India's GDP, from 5 per cent in 1980 to 7 per cent in 1991. However, the share of imports did not increase and merchandise trade overall continued to represent a relatively low share of GDP, rising from 13 to 14 per cent in the period. Intra-industry trade doubled from a low base in the period. The main export growth was in manufactures, which accounted for 70 per cent of exports in 1991; major areas of expansion included chemicals, clothing, iron and steel, and precious and non-precious stones and jewellery. India's favourable export position in certain key agricultural products, such as tea, has been eroded over recent years.

The main destinations for India's exports in 1991 were the European Communities, with 27 per cent of total merchandise exports, followed by the United States (16 per cent), east Asian markets (12 per cent) and central and eastern European countries (11 per cent). The substantial decline in the latter's importance reflects the collapse of the Rupee Trading Area, precipitated by the reforms in central and eastern European countries. India's trade with republics of the former Soviet Union, for example, dropped by almost half to 9 per cent in 1991-92. The main sources of India's imports in 1991 were the European Communities (28 per cent), Middle Eastern countries (17 per cent) and the United States (10 per cent). Like exports, imports from central and eastern European countries have also fallen sharply since 1990, from 5 to 2 per cent in 1992.

Institutional Framework

The Republic of India is a federation of 25 States and 7 Union territories. The legislative authority of the Central or Union Government rests with a bicameral parliament, consisting of the Council of the States (Rajya Sabha) and the House of the People (Lok Sabha). Bills, once passed by both Houses of Parliament, become law upon receiving the President's assent. The division of responsibilities between the Union and State Governments is specified in the Constitution. International trade matters fall exclusively under Union jurisdiction; however, States have constitutional control over significant areas of sectoral development, such as agriculture, industrial site approval and the provision of certain services, such as electricity and irrigation facilities.

Policy-making and executive authority is vested in the Union Government, led by the Council of Ministers headed by the Prime Minister, who must be a member of Parliament. Ministers are appointed by the President, on the advice of the Prime Minister. The Council of Ministers is collectively responsible to the House of the People. A number of Cabinet Committees exist to examine major policy questions; notably the Committee on Trade and Investment, chaired by the Prime Minister. Various expert committees are also established from time to time to provide policy advice; for example, India's taxation system was recently reviewed comprehensively by the Tax Reforms Committee, whose policy recommendations on a future tariff structure have been generally endorsed by the Government.

The Ministry of Commerce is primarily responsible for formulating and implementing India's trade policies in accordance with the newly enacted Foreign Trade (Development and Regulation) Act. This key legislation, replacing the Imports and Exports (Control) Act of 1947, more clearly reflects the liberalized stance of the current 5-year Export and Import Policy, introduced on 1 April 1992. Customs matters are administered by the Central Board of Excise and Customs within the Ministry of Finance which, along with the Reserve Bank of India, has played a major rôle in formulating the macroeconomic reform programme. Sectoral development remains primarily in the hands of specific ministries and departments, such as Agriculture, Chemicals and Fertilizers, Coal, Food, Food Processing
Industries, Industry, Mines, Petroleum and Natural Gas, Rural Development, Steel and Textiles. Relevant ministries are regularly consulted on trade-related issues by the Ministry of Commerce, often through the formation of ad hoc committees. The current Export and Import policy, for example, under which many licensing restrictions and discretionary controls have been abolished, was developed by the Committee on Trade Policy Reforms under the chairmanship of the Commerce Secretary.

The Government interacts both formally and informally with the private sector in setting trade-related policies. The Board of Trade, headed by the Minister of Commerce and comprising Secretaries from key ministries such as Commerce, Industry, Textiles and the Prime Minister’s Office as well as the Governor of the Reserve Bank, is the highest level at which the Government and the private sector formally discuss trade policy. The Board, which also includes representatives of major private sector associations, such as the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Associated Chambers of Commerce and Industry (ASSOCHAM), normally meets twice to three times annually. Advice is also provided by the various commodity boards and export promotion councils established under the umbrella of the Ministry of Commerce, as well as by a number of public and independent academic and research institutions.

No independent statutory body exists in India to advise the Government on, or to review, its trade-related policies, including the public provision of industrial assistance. The Bureau of Industrial Costs and Prices advises the Government on matters relating to price and cost structures of domestic industries, including the appropriate tariff levels needed to provide adequate protection to industries. The replacement of the Bureau with a Tariff Commission, as initially suggested by the Government and supported by the Tax Reforms Committee, should make the tariff system more transparent and open to public scrutiny. Consideration could also be given to expanding the rôle of such a body to cover other forms of public assistance, such as non-tariff barriers and financial support.

Trade Policy Features and Trends

India’s trade and sectoral policies are set in the framework of indicative five-year plans and subsidiary policy documents. Plans are developed by the Planning Commission under the direction and final approval of the National Development Council, which includes the Prime Minister and chief ministers of the States. The current Plan, which runs from 1992-93 to 1996-97, projects real annual average economic growth of 5.6 per cent, and increases of over 10 per cent per annum in export volumes. It places emphasis on the need for further trade reforms, such as lowering tariffs and further pruning of import and export licensing, as well as on greater industrial deregulation and a reduction in the scope of price and distributional controls.

India is a founding member of GATT, with formal membership dating from 8 July 1948. India has accepted the Tokyo Round MTN Agreements on Anti-dumping and Countervailing Measures, Customs Valuation, Import Licensing, Subsidies and Technical Barriers to Trade. It has observer status in the Agreements on Government Procurement and Trade in Civil Aircraft, and is also a signatory to the Multifibre Arrangement (MFA). India has participated actively in the Uruguay Round, both individually and often as spokesperson for developing countries. It has consistently justified its import licensing procedures and, in the past, certain additional customs duties, under the balance-of-payments provisions of Article XVIII:B of the General Agreement.

Tariffs are applied on an m.f.n. basis to well over 90 per cent of imports. Preferences are extended to certain trading partners under the GSTP and regional agreements such as the Bangkok Agreement and the South Asian Association for Regional Cooperation (SAARC). Efforts are well advanced to strengthen SAARC through the formation of a South Asian Preferential Trading Arrangement.
Indian exports are eligible for GSP treatment from most developed countries. However, on 19 May 1991 the United States suspended GSP treatment on Indian exports mainly of pharmaceuticals and chemicals, amounting to approximately 10 per cent of India’s GSP exports to the United States.

Recent evolution

The need for sweeping reforms in India’s economic policies became urgent following the crisis of 1991. The incoming Government rapidly took corrective action to stabilize the economy by restraining public expenditures, controlling inflation and strengthening the balance of payments. These macroeconomic measures were quickly supported by steps to liberalize trade-related and sectoral policies. The international competitiveness of Indian industries was boosted by substantial real devaluations and successive exchange rate reforms, culminating in the recent introduction of a unified, market-determined rate. Rules on foreign and domestic investment were substantially relaxed; industrial licensing was abolished for certain products; the number of industries reserved for the public sector was markedly reduced; and steps were taken to liberalize the financial and foreign trade régimes.

Trade-related reforms introduced since July 1991, mainly during annual budgetary sessions, have begun removing major impediments to structural change, necessary if the Indian economy is to prosper in the longer term. The reforms have focused primarily on cutting tariffs and reducing licensing restrictions through the introduction, and pruning of negative lists for imports (and exports). Tariffs have been lowered using mainly a "tops-down" approach; peak applied rates have fallen from 355 per cent in 1991 to 85 per cent (with some exceptions). At the same time, selective reductions have been made in lower tariffs, especially on imports of capital and intermediate goods. Substantial liberalization has also been made to India’s import licensing régime; however, blanket licensing restrictions on imports of consumer goods (broadly defined), as well as canalization of key products, continue to insulate many domestic industries from international competition, thus undermining the potential resource-efficiency gains to be made from tariff reductions.

Self-sufficiency remains a central policy objective in the agricultural and some industrial sectors. Relatively few major reform initiatives have so far been taken in the agricultural and food processing industries. The pricing and marketing of key crops are still controlled by statutory marketing boards, and are subject to floor price schemes and buffer stock arrangements. On some crops, such as wheat and rice, these procurement arrangements form an integral part of the Government’s food subsidy programme, implemented through the Public Distribution System.

Agricultural development and food security remain basic tenents of India’s policy. However, evaluating the net impact of India’s farm policies on incentives for, and patterns of, food and other agricultural products is difficult, given the complexity of the arrangements and their sometimes conflicting effects. On balance, however, it appears that the farm sector may have been penalized relative to industry, and that within agriculture, highly assisted crops have been encouraged compared to those which India is able to produce at world prices.
Type and incidence of trade policy instruments

India remains a high-tariff economy. The simple average rate is still 71 per cent, although substantially down from 125 per cent in 1990-91. The highest tariff of 85 per cent continues to apply to about one-quarter of tariff lines. Substantial tariff escalation occurs in certain areas. Moreover, applied rates have, under the reform programme, tended to become more disperse, thereby potentially undermining some of the efficiency gains from tariff reductions. The increased effective assistance resulting from greater tariff escalation is likely to be compounded in the case of consumer goods, where restrictive import licensing continues.

Despite steps taken to simplify its structure, including the virtual elimination of non-ad valorem duties and the merging of revenue-raising "auxiliary" duties with basic tariffs from April 1993, the Indian tariff structure remains complicated and non-transparent. Widespread general or specific tariff concessions reduce effective (applied) rates below standard (statutory) rates, often creating multiple rates within tariff lines and among different importers. These concessional arrangements, primarily aimed at benefitting exporters, often overlap. Complexity of the tariff concession system makes it difficult to evaluate and assess the economic effects of India's tariff structure, including the impact of recent reforms.

Fewer than 1 per cent of India's tariff lines are bound under GATT. The authorities have indicated that a revised schedule of bindings, covering approximately half of all tariff lines, is to be offered within the Uruguay Round. Customs valuation procedures are consistent with the Tokyo Round Code.

Despite ongoing reforms, discretionary import licensing, administered through the Negative Import List, continues to affect over one-third of all tariff lines and insulates a substantial share of domestic production from import competition. Virtually all imports of consumer goods (broadly defined) remain subject to such restrictions, which in practice amount to prohibitions in many cases, as are a range of other goods, such as certain electronics, pesticides and insecticides, pharmaceuticals, chemicals and items reserved for the small-scale sector. Import competition is further controlled by "actual user" conditions applied to licensed imports, while some goods, such as newsprint, are subject to mixing and other requirements. As with tariff reductions, licensing reforms have focused on imports of capital and intermediate goods, particularly for exporters.

Although the scope of State-trading in India has been reduced since 1991, State enterprises retain monopoly control over certain imports and exports. Canalized imports include petroleum products, fertilizers, drugs, edible oils and cereals; the main exports affected are petroleum products and certain dairy products. The rôle played by State-trading and other firms granted licensing privileges lessens the transparency of the trading régime, creating uncertainties for importers and continuing a system that, in the past, has been used to provide privileges to state enterprises over the private sector.

Sectoral policies aimed at self-sufficiency persist in several key manufacturing industries, such as steel, pharmaceuticals, transport equipment, electrical and non-electrical machinery and equipment, chemicals, food processing and petroleum. Precise details of these plans, including financial support, remain obscure and their effects largely non-transparent. Many of these sectors are dominated by public sector enterprises, in areas often regulated by compulsory industrial licensing. Substantial government financial assistance, in a variety of forms, such as subsidies, grants, concessional loans and guarantees, tax concessions, equity investments and R&D funding, is often provided for firms to modernize and upgrade production facilities. Such funding, often financed by consumers through production levies, is usually administered by specific departments responsible for the development of key sectors. Structural

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adjustment assistance is also provided to industries, such as textiles, to rehabilitate declared "sick" firms. While abolished for new projects from July 1991, local content requirements, formerly implemented through negotiated case-by-case Phased Manufacturing Programmes in such areas as transport equipment and electronics, continue to apply, albeit with reduced effect.

Government procurement policies authorize the provision to domestic suppliers of price and purchase preferences over imported products. A general preferential price margin of 15 per cent can be increased to 25 per cent in cases where the domestic supplier would be uncompetitive at a lower margin. An additional margin of 15 per cent is provided to small-scale units over firms located in the large-scale sector. Registered foreign firms may be invited to tender "when considered desirable". Government procurement contracts are not required to include counterpurchase arrangements; however, countertrade proposals by suppliers are taken into account when selecting a preferred supplier.

India's standards, which essentially follow international norms and, in many other cases, are less stringent, do not appear to be a major trade impediment. India is seeking to harmonize national standards with accepted international norms, and considers foreign requirements, such as those of the European Communities, in preparing its own national standards. Indian standards are essentially non-mandatory, and do not distinguish between imported and domestically-made products. India recognizes testing procedures and results from other countries under several international agreements.

Although export restrictions have been removed and simplified in some areas, exports of certain key goods remain controlled through canalization, prohibitions, quotas or minimum export prices (mainly applied to agricultural commodities), taxes, licensing restrictions and registration. Every exporter must be a member of the relevant statutory Export Promotion Council; these largely product-specific bodies receive financial assistance from the Government to promote exports. Many export controls, such as prohibitions applied to unprocessed and semi-processed wood, are partly aimed at ensuring adequate domestic supplies and promoting greater domestic value added. Compulsory quality control and pre-shipment inspection applies to a wide range of exports, often incorporating international norms. Exporters meeting these requirements are now granted tradeable special import licenses equivalent to 1 per cent of their export value.

Direct export assistance continues to be provided through concessional income tax provisions which, inter alia, exempt export income from taxation, thereby providing a substantial subsidy of up to 65 per cent. Moreover, outstanding payments are still being made under the former Cash Compensatory Support Scheme. Exporters also benefit from the concessional export credit provided by commercial banks and other arrangements favouring the provision of export finance, such as the Reserve Bank directive for banks to achieve export credits of at least 10 per cent of total advances by June 1993, or risk penalties. Export credit insurance and guarantees are provided by the Government-owned Export Credit Insurance Corporation, which is under the administrative control of the Ministry of Commerce and has received considerable capital contributions from the Government to overcome a relatively low capital base. In addition, numerous Government-financed or sponsored schemes operate to encourage exports by providing marketing and other promotional assistance, such as Market Development Assistance and the activities of the India Trade Promotion Organization.

A key policy objective of the Government is to promote export growth, especially in traditional and other areas identified as priority export-thrust products - items capable of achieving annual export growth of 30 per cent. Exporters are given tariff incentives under the Export Promotion Capital Goods Scheme and the Duty Exemption Scheme; special promotional import licensing schemes apply to certain exporters, including those exporting diamonds, gems and jewellery. Such incentives are often coupled with requirements to meet certain export performance obligations and/or minimum value-added

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provisions. Evaluating the effects of these schemes, which tend to undermine the transparency of the tariff and import licensing systems as well as the export régime, is difficult as obligations often vary widely across products, and appear to be arbitrarily set using administrative discretion.

Moreover, firms meeting certain export performance criteria and designated as export houses, trading houses, and star trading houses, receive additional benefits, such as special import licences to import a specified range of restricted items, as well as tradeable special import licences, equivalent to up to 4 per cent of their value of exports. Special benefits, including duty free importation of licensed goods and tax concessions, apply to exporters located in export processing zones, of which there are currently seven. Similar benefits are also available to other firms producing exclusively for export markets (so-called 100 per cent Export Oriented Units).

Temporary measures

Although Indian legislation authorizes safeguard action through tariff increases in order to protect domestic industries, such action has never been taken.

Indian legislation for providing anti-dumping relief is based on the Tokyo Round Code. India imposed its first ever provisional anti-dumping duties on PVC imports from four countries in January 1993. Despite a spate of anti-dumping allegations recently in key industrial areas, the Government has taken a cautious approach, and only two other anti-dumping investigations have been initiated. One, on styrene butadiene rubber, was terminated after a negative injury finding; the other, on bisphenol-A, is still in progress. Sunset clauses do not exist in India’s anti-dumping legislation.

New initiatives

The Indian Government remains committed to the ongoing reform of its trading system. Its aim is to reduce tariffs to an import-weighted average of 25 per cent by 1997. In the last Budget of February 1993, when the most recent package of tariff and other reforms was introduced, some further liberalizing changes were made, including decanalization of kerosene and liquid petroleum gas and delicensing of production of most leather products, motor vehicles and white goods.

An important part of the ongoing reforms has been to reduce the rôle played by public sector enterprises through injecting greater private competition into many areas. India has embarked on a disinvestment programme aimed at privatizing many state enterprises, although so far with only limited success. The Government is also attempting to put public enterprises on a commercial footing via Memoranda of Understanding aimed at improving their financial responsibility and accountability. The number of products reserved for the public sector has been further reduced with the recent deregulation of non-ferrous metals, and such reservation now covers only a limited number of products.

Trade Policies and Foreign Trading Partners

The far-reaching economic and trade reforms introduced since June 1991 have begun reversing India’s past inward-looking policies and integrating India more fully into the world economy. Its already high profile and interest in the multilateral trading system has also been strengthened. The reforms should, if supported by appropriate macroeconomic policies, lead to improved resource-efficiency and help increase India’s international competitiveness on both domestic and export markets. Sustained macro- and microeconomic reform should also assist in stabilizing the balance-of-payments situation, which has already shown signs of improvement.
India’s trade measures are applied on a non-discriminatory basis. Compared with many other contracting parties, India engages in little preferential trade; nevertheless, it has, along with other neighbouring SAARC members, agreed on a Preferential Trading Arrangement to begin operation by 1997. Care should be taken that such developments do not impede the process of non-discriminatory trade liberalization.

Special benefits linked to export performance, while aimed at counteracting the still significant anti-export bias of India’s trade policies, carry their own risks of resource misallocation. A more neutral policy stance, ensuring that domestic producers are given unbiased signals as between sales on home and export markets, would maximize the benefits to the Indian economy from trade reform.

India has made great strides in cutting tariffs and reducing the coverage of licensing restrictions. However, peak tariffs are still high and the tariff system remains complex; in this context, it is important for trading partners and the domestic economy that India pursues a movement towards lower, more uniform tariff rates. Under the reform programme to date, some tariff disparities appear to have increased, and there is a risk that substantial tariff escalation, with consequent high effective protection, may become a permanent feature of the Indian economy. In addition, the retention of stringent import licensing on consumer goods further escalates effective protection for such products, encouraging sub-optimal investment decisions. Efficient resource allocation would be facilitated by the removal of these restrictions.

The continuation and broadening of reforms aimed at creating a less regulated and more market-oriented economy should offer economic benefits both for India’s trading partners and - primarily through improving the allocation of resources into relatively more efficient uses - for the domestic economy. The agricultural sector, which until now has retained self-sufficiency as a goal, could, on balance, also be a major beneficiary of more liberal trading measures.

Trade, investment and economic growth are closely linked; increased efforts to remove impediments to international trade and investment can be expected to contribute to India’s economic growth. Liberalization of investment rules, in complement to trade reforms, should ensure that foreign investment can be attracted into areas that can survive without government assistance.

India will continue to be vulnerable to external trade barriers and disturbances. The future pace and depth of India’s autonomous trade reforms are contingent on the maintenance of an open, stable and predictable global trading régime that can successfully combat protectionist pressures in major export markets. It is therefore important that India’s trading partners assume their responsibility for assisting India’s autonomous liberalization process by ensuring market access and stable trading conditions for its developing export base. This can best be achieved through a successful conclusion of the Uruguay Round, including the integration of trade in textiles in the GATT.
TRADE POLICY REVIEW
INDIA
Report by the Government of India - Summary Extracts

Introduction

India’s economy has undergone a structural change during the last four decades. There has been a shift in the sectoral composition of production, diversification of activities, advancement of technology and the gradual transformation of a stagnant colonial economy into a dynamic economy with a modern industrial base.

India’s foreign trade has been subject to unforeseen internal and external pressures, such as sudden and sharp deterioration of the terms of trade, droughts, fluctuations in oil prices and other internal supply problems of varying intensity. The pull of domestic demand and high costs have been factors inhibiting rapid growth of exports.

The export performance has not been commensurate with the potential. India’s share of world exports declined from 1.94 per cent in 1950 to 0.52 per cent in 1990. The overall growth of exports since 1950-51 to 1989-90 has been about 7 percent.

Trade expansion

Over the past two years, the Government has taken a number of initiatives aimed at basic economic re-structuring and reform with the objective of putting the Indian economy on a sustainable path of high growth. Along with the macro-economic stabilisation a programme of structural reforms of trade, industrial and public sector policies has been initiated.

The objective of the reform programmes is to evolve an industrial and trade policy framework which would promote efficiency, reduce the bias in favour of excessive capital intensity and encourage an employment oriented pattern of industrialisation. The adjustments that have been carried out in trade and industrial policies have broadly been aimed to increase the efficiency of Indian industry by providing a competitive environment.

The policy changes implemented in the last two years of the reform programme constitute a major effort at redirecting and reorienting policy in several areas. Overall the economy has responded positively to the policy measures.

The viability of the liberalized trade policy, and its further liberalization are contingent, to a large extent, upon the openness, the stability and predictability of the global trading régime. India’s exports have been encountering protectionist measures in some of their major markets. The continuation of such measures - or worse, intensification - could put serious road blocks in the path of economic liberalization.

The comprehensive economic reforms announced from the middle of 1991 are a departure from the earlier régime. Important features of the trade reforms include a greater reliance on exchange rate management, elimination of product specific export incentives, reduction in tariffs, substantial elimination of licensing and other restrictions.
Trade reforms undertaken since 1991 have been aimed at (a) removing licensing in respect of most imports of raw materials, intermediates and capital goods; (b) broadening and simplifying export incentives and removing restrictions on exports; (c) eliminating most of the trade monopolies of the state trading agencies (canalising agencies); (d) simplification and increasing transparency of the trade régime; (e) reducing the level and the dispersion of tariffs and (f) making the rupee convertible on trade account.

Prospective changes in Trade Policies

The economic reforms initiated in 1991-92 were a combination of measures aimed at economic stabilisation as well as structural reforms. Stabilisation was necessary in the short run to restore balance of payments equilibrium and to control inflation. The policy measures initiated in the past three years have helped in achieving economic stabilisation and the base now exists for deepening and widening the scope of trade reforms so that the economy gets better integrated with the rest of the world. The exchange rate régime has already been unified since March, 1993 and rupee has become convertible on trade account. The key areas in which further reforms would be undertaken are:

(i) Further pruning of the "negative" lists of imports and exports and
(ii) A gradual reduction in both the level and dispersion of tariff rates.

With the overall improvements in the policy framework greater attention would be given to correcting specific distortions. As a broad guideline as the foreign exchange position improves and the economy becomes more resilient, the objective would be to remove raw-materials and components from the negative list of imports.

In the later phase manufactured items would also be removed from the negative list. It would be the endeavour that by 1997 the negative list of imports should contain only items which would be banned for reasons such as environment and safety. Much would, however, depend on the external economic environment and the extent to which it allows India to export products in which it is competitive and the extent to which trade distorting measures on agricultural products are reduced by major economies. Any protection deemed necessary for domestic industry would basically be given through tariffs.

In general the following macro economic policies have had the focus of Government attention:

(a) The policy régime governing trade, technology and transborder capital flows,
(b) Industrial deregulation and administered price policy,
(c) Financial sector reforms, and
(d) Monetary and Fiscal policies.