GATT/1598
21 October 1993

TRADE POLICY REVIEW OF INDIA
19-20 OCTOBER 1993

GATT Council's Evaluation

The GATT Council conducted its first review of India under the trade policy review mechanism (TPRM) on 19-20 October 1993. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the two-day discussion of the Council.

The TPRM enables the Council to conduct a collective review 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.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published towards the end of 1993 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.

Concluding Remarks by the Chairman of the Council

1. 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

2. 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.

3. 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.

4. 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.

5. 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

6. 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.

7. 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.

8. 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.

9. 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.

10. 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

11. 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.

12. 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 policies

13. 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.

14. 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.

15. 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

16. 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.

17. 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.

18. 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.

19. 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.