5

EXTERNAL SECTOR

The year 1993-94 saw a remarkable turnaround in India's external sector. Foreign currency assets of the RBI more than doubled during the year, increasing from US $ 6.4 billion at the end of March 1993 to US $ 15.1 billion at the end March 1994. The large build-up of reserves was due to a marked improvement in the current account and an increase in private capital flows on the capital account. Exports responded to reforms in trade and balance of payments policies in 1993-94, taking the export growth up to 20 per cent in dollar terms. The surplus on the invisibles account doubled. The current account deficit shrank to $315 million, as compared to nearly $10 billion in 1990-91. The capital account was bolstered by sharp increases in direct foreign investments and portfolio investments which rose from less than $600 million in 1992-93 to over $4 billion in 1993-94.

2. The balance of payments position has been further consolidated in 1994-95. The build up in foreign currency reserves, which reached a level of $ 19.6 billion at the end of January 1995, continued at the same pace as in the second half of 1993-94. This buildup was despite a sharp pick up in non-oil import growth to 28 per cent in the first six months of the current year and was a result, predominantly, of continued strong flows of non-debt creating capital. The outstanding external debt declined marginally from $90.7 billion at the end of March 1994 to $90.4 billion at the end of September 1994. The continued strength in the balance of payments underpinned the country's successful transition to current account convertibility. Pursuant to the announcement in the Budget speech for 1994-95, India assumed the obligations under Article VIII of the International Monetary Fund in August 1994.

3. The surge in capital inflows, which was a major reason for the accelerated build-up in reserves, also posed new policy challenges for maintaining macroeconomic stability. The substantial growth in foreign exchange assets in the last half of 1993-94 and in the first half of 1994-95, contributed to monetary expansion which has put pressure on prices. Other factors have also fuelled inflation at a rate higher than that in India's major trading partner countries. As a result, the real exchange rate has appreciated during the current financial year. As the result of a number of measures taken by the Government, the growth in foreign exchange reserves has stabilised since October 1994 and has helped restrain monetary expansion.

4. Recent developments have been very encouraging and the short-term outlook for India's balance of payments remains comfortable. But despite the considerable improvement in external payment conditions in 1993-94 and 1994-95, there can be no let up in our efforts to expand exports and attract larger and potentially long-term flows of foreign direct investment into the economy.

The Balance of Payments

5. The recent developments in India's external sector reflect a shift from a foreign-exchange-constrained control regime to a more open, market-driven and liberalised economy. This has been facilitated by the structural change in the country's balance of payments which has occurred during the last few years. The most notable feature of this change has been the sharp increase in the coverage of imports by export earnings (Table 5.1 and Fig. 5.1). In the beginning of the eighties, this coverage ratio was only 52.4 per cent and led to a massive trade deficit. This had improved to about 70 per cent by the end of the previous decade. As Table 5.1 shows, during the last three years export earnings have, on average, accounted for nearly 90 per cent of the value of imports. This marked improvement in the export-import ratio combined with an improvement in the invisibles account, has resulted in a sharp reduction in the current account deficit, which has come down from unsustainable levels of more than 2 per cent of GDP (and as much as 3.3 per cent in 1990-91) to less than half a per cent in the last year (Figs. 5.2 and 5.3).

TABLE 5.1
Ratios of Selected Items of the Balance of Payments

	1980-81	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
1	2	3	4	5	6	7	8	9	10	11
1. Exports/Imports (%)	52.4	54.7	58.7	63.8	60.4	69.5	66.2	86.7	81.2	94.6
2. Current account/GDP (%)	-1.6	-2.3	-2.0	-1.9	-2.6	-2.0	-3.3	-0.4	-1.8	-0.1
3. Current account deficit (US$ million)	2095	4845	4563	4853	7996	6837	9680	1178	3526	315
4. ECB/TC (%)	10.9	25.2	48.1	20.1	36.7	31.8	26.8	30.6	-8.4	9.1
5. NRI deposits/TC (%)	9.7	38.2	31.6	29.3	31.3	26.2	18.3	6.1	47.0	10.2
6. External assistance/TC (%)	60.9	36.2	34.6	46.9	36.7	33.2	26.3	63.9	43.7	18.5
7. Debt service payments as a % of current receipts	10.2	18.7	24.8	26.8	26.5	31.8	32.3	29.8	30.3	24.8

Notes: 1. *TC: Total capital flows (net).*
2. *GDP: Gross domestic product.*
3. *ECB: External Commercial Borrowings.*
4. *As total capital flows are netted after taking into account some outflows, the ratios for item no. 4, 5 and 6 may in some cases add up to more than 100.*
5. *Debt service payments for the years 1980-81, 1985-86, 1986-87, 1987-88, and 1988-89 exclude defence debt.*

6. Table 5.1 also shows that the country's dependence on external assistance and external commercial borrowings has come down markedly. This is especially true of the external assistance, which in 1993-94 accounted for less than 20 per cent of net capital inflows as compared to much higher levels in the eighties. It is expected that in the coming years, the role of external assistance in financing the current account deficit will decline even further. Table 5.1 clearly reveals the heavy dependence on commercial borrowings to finance the current account deficit during the latter half of the eighties, when it accounted for more than 25 per cent of total capital inflows into the country. This has now been brought down to more prudent levels of 9.1 per cent of total net capital flows for 1993-94 and the benefit will accrue in coming years in the form of lower debt-service ratios. As can be seen in Table 5.1, the debt-service ratio has also shown a declining trend during the last three years from 32.3 per cent in 1990-91 to 30.3 per cent in 1992-93 and further to 24.8 per cent in 1993-94.

7. The economy has thus moved to a more stable and sustainable balance of payments position in the last four years. As was expected by the Government, and contrary to the fears in some quarters, trade liberalisation and a shift to a market-determined exchange rate regime have had a significant positive impact on the country's balance of payments position.

Fig. 5.1 **Exports as a Per Cent of Imports**

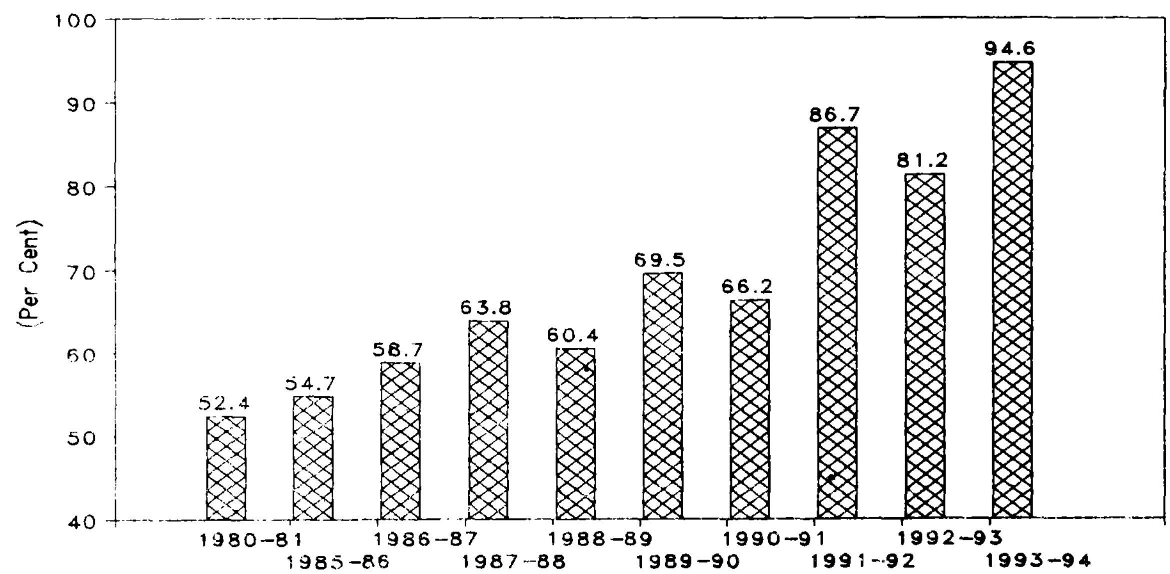


Fig. 5.2

Current Account Deficit 1980-81 to 1993-94

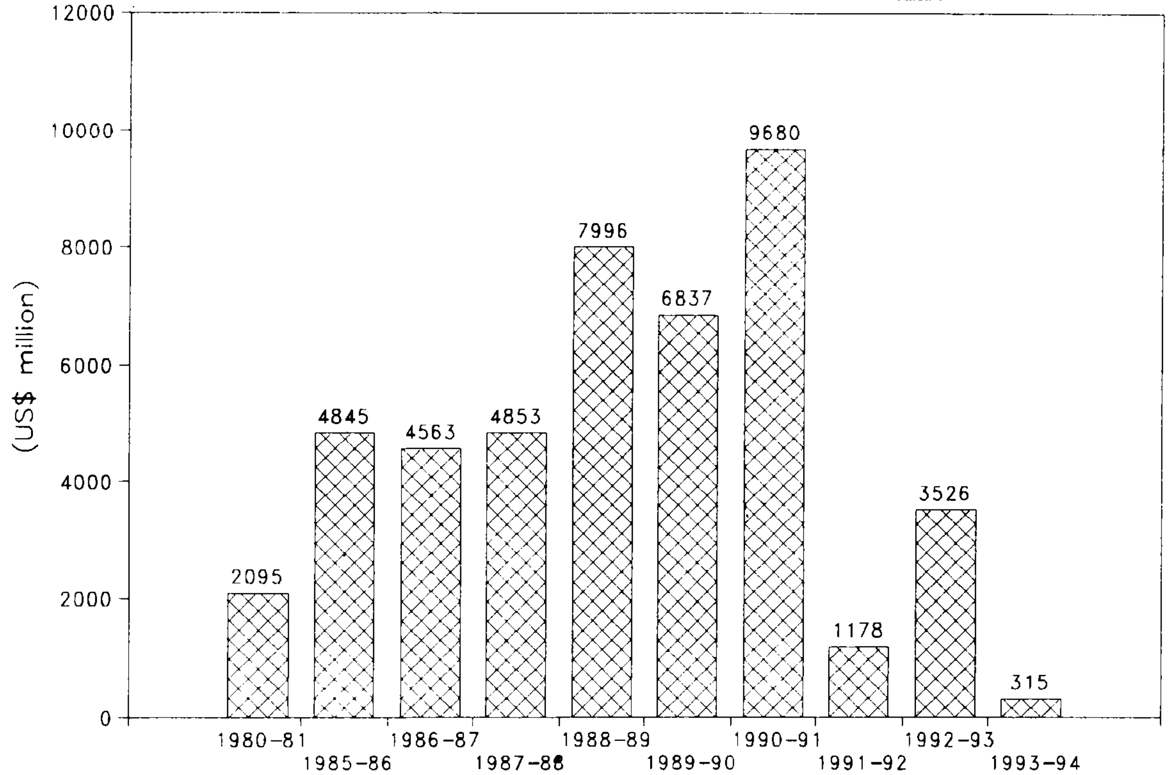


Fig. 5.3

Current Account Deficit as a Per Cent of GDP, 1980-81 to 1993-94

Current Account

8. A major factor responsible for the turnaround in the balance of payments during 1993-94 was the sharp decline in the trade deficit from about $4.4 billion in 1992-93 to about $1.3 billion in 1993-94 (Table 5.2). This, in turn, is attributed to the exceptionally good performance in exports, which recorded a growth of 20.3 per cent in dollar terms and a modest increase of 3.2 per cent in imports. The trade deficit widened in the first half of 1994-95 to $1.5 billion from about $850 million in the first half of 1993-94. This was due to a lower export growth of 11.9 per cent (21.4 per cent in the first half of 1993-94) and a higher import growth of 17.0 per cent (3.5 per cent decline in the first half of 1993-94). These trends are expected to yield a higher trade deficit for 1994-95 than during the previous year.

9. A noteworthy development in the country's balance of payments has been the improvement in the invisibles account since 1991-92. The deficit in the invisibles account in 1990-91 was converted into a surplus of about $1.6 billion in 1991-92 and the invisibles account remained in surplus in subsequent years. This has been the result, primarily, of a shift of private transfers away from illegal (hawala) channels to banking channels, which are now seen to be sufficiently attractive and secure. Tourist earnings have also picked up since 1992-93. The improvement in private transfers and tourist earnings continued in the first half of 1994-95 and this more than compensated for the larger outflows on account of investment income payments and non-factor services other than travel. Invisibles, in aggregate, have recorded a surplus of about $1.1 billion during April-September 1994 in contrast to a modest deficit of about $90 million during April-September 1993. As a result of these developments, the current account deficit showed a decline in the first half of this year as compared to April-

TABLE 5.2
Balance of Payments: Key Indicators

(US$ million)

	1990-91 (P)	1991-92 (P)	1992-93 (P)	1993-94 (Q.E)	Apr-Sep (Q.E) 1993	1994
1	2	3	4	5	6	7
1. Exports	18477	18266	18869	22700	10590	11853
2. Imports	27914	21064	23237	23985	11436	13385
Of which: POL	6028	5364	6100	5653	3045	2652
3. Trade Balance	**-9437**	**-2798**	**-4368**	**-1285**	**-846**	**-1532**
4. Invisibles (net)	-243	1620	842	970	-92	1096
Non-factor services	979	1207	1128	777	n.a	n.a
Investment income	-3752	-3830	-3422	-4002	n.a	n.a
Pvt. transfers	2069	3783	2773	3825	n.a	n.a
Grants	461	460	363	370	n.a	n.a
5. Current Account	**-9680**	**-1178**	**-3536**	**-315**	**-938**	**-436**
6. External assistance (net)	2210	3037	1859	1700	48	281
7. Commercial borrowing (net)	2249	1456[1]	-358	839	254	-302
8. I.M.F. (net)	1214	786	1288	191	236	-1134
9. Non-resident deposits (net)	1536	290	2001	940	657	536
10. Rupee debt service	-1193	-1240	-878	-745	-690	-650
11. Foreign investment	68	154	585	4110	608	2586
of which:						
(i) DFI	68	154	344	620	299	466
(ii) FIIs	0	0	1	1665	240	1017
(iii) Euro equities	0	0	240	1460	69	903
12. Other flows[2]	2318	271	-243	2148	1018	2441
13. Capital account total (net)	8402	4754	4254	9183	2131	3758
14. Reserve use	1278	-3576	-728	-8868	-1192	-3322
Memo Items		*(As per cent of GDP)*				
Exports	6.2	7.3	7.8	9.1		
Imports	9.4	8.4	9.8	9.6		
Trade balance	-3.2	-1.1	-2.0	-0.5		
Invisibles balance	-0.1	0.7	0.2	0.4		
Current account balance	-3.3	-0.4	-1.8	-0.1		

P: *Preliminary actuals.* Q.E : *Quick estimates.* n.a: *Not available.*

[1] *Includes India Development Bonds.*

[2] *Includes delayed export receipts and errors & omissions. For the year 1992-93, it also includes errors and omissions arising out of dual exchange rates applicable under the Liberalised Exchange Rate Management System (LERMS).*

September 1993. The present year may be expected to end with a current account deficit of about $1 billion, which would be around half a per cent of GDP and will not present any financing problems.

Capital Account

10. A compositional shift is now beginning to take place in the capital account of the balance of payments. The share of concessional and commercial debt-creating flows in total capital inflows is declining. It is being replaced by non-debt creating foreign investment inflows. This trend, which was first noticed in 1993-94, was further consolidated in the current year.

External Assistance

11. At $3.5 billion, gross receipts on account of external assistance (excluding grants), both multilateral and bilateral, were somewhat higher than the level in 1992-93. Their contribution to financing the country's external finance gap has, however, declined over the years. The share of net external assistance in aggregate net foreign capital inflows went down from 61 per cent in 1980-81 to 26 per cent in 1990-91. After a spurt in its share in 1991-92 to 64 per cent, mainly due to large availability of exceptional finance in that year to meet the balance of payments crisis, the share again declined thereafter and was below 20 per cent in 1993-94.

12. During the first half of the current year, gross disbursements are higher at $1.2 billion, compared to $850 million during the first half of last year. Net disbursements have also been substantially higher at $281 million during April-September 1994, compared to $48 million in the same period last year. A number of steps have been taken in the recent past to improve the utilisation of external assistance. These include advance release of funds to the State Governments; disintermediation of loans to central public sector units; streamlining procedures relating to award of contracts and procurement, as suggested by the high level Task Force; setting up of a Project Management Unit (PMU) in the Department of Economic Affairs to strengthen project monitoring and supervision, and several measures for portfolio rationalisation. It will be some time before these measures produce results. There is, however, some perceptible change represented by a marginal rise in the disbursement ratio from a low of 10 per cent in 1992-93 to 12 per cent in 1993-94 and a further rise in the first half of 1994-95.

13. The Aid India Consortium was converted into the India Development Forum (IDF) and private investors were invited to participate in the meeting of the IDF during 30 June-1 July 1994, reflecting the growing importance of private foreign investments in international capital flows and India's enhanced capacity to attract such flows. The meeting took note of the improvement in India's external position and the corresponding reduction in the need for emergency assistance. The IDF pledged a total assistance of $6 billion worth of bilateral and multilateral flows, of which $2.4 billion was in the form of grants or low interest bearing loans. This was lower than the amount of $7.4 billion last year of which $2.2 billion was of the soft variety, with low interest and longer maturity. The reduction in total volume, with an improvement in the concessional component, reflects a recognition of the reduced need for total assistance and the continuing importance of quality of credit flows.

External Commercial Borrowing

14. An important feature of Government policy in the past few years has been the maintenance of a strict control over external indebtedness. The policy towards external commercial borrowing (ECB) has been carefully calibrated to ensure that total external indebtedness remains within prudent limits. This policy has paid dividends and India's credit rating has improved. The Japan Bond Research Institute (JBRI) upgraded India to the investment grade in March 1994, followed by similar action by Moody's Investors Service, USA., in December 1994.

15. During 1993-94, gross disbursements or inflows of external commercial borrowings rose sharply to $2.9 billion, compared to $1.2 billion during 1992-93. This included the issue of foreign currency convertible bonds of $915 million by private Indian corporates, which may be converted into equity subsequently. In net terms, ECB during 1993-94 was $839 million, in contrast to an outflow of $358 million during 1992-93. During the first half of 1994-95, recourse to ECB remained subdued, with an net outflow of $302 million compared to a net inflow of $254 million in the same period last year. Inflows under ECB are expected to pick up in the second half of 1994-95 with some private sector power and petroleum sector projects finalising their financing packages. Steps have been taken to ensure that infrastructural projects have the desired access to external commercial borrowings, while the overall growth of external debt is kept under control. There is likely to be some increase in suppliers' credit during the second half of 1994-95 to finance capital goods imports, which have shown an increase in response to industrial recovery.

IMF Borrowing

16. India drew the last tranche of $325 million under the stand-by arrangement in June 1993, leading to a net drawal of $191 million during 1993-94. In the context of the marked improvement in the balance of payments, the Government decided not to approach the IMF for a medium-term Extended Fund Facility which

was contemplated earlier. Instead, the country made advance repayments of $1.1 billion to the Fund in April 1994. This was scheduled for payment in instalments over 1994-95.

Non-Resident Deposits

17. The last Survey detailed a number of steps taken by the authorities to reduce the element of volatility and the cost of exchange risk associated with non-resident deposits. These deposits represented a major source of capital inflows into the country during the latter half of the eighties. The Foreign Currency Non-Resident Account (FCNRA), for which the Reserve Bank/Government has been bearing the exchange risk, was finally wound up in August 1994. No fresh deposits are to be accepted on this account. During 1993-94, there was a net outflow of $1.3 billion from FCNRA. There was also a net outflow from Foreign Currency (Banks & Others) Deposits of $576 million during 1993-94. These outflows were more than compensated by inflows into other non-resident deposit schemes such as NR(E)RA and NR(NR)RD. Thus, for 1993-94 as a whole, there was a net inflow of $940 million on account of non-resident deposits. This, however, was less than half of the net inflow of about $2.0 billion during 1992-93.

18. The Reserve Bank has introduced certain changes in non-resident deposit schemes so as to reduce the cost of these funds and give them greater stability. The rates of interest on Foreign Currency Non-Resident (Banks) [FCNR(B)] deposits became somewhat lower than international interest rates from November 1994. In October 1994, these deposits were brought under cash reserve ratio requirements of 7.5 per cent, which was further raised to 15 per cent in January 1995. The RBI has also imposed a cash reserve ratio of 7.5 per cent on NR(NR)R deposits in January 1995. The interest rates on Non-Resident (External) Rupee Accounts [NR(E)RA] were brought down for saving deposits from 5 per cent to 4.5 per cent, and for fixed deposits of different maturities from not exceeding 10 per cent to not exceeding 8 per cent. These are below the rates for resident deposits. With the abolition of FCNRA and in the light of the aforementioned changes, the net inflows under all non-resident deposits during 1994-95 are expected to be much lower than last year. During the first six months of the current financial year, the net inflows in these deposits are estimated to be $536 million, compared to $657 million during the same period of last year. For the year as a whole, however, we may expect only a modest net inflow of non-resident deposits (Box 5.1).

Rupee Debt Service Payments

19. There was a decline in debt service payments to Russia in 1993-94, amounting to only $745 million,

Box 5.1

Non-Resident Bank Accounts/Deposit Schemes

Indian nationals and persons of Indian origin resident abroad can open bank accounts in India freely out of funds remitted from abroad or foreign exchange brought in from abroad or out of funds legitimately due to them in India. RBI has granted general permission to banks in India which are authorised to deal in foreign exchange (Authorised Dealers) to open such accounts freely. There are six types of non-resident accounts which can maintained by authorised dealers:-

(1) Foreign Currency Non-Resident Accounts (FCNRA).

(2) Non-Resident External Rupee Accounts [NR(E)RA].

(3) Foreign Currency Non-Resident (Banks) Accounts [FCNR(B)].

(4) Non-Resident (Non-Repatriable) Rupee Deposits [NR(NR)RD].

(5) Foreign Currency Ordinary Non-Repatriable [FCON].

(6) Foreign Currency (Banks & Others) Deposits (FC(B&O)D].

Schemes	Date of starting	Date of closing	Outstanding stock (US$ million) as at the end of				
			March 91	March 92	March 93	March 94	Jan20th, 95
1. FCNRA	Nov. '75	15-8-94	10,103	9792	10617	9300	7266
2. NR(E)RA	Feb. '70	Continuing	3588	2527	2863	3590	4726
3. FCNR(B)	May '93	Continuing	—	—	—	1075	2921
4. NR(NR)RD	Jun. '92	Continuing	—	—	610	1797	2299
5. FCON	Jun. '91	20-8-94	—	—	1	18	7
6. FC(B&O)D	Dec. '90	31-7-92	262	607	1044	533	0
Total			13953	12926	15135	16313	17219

Notes: 1. All figures are inclusive of accrued interest.
2. Outstanding stock under all these schemes except NR(NR)RD and FCON are part of India's external debt as defined in Table 5.7.

compared to $977 million during the previous year. This reflects the inability of Russia to absorb the required quantum of imports from India which is necessary to service the debt fully. Russia has yet to institute a proper mechanism to fully utilise India's debt obligations.

Foreign Investment

20. Foreign investment inflows were the major factor behind the surge in capital inflows to the country from 1993-94. Total capital inflows (including IMF transactions) more than doubled from about $4.3 billion in 1992-93 to $9.2 billion in 1993-94, of which the share of foreign investment inflows rose from $585 million (14 per cent) to $4.1 billion (45 per cent). The contribution of foreign investment to capital inflows is expected to rise further in 1994-95 with an inflow of about $3.9 billion already under this account in the first three quarters of the year (Table 5.3).

21. The response of foreign investors to the liberalisation of the foreign investment regime has been very encouraging. Portfolio investment, including GDRs, has responded swiftly, to rise from under $100 million in 1992-93 to nearly $3.5 billion in 1993-94 and could be of the same order in 1994-95. There have been sharp increases in approvals of direct investment proposals, the value rising to $2.9 billion (Rs. 8957 crore) in 1994 from $235 million (Rs.534 crore) in 1991 (Table 5.4). The total DFI proposals approved since 1991 till 1994 amounts to $7.2 billion (Rs. 22238 crore), against just under $1.0 billion (Rs.1274 crore) approved during the whole of the previous decade (1981-90). It takes time for all these proposals to fructify into actual inflows, but there are already signs that the actual inflows are picking up, with the ratio of flows to approvals rising since 1992 (Table 5.4).

TABLE 5.3
Foreign Investment Flows by Category
(US$ million)

	1991-92	1992-93	1993-94	1994-95[1] (Apr-Dec)
1	2	3	4	5
A. Direct investment	150	341	620	756
a. RBI automatic route	0	42	89	81
b. SIA/FIPB route	87	238	315	380
c. NRIs (40% & 100%)	63	61	217	295
B. Portfolio investment	8	92	3493	3141
a. FIIs	0	1	1665	1195
b. Euro equities	0	86	1463	1726
c. Offshore funds & others	8	5	365	220
Total (A+B)	**158**	**433**	**4113**	**3897**

[1] *Provisional*

Note: Based on actual inflows and may not tally with numbers given under foreign investment in Balance of Payments Table 5.2, which are on accrual basis.

TABLE 5.4
Direct Foreign Investment:
Actual Inflows vs Approvals

	1991	1992	1993	1994	Total (1991 to 1994)
1	2	3	4	5	6
Approvals					
Rs crore	534.1	3887.5	8859.3	8956.8	22237.7
US$ million	234.9	1317.5	2817.5	2854.8	7224.7
Actual Inflows					
Rs crore	351.4	675.2	1786.0	2969.9	5782.5
US$ million	154.5	228.8	568.0	946.6	1897.9
Actuals as % of Approvals	65.8	17.4	20.2	33.2	26.0

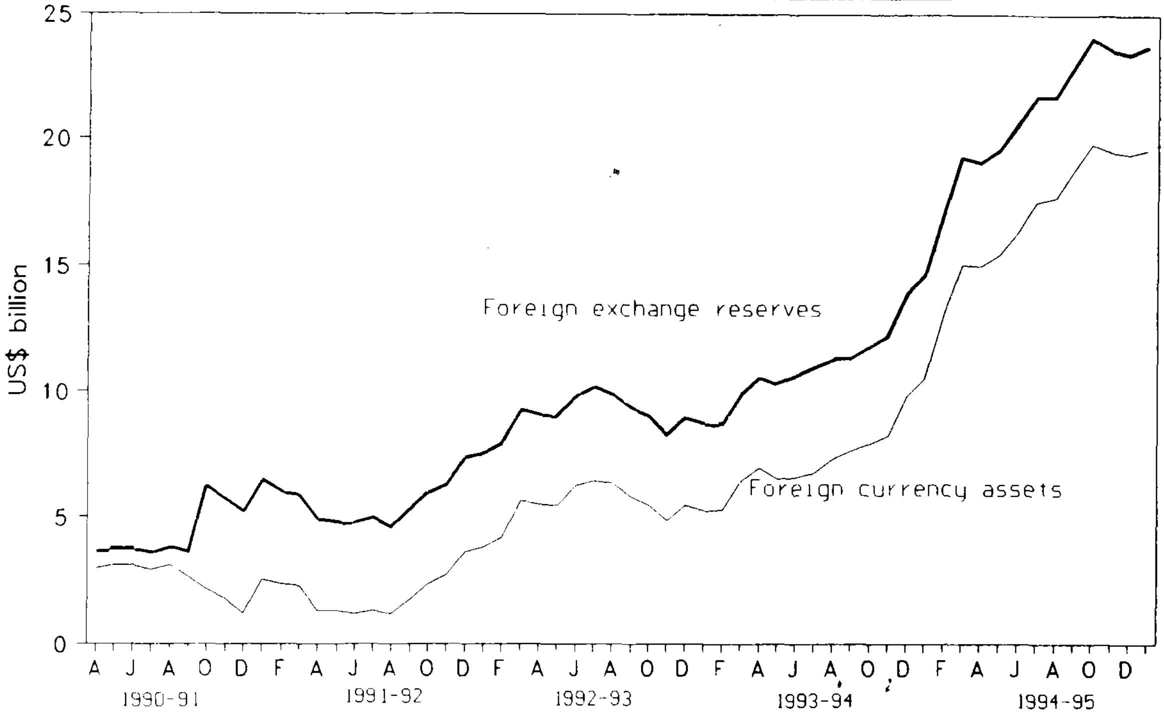
22. Besides pure equity issues, corporate entities are also allowed to issue foreign currency convertible bonds (FCCBs). About $915 million was raised through FCCBs in 1993-94. FCCBs form part of the country's external debt till their conversion into equity and, in the current year, the Government has therefore followed a somewhat restrictive policy towards them to keep the growth of external debt in check.

Foreign Exchange Reserves

23. The movements in foreign exchange reserves is the net result of all external transactions. They, therefore, provide a summary index of the state of the country's balance of payments. The significant improvement in India's balance of payments during 1993-94 resulted in an unprecedented build up of foreign currency assets of the Reserve Bank of India. These rose from $6.4 billion (Rs.20140 crore) at the end of 1992-93 to $15.1 billion (Rs.47287 crore) at the end of 1993-94, i.e., an increase of $8.7 billion (Rs.27147 crore) during 1993-94 (Fig. 5.4). Foreign exchange reserves, which include foreign currency assets of the RBI and also gold and SDRs, rose from $9.8 billion (Rs.30745 crore) to $19.3 billion (Rs.60420 crore) during the same period. The rise in foreign reserves continued to be rapid in 1994-95 and foreign currency assets reached $19.8 billion on 31 October 1994. These have since stabilised at a level around $19.5 billion.

24. The sharp buildup in reserves from 1993-94 onwards, resulted from the significant improvement in the current and capital accounts of the balance of payments. It may be recalled that during 1990-91 as well, there was a considerable inflow of $8.4 billion on the capital account. This was, however, more than used up to finance the huge current account deficit, resulting in a drawing down of foreign exchange reserves in 1990-91 (Table 5.2). But from 1993-94 onwards, large capital inflows have resulted in accretion to reserves, as the current account gap has narrowed considerably. The nature of capital inflows has also undergone a dramatic change; the role of external assistance

Fig. 5.4 **Foreign Exchange Reserves**



gradually, and that of commercial borrowing, IMF loans, and non-resident deposits progressively, being replaced by foreign investment inflows.

25. The unprecedented high level of reserves, with the prospect of continued growth and accretion, has raised issues relating to the management of foreign exchange reserves. It is generally recognised that as payments on current and capital accounts become less restricted and more open, the need for holding international reserves increases. In any case, Table 5.5 indicates that India's current level of reserves are not exceptionally high when compared to some other large developing economies. (Table 5.6).

External Debt

26. The high level of external debt has been a matter of concern to the Government. However, the improvement brought about in the balance of payments enabled the Government to substantially reduce the growth of additional debt. Thus, during 1993-94 the increase in external debt was just US dollars 740 million. During the first half of 1994-95 the debt, in fact, declined by about $270 million (Table 5.7). Thus for the first time in recent years, there has been an absolute decline in the country's external debt. As a ratio of GDP, external debt has declined from 41 per cent in 1991-92 to 40 per cent in 1992-93 and further sharply to 36 per cent in 1993-94. The share of the short-term component in aggregate debt has also been progressively coming down. The share came down from 10.2 per cent

TABLE 5.5
Foreign Exchange Reserves in Selected Countries, 1990-94

($ million)

Country	1990	1991	1992	1993	1994 (Latest)
1	2	3	4	5	6
India	1205	3580	5461	9807	19604[3]
China[1]	28594	42664	19443	21199	39969
Indonesia	7353	9151	10181	10988	11021
Malaysia	9327	10421	16784	26814	29689
South Korea	14459	13306	16639	20804	23404
Thailand	13247	17287	20012	24078	28321
Taiwan[2]	35790	40275	43534	44295	42622
	Import Cover (Number of Months)				
India	0.6	2.1	2.8	5.2	8.2
China	6.4	8.0	2.9	2.5	4.6
Indonesia	4.0	4.2	4.5	4.7	4.7
Malaysia	3.8	3.4	5.0	7.1	7.8
South Korea	2.5	2.0	2.4	3.0	3.4
Thailand	4.8	5.5	5.9	6.3	7.4
Taiwan	7.8	7.7	7.2	6.9	6.6

[1] *Prior to 1992 foreign exchange included foreign exchange holdings of the Bank of China also and from 1992 it includes foreign exchange holdings of the People's Bank of China only.*
[2] *Total reserves minus gold.*
[3] *Foreign currency assets at end-January, 1995.*

Source : International Financial Statistics, IMF.

TABLE 5.6
Foreign Exchange Reserves[1] Historical Perspective
(US$ million)

Years	Forex Reserves[2]	Import Cover [No of Months[3]]	Current Payments Cover[4] [No of Months[3]]
1	2	3	4
1950-51	1914	16.8	14.6
1955-56	1648	12.2	10.6
1960-61	390	2.0	1.7
1965-66	383	1.6	1.3
1970-71	584	2.9	2.2
1975-76	1657	3.3	2.9
1980-81	5850	4.5	4.0
1985-86	5972	4.2	3.5
1990-91	2236	1.0	0.8
1991-92	5631	3.3	2.3
1992-93	6434	3.4	2.5
1993-94	15068	7.5	5.3
1994-95[5]	19604	8.2	5.9

1 *Excluding gold and SDRs.*
2 *Year-end Level.*
3 *Based on foreign exchange reserves of respective year-end levels.*
4 *Current payments cover is estimated on the basis of the aggregate of merchandise imports and outflows on account of invisibles.*
5 *End-January 1995.*

at the end of 1990-91 to 4.0 per cent by the end of 1993-94 and was just 3.1 per cent at the end of September 1994. This figure compares favourably with figures for countries like Indonesia (23.1%), Brazil (20.5%), Mexico (23.1%) and Turkey (27.3%). It needs to be emphasised that the share of concessional debt to total debt is exceptionally high in India as compared to other developing countries that have large stocks of external debt. As a result, cross-country comparisons show that when the present value of external debt is considered, the estimate of India's debt declines much more than it does for other countries (Table 5.8).

TABLE 5.8
Debt Indicators for Selected Countries, 1993
(US$ billion)

Country	Total external debt	Present value of debt	Concessional debt to total debt (%)
1	2	3	4
India	91.78	60.52	46.7
Argentina	74.47	72.08	0.7
Brazil	132.75	130.08	1.9
China	83.80	76.59	16.1
Indonesia	89.54	81.50	27.9
Mexico	118.03	116.46	1.2
Russian Federation	83.09	81.37	4.5
Turkey	67.86	63.74	10.3

Source : World Bank Debt Tables, 1994-95.

27. Debt service payments were hovering around $8.2 billion in the last three years, but are estimated to rise to about $10.5 billion in 1994-95. The details of debt service payments can be seen in Table 5.9. The debt-service ratio (debt service as a per cent of current receipts excluding official transfers) has been declining since 1990-91 and the decline has been particularly sharp from 30.3 per cent in 1992-93 to 24.8 per cent in 1993-94. The ratio is, however, expected to rise in 1994-95.

TABLE 5.7
External Debt and Debt Servicing: Key Indicators

	1989-90	1990-91	1991-92	1992-93	1993-94[1]	1994-95[1] (Apr-Sep)
1	2	3	4	5	6	7
Period-end outstanding debt stock						
US$ billion	75.90	83.96	85.33	89.99	90.72	90.45
Rs. thousand crore	130.28	163.31	253.03	280.63	284.20	278.98
Change in debt stock						
US$ billion		8.06	1.38	4.65	0.74	-0.27
Debt service payments:						
US$ billion	7.60	8.23	8.13	8.09	8.32	
Total debt as						
% of GDP	28.5	30.5	41.1	39.9	36.1	
% of exports	447.7	454.4	467.2	476.9	399.7	
Total debt service as						
% of current receipts	31.8	32.3	29.8	30.3	24.8	
% of exports	44.8	44.5	44.5	42.9	36.6	

1 *Provisional estimates.*

TABLE 5.9
Debt Service Payments

(US$ million)

	1989-90	1990-91	1991-92	1992-93	1993-94³
1	2	3	4	5	6
1. External assistance	2145	2307	2588	2798	2984
Repayments	1148	1244	1406	1523	1656
Interest payments	997	1063	1182	1275	1328
2. External commercial borrowing	2240	2665	2573	2873	3252
Repayments	1154	1502	1373	1639	2033
Interest payments²	1086	1163	1200	1234	1219
3. I.M.F.	1046	783	697	614	430
Repayments	877	649	459	335	134
Interest payments	169	134	238	279	296
4. NRI deposits					
Interest payments	1112	1282	1036	930	905
5. Rupee debt service	1055	1193	1240	878	745
Total debt servicing	7598	8230	8134	8093	8316
Repayments	4234	4588	4478	4375	4568
Interest payments	3364	3642	3656	3718	3748
As per cent of current receipts	31.8	32.3	29.8	30.3	24.8

¹Including GCA defence. ²Including estimated interest on short-term trade-related debt. ³Provisional.

Exchange Rate and Current Account Convertibility

28. The unification of the exchange rate and the removal of exchange restrictions on imports through the abolition of foreign exchange budgeting in the beginning of 1993-94 constituted the first major step toward current account convertibility (Box 5.2). The Budget for 1994-95 indicated the next step in the direction and accordingly the Reserve Bank announced relaxations in payment restrictions in the case of a number of invisibles transactions. The final step towards current account convertibility was taken in August 1994 by further liberalisation of invisibles payments and acceptance of the obligations under Article VIII of the IMF, under which, India is committed to forsake the use of exchange restrictions on current international transactions as an instrument in managing the balance of payments.

29. The stability of the Rupee against the US dollar noticed since July 1993 at around Rs. 31.37 per US dollar continued throughout 1994-95. However, the nominal effective exchange rate of the Rupee depreciated marginally in the first three quarters of 1994-95, as the dollar depreciated against major currencies (Figs. 5.5 and 5.6 & Appendix Table 6.6). But with inflation in India being much higher than in the major industrial countries, the real effective exchange rate of the Rupee rose during the latter half of 1993 and has been stable through 1994.

Fig. 5.5 Nominal And Real Effective Exchange Rate of Rupee (5 Country Index)

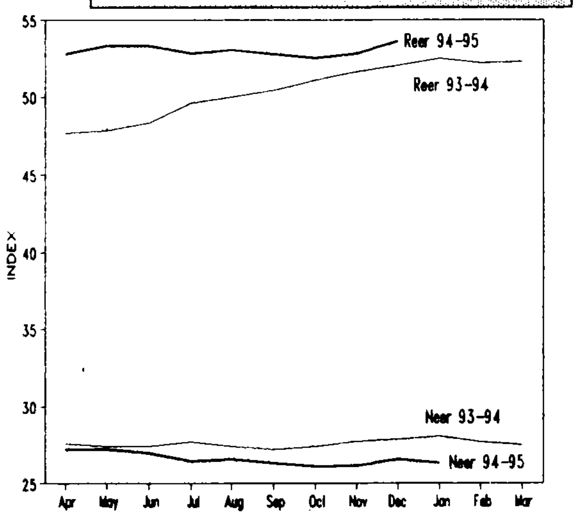
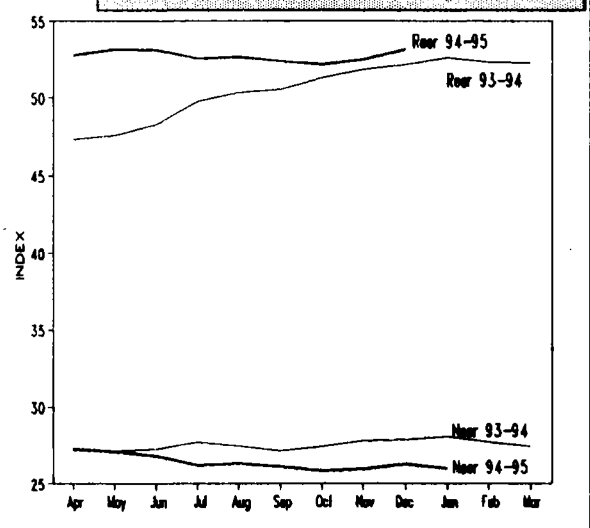


Fig. 5.6 Nominal And Real Effective Exchange Rate of Rupee (10 Country Index)



Box 5.2
Move Towards Current Account Convertibility

- International monetary arrangements after the Bretton Woods conference required members of the IMF to restore current account convertibility.The obligation is defined in Article VIII, Sections 2,3, and 4 which stipulates that member countries should:
  (a) have no restrictions on current payments(capital account restrictions are allowed);and
  (b) avoid discriminatory currency practices (including multiple exchange rates).
- If a member country does not meet the obligations of Article VIII when joining the Fund, the country is allowed to have transitional arrangements under Article XIV.
- Current Account Convertibility has been defined as the freedom to buy or sell foreign exchange for the following international transactions:
  (a) all payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
  (b) payments due as interest on loans and as net income from other investments;
  (c) payments of moderate amount of amortization of loans or for depreciation of direct investments; and
  (d) moderate remittances for family living expenses.
- A major step towards current account convertibility was taken by India in March 1993 when the foreign exchange budget was abolished, the exchange rate was unified and transactions on trade account were freed from exchange control. The determination of the exchange rate of the rupee was left to the market. The Budget speech for 1994-95 stated that "the time has come to take the next step and move towards convertibility on the current account".
- Pursuant to the Budget announcement, the RBI on February 28, 1994 announced the liberalisation of exchange control regulations upto a specified limit relating to:
  (a) exchange earners foreign currency accounts;
  (b) basic travel quota;
  (c) studies abroad;
  (d) gift remittances;
  (e) donations;and
  (f) payments of certain services rendered by foreign parties.
- Further steps were taken by RBI on August 19, 1994, including: More relaxations on current account payments; clarification that limits specified earlier were only indicative in nature and the RBI will favourably consider bona fide requests for additional exchange facilities; the Foreign Currency Non-Resident accounts (FCNRA) Scheme, under which the maturities were gradually discontinued, was terminated with effect from August 15, 1994; interest accrued under Non-Residents(Non-Repatriable) Rupee Deposit scheme was made repatriable from the quarter beginning October 1, 1994; Foreign Currency (Ordinary) Non-Repatriable Deposit scheme (FCON) was discontinued with effect from August 20, 1994 and interest on existing FCONR deposits was made eligible for repatriation up to the maturity date of the existing deposits from October 1, 1994; repatriation of investment income by non-resident Indians would now be repatriable in a phased manner over a 3 year period after the payment of tax as per the provisions of the Income Tax Act. India acquired Article VIII status on August 20, 1994.
- Ninety seven countries have so far attained Article VIII status. Sixty countries had acquired Article VIII status by 1985, fourteen more countries acquired this status during the period 1986-92 and twenty three more countries acquired it during the period January 1993 to October 6, 1994. Besides India, countries attaining Article VIII status in 1994 are Bangladesh, Ghana, Grenada, Kenya, Latvia, Lithunia, Nepal, Pakistan, Sri Lanka, Uganda, Estonia, Paraguay, and Western Samoa up to October 6, 1994.

30. The 'hawala' premium on the US dollar was in the range of 10-13 per cent during 1993-94, except in the months of July and August when it was lower at around 9 per cent. During 1994-95, up to December 1994, the premium has been in the range of 10-12 per cent, except in May and June, when it spurted to around 13 per cent. The forward premium on the US dollar in the inter-bank market, which was above 10 per cent per annum in the beginning of 1993-94, declined steadily to about 5 per cent in July 1993 and declined further to as low as below 1 per cent during February-March 1994, before rising to 2-3 per cent per annum up to July 1994. The low forward premium for the US dollar in the market prompted the Reserve Bank to withdraw the swap facility in June 1994. The comfortable foreign exchange position in the market and the remarkable stability of the Rupee over a long stretch of time have contributed to the low swap premium levels in the inter-bank market. The forward premium, however, has shown a tendency to rise since November 1994.

Merchandise Trade

Exports

31. The current account balance has, in the first half of 1994-95, had a widening trade deficit. This was expected. The slow-down in export growth coupled with the significant increase in growth of non-POL imports has contributed to the emergence of this deficit. According to data from DGCI&S, exports in 1993-94 were of the order of $ 22.2 billion as compared to $ 18.5 billion in 1992-93. A growth rate of 20 per cent in exports during 1993-94 was indeed encouraging and has been followed up by a growth of 16.9 per cent during the period April-December 1994. This demonstrates that recent policy measures towards providing an impetus for exports are beginning to show positive results.

32. During April-December 1994, the overall exports were $18.3 billion. The growth rate in exports during the first nine months of 1994-95 has been markedly high. It is expected that there will be a continued pick up in exports for the remaining part of 1994-95.

33. The growth of exports by commodity groups is shown in Table 5.10. Amongst the items which have shown a spurt in exports during April-September 1994, the rate of growth of manufactured goods has been the largest. Within this group, cotton yarn exports registered a rise of 40.8 per cent and electronic goods an increase of 24.8 per cent vis a vis the correspond-

TABLE 5.10
India's Exports by Commodity Group

(US$ million)

Commodity Group	1992-93	1993-94	Apr-Sept. 1993-94	Apr-Sept. 1994-95	April-March 1993-94 (Per Cent Change)	Apr-Sept. 1994-95 (Per Cent Change)
1	2	3	4	5	6	7
I. Agriculture & allied, of which	3135.8	3994.8	1847.7	1853.2	27.4	0.3
1. Tea	337.2	311.9	164.7	141.3	-7.5	-14.2
2. Coffee	129.9	177.1	60.9	187.7	36.3	208.4
3. Cereals	343.9	423.6	193.9	160.8	23.2	-17.1
4. Unmanufactured tobacco	122.8	118.0	61.0	34.2	-3.9	-44.0
5. Spices	135.8	178.9	85.7	78.4	31.7	-8.4
6. Cashew	257.2	332.1	159.3	204.5	29.1	28.3
7. Oil meals	533.5	736.2	303.4	254.1	38.0	-16.2
8. Fruits & vegetables	107.9	133.4	60.8	66.8	23.6	10.0
9. Marine products	601.9	808.8	310.5	438.3	34.4	41.2
10. Raw cotton	62.8	210.2	163.6	30.2	235.0	-81.5
II. Ores and minerals, of which	737.8	888.0	402.7	435.1	20.4	8.0
11. Iron ore	381.2	432.7	211.5	188.7	13.5	-10.8
12. Processed minerials	143.0	195.0	88.8	109.1	36.3	22.8
13. Other ores and mineral	188.0	232.9	93.7	129.1	23.9	37.8
III. Manufactured goods, of which	14015.9	16789.0	7810.0	9059.6	19.8	16.0
14. Leather & manufactures	867.3	839.9	410.9	472.4	-3.2	15.0
15. Leather footwear	410.2	479.8	202.3	219.4	17.0	8.5
16. Gems & jewellery	3071.7	3994.4	1875.0	2016.3	30.0	7.5?
17. Drugs, pharmaceuticals & fine chemicals	529.3	642.1	289.1	346.2	21.3	19.7
18. Dyes\intmdtes & coal tar chemicals	330.6	366.5	165.5	214.2	10.9	29.4?
19. Manufactures of metals	560.2	693.3	313.8	323.3	23.8	3.0
20. Machinery and instruments	541.6	636.4	304.9	325.8	17.5	[illegible].9
21. Transport equipment	533.7	586.7	252.9	338.6	9.9	33.9
22. Primary & semi-finshed iron & steel	164.4	432.1	222.7	174.0	162.9	-21.9
23. Electronic goods	212.3	311.8	137.9	172.1	46.9	24.8
24. Cotton yarn, fabrics, made ups etc	1350.5	1542.3	713.4	1004.9	14.2	40.8
25. Ready made garments	2393.0	2579.6	1217.4	1325.4	7.8	8.9
26. Handicrafts	865.2	928.7	437.4	481.5	7.3	10.1
IV. Crude & petroleum products	476.2	397.8	236.7	217.4	-16.5	-8.1
V. Others & unclassified items	171.6	103.9	47.9	55.4	-39.4	15.7
Grand Total	18537.2	22238.6	10345.0	11620.6	20.0	12.3

Source: DGCI&S, Calcutta

ing period last year. Amongst other items which have shown high growth are transport equipment (33.9 per cent) and dyes (29.4 per cent). The exports of gems and jewellery have grown by around 7.5 per cent.

34. Within agricultural exports, which in the aggregate have marginally increased by 0.3 per cent, the main items which have shown a deceleration are raw cotton (-) 81.5 per cent, unmanufactured tobacco (-)44.0 per cent and cereals (-)17.1 per cent. This has been largely due to the volatile nature of the commodities market as well as the loss of Russian demand following the disturbed conditions in that market. Coffee exports on the other hand have shown a quantum increase of 208.4 per cent. This has been on account of the failure of the Brazilian coffee crop leading, to an accelerated demand for Indian coffee.

35. Table 5.11 shows that the composition of exports has remained virtually unchanged, with the bulk being contributed by manufactured goods during the first half of 1994-95 (78.0 per cent, as compared to the first half of 1993-94 (75.5 per cent). The share of agricultural exports has marginally declined from 17.9 to 15.9 per cent (Fig 5.7).

Imports

36. Total imports for the year 1993-94 stood at an overall level of $23307 million. This represents an increase of 6.5 per cent over the previous year. During April-December 1994, the import bill was $20339 million. Of this, POL imports comprised $4201 million whereas non-POL imports was $16138 million. Part of the import surge has been on account of the increased buoyancy witnessed on the industrial front

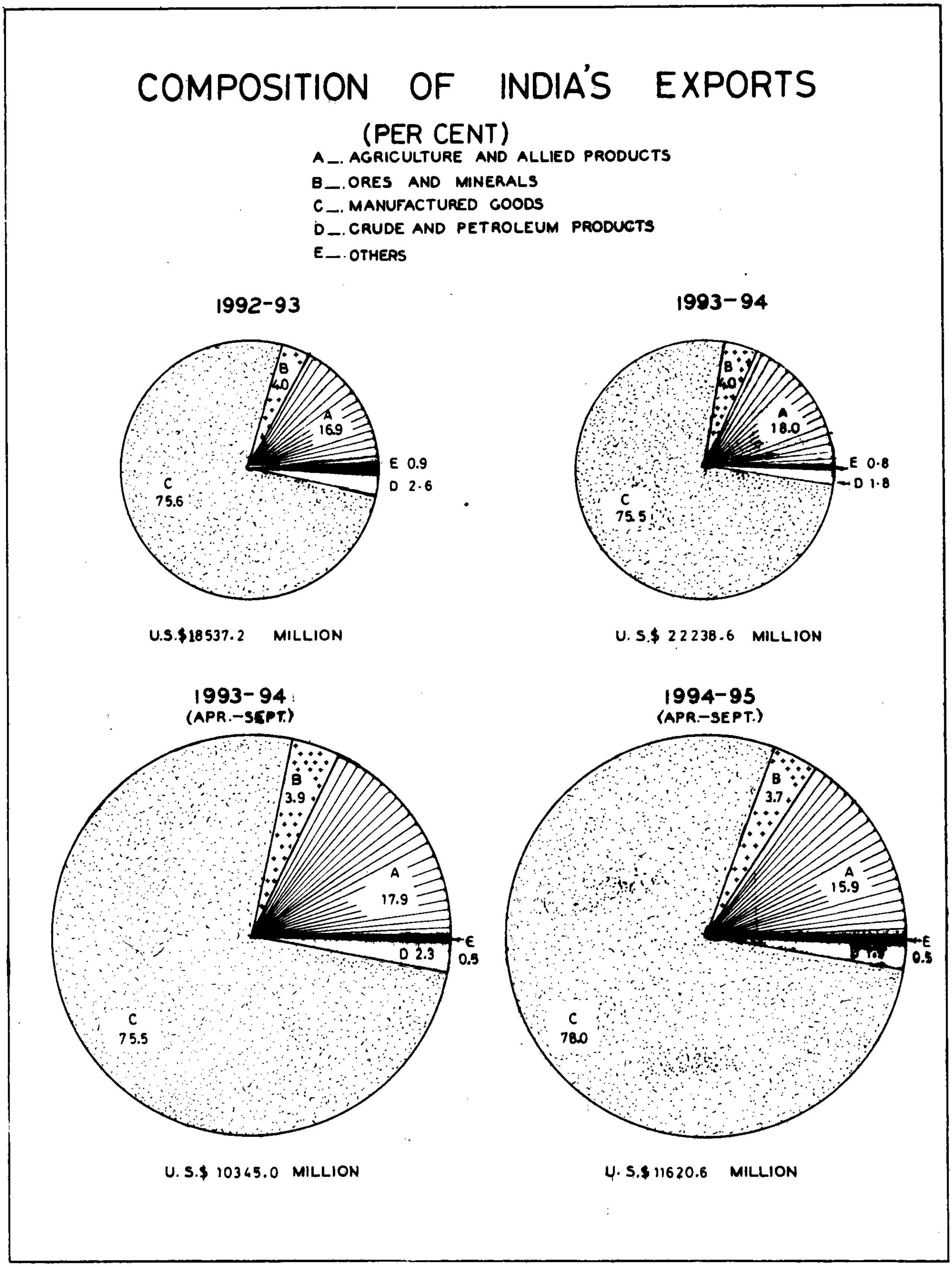
TABLE 5.11
Composition of India's Exports

(Percent Shares)

	Commodity Group	1992-93	1993-94	Apr-Sept 1993-94	Apr-Sept 1994-95
	1	2	3	4	5
I.	**Agriculture & allied, of which**	16.9	18.0	17.9	15.9
1.	Tea	1.8	1.4	1.6	1.2
2.	Coffee	0.7	0.8	0.6	1.6
3.	Cereals	1.9	1.9	1.9	1.4
4.	Unmanufactured tobacco	0.7	0.5	0.6	0.3
5.	Spices	0.7	0.8	0.8	0.7
6.	Cashew	1.4	1.5	1.5	1.8
7.	Oil meals	2.9	3.3	2.9	2.2
8.	Fruits & Vegetables	0.6	0.6	0.6	0.6
9.	Marine products	3.2	3.6	3.0	3.8
10.	Raw cotton	0.3	0.9	1.6	0.3
II.	**Ores and minerals, of which**	4.0	4.0	3.9	3.7
11.	Iron ore	2.1	1.9	2.0	1.6
12.	Processed minerials	0.8	0.9	0.9	0.9
13.	Other Ores and mineral	1.0	1.0	0.9	1.1
III.	**Manufactured goods, of which**	75.6	75.5	75.5	78.0
14.	Leather & manufactures	4.7	3.8	4.0	4.1
15.	Leather footwear	2.2	2.2	2.0	1.9
16.	Gems & jewellery	16.6	18.0	18.1	17.4
17.	Drugs,pharmaceuticals & fine chemicals	2.9	2.9	2.8	3.0
18.	Dyes\intmdtes & coal tar chemicals	1.8	1.6	1.6	1.8
19.	Manufactures of metals	3.0	3.1	3.0	2.8
20.	Machinery and instruments	2.9	2.9	2.9	2.8
21.	Transport equipment	2.9	2.6	2.4	2.9
22.	Primary and semi-finshed iron & steel	0.9	1.9	2.2	1.5
23.	Electronic goods	1.1	1.4	1.3	1.5
24.	Cotton yarn, fabrics, made ups etc	7.3	6.9	6.9	8.6
25.	Ready made garments	12.9	11.6	11.8	11.4
26.	Handicrafts	4.7	4.2	4.2	4.1
IV.	**Crude & petroleum products**	2.6	1.8	2.3	1.9
V.	**Others & unclassified items**	0.9	0.8	0.5	0.5
	Grand Total	100.0	100.0	100.0	100.0

Source: DGCI&S, Calcutta

Figure 5.7


COMPOSITION OF INDIA'S EXPORTS
(PER CENT)
A_. AGRICULTURE AND ALLIED PRODUCTS
B_. ORES AND MINERALS
C_. MANUFACTURED GOODS
D_. CRUDE AND PETROLEUM PRODUCTS
E_. OTHERS
1992-93
B 4.0
A 16.9
E 0.9
D 2.6
C 75.6
U.S.$18537.2 MILLION
1993-94
B 4.0
A 18.0
E 0.8
D 1.8
C 75.5
U.S.$ 22238.6 MILLION
1993-94
(APR.-SEPT.)
B 3.9
A 17.9
D 2.3
E 0.5
C 75.5
U.S.$ 10345.0 MILLION
1994-95
(APR.-SEPT.)
B 3.7
A 15.9
E 0.5
C 78.0
U.S.$ 11620.6 MILLION

which caused a spurt in the imports of capital goods. The growth in imports for the period April-December 1994-95 has been 23.9 per cent. The pick up in non POL imports has been evident since 1992-93. From a growth of 9.6 per cent in 1992-93, non-POL imports rose by 14.0 per cent in 1993-94 to 33.1 per cent for the period April-December, 1994. POL imports, on the other hand, have declined by 2.1 per cent.

37. An analysis of the growth of imports for April-September 1994 (Table 5.12) shows that among the products which have shown the highest growth, were edible oils ,which registered a rise of 413.5 per cent. This has raised the overall growth rate of import of food products to 282.6 per cent. Coal imports increased by 56.7 per cent. Amongst capital goods imports which have shown an increase of 28.0 per cent, machinery imports registered an increase of 40.8 per cent and project goods of 43.5 per cent. The next category of items that have shown substantial increases have been chemicals at 60.0 per cent, iron & steel at 60.2 per cent and non-ferrous metals at 66.1 per cent.

TABLE 5.12
India's Imports by Commodity Group

(US$ million)

Commodities		1992-93	1993-94	Apr-Sept 1993-94	Apr-Sept 1994-95	Apr-March 1993-94 (Per Cent Change)	Apr-Sept94 1994-95 (Per Cent Change)
	1	2	3	4	5	6	7
I.	**Food and allied products, of which**	721.0	550.4	212.8	814.1	-23.7	282.6
1.	Cereals	333.5	84.9	66.6	20.6	-74.5	-69.0
2.	Pulses	115.5	180.9	60.9	87.0	56.7	42.9
3.	Cashew nuts	129.9	153.9	44.9	111.7	18.4	148.6
4.	Edible oils	57.6	52.2	15.1	77.4	-9.4	413.5
II.	**Fuel,of which**	6396.1	6221.5	3298.6	3097.4	-2.7	-6.1
5.	Coal	477.6	465.0	216.1	338.8	-2.6	56.7
6.	POL	5918.6	5756.5	3082.5	2758.6	-2.7	-10.5
III.	**Fertilizers**	977.7	831.2	387.5	394.2	-15.0	1.7
IV.	**Paper board,manufactures & newsprint**	177.2	222.1	85.4	103.0	25.3	20.6
V.	**Capital goods, of which**	4531.0	6040.0	2533.0	3243.4	33.3	28.0
7.	Machinery except elec & machine tools	1652.6	2190.7	823.5	1159.7	32.6	40.8
8.	Electrical machinery	826.2	794.4	475.4	547.8	-3.8	15.2
9.	Transport equipment	461.8	1266.8	503.6	517.7	174.3	2.8
10.	Project goods	1278.5	1401.0	577.5	828.9	9.6	43.5
VI.	**Others , of which**	6067.0	6377.5	2962.9	3142.8	5.1	6.1
11.	Chemicals	2017.5	1986.3	827.5	1323.7	-1.5	60.0
12.	Pearls, precious, semi precious stones	2441.9	2641.2	1429.6	780.0	8.2	-45.4
13.	Iron & steel	711.4	781.6	302.7	484.9	9.9	60.2
14.	Non-ferrous metals	394.8	474.9	210.2	349.3	20.3	66.1
15.	Professional instruments, optical goods etc	501.4	493.4	192.9	204.9	-1.6	6.2
VII.	**Unclassified items**	3011.5	3084.0	1316.2	2056.2	1.7	56.2
	Grand Total	**21881.6**	**23306.7**	**10798.4**	**12861.1**	**6.5**	**19.0**

Source: DGCI&S Calcutta

38. The structure of imports has undergone a change in the first half of 1994-95 , compared to the previous year. The share of food and allied products has increased from 2.0 per cent in April-September 1993-94 to 6.3 per cent in April-September 1994-95 and of capital goods marginally from 23.5 per cent to 25.2 per cent (Table 5.13). The latter can be attributed to the pick up in investment activity and is not due to the crowding out of the domestic capital goods industry which has also shown a buoyancy. On the other hand, there has been a decline in the share of imports of fuels and fertilizers from 30.6 per cent to 24.1 per cent and 3.6 per cent to 3.1 per cent registered between April-September 1993-94 and April-September 1994-95 (Fig. 5.8).

Direction of Trade

39. The direction of trade as depicted in Tables 5.14 and 5.15 shows that while there has been no major swing in both the destination of exports or the origin of imports, certain trading areas have grown in importance. Of these, perhaps the most significant are the East Asian countries. The volume of trade to selected Asian countries has been steadily increasing (Table 5.14). Their percentage share of total exports increased from 11.1 per cent in 1991-92 to 14.1 per cent in April-September 1994. Imports have also shown a rise from 9.9 per cent in 1991-92 to 10.7 per cent April-September 1994. Amongst these East Asian countries, it is seen that the major export destinations have been Hong Kong, Singapore and Thailand. India's imports, on the other hand, have been mainly from Singapore, South Korea and Malaysia. The percentage share of exports to Hong Kong increased from 3.4 per cent in 1991-92 to 5.6 percent in 1993-94 and stabilising at 5.4 per cent for the period April-September 1994-95. Indonesia has been a major source of imports, showing a significant

TABLE 5.13
Composition of India's Imports

(Percent Shares)

	1992-93	1993-94	Apr-Sept 1993-94	Apr-Sept 1994-95
1	2	3	4	5
I. **Food and allied products, of which**	3.3	2.4	2.0	6.3
1. Cereals	1.5	0.4	0.6	0.2
2. Pulses	0.5	0.8	0.6	0.7
3. Cashew nuts	0.6	0.7	0.4	0.9
4. Edible oils	0.6	0.7	0.4	0.9
II. **Fuel,of which**	29.2	26.7	30.6	24.1
5. Coal	2.2	2.0	2.0	2.6
6. POL	27.0	24.7	28.6	21.5
III. **Fertilizers**	4.5	3.6	3.6	3.1
IV. **Paper board,manufactures & newsprint**	0.8	1.0	0.8	0.8
V. **Capital goods, of which**	20.7	25.9	23.5	25.2
7. Machinery except elec & machine tools	7.6	9.4	7.6	9.0
8. Electrical machinery	3.8	3.4	4.4	4.3
9. Transport equipment	2.1	5.4	4.7	4.0
10. Project goods	5.8	6.0	5.3	8.5
VI. **Others , of which**	27.7	27.4	27.4	24.5
11. Chemicals	9.2	8.5	7.7	10.3
12. Pearls, precious, semi precious stones	11.2	11.3	13.2	6.1
13. Iron & steel	3.3	3.4	2.8	3.8
14. Non-ferrous metals	1.8	2.0	1.9	2.7
15. Professional Instruments, Optical goods etc	2.3	2.1	1.8	1.6
VII. **Unclassified items**	13.8	13.1	12.2	16.0
Grand Total	100.0	100.0	100.0	100.0

Source: DGCI&S Calcutta

TABLE 5.14
Direction Of India's Trade With Selected East Asian Countries

(Percent Shares)

Country	Exports 1991-92	Exports 1992-93 (Apr-March)	Exports 1993-94 (Apr-March)	Exports 1993-94 (April-Sept)	Exports 1994-95 (April-Sept)	Imports 1991-92	Imports 1992-93 (Apr-March)	Imports 1993-94 (Apr-March)	Imports 1993-94 (April-Sept)	Imports 1994-95 (April-Sept)
1	2	3	4	5	6	7	8	9	10	11
A. Indonesia	0.8	0.7	1.0	1.0	0.9	0.3	0.3	0.5	0.4	1.1
B. Malaysia	1.1	1.0	1.1	1.3	1.0	2.0	1.9	1.1	1.0	2.2
C. Hongkong	3.4	4.1	5.6	5.8	5.4	0.6	0.8	0.8	0.8	0.8
D. South Korea	1.4	0.9	0.9	0.9	1.1	1.7	1.6	2.4	1.6	2.0
E. Singapore	2.2	3.2	3.4	3.4	2.9	3.6	2.9	2.7	2.5	2.8
F. Thailand	1.1	1.4	1.6	1.4	1.5	0.3	0.3	0.2	0.3	0.8
G. Chinese Taipei	1.0	1.0	1.2	1.4	1.1	1.5	1.0	0.7	0.8	0.9
Total	11.1	12.3	14.8	15.2	14.1	9.9	8.7	8.4	7.4	10.7

Source: Compiled from DGCI&S,Calcutta

TABLE 5.15
Direction Of India's Trade

(Percent Shares)

Country	Exports 1992-93 (Apr-March)	Exports 1993-94 (Apr-March)	Exports 1993-94 (April-Sept)	Exports 1994-95 (April-Sept)	Imports 1992-93 (Apr-March)	Imports 1993-94 (Apr-March)	Imports 1993-94 (April-Sept)	Imports 1994-95 (April-Sept)
1	2	3	4	5	6	7	8	9
A. U.K	6.5	6.2	6.3	6.5	6.5	6.6	7.0	5.6
B. Germany	7.7	6.9	6.9	6.6	7.6	7.7	7.3	7.3
C. Other EU Countries	14.1	12.9	12.2	12.9	16.1	15.7	17.6	11.0
D. U.S.A	19.0	18.0	18.5	19.8	9.8	11.7	10.5	9.9
E. Japan	7.7	7.8	7.7	7.7	6.5	6.6	5.9	7.3
F. Russia	3.3	2.9	2.4	3.0	1.2	1.1	0.9	1.3
G. East Europe	1.1	0.9	1.0	0.6	1.4	0.6	0.6	0.6
H. OPEC	9.6	10.7	10.4	9.5	21.6	22.4	24.8	21.0
I. LDCs	20.8	24.1	24.5	23.2	15.2	15.3	13.7	21.5
J. Others	10.1	9.7	10.2	10.1	14.2	12.4	11.7	14.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source:DGCI&S,Calcutta

Figure 5.8

COMPOSITION OF INDIA'S IMPORTS

(PER CENT)

A — FOOD AND ALLIED PRODUCTS
B — FUEL
C — FERTILISERS
D — PAPER BOARD MANUF. AND NEWS PRINT
E — CAPITAL GOODS
F — OTHER BULK ITEMS
G — OTHERS

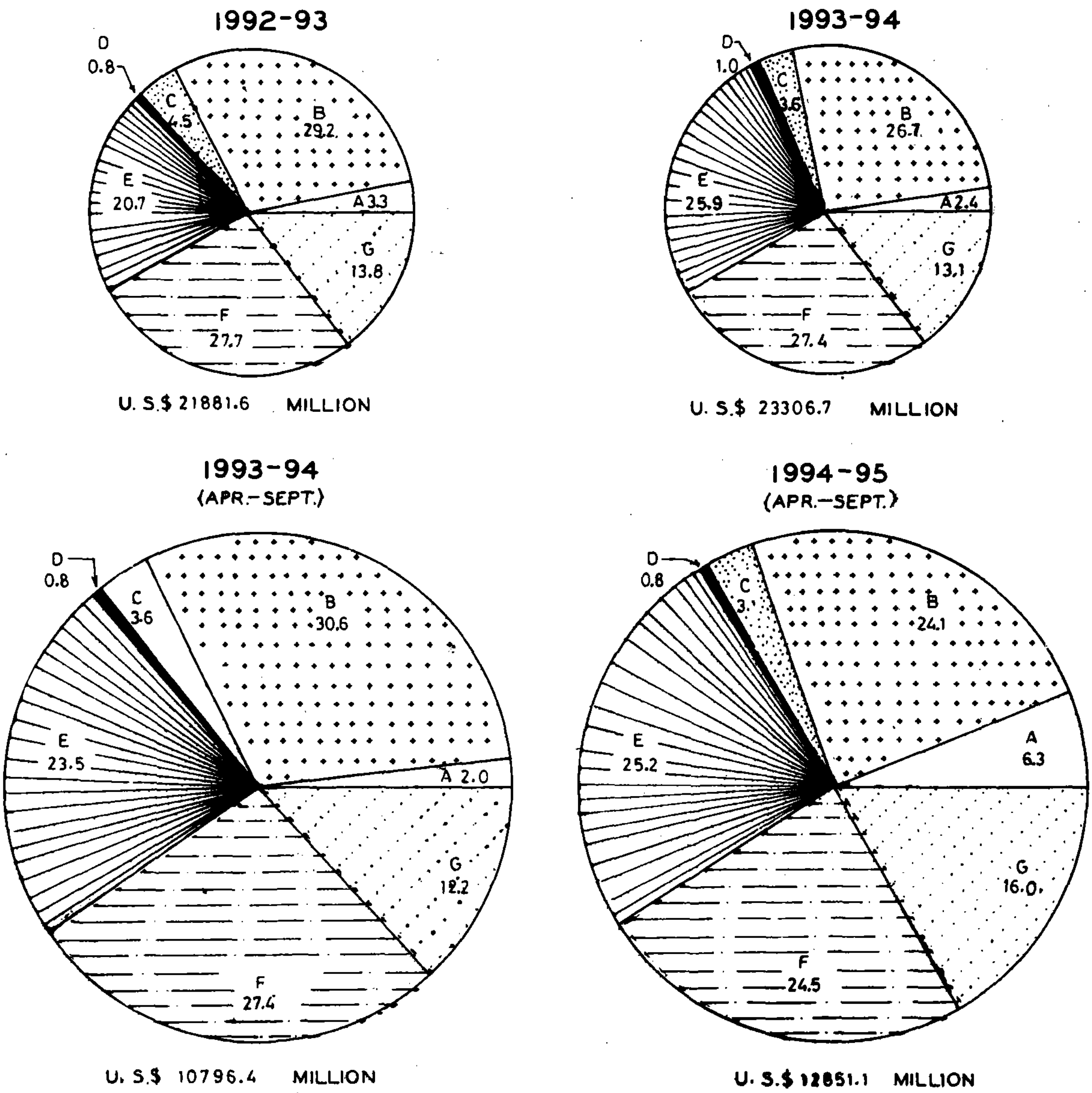


Figure 5.9

DESTINATION OF INDIA'S EXPORTS

(PER CENT)

A — U.K.
B — GERMANY
C — OTHER E. U.
D — U. S. A.
E — JAPAN
F — RUSSIA
G — EAST EUROPE
H — OPEC
I — L. D. Cs
J — OTHERS

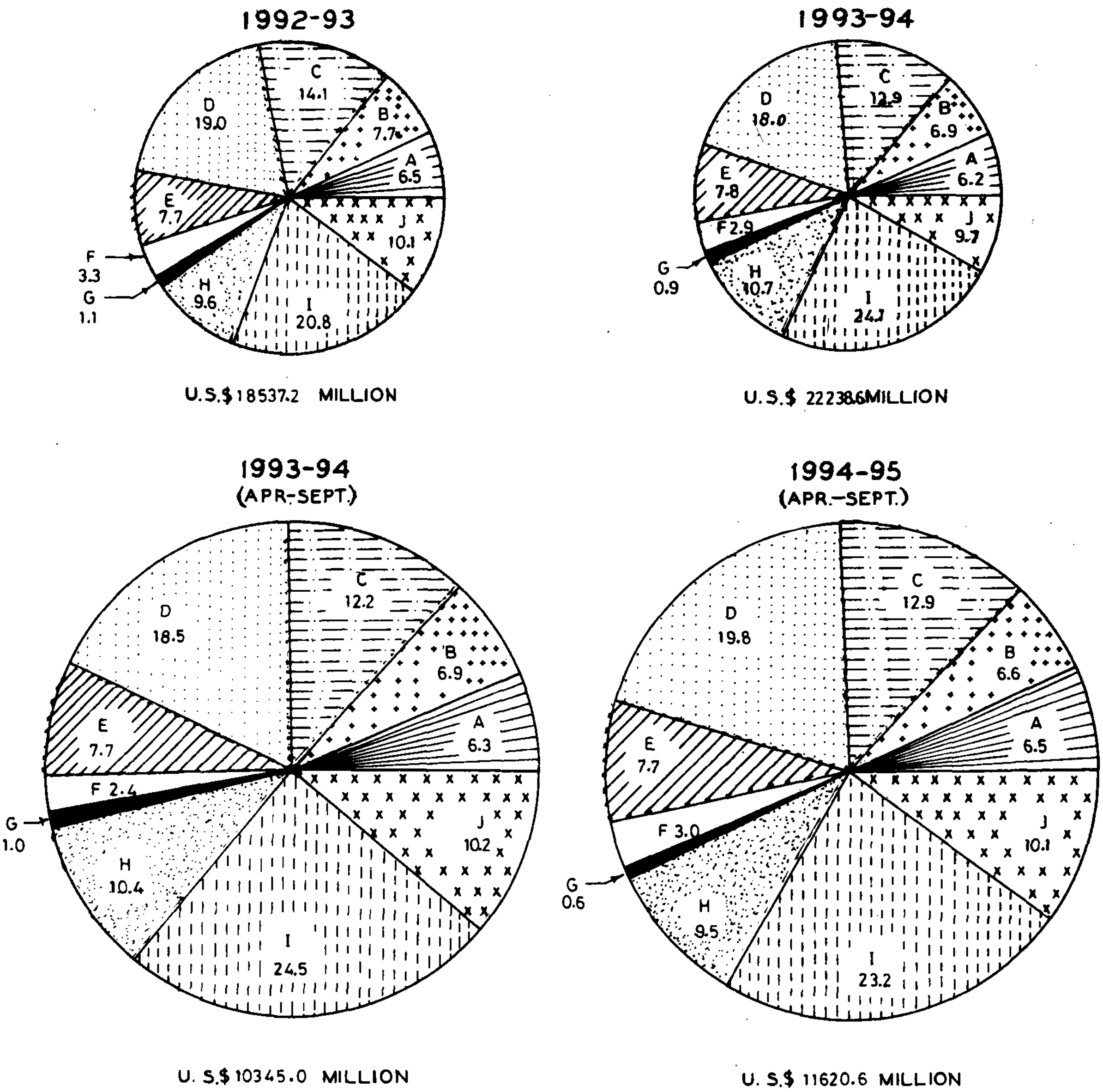
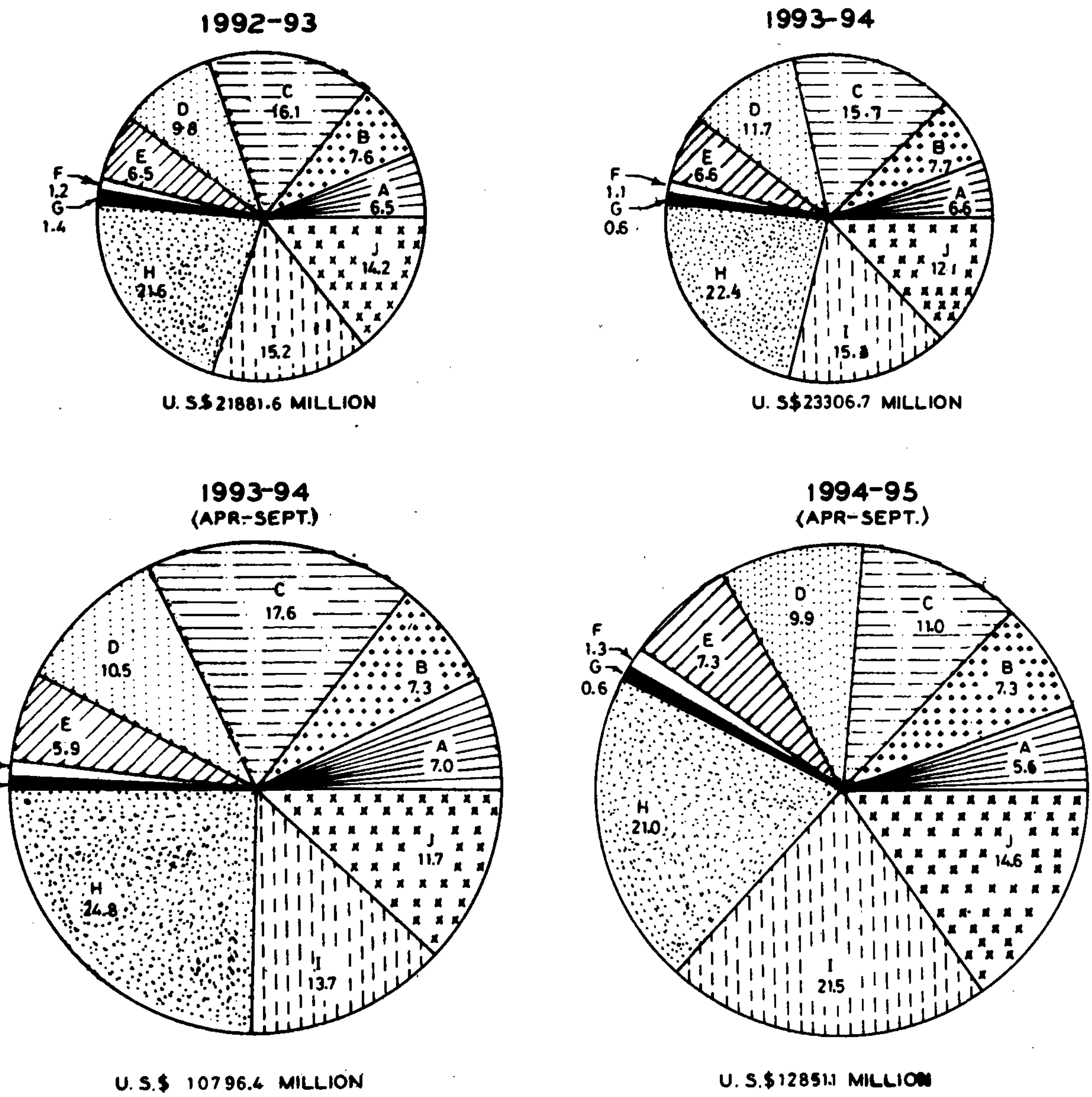


Figure 5.10

SOURCES OF INDIA'S IMPORTS

(PER CENT)

A — U. K.
B — GERMANY
C — OTHER E. U.
D — U. S. A.
E — JAPAN
F — RUSSIA
G — EAST EUROPE
H — OPEC
I — L. D. Cs
J — OTHERS



rise from 0.3 percent in 1991-92 to 0.5 percent in 1993-94 and to 1.1 percent in April-September 1994-95. The percentage share of imports from South Korea has also shown an increase from 1.7 per cent in 1991-92 to 2.4 percent in 1993-94. However ,there has been a decline in the share of South Korean imports to 2.0 per cent in the period April-September 1994. As far as India's traditional partners are concerned, the main changes have been a reversal of the decline in the share of exports destined to the Russian market in the first six months of 1994-95. In addition, a decline in the share of imports originating from countries in the EU, other than Germany , and sharp increase of imports from other LDCs whose share increased from 13.7 per cent in April-September 1993-94 to 21.5 per cent in April-September 1994-95. Yet another feature has been the pick up in trade with the United States. For example, the percentage share of exports stood at 19.8 percent in April-September 1994 compared to 18.5 percent for the corresponding period last year. Imports from the USA have, on the other hand, marginally declined to 9.9 percent for the period April-September, 1994 from 10.5 per cent for the corresponding period last year (Fig.5.9 & 5.10).

Policy Developments since 30 March 1994

40. In continuation of the policy objective to promote exports and simplify import procedures, the following measures were undertaken this year.

- third-party exports were given benefits under the Duty Exemption Scheme (DES) and the Export Promotion Capital Goods scheme.
- the scope of items importable under Special Import Licenses (SILs) was increased.
- the facility of granting duty free licences based on ad hoc norms was made available to importers.
- specified professional services were counted towards the granting of Export/Trading/Star Trading House status.
- a new category of Super Star Trading houses was created which inter alia, are entitled to membership of apex consultative bodies concerned with trade policy and promotion.
- all second hand capital goods with a minimum residual life of over 5 years were made fully importable by Actual Users.
- bank guarantees and legal undertakings for advance licences were substantially rationalised and simplified.
- the EPCG scheme continued to be extended to the services sector.
- EOU status was given to units engaged in exports of agriculture and allied sectors, which exported at least 50 per cent of their produce as against a minimum of 75 per cent requirement for other sectors.
- streamlining of value addition formulae for EOU/EPZ's.

41. With the formulation of these measures, the trade policy focus has aimed at providing both the institutional and infrastructural back up to promote exports.

International Economic Environment

Uruguay Round Issues

42. The Uruguay Round of GATT negotiations was formally concluded at the Ministerial Conference held in Marrakesh, Morocco, from 12-15 April 1994. India, along with 110 other countries authenticated the results of the Uruguay Round by signing the Final Act. In addition, 104 countries also signed the Agreement establishing the World Trade Organisation (WTO). The WTO Agreement has come into force from 1 January 1995 and India has become a founder member of the World Trade Organisation, by ratifying the WTO Agreement on 30 December 1994.

43. Estimates have been made by the World Bank, OECD and the GATT Secretariat, which show that the income effects of the implementation of the Uruguay Round package will add between 213 to 274 billion U.S. dollars annually to world income. The GATT Secretariat's estimate of the overall trade impact is that the level of merchandise trade in goods will be higher by 745 billion U.S. dollars in the year 2005, than it would otherwise had been. The GATT Secretariat further projects that the largest increases will be in the areas of clothing (60%), agriculture, forestry and fishery products (20%) and processed food and beverages (19%). Since India's existing and potential export competitiveness lies in these product groups, it is logical to believe that India will obtain large gains in these sectors. Assuming that India's market share in world exports improves from 0.5% to 1%, and that we are able to take advantage of the opportunities that are created, the trade gains may conservatively be placed at 2.7 billion U.S. dollars extra exports per year. A more generous estimate will range from 3.5 to 7 billion U.S. dollars worth of extra exports.

44. There are several areas in the Uruguay Round package that relate to market access. The more important ones are tariffs, textiles and garments and agriculture.

(i) In most developed countries, industrial tariffs have been reduced and are now bound at very low levels (an average of 5%). They are not a significant barrier to trade. Developing countries have also been reducing their tariffs. The overall tariff reduction in the Uruguay Round is an average of one-third. On industrial raw materials, components and capital goods, India has bound tariffs at 40% (where they were above 40% in

1993-94) and at 25% in other cases. Tariff reductions, where necessary, are to be carried out in six equated annual instalments from 1 March 1995. As the reference date for reducing tariffs is 1 January 1990, when Indian tariffs were high and substantial autonomous tariff reductions have been undertaken since then, in the initial years there is no obligation to undertake significant tariff reductions. At present, 5% of our tariff lines are bound and after the Uruguay Round Agreement comes into force, about 68% of tariff lines will be bound. In comparison, many developing countries in Asia and Latin America have bound between 90 and 100% of their tariff lines at levels comparable to, or lower than, India's bindings.

(ii) The textiles and clothing agreement also forms part of market access. A major achievement has been the commitment to integrate this sector into a multilateral framework. This is the first time that importing countries have agreed to an unequivocal commitment to integrate textiles trade into GATT. The legal commitment of the integration has been further strengthened by the provision in the WTO text that any waiver from the obligations under an agreement involving a transition period can only be granted on the basis of a consensus. That is to say, any member can block the consensus for such a waiver decision. The 10 year transition period in the textiles agreement will enable India to devise policies and allow strategic reactions on the part of industry so as to reap the greatest benefits from the integration. In addition, India has linked tariff reductions in and bindings in textiles and garments to the implementation of the textiles agreement.

(iii) On agriculture, India has ensured that all major programmes for the development of agriculture will be exempted from the disciplines in the agricultural agreement. The text provides for a single Aggregate Measurement of Support (AMS), based on both product specific and non-product specific support. India's total AMS in the relevant base period of 1986-88 is negative (without taking into account exemptions available on input subsidies to low income and resource poor farmers) and there are no reduction commitments. Nor does India have any minimum market access commitments in agriculture. The text of the Final Act clarifies that the operation of the public distribution system will not be affected by the provisions of the agreement. On agricultural tariffs, developing countries have the flexibility of indicating maximum ceiling bindings. India has indicated ceiling bindings of 100% on primary products, 150% on processed products and 300% on edible oils.

45. The Uruguay Round Agreement has also strengthened multilateral rules and disciplines. The most important of these relate to anti-dumping, subsidies and countervailing measures, safeguards and dispute settlement. For example, on subsidies, countries with a per capita income of less than U.S. dollars 1000 have been exempted from the general exemption to phase out export subsidies on industrial products. Regardless of the level of per capita income, all countries will have to phase out export subsidies in products where they have a share of 3.25% or more of the world market in two consecutive years. But this only affects India's exports of diamonds. In line with the new obligations on anti-dumping and subsidies and countervailing measures, amendments in the Customs Tariff Act have been made through an ordinance promulgated on 31 December 1994. Rules concerning dispute settlement have been made time bound, automatic and judicial in approach.

46. The Agreement on Trade Related Investment Measures (TRIMs) prohibits investment measures that are inconsistent with national treatment (Article III) or general elimination of quantitative restrictions (Article XI). Developing countries have been allowed a five year transition period to phase out inconsistent TRIMs. The Agreement does not impose any obligation to provide access to all or any particular sectors for foreign investments.

47. The General Agreement on Services (GATS) has two major across the board requirements. The first is non-discrimination on the basis of the most favoured nation (MFN) clause and the second is transparency. There is no requirement for an across the board opening up of the services sector. India has made an offer on the basis of the country's self-interest. India's interest in the negotiations on services was primarily in the delivery of services through the modality of cross-border movements of natural persons. The negotiations on services will come to an end six months after the entry into force of the agreement establishing the WTO.

48. (i) The Agreement on Trade Related Intellectual Property Rights (TRIPs) provides norms and standards for copyrights and related rights, trade marks, geographical indications, industrial designs, patents, lay out designs of integrated circuits and protection of undisclosed information. On copyrights and related rights, the Agreement requires compliance with the provisions of the Berne Convention. India is already a signatory to the Berne Convention and the new Copyright Act already meets the requirements of the TRIPs Agreement. A Bill to amend the Trade and Merchandise Marks Act of 1958, so as to provide for the protection of service marks, was introduced in Parliament in 1993. In India, there is no specific law on geographical indications, although the case law permits protection of geographical indications. A new law will have to be

enacted, but there is a five-year transition period under the Agreement before this needs to be done. On industrial designs, the Designs Act of 1991 will have to be updated, but there is a five-year transition period that is allowed. This five-year transition is also permitted for layout designs of integrated circuits and protection of undisclosed information.

(ii) On patents, the basic obligation is that product and process patents must be permitted in all areas. However, specific exceptions from patentability are permissible for selected areas. Countries that do not provide product patents in certain areas now, can delay the provisions requiring product patents for another five years, beyond the five years that are granted as a general exemption. But exclusive marketing rights will have to provided for products which obtain patents after 1 January 1995. The Patents (Amendment) Ordinance of 1994 has accordingly been promulgated on 31 December 1994. On plant varieties, there is an obligation to provide for protection by patents or by an effective *sui generis* system or by a combination. The Agreement does not spell out the ingredients of the *sui generis* system and each country can determine the elements that can provide effective protection. India has decided to put in place a *sui generis* system rather than product patents, as that is more in the national interest. The Ministry of Agriculture has already begun work on the drafting of suitable legislation that will also protect farmers' and researchers' rights adequately. The issue of regulation of access to genetic material is being addressed by a drafting group set up by the Ministry of Environment and Forests.

Agreements in Textiles

49. India has signed two separate agreements with the USA and the EU on 31st December, 1994, on the subject of Market Access in Textiles. These agreements have been entered into with a view to facilitate trade in textile products between India and the USA and EU countries. At present, approximately two thirds of India's total textile exports are to these countries.

50. It has been estimated that if India is able to utilise fully the additional access gained as a result of the two agreements, it will result in additional earnings of around Rs. 1100 crore per annum in the initial years. Because of the growth rates in the quotas built into the Agreement on Textiles and Clothing of the Uruguay Round, the additional access achieved will get magnified in the second and third phases of integration and will provide larger earnings during these periods.

51. In order to accommodate some of the concerns of the USA and the EU, India has agreed to grant a phased tariff liberalisation schedule for certain items with the WTO, at varying rates, for periods commencing from three to seven years. In addition, India has also agreed to open up its market for textile products, in a phased manner. Broadly speaking, in the first phase India has agreed to allow fibres, yarns and industrial fabrics, which are basic raw materials and in some of which domestic requirements are not adequately met, to be placed on the OGL. In the next phase, fabrics and in the subsequent phase made-up items and garments are to be allowed to be imported under OGL. This has been done in keeping with the policy of making available raw materials at internationally competitive prices.

Other Developments

52. The international economy has shown signs of recovery after a prolonged period of recession. International trade also has picked up. The ratification of the Marrakesh Agreement and the establishment of the World Trade Organisation (WTO) will strengthen the multilateral framework for trade and further boost world trade. The outlook for some sub-Saharan countries is also beginning to improve, after several years of decline in real per capita income. Some of the countries which began their transition early are already growing or have contained previous output declines. Despite these positive signs, the world economy continues to suffer from certain structural weaknesses which may affect medium-term growth prospects. This will not be helpful to the reform programmes undertaken by several developing countries, including India.

53. Unemployment in industrial countries is at the highest level since the 1930s. This has created problems not only in these countries, but could translate into a clamour for protectionism, threatening multilateral trade. Fiscal deficits in many industrial countries continue to be high, putting pressure on national savings and interest rates. This adversely affects private investments in these countries and the flow of financial resources to the developing countries. Although several developing countries have substantially liberalised trade as part of economic reforms, developed countries have raised barriers, threatening market access to items of interest to developing countries.

54. The official development assistance (ODA) to developing countries decreased by about 8 per cent in real terms in 1993 and is below 0.3 per cent of GNP of developed countries, against the internationally accepted target of 0.7 per cent. In real terms, the lending from the IBRD stagnated since 1992 and aggregate net transfers from the World Bank have been negative for the last several years.

55. There has been no fresh allocation of special drawing rights (SDRs), the internationally-created reserve asset, since 1981. More than one-third of developing countries and half of the countries in transition had

reserves equivalent to less than two months of imports by the end of 1993. Given the needs of a vast number of developing and transition countries, there is a strong case for a fresh allocation of SDRs. Unfortunately, the last Interim Committee meeting held in Madrid in October 1994 could not reach a consensus on this.

Outlook

56. A major achievement of economic reforms has been the dramatic loosening of the foreign-exchange constraint on India's economic growth, which has been prevalent since the mid-fifties. The balance of payments continues to be comfortable in 1994-95. Export growth may be lower than the high growth of 20 per cent recorded in 1993-94 and import growth, fuelled by industrial recovery, much higher than the 6 per cent registered last year, resulting in a larger trade deficit for 1994-95. Nevertheless, because of the better performance of invisibles and higher capital inflows, the buildup in foreign currency reserves has continued and may touch $20 billion at the end of 1994-95.

57. With industrial recovery strongly under way and imports rising, the trade deficit is expected to widen this year and perhaps even in 1995-96. Debt-service payments on past debt will continue to be high and may touch $13 billion in 1995-96. In the medium-term, the health of India's balance of payments continues to depend crucially on export performance. Success in sustaining a strong export growth will depend on the maintenance of a competitive exchange rate, overall macroeconomic stability, steps to enhance the relative profitability of exports, as compared to the domestic market, and growing competitiveness of India's industry, agriculture and services. All this signifies India's integration into the global economic environment.