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WORLD TRADE ORGANIZATION

Committee on Balance-of-Payments Restrictions

CONSULTATION WITH INDIA UNDER ARTICLE XVIII:12 (b) OF THE GATT 1994 AND THE RELATED UNDERSTANDING

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SECTION I

Macro economic trends in the Indian economy

1. Faced with severe macro economic imbalances, Government initiated major structural reforms in trade, industry, financial and public sectors in July 1991 in order to improve efficiency and productivity of Indian industries and to impart dynamism to the overall growth process. Several macro stabilization policies like controlling inflation and money supply, reduction of fiscal deficit and strengthening balance of payments, were also initiated along with liberalization and deregulation of trade and related sectors. External Sector reforms and introduction of unified market determined exchange rate enhanced the competitiveness of Indian industry. Policies concerning foreign and domestic investments were also liberalized and industrial licensing abolished for a wide range of products. As a part of trade policy reforms, both tariffs and licensing restrictions were reduced significantly except for a few products which are important on considerations of health, security, safety and environment. Peak tariff levels were reduced from 355 per cent in 1991 to 50 per cent in 1995 and the negative list of imports was pruned successively.

2. The remarkable progress made by the Indian Economy since the difficult days of the 1991 economic crisis can be gauged by a few simple comparisons, The overall economic growth in terms of real GDP at factor cost improved from 0.9 per cent in 1991-92 to 4.3 per cent in each of the year 1992-93, 1993-94 and further to 6.2 per cent in 1994-95 and is expected to be around 6 per cent in 1995-96. Industrial production, which virtually stagnated in 1991-92 increased by 6 per cent in 1993-94 and further to 8.4 per cent in 1994-95 and recorded a growth rate of 13.3 per cent in the first quarter of 1995-96. Foodgrains production which declined to 168 million tonnes in 1991-92 attained a record high of 192 million tonnes in 1994-95. The infrastructural sectors, namely, electricity, coal, steel, cement, crude oil and petroleum production with a weight of nearly 30 per cent in the industrial production recorded a growth rate of 5.2 per cent in 1993-94, 7.8 per cent in 1994-95 and further 10.4 per cent in the first half of 1995-96. The additional employment generation which was only 3 million in 1991-92 is estimated to have increased to about 6 million on an average during 1992-93 and 1993-94 and further to 7.2 million in 1994-95.

3. As far as the external sector is concerned, exports increased at the rate of 3.8 per cent in US $ terms in 1992- 93; 20 per cent in US $ terms in 1993-94 and 18.3 per cent in 1994-95. The rate of growth of imports was 12.7 per cent in 1992-93; 6.5 per cent in 1993-94 and 22.9 per cent in 1994-95. With industrial recovery, imports are increasing at a faster rate than exports resulting in the continuance of an adverse balance of trade to the extent of US $ 3345 million in 1992-93; US $ 1068 million in 1993-94 and US $ 2355 million in 1994-95.

4. The restoration of macro economic stability and revival of growth in output and employment are not free from threat. The Central Government fiscal deficit continues to be high and this is reflected in continuing inflationary pressures. The borrowing requirements of a high fiscal deficit are a source of pressure on interest rates and adversely affect availability of resources for productive investment, especially at a time when a strong industrial recovery has revived private sector demand for investable funds. Inadequate supply of quality infrastructure especially power is also an important constraint which could prevent the economy from achieving its full growth potential. The trade balance continues to be adverse and there is no clear and consistent trend towards a decline in its magnitude. The external environment is becoming increasingly competitive and protectionist tendencies can be discerned in the trade policies of major trading nations. Unless the external environment is favourable, the export growth could falter and thus bring the balance of payments under renewed stress.

5. Hence the macro trends indicate a strong economic recovery since 1991-92, though medium-term prospects have to contend with weaknesses in infrastructure sectors, a continued relatively high fiscal deficit and a substantially adverse balance of trade. This indicates that macro-economic stability will require continuing vigilance and alertness.

SECTION II

Current Status of the Balance of Payments

(a) Current Account

6. During the year 1994-95, imports rose significantly to record a growth rate of 22.9 per cent in US $ terms as compared to 6.5 per cent in 1993-94. While imports of Petroleum, Oil and Lubricants (POL) benefited from an increase in indigenous production and by the softness in international crude oil prices which remained broadly at the level of the preceding year, the non-POL imports surged. The growth rate in non-POL imports at 28.4 percent in US $ terms reflected the strong revival of domestic industrial production activity and the export performance linked to imports. Imports of intermediate products rose sharply, in consonance with the expanding needs of the industrial sector which was recovering from a sluggish phase. The imports of consumption goods such as edible oils and pulses also rose as the demand outstripped supply. Imports of capital goods rose buoyantly highlighting the strong complementarity between the pattern of industrial recovery, investment and import demand.

7. The large increase in imports was however not matched by the rate of growth in exports which declined to 18 per cent in 1994-95 compared to 20 per cent in 1993-94 in US $ terms. Manufactured goods as a group recorded an appreciable improvement in the share of total exports. Products which recorded the highest growth rates were electronic goods, textiles, yarn, fabrics, ready-made garments, marine products, chemicals and allied products and leather and manufactures. On the other hand, the growth of exports of engineering goods and gems and jewellery, two major items of India's exports, was modest, compared with the earlier periods.

8. The performance of invisibles improved in 1994-95, following the introduction of a market determined exchange rate regime. For the second year in succession, during 1994-95, there was a larger inflow of remittances from Indians working abroad, triggered by a decline in transactions routed through unofficial channels. The incentives provided by the market determined exchange rate appear to have deterred diversion of remittances into illegal channels. This trend is evidenced by the stability in the market exchange rate. The performance of exports and invisible earnings enabled only a partial financing of the surge in imports. Hence the current account deficit widened from US $ 315 million

in 1993-94 to about US $ 2315 million in 1994-95. The year 1995-96 is expected to end with a current account deficit of about $ 5 billion.

(b) Capital Account

9. As in 1993-94, the capital account was dominated in 1994-95 by inflows of foreign investment, both direct and portfolio, which amounted to nearly US $ 5 billion. The long-term debt creating flows comprising external assistance, commercial borrowings, NRI deposits, IMF transactions and debt repayments to Russia taken together recorded a modest increase during the year. The annual increase in the stock of external debt outstanding declined from $7.9 billion in 1990-91 to $2.7 billion in 1993-94. The proportion of short-term debt in total external debt has come down from 10.2 per cent in 1990-91 to less than 4 per cent in 1993- 94. However, external debt as a percentage of GDP is still high at 34.1 per cent in 1994-95 compared to 37.0 per cent in 1993-94 and 37 per cent in 1992-93. The inflows of foreign investment and Non- Resident deposits have contributed to an accretion to reserves of the order of US $ 5.7 billion during 1994-95. At the end of the year, the RBI's foreign currency assets at US $20.8 billion stood cover for about 8 months of imports. India's current level of reserves at about 6 months of imports are high when compared to the past and to most developing countries, but must be viewed in the new market framework: IMF Article VIII status on current account convertibility along with virtually complete capital account convertibility for Non-Residents. In the context of new uncertainties created by capital account liberalization, these reserves cannot be considered as exceptionally high.

10. Debt service payments which averaged about US $8.0 billion year in the last three years, rose to about US $11.0 billion in 1994-95. The debt service ratio is expected to increase marginally in 1994-95 over 1993-94, but it is likely to show significant decline compared with the previous years.

(c) Exchange rate of the Rupee

11. 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. 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 liberalization 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.

12. 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 somewhat in the first three quarters of 1994-95, as the dollar depreciated against major currencies. But with inflation in India being much higher than in the major industrial countries, the real effective exchange rate of the Rupee rose since the latter half of 1993 resulting in some erosion of India's export competitiveness.

13. Since September 1995 there has been significant volatility in India's market-determined exchange rate and some depreciation in the nominal rate with respect to the US dollar.

SECTION III

Balance of Payments Prospects

14. As indicated in Section I of this paper, both macro economic stability and the external trade and payments situation in 1995-96 and beyond needs close monitoring. On the import front, while the POL imports have been moderate during 1993-94 and 1994-95, they are likely to be higher in 1995-96 partly due to a rise in international oil prices and partly on account of the anticipated increase in POL consumption. The prospects for moderation in the oil import bill in the years to come, depend much on the international oil price movements and sustaining the improvement in domestic production witnessed in recent years. Non-POL imports during April-September, 1995 have recorded a growth rate of over 36 percent. The continued improvement in industrial production and the prospects for pick up in investment activities is likely to result in the growth of non-POL imports during 1995-96 to be at least as high as in the preceding year. In the years to come, imports can be expected to record a growth rate which will be in alignment with the rate of expansion of the economy and show an increased degree of price sensitivity. If the rate of growth of imports (33 per cent in US $ terms) during April- September 1995 is any indication, imports in 1995-96 are likely to grow at a much higher rate than in 1994-95 and also compared with the growth of exports. This is likely to result in an increase in the deficit in the balance of trade.

15. This underscores the need for sustaining the dynamic performance in exports of recent years in future. While the domestic policy environment is supportive, the external environment for our exports is still not very conducive, with major trading nations increasingly resorting to protectionist measures in the form of quota restrictions, anti dumping measures, labour standards criteria, environmental and human rights linkages and the threat of unilateral trade measures.

16. As regards the capital account, gross disbursements of external assistance have remained sluggish in recent years and any augmentation in these flows would depend upon higher commitments of multilateral and bilateral concessional assistance to India as well as on progress in the decentralized approach which is currently being pursued in the utilisation of aid funds. The objective of prudent debt management demands limits on commercial borrowings. Amortization of commercial borrowings resorted to in the past would be sizeable in the next 4,5 years with a peak in 1996-97 on account of repayment of India Development Bonds. Repurchases from the IMF are expected to peak in 1995-96 and decline thereafter.

17. Inflows of foreign direct investment are likely to rise mainly due to the fructification of proposals for direct investments that are currently under consideration. Other investment (portfolio) flows may become increasingly responsive to market conditions in India and abroad, the flexibility and resilience of the domestic financial sector in contending with these flows and perceptions regarding macro-economic fundamentals.

18. The above analysis leads to the conclusion that the balance of payments situation although comfortable at present need not necessarily remain so in the next 2-3 years. As indicated above, exports, to a large extent, hold the key to the viability of the balance of payments in the coming years. With the external environment facing India's exports being not conducive and imports growing at a rate faster than exports, the adverse trade balance is likely to continue in the near future. Until the balance of trade shows sustained improvement, net invisible flows attain sustained and significant positive balance and net private capital flows achieve a path of sustained growth, it cannot be said that there is a structural transformation of India's balance of payments. In the present situation, it is important

that we are allowed to continue with the liberalization and structural reforms policies at a pace and sequence suited to Indian conditions, at this stage.

19. Dispensing with the balance of payments cover at this stage therefore appears to be premature and could prove to be counterproductive for the process of liberalization.

SECTION IV

India's foreign trade regime

(a) Legal and Administrative basis of the import restrictions

20. The erstwhile Imports and Exports (Control) Act, 1947 has been replaced by a new act called the Foreign Trade (Development and Regulation) Act, 1992. This Act empowers the Central Government to prohibit, restrict, or otherwise control imports. In exercise of the powers conferred by this Act, import licenses and customs clearance permits, wherever necessary, will be issued by the Office of the Director-General of Foreign Trade (DGFT), New Delhi and its regional offices in India. Import of gold, silver, currency and currency notes, bank notes and coins is controlled by the Reserve Bank of India, under the Foreign Exchange Regulations Act.

21. The Foreign Trade (Exemption from Application of Rules in certain cases) Order 1993, inter alia, specifies the nature of import transactions not covered by import licenses.

22. Imports and exports are regulated through the Import and Export Policy revised by the Government in March every year.

23. Since 1992, the Government announced an Import and Export Policy for a five year period with the objective of providing a stable regime of economic policies, which would minimise year to year uncertainties in major policies and help industry to plan their economic activities in a longer term perspective. In March, 1992 the Import Export Policy for 1992-97 was announced. Amendment to the Policy, where necessary, is notified by means of Public Notices by the DGFT from time to time.

24. The policy and procedures governing import of various items are laid down in the Export-Import Policy Book which is valid for a specified period. The Handbook of Import-Export Procedures is also published as a supplement to the Ex-Im Policy. As stated above, the current Export and Import Policy and Handbook of Procedures are valid for a period of five years, i.e., upto 31 March 1997.

(b) Methods used for restricting Imports

25. One of the main objectives of the Ex-Im policy of the Government of India since 1991 has been to phase out quantitative restrictions in the form of licensing and other discretionary controls regulating India's foreign trade.

26. According to the Export and Import Policy for 1992-97, all capital goods, raw materials, intermediates, components, consumables spares, parts, accessories, components and other goods may be imported without any restriction except to the extent that such imports are regulated by the Negative List of Imports or any other provisions of the policy or any other law in force. The Negative List of Imports consists of prohibited items, restricted items and canalized items. Import of prohibited items contained in the Negative List of Imports is not allowed under any circumstances, whereas the canalized items can be generally imported through the designated canalizing agencies. Imports of

canalized items may also be permitted against a licence granted by the Director-General of Foreign Trade. As regards restricted items, imports may only be allowed against specific import licences or in accordance with a Public Notice issued for the purpose. Second-hand capital goods may also be imported without a licence by actual users with effect from 30 March 1994.

27. Almost all of India's trading partners receive MFN treatment in the issue of import licences. The exceptions to this are Iraq, Fiji and Yugoslavia (Serbia and Montenegro) on account of U.N. sanctions in case of Iraq and Yugoslavia. In these cases import licences cannot be issued or licences can only be issued against tied aid and foreign credits and under rupee payment area which are available only for imports from specified countries.

28. The restrictions on the import of Negative List items are on grounds of health, safety, security and environmental protection policies and agreements. In respect of certain items, the conditions for import have been specified in a general way in Public Notices issued for this purpose and the need for licensing in individual cases has been eliminated.

29. Imports into India are not restricted through maintenance of quotas. The instrument used for restricting imports is import licensing.

30. Quantitative restrictions on imports of most Intermediate inputs and capital goods have been eliminated. Import restrictions apply only to a negative list and products not on the negative list are freely importable at Market exchange rate. In keeping with the needs of the economy and the emerging trade balance, the negative list is also being successively pruned. In July 1991 out of 5021 H.S. tariff lines (6 digit), 80 per cent i.e., 4000 lines were subject to import licensing restraints. As a result of regular pruning of negative list more than 3000 Tariff lines covering raw materials, Intermediates and capital goods are free of import licensing requirements.

31. The Negative List of Imports now comprises three prohibited items, 62 restricted items including specified consumer goods and seven canalized items.

32. The three <u>prohibited items</u> are tallow, fat and/or oils of animal origin, animal rennet, and wild animals including their parts and products of ivory.

33. The list of <u>restricted items</u> under the Negative List includes specified consumer goods precious, semi- precious and other stones; insecticides and pesticides; electronic items; drugs, pharmaceuticals, chemicals and allied items; hazardous wastes and hazardous chemicals; items relating to the small-scale sector; certain miscellaneous items; and special items required for hotels, the tourism industry and sports bodies.

34. The list of <u>canalized items</u> includes some petroleum products, fertilizers, specified edible and non- edible oils, seeds and cereals.

35. Import of restricted items covered by the Negative List may be made against a licence or in accordance with Public Notices issued for this purpose. In the case of import of ships, trawlers and boats, aircraft and helicopters, automobiles and newsprint, no licence is required but imports are allowed subject to published conditions. Import of second-hand goods and machinery is also permitted freely by actual users.

30. <u>**Freely Tradeable Special Import Licences**</u> Imports of 75 specified restricted items (including certain consumer goods) is, however, permitted freely against freely transferable Special Import Licences

granted to Export Houses, Trading Houses, Star Trading Houses or Super-Star Trading Houses, exporters of electronic goods an d deemed exporters and manufacturers who have acquired prescribed quality certification on the basis of their foreign exchange earnings. One-time facility for import of cars is available to Export Houses, Trading Houses, Star Trading Houses or Super-Star Trading Houses against their own Special Import Licence. Government have recently issued a public notice correlating the Import licensing requirements to the 8 digit H.S. classification. There are in all 11,587 lines covered under the classification out of which 6463 lines are in the freely importable list and 1487 lines are importable under the freely tradeable Special Import Licences. It is Government's intention to gradually expand the list of items under the freely importable and SIL tariff lines.

37. Imports for Export Production For import of items required for export production, exporters are issued duty- free import licences for import of items including those under negative list under the Duty Exemption Scheme. Capital Goods which are otherwise freely importable can, under the Export Promotion Capital Goods (EPCG) Scheme, be imported at a concessional rate of customs duty/zero custom duty subject to an export obligation to be fulfilled over a period of time. These licences in fact provide easier access to imported goods at concessional terms for export production, thereby amounting to relaxation of the existing import controls in case of export production and compensating the exporters for the disadvantages of import restrictions.

38. Duty Exemption Scheme:- Under this scheme, exporters can import duty free imported inputs which go into export products without resorting to the mechanism of claiming duty draw back at a later stage. This scheme, has been recently modified and enlarged. The modified Duty Exemption Scheme now covers the following categories of licences:

(i) Advance Licence:

(a) Value-Based Advance Licence;

(b) Quantity-Based Advance Licence;

(ii) Pass Book Scheme;

(iii) Advance Intermediate Licence/Value-Based advance intermediate Licence; and

(iv) Special Imprest Licence.

39. The basis and conditions for issue of these types of licences vary. Hence licences issued under one category cannot be combined with those issued under another category.Duty free licences bear a suitable export obligation for the purpose of achieving the objective of the scheme. The purposes and scope of the categories of licences mentioned above are as follows:

(i) Advance Licences

40. An advance Licence is granted for the duty free import of inputs given the fulfilment of a specified time- bound export obligation and value addition. Advance Licences may either be value based or quantity based.

(a) Value-Based Advance Licences

41. Under a value-based advance licence, any of the inputs specified in the licence may be imported within the total c.i.f. value indicated for those inputs, except for notified sensitive items. The sensitive items may be imported only to the extent of the quantity or value specified in the licence.

(b) Quantity-Based Advance Licences

42. The quantity-based advance licence will indicate the names and description of items to be imported and exported, the quantity of each item of import or in case where the quantity cannot be indicated the value of the items, the c.i.f. value of imports and quantity and f.o.b. value of exports. The quantity of each item of import shall be allowed in accordance with the standard input-output norms as mentioned above based on the quantity of goods to be exported. In respect of items for which no norms exist in the statement of standard input-output norms, the quantitative norms may be approved by the competent authority. These licences are transferable subject to laid down conditions.

(ii) Passbook Scheme

43. It is a new scheme which has been introduced w.e.f. 1st April, 1995. Manufacturer Exporters and Export Houses/Trading Houses/Star Trading Houses/Super-Star Trading Houses are eligible to make applications under this Scheme to the designated authorities in each of the Customs Houses at Delhi, Bombay, Calcutta and Madras. The scheme applies to the export products for which standard input- output norms have been published. On export of goods, the Pass Book holders become eligible for credit equivalent to the basic duty payable on the inputs used for the manufacture of the relevant export product. The Pass Book is valid for 2 years and the credit available therein can be used for a period of 3 years for the payment of Customs duty on import of permissible items.

(iii) Advance Intermediate Licence

44. Such licences are quantity based and are issued to registered manufacturer exporters for import of basic inputs for manufacture and supply of intermediate products under a tie-up arrangement, to another manufacturer-exporter, called the ultimate exporter, holding the Advance Licence, for further processing into the final product for export. The objective of the scheme is to integrate the production activities of the two indigenous manufacturers, with the optimum utilization of the indigenous infrastructure to achieve a higher value addition. Imports are allowed in accordance with the standard input-output norms as mentioned above.

(iv) Special Impresı Licence

45. The Special Imprest Licence is granted for duty free import of necessary inputs to main/sub-contractor for the manufacture and supply of products to projects financed by multilateral or bilateral agencies/ Funds as notified by Department of EA, EOU/EPZ Unite Electronic Hardware Technology Parks (EHTPs), fertilizer plants, any project notified by the Ministry of Finance, Department of Economic Affairs and also to such projects in the power, oil and

gas Sector to which the benefit is extended by Ministry of Finance. The Special Imprest Licence is a quantity based licence.

(v) Value Based Intermediate Licences

46. Steel producers supplying steel to the exporters of Engineering goods under the Engineering Products Export (Replenishment of Iron and Steel Intermediate) Scheme are eligible to make applications for these licences. Applications can be made both on production programme basis in anticipation of the supply orders as well as after making the supplies, on the strength of Release Advices. After the supplies have been completed and the DEEC Book redeemed, the licences or the material imported thereunder can be transferred among the producers of Iron and Steel Intermediates.

47. A duty-free licence holder (including a transferee) may, instead of making imports also procure the raw materials etc., from indigenous sources through Advance Release Order/Back to back inland letter of credit. The ARO is issued against quantity-based licences as well as value- based advance licences where the quantity of the item has been specified.

48. Export Promotion Capital Goods (EPCG) Scheme:- Under the EPCG Scheme, capital goods which are otherwise freely importable may be imported at a concessional rate of customs duty of 15 per cent or the same may be sourced from the domestic manufacturers subject to an export obligation of four times the c.i.f. value of imports. The domestic manufacturers, permitted to supply the capital goods under this scheme to an EPCG licence holder, can also import the requisite components at a concessional rate of customs duty of 15 per cent. Besides, the scheme is also available to the service providers for rendering services for which the payments are received in freely convertible currency. On 1.5.95, in addition to the import at a concessional customs duty of 15 per cent, another window for the import of capital goods at zero duty, against an obligation of 6 times the value of imports on F.O.B. basis or 4 times the value of imports on N.F.E. basis to be discharged in a period of 8 years, has been opened.

49. The exporters of specified gems and jewellery products are eligible for grant of replenishment licences at the rate and for the items mentioned in the Export and Import Policy to import and replenish their inputs. Such licences are transferable.

50. Export Houses/ Trading Houses/ Star Trading Houses/ Super-Star Trading Houses (defined as those companies and exports of which have averaged Re 10, 50, 250 and 750 crores or net foreign exchange earnings of Re 6, 30, 125 and 400 crores in the preceding three years and have been Re 15, 75, 300 and 1,000 crores or net foreign exchange earnings of Re 12, 60, 150 and 600 crores in the previous year) are entitled to Special Import Licences at 4,5,6 and 11 per cent of the f.o.b. value of exports made or at 6,8.5,11 and 16 per cent of net foreign exchange earnings on exports in the preceding licensing year. 1 per cent extra SIL is also permitted to exporters of SSI, Handloom and Handicraft products including hand knotted carpets, silk products and sports goods provided the export of these products is more than 50 per cent of their total export.

51. The import of items appearing in the restricted list of Imports under the Negative List (other than those imports which are prohibited or canalized) may be allowed against Specific Import Licences or in accordance with the Public Notices issued for this purpose. Such items are subject to Actual User Conditions unless this condition is dispensed with in particular cases.

52. Actual User Condition :- Capital goods, raw materials, intermediates, components, consumables, spares, parts, accessories, instruments and other goods, which are importable without any restriction, may be imported by any person whether he is an Actual User or not. However, if such imports require a licence, the Actual User alone can import such goods unless the Actual User Condition is specifically dispensed with by a licensing authority.

53. The time-limit for processing various types of applications varies and it may be between two and 30 days.

54. Import licences, wherever required, are issued with a specified period of validity for shipment of goods. It is up to the importer to import goods any time during the validity period of the import licence. Generally, the goods should be shipped from the exporting country, only after the import licence is issued, and licences cannot ordinarily be granted for the goods which have already arrived at the port.

55. Import applications are submitted to the Office of the Director General of Foreign Trade, New Delhi or its regional offices, as the case may be. The practice of routing licence applications through the sponsoring authorities has been dispensed with.

56. Applications for import licences are to be submitted by 28 February of the licensing year ending on 31 March unless otherwise specified.

57. The licensing authority may refuse to grant an import licence

i) if the applicant has contravened any law relating to customs or foreign exchange;

ii) if it has been decided by the Central Government to canalize imports and distribution thereof through special or specialized agencies;

iii) if any action against the applicant is pending under the Foreign Trade (Development and Regulation) Act, 1992, or rules and orders made thereunder;

iv) if he applicant fails to pay any penalty imposed on him under the said Act;

v) if the applicant is not eligible for a licence in accordance with any provisions of the Export and Import Policy; and

vi) if no foreign exchange is available for the purpose.

The reasons for refusal are generally given to the applicant.

(c) Treatment of imports from different sources including information on the use of bilateral agreements:

58. Licences for imports are valid for import from any country having trade relations with India. The restrictions if any are applied on a non-discriminatory basis. At present India does not have trade relations with Fiji, Iraq and Yugoslavia (Serbia and Montenegro). The Government of India has signed trade agreements with a number of foreign countries. These are generally MFN type agreements. These agreements do not involve specific commitments on import of any goods, nor do they limit the imports either in terms of items or value. The Government of India does not direct the importers to buy from any particular source.

59. With certain countries, India had concluded special payments and trade arrangements which provided for payments for all commercial and non-commercial transactions in non-convertible Indian

rupees through a central clearing account. These arrangements have now been replaced by hard currency arrangements except in a few cases (Russia, Romania, Czech Republic, Slovak Republic) in which India has entered into arrangements for the liquidation of Rupee balances through the export of goods from India to these countries against these balances held by them.

(d) State trading

60. Import of certain essential items like cereals, edible oils, fertilizers and petroleum products, are canalized through public sector agencies and as the State Trading Corporation, Minerals and Metals Trading Corporation etc. The concerned agencies import these commodities on the basis of the foreign exchange made available in their favour for this purpose. The policy for canalization of certain items through the designated public sector agencies has been evolved with a view to effecting economical imports for the actual users, particularly small users, by securing the most favourable terms of payments and trade. Purchases by the public sector agencies are guided by the normal commercial considerations and are entirely non-discriminatory in nature.

61. Government's policy is to progressively move away from canalization. Hence at present there are only 7 canalized items.

(e) Changes in import policy since 1992 and the General policy in the use of restrictions for BOP reasons

62. The policy changes now being implemented imply a substantial reduction in the extent of licensing and in the number and types of licences. In 1991 imports were regulated by means of a positive list of freely importable items. Such items were, on what was called the Open General Licence or OGL From 1992, however, imports are regulated by means of a limited negative list. This is a major change in policy towards relaxation of import controls. The number of items in the restricted list of imports is now 62. The number of canalized items has also come down substantially to 7 in 1995.

63. The Negative List of Imports has thus been considerably pruned since 1991. It now contains only 3 prohibited items, 62 restricted items, and 7 canalized items. Even among the restricted items, many are importable without a licence but in accordance with certain conditions. The number of items importable against Special Import Licences has also been increased to 75 supplemented by 313 textiles items. Most restrictions are on grounds of security, health or the environment and very few now on grounds of BOP.

64. With these changes, raw materials, intermediates and capital goods have been made freely importable. Some raw materials continue to be canalized but in most of these cases, requirements beyond those provided by the canalizing agency can be made through licences. Testing and repairs of capital goods has been made easy. Capital goods may now be sent abroad for repairs, testing, quality improvement or upgradation of technology without a licence.

65. Many goods of mass consumption have been made freely importable.

66. Electronic Data Interchange (EDI) is being progressively introduced to substantially reduce the time taken for processing applications and issuing licences.

67. Procedures have been further simplified so that they are easy to understand and administer.

68. The import licensing requirements listed in the Exim policy (1992-97) have been correlated to H.S. classification of products. This would provide clarity and greater simplicity to the import process and also remove an element of uncertainty and discretion in the import regime.

69. It is the policy of the Government to move to a situation where imports of essential raw materials and components needed for industrial production are entirely regulated through appropriate tariffs. As regards consumer goods, the broad approach is to first allow relaxations in a phased manner through the mechanism of freely tradeable SILs and subsequently transfer them to a purely tariff based regime. Canalization of inputs which has already been significantly reduced is proposed to be further reduced progressively. However, in view of the uncertainty in the Balance of Payments position arising from domestic liberalization and the external fluctuations, containment of import growth within prudent limits will be necessary and phasing out of the negative list of imports will have to be done in a carefully phased and socio-politically sustainable manner.

ANNEX I

INDIA'S FOREIGN TRADE, 1980-94

(US $ Million)

YEAR	EXPORT	%CHANGE	IMPORTS	%CHANGE	B.O.T
1980-81	8485	7.9	15869	41.6	-7381
1981-82	8703	2.6	15172	-4.4	-6469
1982-83	9107	4.6	14787	-2.5	-5680
1983-84	9450	3.8	15310	3.5	-5860
1984-85	9878	4.5	14412	-5.9	-4534
1985-86	8905	-9.9	16067	11.5	-7162
1986-87	9745	9.4	15727	-2.1	-5982
1987-88	12089	24.1	17156	9.1	-5067
1988-89	13970	15.6	19497	13.6	-5527
1989-90	16626	19.0	21272	9.1	-4643
1990-91	18143	9.1	24073	13.2	-5930
1991-92	17865	-1.5	19411	-19.4	-1546
1992-93	18537	3.8	21882	12.7	-3345
1993-94	22238	20.0	23306	6.5	-1068
1994-95	26299	18.3	28654	22.9	-2355
Apr-Aug(P) 1995-96	12302	28.0	14278	37.1	-1976
Apr-Aug(P) 1994-95	9613	10.6	10412	16.4	-799

P:Provisional

ANNEX II

INDIA'S FOREIGN EXCHANGE RESERVES

(Rs. Crores)

At the end of	SDRs		Gold	Foreign Currency Assets	Total
	Million of SDRs	Rupees Crore			
1985-86	115	161	274	7384	7819
1986-87	139	232	274	7645	8151
1987-88	70	125	274	7287	7686
1988-89	80	161	274	6605	7040
1989-90	82	184	281	5787	6252
1990-91	76	200	6828	4388	11416
1991-92	66	233	9039	14578	23850
1992-93	12	55	10549	20141	30745
1993-94	77	339	12794	47287	60420
JUNE	133	586	11946	20483	33016
SEPTEMBER	43	192	11520	23869	35580
DECEMBER	73	314	12373	30747	43434
MARCH	77	339	12794	42287	60420
1994-95					
APRIL	35	156	12616	47284	60056
MAY	31	138	12682	48548	61368
JUNE	31	141	12839	51429	64409
JULY	44	199	12851	55045	68095
AUGUST	2	8	12664	55430	68102
SEPTEMBER	2	8	13028	59002	72098
OCTOBER(P)	47	218	13011	62191	75420
NOVEMBER(P)	1	7	12814	61198	74018
DECEMBER(P)	1	7	12665	60841	73512

P: Provisional

ANNEX III

INDIA'S FOREIGN EXCHANGE RESERVES

(US$ million)

At the end of	SDRs		Gold	Foreign Currency Assets	Total
	Million of SDRs	US$ Million			
1991-92	66	94.52	3,666.93	5,913.99	9,675.44
1992-93	12	18.99	3642.61	6,954.76	10,616.36
1993-94	77	108.09	4,079.71	15,078.76	19,266.56
June	133	186.98	3,811.74	6,535.73	10,534.45
September	43	61.22	3,673.46	7,611.28	11,345.96
December	73	100.12	3,946.47	9,804.52	13,850.11
March	77	108.09	4,075.72	15,078.76	19,266.56
1994-95					
April	35	49.72	4,021.67	15,072.99	19,144.38
May	31	43.99	4,042.71	15,475.93	19,562.63
June	31	44.94	4,093.76	16,394.32	20,532.02
July	44	63.43	4,096.58	17,547.01	21,707.02
August	2	2.55	4,036.97	17,669.74	21,709.26
September	2	2.55	4,153.01	18,808.41	22,963.97
October (P)	47	69.49	4,147.59	19,824.99	24,042.07
November (P)	1	2.23	4,084.79	19,508.44	23,595.46
December (P)	1	2.23	4,037.29	19,394.64	23,434.16

P: Provisional

ANNEX IV

INDIA'S OVERALL BALANCE OF PAYMENTS

Item	Rupees crore					US dollar million				
	Quick Estimates	Preliminary Actuals				Quick Estimate	Preliminary Actuals			
	1994-95	1993-94	1992-93	1991-92	1990-91	1994-95	1993-94	1992-93	1991-92	1990-91
1	2	3	4	5	6	7	8	9	10	11
A. Current Account										
1. Exports, f.o.b.	84032	71210	54762	44922	33153	26763	22700	18869	18266	18477
2. Imports, c.i.f.	96422	75241	68863	51417	50086	30709	23985	23237	21064	27914
3. Trade Balance	-12390	-4031	-14101	-6495	-16933	-3946	-1285	-4368	-2798	-9437
4. Invisibles, net	5853	3043	1337	4258	-435	1864	970	842	1620	-243
a) Non factor services	-1551	2437	2698	3134	1758	-494	777	1128	1207	979
b) Investment Income	-13288	-12554	-10503	-9397	-6732	-4232	-4002	-3422	-3830	-3752
c) Private Transfers	19467	11999	8089	9381	3711	6200	3825	2773	3783	2069
d) Official Transfers	1225	1161	1053	1140	828	390	370	363	460	461
5. Current Account Balance	-6537	-988	-12764	-2237	-17368	-2082	-315	-3526	-1178	-9680
B. Capital Account										
1. External Assistance, net	3925	5333	5750	7394	3965	1250	1700	1859	3037	2210
a) Disbursements	9630	-10409	10173	10714	6095	3067	3318	3302	4366	3397
b) Amortisation	-5705	-5076	-4423	-3320	-2130	-1817	-1618	-1443	-1329	-1187
2. Commercial Borrowings,net **	1353	-3576	-1094	3807	4035	431	1140	-358	1456	2249
a) Disbursements	9862	9953	3583	7852	7630	3141	3173	1167	3133#	4253
b) Amortisation	-8509	-6377	-4677	-4045	-3595	-2710	-2033	-1525	-1677	-2004
3. Short term credit, net	1036	-2510	-3174	-1277	1829	330	-800	-1079	-515	1074
4. NRI Deposits, net	2659	2949	6097	1008	2756	847	940	2001	290	1536
5. Foreign Investment	15370	12893	1787	375	122	4805	4110	585	154	68
6. Rupee Debt Service	-3297	-2337	-2335	-2785	-2140	-1050	-745	-878	-1240	-1193
7. Other Capital,net @	4013	8304	4933	1483	2330	1282	2647	836	786	1244
8. Total Capital Account	25059	28208	11964	10005	12,897	7985	8992	2966	3968	7188
C. Overall Balance[A(5)+B(8)]	18522	27220	-800	7768	-4471	5903	8677	-560	2790	-2492
D. Monetary Movements [E+F+G]	-18522	-27220	800	-7768	4471	-5903	-8677	560	-2790	2492
E. IMF, Net	-3588	599	3363	2077	2178	-1146	191	1288	786	1214
F. SDR Allocation	-	-	-	-	-	-	-	-	-	-
G. Reserves and Monetary Gold (Increase-, Decrease+)	-14934	-27819	-2563	-9845	2293	-4757	-8868	-728	-3576	1278

** Data on commercial borrowings (including trade credits) for 1993-94 and 1994-95 furnished by the Ministry of Finance, are tentative and would be subject to revisions as details are drawn from the returns. Subsequent revisions in these data would therefore necessitate corresponding changes in the balance of payments and external debt statistics.

Includes India Development Bonds

@ Includes delayed export receipts and errors and omissions arising out of the application of dual exchange rates applicable under the Liberalised Exchange Rate Management System (LERMS).