ANNUAL PLAN
2003-04

सत्यमेव जयते

PLANNING COMMISSION
GOVERNMENT OF INDIA
New Delhi

ANNUAL PLAN 2003-2004

CONTENTS

CHAPTER 1

OVERVIEW

1.1 MACROECONOMIC OVERVIEW

Economy in 2002-03

The economy grew at the rate of 4.0 per cent in 2002-03 as compared to 5.8 per cent in 2001-02 (Quick Estimates of CSO). Poor monsoon and drought in several states resulted in decline in agriculture growth by (-) 5.2 per cent, which has had its adverse impact on the gross domestic product (GDP). The industry and service sectors however remained largely unaffected by the poor performance in agriculture. Industry recorded a growth of 6.4 per cent in 2002-03 **(Table-1)** as compared to 3.3 per cent in 2001-02 with 'mining & quarrying' (8.8 per cent), 'manufacturing' (6.2 per cent), 'electricity, gas and water supply' (3.8 per cent), and construction (7.3 per cent). The service sector likewise grew by 7.1 per cent as compared to 6.8 per cent in 2001-02. Among the service sectors, while 'trade, hotels, transport & communications' recorded a 7.0 per cent growth, 'financial, insurance, real estate & business services' grew by 8.8 per cent and 'community, social and personal services' by 5.8 per cent.

2. An analysis of the general Index of Industrial Production (IIP) (which excludes construction, gas and water supply sectors) shows that manufacturing, with a weight of 79.4 per cent in the IIP, recorded the maximum growth of 6.0 per cent in 2002-03 **(Table-2)**. In the Use-based sector, there was maximum improvement in the capital goods segment, which registered a growth of 10.6 per cent in 2002-03. The capital goods sector with a weight of 9.3 per cent in the IIP had been witnessing low growth rates of (-) 3.4 per cent and 1.8 per cent during the years 2001-02 and 2000-01 respectively. The basic goods sector with a weight of 35.5 per cent in the IIP recorded a modest growth of 4.8 per cent, which was much higher than 2.6 per cent achieved during 2001-02. The improvement was mainly on account of a turn around in steel and cement production on account of exports and high international prices, high domestic demand arising from 'the golden quadrilateral highway project' and increased demand in housing construction. Hence, while steel output registered a growth of 8.7 per cent during 2002-03, cement production grew by 8.8 per cent.

3. The consumer goods sector with a weight of 28.7 per cent in the IIP, grew at the rate of 7.0 per cent during 2002-03. While the consumer non-durables performed very well growing at the rate of 11.9 per cent, the consumer durables (comprising items such as cars, motor cycles and electric fans) faced a decline by (-) 6.2 per cent. This negative growth becomes noticeable since this segment had been growing at a faster pace in the range of 12 to 14 per cent during the period 1999-2002. Factors contributing to the high growth of consumer non-durables during 2002-03, on the other hand, appears to be the good performance in items like food products (10.7 per cent), beverages, tobacco and other related products (28.2 per cent) and textile products (14.3 per cent). Performance of intermediate goods (comprising items such as blended

Table-1
Selected Economic Indicators

ITEMS		Annual Growth		Quarterly Growth					
		2002-03 (Q.E)	2003-04 (A.E)	2002-03				2003-04	
				Q_1	Q_2	Q_3	Q_4	Q_1	Q_2
I	**Gross Domestic Product at Factor Cost** (100 per cent)	**4.0**	**8.1**	**5.3**	**5.2**	**2.3**	**4.9**	**5.7**	**8.4**
1.	Agriculture & allied activities (22.1 per cent)	-5.2	9.1	2.7	-3.5	-7.6	-2.8	1.7	7.4
2.	Industry (27.1 percent)	6.4	6.5	4.7	6.6	6.3	6.4	5.8	6.3
2.1	Mining & Quarrying (2.2 per cent)	8.8	4.0	7.6	6.0	3.8	3.2	3.0	2.3
2.2	Manufacturing (17.1 per cent)	6.2	7.1	3.8	6.5	6.7	7.1	6.4	7.3
2.3	Electricity, gas & Water supply (2.4 per cent)	3.8	5.4	4.4	4.0	5.0	2.4	4.8	2.9
2.4	Construction (5.3 per cent)	7.3	6.0	6.2	8.6	6.7	7.5	5.7	6.4
3.	Services (50.8 per cent)	7.1	8.4	6.9	7.7	6.3	7.5	7.6	9.9
3.1	Trade, Hotels, Transport & Communications (24.3 per cent)	7.0	10.9	6.9	8.1	7.2	8.8	9.6	11.9
3.2	Financial, insurance, real estate & business services (12.7 per cent)	8.8	6.4	6.7	7.0	6.3	4.4	7.1	7.3
3.3	Community,social and Personal Services (13.8 per cent)	5.8	5.9	6.9	7.8	4.6	7.7	4.3	8.9
II.	**Inflation**								
1.	Inflation (WPI) 1993-94=100	3.3	4.0-4.5	1.9	3.2	3.1	4.8	5.7	4.3
2.	Inflation (CPI-IW) 1982=100	4.1	-	4.4	3.9	3.6	3.9	4.7	3.4
3.	Inflation (CPI-AL) 1986-87=100	3.2	-	2.6	2.6	2.9	4.5	5.2	4.0
4.	Inflation (CPI-UNME) 1984-85=100	3.8	-	4.5	3.8	3.3	3.8	3.3	3.4
III.	**Money Market**								
1.	Broad Money (M_3) (Net of mergers)	15.1 13.2	- -	16.5 14.4	16.9 13.8	16.3 13.6	15.9 13.8	12.7 12.9	12.2 13.7
2.	Reserve Money (M_1)	12.0	-	10.8	11.8	12.5	13.0	13.4	13.4
3.	(i) Interest Rates (Term loans)	-	-	12.75-14.00	12.25-14.00	12.25-14.00	12.00-14.00	11.50-14.00	11.00-13.50
(ii) Interest Rates (Demand loans)		-	-	12.75-14.00	12.00-14.00	11.85-14.00	11.50-14.00	11.50-14.00	11.50-13.50

Note: Figures in brackets indicate share of each sector in Gross Domestic Product.

Source: CSO, RBI, Labour Bureau, Ministry of Industry (Office of the Economic Adviser) cotton yarn, paints, naphtha, wires and lighting, fittings and fixtures) with a weight of 26.5 per cent in the Index of Industrial Production (IIP) registered a modest growth rate of 3.9 per cent, which is much higher than the meager growth of 1.5 per cent achieved during 2001-02.

Inflation and Interest Rates

4. Money Supply (M_3) (net of mergers) increased by 13.2 per cent (Rs.1,97,196 crore) during 2002- 2003. Among the major sources of $M_{3,}$ the net bank credit to Government increased by 15.0 per cent (Rs.88,494 crore), bank credit to the commercial sector increased by 19.3 per cent (Rs.1,46,965 crore) and net foreign exchange assets of the banking sector (including RBI) increased by 26.6 per cent (Rs.82,680 crore). Reserve money growth, on the other hand, was comparatively lower at 9.2 per cent (Rs.31,091 crore). Amongst the sources of M_1, net RBI credit to Government has ceased to be an important component because of the discontinuation of the practice of issuing adhoc treasury bills (due to adequate liquidity in the banking system, the commercial banks have been making investments in Government securities far beyond the SLR stipulation). Net foreign exchange assets (NFA) of RBI have emerged as an important source of reserve money. The share of NFA, which stood at 9.1 per cent of M_1 at the end of March 1991, became 91.3 per cent by 2002-03. The substantial increase in NFA was partly neutralized by decline in RBI's net domestic credit to the Central Government (-Rs.28,399 crore) and to the banks and the commercial sector (-Rs.6,468 crore) through open market operations. Increase in money supply was thus managed within limits and the 52-week average inflation rate based on WPI remained under control at 3.3 per cent during 2002-03 **(Table -1)**.

5. Lower inflation, policy decision to reduce interest rates on small savings and lower interest rates on bank deposits enabled the RBI to take further measures to soften the interest rates on bank credit. Lending rate for loans above Rs.2 lakh was already deregulated in 1994. Subsequently, the PLR (Prime Lending Rate) in 2001 of banks was converted in to a benchmark and meant to serve as the ceiling rate on interest rates for credit limits up to Rs.2 lakh. Lending of the banking system at sub-PLR rates constituted over one third of the total lending by December 2002. The effective lending rates of commercial banks, however, continued to remain high due to the wide spread between the interest charged to borrowers and interest paid to depositors. The main reasons for the rigidity in lending rates however, have been the practice of offering high (nominal) interest rates over fixed deposit, the carrying cost of non-performing assets and the large volume of market borrowing requirements of the Government **(Table-1)**.

Policy Initiatives in 2002-03

6. The Central Government introduced a debt-swap scheme to help states to reduce their high debt burden. Under the debt-swap scheme, the states are allowed to prepay high cost debt and substitute them by current, low-coupon-bearing small savings and open market loans. Twenty-six of the twenty-eight states have already consented to participate in the scheme. A series of measures / legislations pertaining to different sectors were also introduced for taking the growth initiative forward. The Agriculture Insurance Company of India Ltd. was incorporated in December 2002 with capital participation from the four public sector general insurance companies and NABARD. The National Agricultural Insurance Scheme has thus been transferred to the new organization and shall form the core of business to begin with. An Infrastructure

Equity Fund of Rs.1000 crore was similarly set up to provide equity investment for infrastructure projects which is supposed to come up with Public Private Partnership (PPP). The Industrial Development Finance Corporation (IDFC) is to act as the coordinating institution, with responsibility being shared by the Industrial Development Bank of India (IDBI) and Industrial Credit and the Investment Corporation of India (ICICI).

7. Two bills were passed by Parliament in December 2002 viz., the Companies (Amendment) Act 2002 and Companies (Second Amendment) Act 2002. The former legislation provides for a kind of organization that entails primary producers to produce and market in a modern and professional manner. It is intended to enhance the efficiency and competitiveness of cooperatives. The second legislation provides for setting up of a “National Company Law Tribunal” which would takeover the functions of (i) Company Law Board (dispute resolution and compliance with certain provisions of the Companies Act 1956) (ii) Board for Industrial and Financial Reconstruction (revival and rehabilitation of sick companies) and (iii) High Courts (winding up of companies). The national tribunal will now be the single forum for companies replacing the existing three forums. The Competition Act 2002 which replaces the MRTP Act, 1969 aims at promoting competition through prohibition of anti-competitive practices and abuse of dominance.

8. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 was enacted to set up Asset Management Companies for addressing the problems of non-performing assets of banks and financial institutions. Under the Act, the asset management company is authorized to acquire assets of any bank or financial institution by issuing a debenture or bond or any other security as agreed upon between the company and the bank/ financial institution. With a view to attract foreign direct investment (FDI), further liberalization was introduced in various sectors. FDI was allowed under the automatic route in sectors such as advertising and films (100 per cent), tea and tea plantations (100 per cent), integrated townships (100 per cent), all manufacturing activities (except defence) in the SEZs (100 per cent) and print media (26 per cent). The cap on foreign equity of banking companies was also raised from 49 per cent to 74 per cent under the automatic route. As many as 51 items were dereserved in the SSI Sector. A “Biotechnology Cell” has been created under the Chairmanship of Development Commissioner (Ministry of SSI) to facilitate development of biotechnology industry in the small sector. A Centrally sponsored scheme called “Apparel Parks for Exports” was launched for setting up apparel manufacturing units employing international standards at potential growth centers. The Government also drew up an important non-budgetary initiative with an investment of Rs.15000 crore (during the Tenth Plan) for the Indian Railways to be called the “National Railway Vikas Yojana”. This would involve strengthening of rail connectivity to ports, construction of mega bridges, accelerated completion of last mile projects and strengthening conjunctive use of rail and road transportation on the Golden Quadrilateral.

Economy in 2003-04

9. The economy in 2003-04 is expected to grow at the rate of 8.1 per cent (Advance Estimates of CSO), which is more than twice the growth rate achieved during 2002-03. Good monsoon and a bumper crop have facilitated this growth rate. For the first time since 1997, the agriculture sector is expected to record a growth of 9.1 per cent. The total food grains production

is accordingly expected to be in the range of 212 to 215 million tonnes in 2003-04. The food grains production during the Kharif 2003 is estimated to be around 108.45 million tonnes, which is a 20 per cent increase over 2002-03. The production of oilseeds has been estimated at 15.08 million tonnes as against 9.22 million tonnes in the previous year. The performance of the industrial sector, however, shows a marginal improvement from a growth rate of 6.4 per cent in 2002-03 to 6.5 per cent in 2004-05. Except ‘manufacturing, and ‘electricity’ and ‘gas & water supply’, the other sectors under industry are estimated to register lower growth rates **(Table-1).** The service sector, nevertheless, is estimated to register a higher growth of 8.4 per cent. Among the service sectors trade, hotels, transport and communications registered a double-digit growth of 11.9 per cent in the second quarter (Q2) of 2003-04.

10. As per the provisional estimates of the IIP, the overall industrial growth till April-January 2003-04 was 6.5 per cent as compared to 5.7 per cent in the corresponding period of last year. This growth was primarily led by the manufacturing sector, which grew by 7.1 per cent. Mining and electricity sectors grew by 4.5 and 3.7 per cent respectively during April-January 2003-04. The intermediate goods sector similarly grew by 6.3 per cent in April-January 2003-04 and the capital goods sector grew by 10.3 per cent during the year. Growth in basic goods sector remained unchanged at 4.8 per cent. In the consumer goods category, while the consumer durables sector has made a comeback, the consumer non-durables registered a lower growth this year **(Table-2).**

Table-2
Index of Industrial Production

(per cent change)

Items (Base:1993-94=100)	**Weights (in per cent)**	**2002-03**	**2002-03 April-January**	**2003-04 April-January**
I. General	100	5.7	5.7	6.5
1. Mining	10.5	5.8	5.4	4.5
2. Manufacturing	79.4	6.0	5.9	7.1
3. Electricity	10.1	3.2	3.9	3.7
II. Use-Based				
1. Basic Goods	35.5	4.8	4.8	4.8
2. Capital Goods	9.3	10.6	11.0	10.3
3. Intermediate Goods	26.5	3.9	3.2	6.3
4. Consumer Goods	28.7	7.0	7.3	7.6
4.1 Consumer Durables	5.4	-6.2	-5.4	9.7
4.2 Consumer Non-Durables	23.3	11.9	12.2	6.9

Source: Central Statistical Organization (CSO).

Inflation and Interest Rates

11. Until the week ending 5th March 2003-04 the money supply, (M_3) had increased by 14.6 per cent (Rs.2,52,520 crore) as compared to 15.0 per cent (Rs.2,24,768 crore) during the same period last year. The main source of increase in money supply has been the net foreign exchange assets of banking sector. Reserve money (M_1), which excludes time deposits

increased by 13.2 per cent (Rs.48,671 crore) till the week ending 12th March 2003-04 as compared to 7.5 per cent (Rs.25,461crore) during the corresponding period last year. The percentage variation in WPI was 4.5 per cent between end March 2003 and the week ending 28th February 2004. Of this, the increase in price level of primary articles was 2.5 per cent, fuel power, light & lubricants, 2.7 per cent and manufactured products, 5.9 per cent. Among the manufactured products, which has a weight of 63.75 per cent in the WPI, sugar, gur and khandsari showed an increase in price level by 17.4 per cent, edible oils by 8.5 per cent and iron and steel by 31.9 per cent.

Savings and Investment

12. Savings as a percentage of GDP in India today is very close to those of the higher performing East-Asian economies. A perusal of savings-investment relationship **(Table-3)** shows that gross domestic savings exceeded gross domestic investment during the years 2001-02 and 2002-03. There was, as such, a savings surplus in the economy. Investment and savings as a per cent of GDP are however, still lower than the target fixed for the Tenth Plan. The industrial sector, both large and small, have been faced with unutilized capacities, which can improve if ‘aggregate demand’ in the economy could go up. Aggregate demand, in turn, comprises consumption, (net) exports and investments.

13. In the absence of commensurate investment, it was domestic consumption, which mostly contributed to increase in aggregate demand and growth. Exports (net) also contributed to growth, both directly and indirectly. India had a surplus on the current account of the ‘balance of payments’ during 2001-02 and 2002-03. The surplus on current account was mainly on account of service exports by way of IT enabled ‘Business Process Outsourcing (BPO)’ services. This has augmented private consumption through expenditure incurred by people employed in the Information Technology (IT) sector. The BPO segment, which accounts for about a quarter of the total IT Enabled Services (ITES) grew at the rate of over 65 per cent during 2002-03.

14. Significantly, a spurt in industrial investment is noticeable during 2003-04. This is reflected in the number of IEMs (Industrial Entrepreneurs Memoranda) and LOIs (Letters of Intent) issued during 2003-04. The total investment envisaged under IEM/LOIs is Rs. 120,000 crore for 2003-04 as against Rs. 91,940 crore in 2002-03 showing an increase of over 30 per cent. Increase in investment is reflected in other indicators as well, such as those of the sanctions and disbursements made by the Financial Institutions (FIs), non-food credit by scheduled commercial banks, primary market investments and non-oil imports. Sanctions by the FIs during April-December, 2003 were Rs. 31,642.3 crore representing an increase of 243 per cent over the corresponding period of the previous year. Similarly, disbursements by the FIs during this period were Rs.19,482.1 crore, representing an increase of 171 per cent over the previous year.

15. Non-food credit by scheduled commercial banks to the commercial sector increased by 15.2 per cent for the period ending 5th March 2004, although this was lower than the accommodation provided by commercial banks in the corresponding period of 2002-03. The scheduled commercial banks’ investments in the various financial instruments (commercial papers, shares, bonds/debentures) of commercial sector were lower by (-) Rs.5,428 crores in

2003-04 as compared to an increase of Rs.12617 crore in the corresponding period of 2002-03. There are continued indications of a shift in corporate financing pattern in recent years with increased reliance on internal finance and on external borrowing. According to Prime Database, an independent primary market monitoring agency, in the current fiscal, around Rs.17665 crore would be raised from 27 issues through equity and hybrid instruments (like warrants to be converted into equity at a later date). Data available on imports also indicate higher industrial investments during 2003-04. Non-oil imports during April-October 2003 recorded a growth of 27.9 per cent and their share in total imports increased from 70.0 per cent to 73.7 per cent during this period. Commodity data available for April-August 2003 reveals that imports of all major commodity groups increased with substantial increase of more than 30 per cent in the case of bulk consumption goods (mainly edible oils), iron and steel, capital goods and gold while modest growth was recorded for export-related imports, coal, coke& briquettes, silver and non-ferrous metals.

Table-3

Savings and Investment

(as percent of GDP at current market prices)

		Tenth Plan Targets	2001-02	2002-03
1.	**Gross Domestic Investment**	**28.41**	**23.1**	**23.3**
1.1	Public sector	3.80	5.8	5.7
1.2	Private corporate sector	10.37	4.9	4.8
1.3	Household sector	9.60	11.6	12.3
2.	**Gross Domestic Savings**	**26.84**	**23.5**	**24.2**
2.1	Household sector	20.3	22.7	22.6
2.2	Public sector	2.85	-2.7	-1.9
2.2.1	Government Sector (Centre & State)	-2.41	-6.0	-5.6
2.3	Private Corporate sector	6.10	3.5	3.4

Source: Tenth Five Year Plan Vol.-I & CSO.

16. The overriding importance of higher investment for the desired growth cannot be overlooked. The Tenth Plan visualizes an investment rate of 28.4 per cent per annum in comparison to 24.3 per cent achieved during the Ninth Plan and nearly 23 percent of GDP as achieved during 2001-02 and 2002-03. The investment ratio of 28.4 per cent is projected to be made up of 26.84 per cent domestic savings and the balance 1.56 per cent as foreign savings. There is an urgency to improve the savings ratio of the government (comprising both the Union and State Governments) in order to step up overall investment in the economy. The main areas of concern in regard to government (dis)-savings, are the huge interest burden and the subsidies. Interest rates have been declining and this has provided some relief to the governments, both at the Centre and in the States. With an expanded tax base, administrative reforms and a higher (GDP)growth, tax revenue is bound to increase. While appropriate policy measures promise to reduce the burden of subsidies on the government, higher revenue receipts combined with better expenditure management can bring down the dependence on 'borrowings'.

Policy Initiatives in 2003-04

17. **Priority Sector Financing**: The Agriculture Infrastructure and Credit Fund, the Small and Medium Enterprise Fund (SME Fund) and the Industrial Infrastructure Fund would provide credit at highly competitive rates which is expected to be 2 percentage points below the prime lending rate. The Agriculture Infrastructure and Credit Fund will be called 'Lok Nayak Jai Prakash Narayan Fund' and will provide credit support for infrastructure facilities such as waste land development, completion of existing but incomplete minor irrigation projects plus new minor irrigation works, grading, certification and storage of agro-products and construction of modern abattoirs. The SME Fund will address the problem of inadequacy of financial resources for the SSIs and lack of SIDBI coverage for some of the medium-sized enterprises. The Industrial Infrastructure Fund will provide credit for power generation, seaports, airports, roads, tourism, telecommunication and urban infrastructure like municipal services, water supply, sewage disposal and environmental projects. To encourage the development of small-scale and self-employed ventures it has been decided that under the 'Laghu Udhyami Credit Card' scheme public sector banks will increase the credit limit of their cards for borrowers with satisfactory track record from Rs.2 lakh to Rs.10 lakh.

18. **Disinvestments**: The disinvestment of equity in public sector enterprises received tremendous response in the fourth quarter of 2003-04. As against the revised target of Rs.14,500 crore, the government was able to garner only Rs.1,335 crore upto December 2003. But the disinvestment of ONGC, IPCL, IBP, GAIL, Dredging Corporation of India and CMC Ltd. mopped up Rs. 14,126 crore, in March 2004 raising the total proceeds from disinvestment in 2003-04 to Rs.15,461 crore, exceeding the target fixed for the year by over Rs.900 crore.

19. **Farm Income Insurance**: A pilot project on 'Farm Income Insurance Programme' was launched in 20 districts in 2003-04 Rabi season. It covers the two critical components of the farmers' income, namely yield and price through a single policy instrument. The minimum guaranteed income is determined by using the average yield of last seven years and the minimum support price. This scheme will be extended to 100 districts of the country in the forthcoming kharif season. Interest rates on farm loans were reduced in 2003. Farmers will now have to pay a maximum interest rate of 9 per cent on bank loans up to Rs.50,000 for each crop as against a rate of 14 to 18 per cent paid by them earlier.

1.2 EXTERNAL SECTOR DIMENSIONS

20. The need for greater integration with the international economy in order to have rapid growth and development has been highlighted in the Tenth Five Year Plan Document. In this Chapter, the prevailing global economic situation is explained followed by a brief analysis on India's External Trade. Recent developments in the trade policy are also briefly explained. Developments in foreign exchange reserves and remittances, foreign direct investments and external debt status have also been indicated. Finally, WTO issues, in the context of the 5th Ministerial Conference at Cancun in Mexico in September, 2003 and Regional Trade Agreements are presented.

Global Economic Situation

21. The International Monetary Fund (IMF) in their World Economic Outlook, April, 2003 have reduced the current projections of world output growth to 3.2 percent, a reduction of 0.5 percent compared to the earlier projections made in the previous Outlook brought in September, 2002. This was mainly due to rise in risks and uncertainties, in respect to both the geo-political situation and the sluggish pace of recovery. While the global recovery during 2003 was expected to continue at a relatively subdued pace, in case of India, IMF have projected real GDP to grow by additional 0.2 percent to 5.1 percent in 2003 compared to the previous year.

World Economic Outlook Projections

(Annual Percentage Change unless otherwise noted)

	2001	2002	Current Projections	
			2003	2004
World Output	2.3	3.0	3.2	4.1
Advanced Economies	0.9	1.8	1.9	2.9
USA	0.3	2.4	2.2	3.6
Germany	0.6	0.2	0.5	1.9
France	1.8	1.2	1.2	2.4
Japan	0.4	0.3	0.8	1.0
U.K.	2.0	1.6	2.0	2.5
Developing Countries	3.9	4.6	5.0	5.8
Africa	3.6	3.4	3.9	5.2
China	7.3	8.0	7.5	7.5
India	4.2	4.9	5.1	5.9

Source: World Economic Outlook, 2003, IMF

India's External Trade

22. The Tenth Five Year Plan has stated that the proposed acceleration in the growth rate cannot take place without tapping on the opportunities offered by the international economy in terms of markets, investment and technologies. In view of India's greater dependence on

Share of Major Countries of Destinations for India's Exports.

Country	% Share in India's Total Exports 2002-2003 (April-March)
USA	20.78
UAE	6.34
UK	4.73
Hong Kong	4.68
Germany	3.95
China	3.75
Japan	3.56
Belgium	3.16
Singapore	2.72
Italy	2.56
Bangladesh	2.10
France	2.02
Netherlands	1.96
Saudi Arabia	1.80
Sri Lanka	1.76
Indonesia	1.58
Spain	1.54
Malaysia	1.43
Thailand	1.36
Russia	1.34
Canada	1.32
Korea Rep of	**1.23**
Israel	1.21
Total of 23 countries	**76.88**

Source: Dept. of Commerce

imports for energy and liberalization of imports as required by WTO, the Tenth Plan has stressed on high rates of growth of exports for keeping the current account deficit within manageable limits. For sustaining high levels of domestic capacity utilization also, the Plan has emphasized for seeking external markets.

23. India's exports during 2002-03 are valued at US$ 52.2 billion, which showed growth of more than 19 percent over the export level of US$ 43.8 billion achieved during the 2001-02 thereby surpassing the target of 12 percent. Imports during 2002-03 are valued at US$ 61.3 billion showing a similar growth of 19 percent over the level of imports valued at US$ 51.4 billion achieved during the previous year. The trade deficit in 2002-03 is estimated at US$ 9.1 billion compared to the deficit level of US$ 7.6 billion in 2001-02. During April to March 2002-03, Latin American countries accounted for the highest growth in India's exports in dollar terms at 34

Export of Principal Commodities April-March, 2002-03

(US$ Million)

Commodities	April-Mar. 01-02	April-Mar. 02-03	%age Growth
Plantations	590.07	536.38	-9.10
Agriculture & Allied Products	4065.43	4484.83	10.32
Marine Products	1236.76	1380.94	11.66
Ores & Minerals	1262.39	1899.94	50.50
Leather & Mfrs.	1910.13	1787.01	-6.45
Gems & Jewellery	7306.28	8853.52	21.18
Chemicals & Related Products	6371.39	7416.41	16.40
Engineering Goods	5746.73	7180.14	24.94
Electronic Goods	1192.59	1164.99	-2.31
Textiles	9688.58	10611.68	9.53
Petroleum Products	2119.14	2421.40	14.26
Total Exports	**43826.72**	**52234.40**	**19.18**

Import of Principal Commodities April-March, 2002-03

(US $ Million)

Commodities	April-Mar. 01-02	April-Mar. 02-03	%age Growth
Bulk Imports	19828.39	23815.99	20.11
Fertilizers	679.03	587.63	-13.46
Edible Oil	1355.57	1806.97	33.30
Non-ferrous Metals	647.25	644.80	-0.38
Metalliferrous ores & metal scrap	1143.72	1003.49	-12.26
Iron & Steel	833.72	940.15	12.77
Petroleum crude & products	14000.25	17639.52	25.99
Pearls, Precious & Semi-Precious Stones	4622.59	6054.01	30.97
Machinery	4907.64	6108.49	24.47
Project Goods	568.97	519.91	-8.62
Coal, coke & briquettes	1143.33	1222.15	6.89
Organic & Inorganic chemicals	2799.61	2965.59	5.93
Profl. Instruments, etc.	1041.07	1067.83	2.57
Electronic Goods	3782.03	5343.73	41.29
Gold & Silver	4582.29	4234.27	-7.59
Total Imports	**51413.28**	**61286.31**	**19.20**

Source: Department of Commerce

percent against 2001-02 position followed by Asia and Oceania region (32.5 percent), America (26.9 percent), East Europe (15.7) and West Europe (15.4 percent). India's exports to Brazil and China during this period have increased by 119 percent and 106 percent respectively.

Composition of Trade

24. The Plan has projected highest growth in petroleum products, followed by communication and electronic equipment, electrical machinery, other non-metallic minerals, chemicals, paints, drugs and cosmetics, textiles, readymade garments, food and beverages, etc. The overall growth in exports of agriculture and allied products has been projected to be around 9 percent. In case of imports, the Plan expects highest growth from communication and electronic equipment followed by electrical and non-electrical machinery, edible oils, non-metallic minor minerals, tea and coffee and leather and leather products. During April-March 2002-03, moderate to high growth (10 percent and above) have been witnessed in exports of rice, wheat, tobacco, engineering goods, ores and minerals, chemicals & related products, gems & jewellery, rubber, glass & other products, handicrafts, project goods, floricultural products, meat and preparations, processed foods, shellac, marine products, coir and coir manufactures, petroleum products. Low growth (upto 10 percent) has been noticed in case of spices, textiles, cotton raw including waste, fresh fruits and vegetables, sports goods and readymade garments. Plantations, tea, coffee, leather & manufactures, electronic goods, coal, carpets, sugar and molasses, poultry & dairy products, spirit and beverages, oil meals, castor oil, pulses, nuts & seeds and mica have witnessed decline in exports. In case of imports, moderate to high growth (10 percent and above) has been witnessed in the case of rice, spices, milk & cream, machinery, transport equipment, silk & cotton yarn and fabrics, pearls, precious and semi-precious stones, cashewnuts, electronic goods, woolen yarn and fabrics, tea, edible oil, iron & steel, machine tools, pulp & wastepaper, jute raw and petroleum crude & products. Low growth (up to 10 percent) has been observed in organic & inorganic chemicals, crude rubber, coal, coke & briquettes, electrical machinery and professional instruments. A decline in import has been observed in case of sugar, fertilizers, wheat, leather, gold and silver, newsprint, readymade garments, metalliferrous ores and metal scrap, cement, pulses, non-ferrous metals, project goods, wood & wood products and fruits & nuts.

25. India's share in world exports in merchandise goods has increased to 0.8 percent in 2002 from 0.4 percent in 1992-93 and 0.7 percent in 2001. India's exports during April-May, 2003 are valued at US$ 8.9 billion which is 11.1 percent higher than the level of US $ 8.0 billion during April-May, 2002. During that period India's imports are valued at US$ 11.2 billion representing an increase of 19.5 percent over the level of imports valued at US$ 9.4 billion in April-May, 2002. The trade deficit for April-May 2003 is estimated at US$ 2.4 billion which is higher than the deficit of US$ 1.4 billion during April-May, 2002.

Balance of Payments

26. During 2002-03, merchandize exports on the payments basis were of the order of US$ 53.0 billion against US$ 44.9 billion during 2001-02. In case of merchandize imports on the payments basis, it increased to US$ 65.5 billion during 2002-03 as compared to US$ 57.6 billion during 2001-02. Accordingly trade deficit on payments basis was marginally lower at US$ 12.5

billion as against US$ 12.7 billion in the previous year. Due to increased earnings from services and private transfers, net earnings from invisibles were higher at US$ 16.2 billion during 2002-03 than that of US$ 13.5 billion in 2001-02. Substantial increase in software exports helped the increase in services exports. The current account balance recorded a higher surplus at US$ 3.7 billion during 2002-03 compared with US$ 0.8 billion during 2001-02. The overall balance show a surplus of US$ 17.0 billion in 2002-03 compared with the surplus of US$ 11.8 billion in 2001-02 excluding valuation changes. The increase in foreign currency reserves, including valuation changes but excluding gold was US$ 20.8 billion in 2002-03 as compared with US$ 11.6 billion in the previous year.

India's Overall Balance of Payments

(US $ Billion)

Item	2002-03 (P)			2001-02 (PR)			2000-01 (PR)		
	Credit	**Debit**	**Net**	**Credit**	**Debit**	**Net**	**Credit**	**Debit**	**Net**
Current Account									
Merchandize	53.0	65.5	-12.5	44.9	57.6	-12.7	44.9	59.3	-14.4
Invisibles	43.0	26.9	16.2	36.7	23.2	13.5	34.8	24.0	10.8
a) Services	25.0	18.8	6.2	20.7	16.1	4.6	18.9	16.4	2.5
b) Transfers	15.2	0.4	14.9	12.6	0.07	12.5	13.2	0.08	13.1
c) Income	2.8	7.7	-4.9	3.4	7.0	-3.6	2.7	7.5	4.8
Total Current Account	96.0	92.3	3.7	81.6	80.8	0.8	79.7	83.3	-4.6
Capital Account									
Foreign Investment	12.3	7.8	4.6	14.4	7.8	6.7	16.0	10.1	5.8
a) FDI	4.8	1.2	3.6	6.2	1.5	4.7	4.1	0.8	3.3
b) Portfolio Investment	7.5	6.6	0.9	8.2	6.3	1.9	11.9	9.3	2.6
Loans	13.7	16.9	-3.2	11.5	12.9	-1.3	22.8	18.5	4.3
a) External Assistance	2.8	5.2	-2.5	3.4	2.2	1.1	2.9	2.5	0.4
b) Comm. Borrowings	2.7	4.4	-1.7	2.7	4.3	-1.6	9.1	5.3	3.7
c) Short Term	8.2	7.2	1.0	5.5	6.4	-0.9	10.8	10.7	0.1
Banking Capital	17.5	9.2	8.2	17.5	11.9	5.6	12.8	11.9	0.8
Rupee Debt Service	-	0.5	-0.5	-	0.5	-0.5	-	0.6	-0.6
Other Capital	6.4	2.9	3.5	3.6	3.5	0.2	4.0	4.3	-0.3
Total Capital Account	49.9	37.2	12.6	47.1	36.5	10.6	55.5	45.5	10.0
Errors & Omissions	0.6	-	0.6	0.4	-	0.4	-	0.6	-0.6
Overall Balance (Total capital acct. current act. & E&O)	146.6	129.6	17.0	129.1	117.4	11.8	135.2	129.4	5.9

P: Provisional; PR: Partially Revised - Not available

Source: Reserve Bank of India

Trade Policy

27. India's Trade Policy has undergone fundamental shifts to correct the earlier anti-export bias. This has been done through the withdrawal of quantitative restrictions, reduction and rationalization of tariffs, liberalization in the trade and payments regime, etc. Globalization and liberalization has led to openness and transparency in the external sector. In early 2002, the Medium Term Export Strategy (MTES) for 2002-07 was announced with an indicative sector-wise targets and proposing to achieve 1 percent of global trade by 2007. The new Export and Import (EXIM)) Policy framed for the period 2002-07 also seeks to bring in an environment free of restrictions and controls. As per the modifications brought in the EXIM Policy on 31st March, 2003, greater attention has been given to build on areas of India's core competence. Massive thrust has been given to export of services. For boosting agro-exports, corporate investment has been allowed and further consolidation of Agri. Export Zones has been announced. In order to benefit small-scale sectors, Export Promotion Capital Goods (EPCG) Scheme made both flexible and attractive to enable expansion of manufacturing base. Some special focus has been made on potential high growth sectors like textiles, auto-components, gems and jewellery, drugs & pharmaceuticals, electronic hardware. The Policy also includes removal of restrictions on exports, measures to facilitate investments in Special Economic Zones (SEZs), to reorient export cluster development schemes and procedural simplification aimed at drastic reduction of transaction costs in order to make India globally competitive. Policy measures announced in the Union Budget 2003-04 included reduction of peak rate of customs duty from 30 percent to 25 percent, excluding agriculture and dairy products, bringing in rationalization and relief. Faster clearance of cargo and fewer procedures by reducing the transaction cost in order to facilitate exports and imports, introduction of a self-assessment scheme for importers and exporters and replacing concurrent audit of import documents by post-clearance audit as prevalent in developed countries.

Foreign Exchange Reserves and Remittances

28. In quantitative terms, the level of foreign exchange reserves has steadily increased from \$5.8 billion as of end-March 1991 to \$54.1 billion as of end-March, 2002. As on 4th July, 2003 foreign exchange reserves stood at \$82.8 billion. The healthy increase in foreign exchange reserves indicate confidence in the economy and judicious management of reserves by RBI. The Central Bank has been constantly endeavoring to ensure compliance with best standards of transparency, in line

India's Remittance Receipts

(billions of dollars)

1985	2.5
1986	2.2
1987	2.7
1988	2.3
1989	2.6
1990	2.4
1991	3.3
1992	2.9
1993	3.5
1994	5.9
1995	6.2
1996	8.8
1997	10.3
1998	9.5
1999	11.1
2000	9.2
2001	10.0

Source: IMF, Balance of Payments Yearbook Global Development Finance, 2003, World Bank with major international central banks/reserve management authorities.

29. The high level of remittances has earned a stable balance of payment situation in the country. According to projections, the rising trend in foreign exchange reserves is evident in recent years is likely to continue in the medium to long term. In particular, remittance flows from non-resident or temporary workers are expected to surge in the medium term. It has been added that the search for lower costs is driving multinational corporations to hire overseas workers for cross-border jobs. This trend towards more mobility of temporary workers may be reinforced if progress is made on Mode 4, trade in services in the GATS negotiations. Improvements in transportation and communications will compliment this trend. Remittances to India has quadrupled from $ 2.5 billion in 1985 to $10 billion in 2001.

Foreign Direct Investment

30. In view of their non-debt creating and non-volatile nature, the Foreign Direct Investment (FDI) flows are usually preferred over other forms of external finance. The coverage of FDI statistics in India mainly includes equity capital as against the data published by some other countries which include equity capital, reinvested earnings (retained earnings of FDI companies) and other capital (inter-corporate debt transactions between related entities). In order to bring the reporting system of FDI data in India into alignment with international best practices, Government constituted a Committee in May, 2002. The Committee submitted its Report in October, 2002 recommending that FDI statistics should include reinvested earnings and other direct capital, besides equity capital, in accordance with international best practices. By incorporating the Committee's recommendations, the RBI has worked out revised FDI data for 2000-01 and 2001-02 and estimated for 2002-03. Accordingly, the provisional FDI flow to India is US $ 6131 million for 2001-02. The estimated figure for 2002-03 is US $ 4660 million.

Foreign Direct Investment Inflows

(in US $ Million)

Year	FDI Inflows
1991-92	129
1992-93	315
1993-94	586
1994-95	1314
1995-96	2144
1996-97	2821
1997-98	3557
1998-99	2462
1999-2000	2115

Source: Economic Survey, 2002-03.

Component-wise Revised FDI to India

(US $ Million)

Item	2000-01	2001-02	2002-03
Revised FDI to India	**4029**	**6131**	**4660**
Equity	2400	4095	2700
Reinvested Earnings	1350	1646	1498
'Other capital'	279	390	462
FDI Data Currently Published	*2342*	*3905*	*2574*
Additional Amount on account of Revision	*1687*	*2226*	*2086*

Source: Reserve Bank of India

External Debt

31. At the end of year 2002, India's external debt stood at US$ 105 billion against US$ 98.8 billion at end-March, 2002. While in the recent period, external debt has increased, the relevant indicators relating to external debt have witnessed progressive improvements. Debt-GDP ratio declined from 38.7 percent at end-March 1992 to 20.6 percent at end-December, 2002. During the corresponding period, debt service as a percent to current receipts declined from 30.2 percent to 13.7 percent. The cautious and prudent approach towards external debt management pursued in the 1990s by the Government has helped to place India in comfortable external debt position. In terms of indebtedness classification, the World Bank has categorized India as a less indebted country since 1999. Among top 15 debtor countries of the world, India has improved its rank from 3rd debtor after Brazil and Mexico in 1991 to 9th in 2001 after Brazil, China, Mexico, Russian Federation, Argentina, Indonesia, Turkey and Korea Republic. Among the top 15 debtor countries, India's external debt indicators such as short-term debt, to total debt and short-term to forex reserve ratio are lowest and concessional to total debt ratio is highest, while debt to GNP ratio is the second lowest after China in 2001.

India's External Debt Outstanding

	End-March			End-December 2002 QE
	2000	2001	2002R	
		(US $ million)		
Long-term debt	94,327	97,504	96,016	101,630
Short-term debt	3,936	3,628	2,745	3,357
Total External debt	98,263	101,132	98,761	104,987
	(Rupees crore)			
Long-term debt	411,388	454,805	468,512	488,271
Short-term debt	17,162	16,919	13,396	16,123
Total External debt	428,550	471,724	481,908	504,394
	(Ratios as per cent)			
External debt to GDP	22.1	22.4	21.0	20.6
Debt service to current receipts	17.1	16.2	13.6	13.7
Short-term to total debt	4.0	3.6	2.8	3.2
Short-term to forex assets	11.2	9.2	5.4	5.0
Short-term to GDP	0.9	0.8	0.6	0.7
Concessional to total debt	38.9	35.5	36.0	36.2
Interest payments to current receipts	6.6	5.6	5.1	3.9
External debt to current receipts	145.6	128.0	123.2	152.0

R: Revised QE: Quick Estimates

Source: India's External Debt A Status Report, June, 2003, Min. of Finance

32. The Government by taking advantage of the comfortable reserve position and the low level of interest rates in the domestic and international markets, repaid in February, 2003 sovereign

loans owed to the World Bank and the Asian Development Bank that were considered high cost. Government prematurely retired high cost Currency Pool Loans (12 Loans) owed to the World Bank amounting to US$ 1687.80 million and Single Currency Loans (13 Loans) owed to Asian Development Bank amounting to US$ 1342.33 million in February, 2003. The premature repayment is financed entirely through domestic market borrowings. The Government also prematurely repaid Euro 124.05 million relating to hard portion of French bilateral assistance to Government of India during the financial year 2002-03. Various corporates and public sector undertakings also prematurely repaid external loans to the tune of US$ 1141.88 million during 2002-03. In view of the comfortable foreign exchange reserves position and strong balance of payments, the International Monetary Fund (IMF) has selected India to become a member of its Financial Transaction Plan (FTP) from the quarter September-November, 2002. The countries which are in the FTP, help the IMF finance the balance of payments needs of other countries. The selection of India as a member of the FTP for the first time by the IMF, sends strong signals regarding the country's strength and resilience of its external sector to the international community. India has contributed SDR 205 million to FTP.

WTO Issues

33. The Tenth Plan Document has emphasized the need to recognize that rapid growth and development would not be possible without greater integration with the international economy. In order to make most of the opportunities available, the Plan has emphasized that India evolve a positive agenda for its future negotiations at the WTO. The Doha Ministerial Declaration arrived at in the Fourth Ministerial Conference of the World Trade Organization (WTO) held at Doha, Qatar in November, 2001 had explicitly recognized that for the effective functioning of the WTO, it is crucial to safeguard the interests of the developing and least-developed countries. The Declaration also recognized the crucial role of the special and differential treatment extended to developing and least-developed countries within the WTO framework. It has mandated Members to comprehensive negotiations aimed at substantial improvements in market access, reduction of all forms of export subsidies and substantial reduction in trade-distorting domestic support. As per the time frames in the Doha Declaration, the modalities for further commitments were to be established by 31st March, 2003. Comprehensive draft schedules based on these modalities are to be submitted by the Fifth Ministerial Conference in Cancun, Mexico in September, 2003. The Negotiations are to be concluded by 1st January, 2005 and the adoption and implementation of the results of the Negotiations are to be decided at a Special Session of the Ministerial Conference to be held thereafter.

Agreement on Agriculture

34. As the result of the Uruguay Round of Multilateral Trade Negotiations, the Agreement on Agriculture (AoA) of the WTO came into effect from 1st January, 1995. The provisions of AoA broadly cover three areas: improving market access, curtailing export subsidies and progressively reducing trade distorting domestic support, generally over six years for developed countries and ten years for developing countries. In order to continue the reform process in agriculture, Article 20 of the AoA has laid down for commencing negotiations one year before the end of the implementation period, i.e. on 1st January, 2000. This has to be done by taking into account the experience of Members from implementing their reduction commitments on support and

protection, non-trade concerns and special and differential treatments to developing countries. India has submitted its initial negotiating proposal covering the country's trade interest and priorities in Agriculture during the Phase-I of the Committee on Agriculture (COA) of the WTO. The proposals covered the three pillars of AoA with the following objectives:

- To protect our food and livelihood security concerns and to protect measures taken for poverty alleviation, rural development and rural employment and maintain appropriate level of price support for farmers;
- To create opportunities for meaningful expansion of agricultural export by securing sufficient market access in developed countries;
- To seek substantial reduction in tariffs, including tariff peaks and tariff escalation, elimination of domestic support and export subsidies by developed countries;
- To safeguard domestic producers in India from a surge in imports or a significant decline in import prices and to ensure food and livelihood securities of our people.

35. Doha Ministerial Conference held in November, 2001 has mandated Members to comprehensive negotiations aimed at substantial improvements in market access, reduction of all forms of export subsidies and substantial reduction in trade – distorting domestic support. Among the various issues under WTO negotiations, agriculture faces serious problems since developed countries like EU and USA are major competitors in the global farm trade. While USA and the Cairns Group support substantial liberalization, European Union support progressive liberalization. With regard to domestic support provided by the rich countries, it may be pointed out that the level of support to farmers in OECD as a whole has not changed since 2000. The total support to agriculture remains high. The Total Support Estimates (TSE) amounted to US$ 318 billion (Euro 338 billion) in 2002. Total support to agriculture accounted for 1.2 percent of the GDP in the OECD area in 2001 and 2002 compared with 2.3 percent in 1986-88, with wide variations across countries. The new Farm Act of USA (Farm Security and Rural Investment Act of 2002) has led to substantial increase in the government support provided to the US farm sector and distort global trade. Even though, the European Union has initiated change in their Common Agriculture Policy (CAP) by cutting the link between subsidy and output, thereby reducing the incentive for European farmers to overproduce, it needs to be seen with regard to its implementation. The draft modalities for Negotiations on Agriculture formulated by the Chairman of the WTO Committee on Agriculture has not found favour with any group of countries. India has highlighted the need for special and differential treatment by way of special safeguard mechanism and other such measures in order to protect the interests of millions of farmers who depend on agriculture for their livelihood. The importance of having flexibility in domestic policies in agriculture for developing countries has also been stressed.

General Agreement on Trade in Services (GATS)

36. The General Agreement on Trade in Services (GATS) came into force in January, 1995. Under the Agreement, Members are to enter into successive rounds of negotiations beginning not later than five years from the date of entry into force of the WTO Agreements and periodically thereafter, with a view to achieving a progressively higher level of liberalization. Thus the main aim of these negotiations is to achieve greater degree of liberalization in all the service sectors and in all the four-modes of supply of delivery of services. The four modes of

delivery of services recognized by GATS are:
Mode 1 – Cross Border Supply e.g. supply of diskettes, architects blueprints, etc.
Mode 2 – Consumption abroad, e.g. a tourist availing of services abroad.
Mode 3 – Commercial process, e.g. form of legal entity established abroad like a bank branch.
Mode 4 – Movement of Natural Persons, e.g. physical movement of professionals, skilled and unskilled labour for temporary period. It does not cover permanent migration.

37. The basic approach followed in these negotiations is the request and offer approach. Under this, countries could lay on the table, their request (demand list from other trading partners) and would in turn also place their offer list. With regard to negotiations in services, on Mode 4 (i.e. movement of natural persons) the main area of interest for India in the on-going WTO Negotiations, India has emphasized for sector-specific commitments and for support of removal of barriers. On Mode 1 which covers cross border supply of services such as business processes outsourcing (BPO), India has stressed the need for greater flexibility to be shown to developing and least developed countries.

TRIPS and Public Health

38. The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) provides for minimum norms and standards in respect of Copyrights and Related Rights, Trademarks, Geographical Indicators, Industrial Designs, Patents, Layout Designs of Integrated Circuits and Protection of Undisclosed Information (Trade Secrets). Doha Declaration on the TRIPS Agreement and Public Health has directed the TRIPS Council to find an expeditious solution by December, 2002 to the problem of countries with insufficient or no manufacturing capacities in the pharmaceuticals sectors in making effective use of flexibility of compulsory license. With regard to TRIPS and Public Health, India has highlighted the need for addressing the issues of countries with insufficient or no manufacturing capacity in the pharmaceuticals sectors in making effective use of flexibility of compulsory license. India has highlighted the need for resolving these issues to address urgent public health problems.

Market Access for Non-Agricultural Goods

39. The aim of market access negotiations on non-agricultural products under WTO is to reduce or as appropriate eliminate tariffs including the reduction or elimination of tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. The Chairman of the WTO Negotiating Group on Market Access for Non-Agricultural Products has proposed a core modality as per a modified Swiss formula. The proposal has also suggested sectoral negotiations in the areas of electronics & electrical goods; fish and fish products; footwear, leather-goods; motor vehicles parts & components; stones, gems & precious metals; and textiles & clothing. A separate modality for bringing tariffs of WTO Members, excluding least developed countries, has also been proposed over a three-phase period. On non-agricultural market access negotiations, India wants that the needs of developing countries to be fully taken care. On tariff reduction, India has favoured a linear approach with modalities for tackling the issue of tariff peaks which should meet the requirement of the Doha mandate.

Singapore Issues

40. The issues of trade facilitation, investment, competition policy and transparency in government procurement were added to the WTO work programme at the 1996 Singapore Ministerial Conference. These have since been called Singapore Issues. At the Doha Ministerial Conference, these issues were taken up at the instance of the developed countries for inclusion in the negotiations. On account of opposition from the developing countries including India, a compromise position was arrived at whereby it was agreed that negotiations to take place after the 5th Session of the Ministerial Conference on the basis of a decision to be taken by explicit consensus at the Session on the modalities of negotiations. In the period until the 5th Session, the Council for Trade in Goods are to review and as appropriate, clarify and improve relevant aspects of relevant articles of the GATT 1994 and identify the trade facilitation needs and priority of Members, in particular, developing and least developed countries. While developed countries interpret this to mean that the Fifth Ministerial in 2003 is to decide only on the modalities while the Agreement to start the negotiations is already in place, developing countries are of the view that no negotiations can take place unless the modalities are first decided by consensus. In view of the structure and content of the Singapore Issues being still unclear, India has raised reservations about entering into negotiations of any kind. The initiation of discussions on a clarification process, following the decision taken at Doha was subject to condition that negotiations on modalities of discussing these issues will proceed after the Fifth Ministerial Conference only after an explicit consensus.

41. Even after continuous deliberations and three mini-ministerial conferences held at Sydney, Tokyo and Cairo before the Fifth WTO Conference to be held at Cancun in Mexico in September, 2003, no agreement has been reached in the crucial areas of agriculture and TRIPS and public health. Without meeting the core issue of market access for products of developing countries in the developed markets, real development in the field of international trade will continue to be loaded in favour of rich nations only.

Regional Trade Agreements

42. According to WTO's Annual Report, 2003, only four WTO Members – Japan; Hong Kong, China; Macau, China; and Mongolia – were not party to a Regional Trade Agreement (RTA) as of June, 2002. Some 250 RTAs have been notified to the GATT/WTO upto June, 2002 of which 129 were notified after January, 1995. As part of trade strategy, and also to protect market access, countries are engaged on the RTA

Criteria for Strategic FTAs

i) Possibility and impact of tariff reductions by India and the FTA partner.
ii) India's price competitiveness to export to the FTA partner and scope for exports.
iii) Price competitiveness of the FTA partner in Indian market and impact on domestic production.
iv) Scope for services exports particularly IT and IT related.
v) Scope for beneficial investment and joint ventures.
vi) Complementarily in goods and services between the two countries.
vii) Other aspects like political advantage, possibilities of joining a larger regional grouping like say the ASEAN by having a FTA with a ASEAN member country etc.
viii) Potential exports by looking at the import basket of each country.

Source: Medium Term Export Strategy, 2002-07, Department of Commerce.

track. Along the lines of trends observed in Europe and now in the Americas, the pattern of bilateral, pluriateral trade agreements has started to emerge. Cross regional initiatives among geographically non-contiguous countries are also multiplying as most of the major nations at the regional level are increasingly looking beyond their regional borders for partners in selective preferential trade agreements.

43. The Medium Term Export Strategy 2002-07 brought out by the Department of Commerce has pointed out about India's inability to create its own web of trade and economic relationships with strategic partners. This, in the context of the propensity observed by other trading nations, has been considered a weakness from the standpoint of securing increased export market access for India's goods and services.

44. In June, 2003, India has signed the Framework Trade Agreement (FTA) with MERCOSUR (a regional grouping consisting of Argentina, Brazil, Uruguay and Paraguay). This Agreement will pave the way to negotiate a Preferential Trading Arrangement (PTA) and a Free Trade Agreement (FTA) with MERCOSUR. With the signing of PTA, both the sides will get mutual tariff concessions in case of imports from either side. This will also enable substantial increase in bilateral trade between India and MERCOSUR and also the Latin American region. India is also likely to conclude a bilateral Free Trade Agreement with Thailand. In the South Asian Region, the Free Trade Agreement between India and Sri Lanka was signed on 28th December, 1998. The Agreement has envisaged phasing out of tariffs on all products except for a limited number of items in the Negative List over a period of time. India has also proposed a Free Trade Agreement to Bangladesh. India has been exchanging tariff concessions with South Asian Association for Regional Cooperation (SAARC), member countries under SAARC Preferential Trading Arrangement (SAPTA).