Annual Plan

Annual Plan 2004-05

Planning Commission
Government of India

ANNUAL PLAN
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CHAPTER 1

Overview

1.1 MACROECONOMIC OVERVIEW

The Tenth Five Year Plan has been formulated in the backdrop of visionary planning and lays foundation for national development in pursuit of the growth blueprint articulated in the India Vision 2020 document. Though India has been one of the ten fastest growing economies in the world, the Plan aims to take the country even further ahead. This aspiration has emerged from a set of macro economic indicators like rapid rise in educational level, high rates of technological innovations and applications, greater availability and access to information and phenomenal growth of service sector contributing to a reasonable confidence in growth potential.

2. The National Development Council (NDC), while approving the Tenth Five Year Plan, adopted an Economic Roadmap committing the country to a 8 per cent growth over the Plan period (2002-07). Recognizing the fact that economic growth needs to be translated broadly in terms of enhancement of human well being, the NDC also adopted a set of quantifiable and monitorable targets which would enable the country to focus on accelerating growth, not only as an end in itself but also as the means to achieve success in other dimensions such as poverty reduction, employment creation and improvement in certain critical indicators of the quality of life in the spheres of health, environment and education. These targets reflect the concern that economic growth alone may not lead to the attainment of long-run sustainability and adequate improvement in social justice. Therefore, the Tenth Five Year Plan lays emphasis on equitable and all inclusive growth.

3. Although the GDP growth was only 4.0 per cent in 2002-03, mainly due to near draught conditions in the country, an excellent growth of 8.1 per cent was achieved in the year 2003-04. The macro-economic environment as well as results of the first quarter of 2004-05 envisages a growth of around 6.5 to 7 per cent this year. The recent review of growth performance indicates that an overall growth of 7 to 8 per cent may be feasible during the Tenth Plan period. However, rising fuel prices and inadequate infrastructure, particularly electricity, are seen as major constraints in the short run. In the medium and long terms, as the country has competitive advantage in many sectors, especially in knowledge based sectors, the growth prospects are optimistic and feasible.

4. While the growth performance in recent years has been lower than the targets, international evidence as well as India's own experience demonstrate that the target is indeed feasible in view of the fact that there is a wide scope for realising large improvements in efficiency, both in the public as well as private sector. However, this improvement in efficiency can only be realised if policies adopted ensure such improvement. We must, therefore, give high priority to identify efficiency enhancing policies both at the macro level and also at the sectoral level. These policies will often involve a radical break from past practices and even redesigning institutional arrangements.

5. While formulating the Annual Plan, the Planning Commission highlighted some of the important issues that have a bearing on the process of Plan formulation in general and for the Annual Plan 2004-05 in particular and reiterated some suggestions that have been made to the Central Ministries/Departments and the State Governments in the last few years which continue to be relevant especially for preparing the present Plan.

6. There has to be a serious prioritization of all Plan programmes / schemes / projects for the Tenth Five Year Plan with a view to use the available resources in the most judicious and economically efficient manner. In the Annual Plan 2004-05 there should be an attempt to outline the "Core Plan" for the Ministry/ Department highlighting the basic sectoral priorities and the minimum programme for public action in the concerned sector. Implicit in this is the idea that critical programmes in each sector may not suffer for lack of allocations over the Plan period and completed as scheduled so that the projected benefits from their implementation could be fully realized. Core Plans should also reflect Priority Agenda / Thrust Areas so that sufficient budgetary allocations are made for them.

7. Evaluation Reports of Planning Commission clearly indicate that in a large number of schemes there is too much expenditure on administration and, as a result, very little is left for the actual work to be carried out. Planning Commission has been pursuing vigorously Zero Based Budgeting (ZBB) exercise for convergence / weeding out and transfer of Central Sector/ Centrally Sponsored Schemes. It is of utmost importance that the decisions of the Planning Commission emanating from the ZBB exercise regarding various schemes are fully taken on board. This would enable to prevent a mismatch between the requirement of funds and the Plan allocations and ensure that Plan expenditure is matched by desired physical achievements. This would also shift the focus of planning from inputs to outputs, i.e. on physical targeting rather than on financial allocations.

8. There is sufficient evidence to suggest that there are a considerable stock of existing capital assets, which are either lying idle or have never been used to their full potential. The existence of such unused capacities presents both an opportunity and a problem for accelerating the growth. On the one hand, if much of these capacities can be brought into productive use, it would be possible to accelerate the rate of growth significantly without a commensurate increase in the rate of capacity creation through fresh investment. Thus, the aggregate investment rate can be significantly lower than that would have been otherwise. On the other hand, the existence of large unutilised capacities is likely to curb the zeal to invest by the private sector in completed or on-going projects and upgradation of existing capital assets before starting new projects.

9. Improving utilization of existing capacities will also require revival of aggregate demand, especially through public investment in crucial infrastructure sectors, which can also lead to inducement of private investment. This will require strengthening of the institutional capacity to undertake public investment, which was eroded to some extent in recent years. There is need to simplify rules, regulations and procedures, which unnecessarily hamper private investment activity in the country, so that private sector can play its required role in due course.

10. Besides improvement in efficiency and better sectoral focus leading to reduction in the incremental capital output ratio (ICOR), the Tenth Five Year Plan has also thrown up a new challenge in terms of raising public and private investment levels to realize the envisaged growth which requires an average annual investment of 28.4 per cent of GDP involving acceleration in the investment rate by nearly 3 percentage points of GDP over 2001-02. Without fiscal consolidation, it would not be possible to achieve any improvement in the current level of public investment. Therefore, it is emphasized that the area of collective concerns such as the deteriorating public finances and fiscal health of the government need to be effectively addressed in the remaining period of the Plan.

11. The Plan has to be an instrument for setting new benchmarks for efficiency and effectiveness in implementing the developmental policies and programmes. It is found quite disturbing to note that what is provided by way of Plan outlays is not translated well in terms of physical achievements.

This may be because of a thin spread of scarce resources on account of proliferation of both Central and Centrally Sponsored Schemes with similar objectives within a sector and across sectors, inadequate monitoring of Plan expenditure, and more importantly, the general inefficiency and ineffectiveness in transforming our scarce resources into desired outcomes. Hence, there is not only a need to take serious steps for mobilising additional resources for stepping up our investment rate but also to address all these concerns most explicitly.

12. The effectiveness of public intervention in achieving the national developmental goals is very closely tied with the efficiency of the delivery mechanism and the institutional environment on which it is founded. It is necessary not only to find adequate resources for the priority sectors and programmes but, at the same time, make every effort to strengthen the institutional framework with a view to improve the implementation of public programmes on one hand, and creating a conducive environment for private initiatives, on the other.

13. There is also a need to encourage public-private partnership (PPP) in promoting infrastructure to leverage public funds, improve quality of service delivery and ensure better value for money. The success achieved under the National Highways Development Project (NHDP) is an example for adopting new methods of financing and public-private partnership in other areas too. The PPP could also be effectively used in the delivery of social services like health care, primary education, safe drinking water, sanitation and provision of quality transportation facilities in the form of roads, ports and airports.

14. The state governments have to keep in mind the national priorities as reflected in the Tenth Plan while drawing up their Plan priorities. The National level monitorable targets for the Tenth Plan and beyond have been set so as to bring about significant programmes towards improvement in the quality of life. The corresponding state-wise targets and the progress made towards achieving these monitorable targets need to be brought out in the Annual Plan document and monitored at the highest level in their States.

15. The National Common Minimum Programme (NCMP) enunciated by the Government spells out seven clear economic objectives: maintaining a growth rate of 7-8 per cent per year for a sustained period; providing universal access to quality basic education and health; generating gainful employment in agriculture, manufacturing and services; promoting investment; assuring 100 days' employment to the breadwinner in each family at the minimum wage; focusing on agriculture and infrastructure; accelerating fiscal consolidation and reforms and ensuring higher and more efficient fiscal devolution. These objectives are aimed at revitalizing rural economy and ensure equitable national development.

16. Due to late presentation of the regular Union Budget 2004-05, there was not much clarity on the priorities and programmes of the new Government. The Planning Commission advised all the Ministries and Departments to redefine their priorities and redraw their programmes in accordance with the National Common Minimum Programme. However, the ongoing programmes were allowed to continue until the programmes and schemes conforming to the NCMP objectives were worked out on the basis of an exhaustive review. In order to fund the NCMP related programmes, the Union Budget 2004-05 made an additional allocation of Rs.10,000 crore and raised the Gross Budgetary Support (GBS) to Rs.1,45,590 crore. Subsequently the allocations for projects under the NCMP were stepped up to Rs.12,000 crore and it was decided to allocate them to priority projects of Sarva Shiksha Abhiyan, agriculture, rural development, railways, drinking water supply, S&T, bio-tech, health, Sethu Samudram Ship Canal Project etc.

Agriculture, Irrigation and Water Supply

17. A vibrant and productive agrarian economy is the foundation for a high and sustained growth. Those regions of our country that have experienced agrarian transformation - economically, socially and politically - have fared better than the ones that have yet to experience agrarian change. Therefore, our strategy for rural development must be fashioned to unleash the productive potential of agriculture and its allied activities.

18. With a contribution of over 22 per cent to the gross domestic product (GDP) for 2003-04 at 1993-94 prices, agriculture provides employment to nearly 60 per cent of country's work force and is the single largest private sector occupation. It accounts for about 12 per cent of the total export earnings and provides raw material to a large number of industries such as textile, silk, sugar, rice, flourmills and milk products.

19. The country could become self-sufficient in food related items largely due to the high yielding varieties (HYVs) that motivated farmers to adopt improved production technologies with the use of water, fertilizers and agrochemicals. The NCMP has stressed the need to step up public investment in agriculture, agricultural research and extension, rural infrastructure, irrigation and introduction of a special programme for dry land farming in the arid and semi-arid regions of the country.

20. Boosting agricultural growth through diversification and development of agro-processing is one of the objectives of the NCMP. The Prime Minister has underlined the need of a "New Deal" for rural India which is not only essential for rural development and welfare, but also essential for achieving sustained overall annual growth of 7-8 per cent and generating employment.

21. Planning Commission has approved a restructured scheme for development and strengthening of infrastructure facilities for production and distribution of quality seeds with an objective to develop and strengthen the seed infrastructure facilities i.e. processing, storage, production and distribution of certified /quality seeds. The scheme for implementation of legislation on "Protection of Plant Varieties and Farmers Rights Act, 2001" provides for the establishment of an effective system for the protection of plant breeders' rights. It has been enacted to fulfil India's obligation under the agreement of Trade Related aspects of Intellectual Property Rights (TRIPs) of the World Trade Organisation (WTO) and also to stimulate investment in R&D for the development of new plant varieties to facilitate the growth of seed industry by dissemination of seed production, technology and also ensure the availability of high quality seeds to the farmers during natural calamities.

22. In order to promote organic farming, a new Central Sector Scheme "National Project on Organic Farming" has recently been approved by restructuring the on-going scheme of "National Project on Development and use of Bio-fertilizers". The Scheme is being implemented on a pilot scale during Tenth Plan in the areas where use of agro-chemicals is very low and in the areas falling under agri-export zones and in urban hinterland (peri urban) areas.

23. India has vast resources of livestock and poultry. It ranks first in cattle and buffalo population, second in goats, third in the sheep and seventh in poultry population in the world. The strategy and policy initiatives adopted for further development of livestock resources in the Tenth Plan include: genetic upgradation of indigenous/native breeds of cattle and buffalo by expanding the network of artificial insemination and natural service to the farmers' doorstep; conservation of livestock breeds facing the threat of extinction; immunization programme to control the highly prevalent animal diseases and strengthening infrastructure and information network on animal production and health.

24. The Fisheries sector is developing at a faster rate as one of the major sectors contributing to the socio-economic development of the country. It plays an important role in terms of food security as a cheap source of protein rich food. It stimulates growth of a number of subsidiary industries in addition to contributing foreign exchange earnings through exports. India is 4th among fish producing countries and 2nd in inland fish production in the world. The thrust areas for development of fisheries during 2004-05 would be vertical and horizontal expansion of aquaculture activities to increase production, productivity and additional employment generation under development of cold water fisheries; water logged areas into aquaculture estates and utilization of inland saline/alkaline soils. In marine sector, development of off-shore and deep-sea fisheries would be given more emphasis along with creation of additional infrastructure facilities and employment generation.

25. Irrigation plays a very important role in agriculture. The strategies articulated in the NCMP to augment the irrigation sector include completion of all existing irrigation projects within a period of three to four years, a comprehensive minor irrigation programme for dalits and adivasis, water management in irrigation, providing rural infrastructure, assessment of feasibility of interlinking of rivers in a fully consultative manner, amicable settlement of inter-state disputes on rivers and water sharing, water harvesting, de-silting of existing ponds, flood control and drainage in North Bihar, erosion prevention in Padma, Ganga and Bhagirathi rivers in West Bengal, starting of Flood Prone Area Development Programme and supporting flood control in inter-state and international rivers. There are 444 major and medium ongoing projects in the country with a spillover liability of Rs.1.05 lakh crore and a potential of 14.6 million hectare. While some of them were started in the Tenth Plan, the others have achieved their full potential with some pending liabilities. To expedite completion of these projects, the Government decided to include last mile projects in the restructured Accelerated Irrigation Benefit Programme (AIBP). It is targeted to complete 156 projects by the end of Tenth Plan with priority for completion of pre-Fifth and Fifth Plan projects. For augmenting the rural infrastructure including irrigation, the Rural Infrastructure Development Fund (RIDF) for 2004-05 of National Bank for Agriculture & Rural Development (NABARD) has been provided with Rs. 8000 crore. A Committee has been formed to comprehensively assess the flood protection works required in North Bihar and to control river erosion in West Bengal.

26. The Tenth Plan aims at creating an additional irrigation potential of 9.93 m.ha., of which 1.55 m.ha. has been targeted for 2004-05. Under minor irrigation, the target for Tenth Plan is 6.8 m.ha. and for 2004-05 it is 0.75 m.ha. The States need to give special emphasis on irrigation by augmenting more funds, close monitoring of irrigation projects, adopting water sector related reforms and efficient water management practices for achieving the Tenth Plan objectives.

27. The Tenth Five Year Plan and the NCMP lay priority to the development and expansion of physical infrastructure for drinking water supply, sewage treatment and sanitation in urban and rural areas and augmenting availability of drinking water sources. To address the acute drinking water shortage in cities especially in the states of Southern Region, the NCMP recommended installation of desalination plants all along the Coromandel Coast starting with Chennai. Though, provision of safe drinking water and sanitation is a state subject, in view of the urgency and importance, the central government has been supplementing efforts of the states by way of financial assistance and technical guidance through programmes like Accelerated Rural Water Supply Programme, Centrally Sponsored Rural Sanitation Programme, Accelerated Urban Water Supply Programme for Small Towns and Integrated Urban Low Cost Sanitation Programme for Liberation of Scavengers.

Social Infrastructure

28. The Planning process accords utmost priority to alleviation of poverty. While poverty has declined from 37.27 per cent in 1993-94 to 27.09 per cent in 1999-2000 in the rural areas, the absolute number remains as an issue of concern. Economic growth with a focus on employment generating sectors has been a key element of the strategy for poverty reduction along with emphasis laid on provision of basic minimum services like health, education, water supply, sanitation, etc. This strategy has been combined with a third element of directly targeting the poor through anti poverty programmes such as (i) Swaranjayanti Gram Swarozgar Yojana (SGSY) which seeks to bring the assisted poor families (Swarozgaris) above the poverty line by organizing them into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets, through a mix of bank credit and Government subsidy; (ii) Sampoorna Grameen Rozgar Yojana (SGRY) which is implemented through Panchayati Raj Institutions (PRIs) and aims to provide additional wage employment in rural areas thereby ensuring food security and improved nutritional levels and also creating durable assets and infrastructural development in rural areas; (iii) National Social Assistance Programme (NSAP) and Annapurna with the aim to provide social assistance benefit to poor households in the case of old age, death of primary breadwinner and maternity; and (iv) Indira Awaas Yojana (IAY) which provides dwelling units free of cost to the Scheduled Castes (SCs) and Scheduled Tribes (STs) and freed bonded labourers and non - SCs/STs living below poverty line in rural areas. The IAY benefits have been further extended to the widows or next of kin of defence personnel killed in action and also to ex-servicemen and retired members of para military forces, as long as they fulfil the normal eligibility conditions of IAY.

29. One of the greatest assets of our country is human resource, our people. Empowering the people, especially the poor, with universal access to education and health and facilitating their full participation in the growth process through gainful employment, will enhance their welfare. It will also reinforce the growth process itself. The Constitution of India envisages provision of free and compulsory education for all children up to the age of fourteen. A new milestone in this direction is the passing of the 86th Constitutional Amendment Act, 2002 providing for Right to Education as a Fundamental Right. Elementary education has been given the highest priority in the sub-sectoral allocation within education sector in the Tenth Five Year Plan.

30. The principal programme for achieving Universalization of Elementary Education (UEE) is the comprehensive Sarva Siksha Abhiyan (SSA), which was launched in 2001-02. The primary goal of SSA is to bring all children in schools or alternative schools by 2003 and provide eight years of quality education by 2010. This programme works on the partnership between Central and State Governments. SSA seeks to improve the performance of the schools through community owned approach with a focus on the provision of quality education. It is implemented on a mission mode and has set the target of ensuring universalization and bridging gender gaps. The NCMP envisages to raise public spending on education to at least 6 per cent of GDP with at least half of this amount being spent on primary and secondary sectors. This will be done in a phased manner. The government introduced 2 per cent cess on all central taxes to finance its commitment to universalize access to quality basic education. A National Commission on Education will be set up to allocate resources and monitor programmes.

31. There has to be continued commitment to provide essential primary health care, emergency life saving services, services under the National Disease Control programme and the National Family Welfare programme free of cost to the individuals based on their need and not on their

ability to pay. The Government through NCMP expressed its concern for health sector and envisages to raise public spending on health to at least 2-3 per cent of GDP over the next five years with focus on primary health care.

32. As the Universal Health Insurance Scheme (UHIS) now in operation is skewed in favour of the non-poor, it is proposed to redesign the scheme and make it exclusive for persons and families below the poverty line by way of reducing the premium amounts. It is also proposed to introduce a new Group Health Insurance Scheme through public sector non-life insurance companies. The insured will be members of Self-Help Groups (SHGs) and other Credit Linked Groups (CLGs) who avail of loans from banks or cooperative institutions. Under the group health insurance scheme, the premium will be Rs. 120 per person, but the insurance cover would be for a sum of Rs. 10,000.

33. The NCMP also rightly emphasizes the need for an accelerated AIDS control programme. Bold and determined efforts need to be made to achieve zero-level growth of HIV/AIDS. These will include improved surveillance through the setting up of more sentinel sites and use of primary health centres to monitor HIV/AIDS, public awareness campaigns, promotion of safe sex through the use of condoms, prevention of drug abuse and distribution of disposable syringes.

34. The National Common Minimum Programme has underlined many important issues to achieve fiscal consolidation while protecting the interests of the poor. It has also emphasised the need to focus on social sectors to empower the poor and disadvantaged sections of the society. The changing socio-economic scenario of the country due to industrialization, urbanization and modernization has lead to increased rural-urban migration and created a significant adverse impact on the living conditions of the most marginalized, vulnerable and disadvantaged sections of society. In pursuance of the Tenth Plan objectives, special and distinct efforts have been made towards empowering the persons with disabilities, reforming the social deviants and caring for the other disadvantaged, along with the strength and support by legislations and policies enacted for these groups. The Annual Plan 2004-05 reaffirms the earlier commitment of making the disabled active, self-dependent and productive members of the society. A special initiative during the Annual Plan 2004-05 has been the introduction of a "Component Plan" for the disabled in the budgets of the concerned sectoral Ministries/Departments to ensure the requisite flow of funds to implement various welfare and development schemes, as mandated under the Persons With Disability (PWD) Act, 1995.

35. The government is committed to empower the socially disadvantaged groups viz. Scheduled Castes (SCs), Scheduled Tribes (STs), Other Backward Castes (OBCs) and Minorities by developing their potentials and capacity as agents of social change and national development, rather than passive recipients of developmental benefits. To fulfil the Tenth Plan objective, a three pronged strategy has been formulated for the effective implementation of various welfare and developmental policies and programmes towards achieving (i) Social Empowerment- especially through educational development; (ii) Economic Empowerment - through employment and income generating and poverty alleviation; and (iii) Social Justice - through effective implementation of the existing legislations and other measures in preventing and protecting the disadvantaged groups from atrocities, exploitation and discrimination.

36. Major emphasis of the Government would be to empower the tribal groups through addressing the unresolved issues and solve the persisting problems especially in the field of education, besides providing access to other Basic Minimum Services. Post-Matric Scholarships (PMS) are being given to eligible Scheduled Tribe students for payment of tuition and compulsory fees besides

maintenance allowance, both for hostellers and day scholars. Recently, the scheme has been revised for wider coverage and upward revision of allowances. By launching Vocational Training Centres, National Scheduled Tribe Finance & Development Corporation and Tribal Cooperative Marketing Development Federation of India Limited, tribal communities are being encouraged to upgrade their skills, entrepreneurship development by providing financial assistance and support for agricultural and minor forest produce.

37. In pursuance of NCMP, the Annual Plan 2004-05 will urge the states to make legislation for conferring ownership rights in respect of minor forest produce including tendu patta, on all those people from the weaker sections who work in the forests and will emphasize the need to launch a comprehensive national programme for minor irrigation of all lands owned by Dalits and Adivasis. The Inter - Ministerial Task Group set up by the Planning Commission would review the overall strategy and programmes in the light of NCMP for the development of tribal areas and work out more viable livelihood plans during the Annual Plan 2004-05.

38. Towards empowerment of women, a three fold strategy is being adopted based on the National Policy for Empowerment of Women - 2001 which includes - (i) Social Empowerment by promoting education amongst women, especially amongst the girl children and providing health and nutrition services to them; (ii) Economic Empowerment by facilitating women to take up employment and income generating activities and (iii) Gender Justice to eliminate all types of discrimination against women and girl children. The special strategies of Women's Component Plan (WCP) and Gender Budgeting being adopted in the country are other efforts towards gender justice.

39. The Integrated Child Development Services (ICDS) Scheme (1975) continues to be the flagship scheme as well as strategy to promote the overall development of the young children (below 6 years) - especially the girl child and expectant and nursing mothers all over the country through its holistic package of six basic services - health check up, immunization, referral services, supplementary nutrition, pre-school education and health and nutritional education through a single window delivery.

40. The NCMP suggested to work out a comprehensive medium-term strategy for food and nutrition security. The government will strengthen the public distribution system particularly in the poorest and backward blocks of the country and would involve women and ex-servicemen cooperatives in its management. Special schemes to make food grains available to the most destitute and infirm will be launched. Grain banks in chronically food-scarce areas will be established. Under the Antyodaya Anna Yojana (AAY), 35 Kgs. of food grains are being provided to the poorest of the poor families at a highly subsidized rates of Rs.2 per kg. for wheat and Rs.3 per kg for rice. It has now been decided to extend the coverage of AAY from 1.5 crore to 2 crore families.

Economic Infrastructure

41. Adequate, reliable and quality infrastructure is essential for sustainable economic growth, international competitiveness and credible export volumes. As the Indian economy is gradually integrating with the evolving world economy, the industrial sector must become more competitive with world-class capability based on the use of modern science and technology. Augmenting and expanding infrastructure is one of the prime objectives of the Tenth Plan and the thrust of the infrastructure policy has been to create a regulatory framework for promoting private initiatives, healthy competition and provide infrastructure facilities of international standards, particularly in the telecom and power sectors at affordable costs.

42. The industrial sector recorded improved production growth during the year 2003-04 in the backdrop of strong monsoon, better monetary polices like low interest rates, availability of retail finance and healthier internal and external demand. The industrial production, as measured by the Index of Industrial Production (IIP), grew by 7 per cent. As many as 10 out of the 17 two digit industry groups have shown more than 6 per cent growth over 2002-03. Manufacturing sector recorded a strong growth of 7.4 per cent, mining & quarrying and electricity recorded 5.2 per cent and 5.1 per cent growths respectively. The highest growth of 17 per cent was recorded in transport equipment & parts, followed by machinery and equipment other than transport equipment (15.8 per cent), paper & paper products (15.6 per cent), basic metal and alloy industries (9.2 per cent), beverage and tobacco (8.5 per cent), basic chemicals & chemical products (8.7 per cent) and other manufacturing industries (7.7 per cent). The industry continues to perform well in the current year also by recording an overall industrial growth of 7.9 per cent (April - September 2004) with an excellent growth of 26 per cent in machinery & equipment other than transport equipment, followed by 17.6 per cent in basic chemicals and chemical products, 14.5 per cent in capital goods and 15.4 per cent in other manufacturing industries.

43. The six core infrastructure industries (i.e. coal, electricity, steel, crude petroleum, petroleum refinery and cement) which are the key inputs to infrastructure sector and have a weight of 26.68 per cent in the Index of Industrial Production registered a growth of 5.4 per cent in 2003-04. The petroleum refinery products have experienced striking revivals with 8.2 per cent growth which is highest among the other core industries. Domestic demand for steel and cement continued to experience steep growth with faster pace of construction of highways by the National Highway Authority of India (NHAI) and the housing sector. While finished steel output grew by 7 per cent, the cement production grew by 6.1 per cent. Improvements in technology and cost reduction have made India more competitive in exporting steel and cement. In the current year i.e., 2004-05 (April-September) quite an impressive growth of 7.8 per cent has been achieved in the power generation, 9.8 per cent in cargo handled at major ports and a modest increase in coal production. The civil aviation sector witnessed 25 per cent growth in passenger traffic in domestic air terminals along with 113 per cent growth in International terminals. The Government has set up a Committee on Infrastructure in August 2004, to speed up the developments in this sector to the best of international standards and practices.

44. Development of mineral sector is essential for a sustainable industrial and infrastructure growth. A review indicates that most of the accessible and near surface deposits are either exhausted or are under production. However, in case of bauxite, the country is in a comfortable position with life index of 153 years beyond Tenth Plan period. The Mines and Minerals (Development and Regulation) Act, 1957 was amended in 1999 with provisions of delegating more powers to states, making statutory provisions at par with best international practices to make the act more investor friendly. The policy changes aim at attracting private investment in exploration of base metals, noble metals and gem stones. The off-shore Areas Mineral (Development and Regulation) Act, 2002 provide for development and regulation of mineral resources in the territorial waters, continental shelf and the exclusive economic zones. The legislation would enable streamlining of mineral exploration and development in the offshore areas and ensure systematic and scientific exploitation of mineral reserves except petroleum, natural gas and hydrocarbon resources for attracting private investment. The NCMP underlined the need to review mineral royalty.

45. Since coal continues to remain the principal source of commercial energy in the country for the foreseeable future, the Tenth Five Year Plan envisages rapid development of coal resources for augmenting domestic coal production to meet the projected coal demand for the power sector in

particular and other end use sectors in general, through improved productivity, capacity utilization, technology adaptation, simplified project clearance procedures and improved project implementation. An important area of the Tenth Plan is restructuring the coal sector and facilitating private sector participation in commercial coal mining by means of necessary legislative amendments and setting up of regulatory mechanism to ensure fair competition and a level playing field in each stage of the coal production and supply chain, allocation of coal blocks for exploration and mining etc. Emphasis is also laid on augmentation of rail and port infrastructure facilities for improved coal movement, development of lignite resources, clean coal technologies through the development of science & technology in coal sector and development of coal bed methane resources.

46. While the coal demand is envisaged to grow at 5.74 per cent during the Tenth Plan against 3.5 per cent in the Ninth Plan, the production is envisaged to grow at 4.46 per cent against 2.5 per cent in the Ninth Plan. The estimated coal demand of 404.19 million tonnes (mt.) excluding 3.58 mt. of washery middlings and the targeted coal production of 369.15 mt. for the year 2004-05 are 7.17 per cent and 4.78 per cent more than the anticipated offtake/consumption and production in 2003-04. The target of lignite production for 2004-05 has been set at 21.0 mt.

47. Bench marking of operations with regard to productivity, capacity utilization and investment in coal companies is important. Independent auditing of operations and efficiency of investment of resources are some important areas of action for making the coal companies competitive. There is a need to improve the availability of washed coking coal for steel sector and washed thermal coal for power generation. The domestic coal is getting out priced due to high rail freights when compared to the imported coal, particularly in the coastal regions. This implies the need for rationalizing the rail freight tariff. The Government has rationalized the import duty on coal. Import duty on coking coal has been abolished and duty on thermal coal has been reduced from 15 to 5 per cent in 2003-04. In order to reduce the rising gap between demand and domestic supply, there is a need to augment coal production from domestic sources. Alternatively, large imports of coal could be a solution which needs strengthening of port infrastructure. Expeditious passing of pending Coal Bill 2000 to permit private sector participation in non-captive mining; setting up of independent regulatory authority; restructuring of the Coal India Ltd. (CIL); permitting free sale of coal by taking it out of the list of essential commodities; enlarging the scope of captive mining by permitting selling of stipulated surplus production after meeting their requirements; de-blocking of coal blocks held by CIL for offering to potential entrepreneurs on bidding basis and adoption of Gross Calorific Value based grading and pricing of coal are some of the important measures / policy initiatives that are relevant for augmenting domestic coal supply.

48 As the country imports about 70 per cent of the total oil requirement, the NCMP endeavours to put forward policies to enhance the oil security of the country. The volatile oil price market and stagnating domestic production makes it imperative to have a sound strategy to safeguard against dependence of the country on imported oil. The government has already initiated action in this regard by way of (i) creating a strategic storage of five million tonnes of crude oil; (ii) accelerating exploration activities under the National Exploration Licensing Policy (NELP) (the programme has already started paying dividends with the discovery of two oil/gas fields by the Carnies Energy and one gas field in Krishna - Godawari Basin by the Reliance Energy); (iii) acquiring various oil prospective areas across the globe by the ONGC through its wholly owned subsidiary for exploration & exploitation; (iv) laying of trans-national pipelines to enhance the oil security and (v) setting up of pilot project for blending of petrol with ethnol.

49. The crude oil production of 33.37 million metric tonnes (mmt.) in 2003-04 was almost near

the target. The crude oil imports have gone up from 81.99 mmt in 2002-03 to 90.43 mmt in 2003-04 and the petroleum products imports have increased from 6.73 mmt to 7.9 mmt. The exports have risen from 10.29 mmt to 14.62 mmt. Thus, the net imports have increased by almost 5 million tonnes in 2003-04. The consumption of petroleum products has also increased by about 2.4 million tonnes. The target for 2004-05 for the production of oil has been set at 33.15 mmt.

50. The present installed capacity of the power sector is over 1,10,000 MW. Reforms in the sector were initiated in 1991 to (a) encourage competition and private participation in each element of the electricity value chain; (b) rationalise power tariffs and making the tariff setting process transparent; and (c) institute the modified Accelerated Power Development and Reform Programme (APDRP) aimed at upgradation of the sub-transmission and distribution system in the country and improving the commercial viability of State Electricity Boards by reducing their aggregate technical and commercial (AT&C) losses. To expedite reforms in power sector, Electricity Bill 2003 was accorded approval of Parliament and ascent of the President of India. The Act replaces three existing legislations, namely, Indian Electricity Act, 1910, the Electricity Supply Act, 1948 and the Electricity Regulatory Commission Act, 1998. The objectives of the Act are "to consolidate the laws as relating to generation, transmission, distribution, trading and use of electricity and for taking measures conducive to development of electricity industry, protecting interests of the consumers and supply of electricity to all areas, rationalistion of electricity tariff, ensuring transparent policies regarding subsidies, promotion of efficient and environmentally benign policies, constitution of Central Electricity Authority, Regulatory Commissions and establishment of Appellate Tribunal and for matters connected therewith or incidental thereto." The Act is expected to push the sector on to a trajectory of sound commercial growth and to enable the States and the Centre to move in harmony and coordination.

51. The optimum mix of power generation in terms of primary sources is an important issue for long term development and planning of the sector. Over the years the balance between thermal and hydro-electricity has shifted steadily against hydro-electricity which now accounts for only around 24 per cent of total power generation. The share is likely to decline even further unless suitable corrective measures are initiated immediately. Hydro-electricity offers an environment friendly source of power and is also particularly well suited to deal with situations of large peaking deficits. To harness the vast untapped hydro potential in the country, the government identified 162 projects spread across 16 States mainly in the North-Eastern Region with aggregate capacity of about 50,000 MW. Feasibility reports have been prepared for 132 schemes of 37,378 MW and finalized for 103 schemes of 31,150 MW during the year 2003-04.

52. The power generation from utilities during 2003-04 was 558.13 billion units (BU) which is 4.9 per cent more than the previous year. A target of 586.41 BU has been set for 2004-05. There has been significant improvement in Plant Load Factor (PLF) in recent years which was recorded at 72.70 per cent in 2003-04. The NCMP envisages electrification of all the households in five years. Accordingly, a scheme of "Rural Electricity Infrastructure and Household Electrification" has been formulated for electrifying all households within five years from 2004-05.

53. Ministry of Non-conventional Energy Sources (MNES) is responsible for programmes covering renewable energy sources such as grid connected and stand-alone power generation from small hydro, wind, solar, bio-mass and industrial / urban wastes; rural energy programmes including electrification of remote villages, biogas and improved chulhas for cooking and integrated rural energy programmes (IREP). These programmes are implemented in all the States and UTs in

association with the State Energy Development Agencies, Non-Governmental Organisations (NGOs), private entrepreneurs, women self-help groups, Panchayati Raj institutions and other interested individuals and groups. A target to harness 545 MW of renewable energy has been set for 2004-05 which includes 300 MW of wind power, 125 MW of biomass co-generation and 100 MW of small hydro power

54. An efficient transport system is imperative for sustained economic development. It is not only vital for the growth process but also plays a significant role in promoting national integration and development of remote areas by opening them to trade and investment. India's transport system has expanded manifold in the fifty years of the planned development, both in terms of spread and capacity.

55. The Indian railways with a network of about 63,000 route kms, is the principal mode of transportation for bulk freight and long distance passenger traffic. The priority areas of the Tenth Plan have been capacity expansion through modernization and upgradation of technology; improvement in quality of service and rationalization of tariffs to tap large share in rail freight traffic besides improving safety and reliability of services. The NCMP has also laid emphasis on modernization of railways and adoption of safety measures therein.

56. Good road network, being the basic infrastructure input for a developing economy, improving riding quality and capacity of existing road network and the National Highways, emphasis on revamping road maintenance, constructing expressways for select high-density corridors and completion of National Highways Development Project comprising the Golden Quadrilateral and the North-South and East-West corridors have been the main areas of focus in the Tenth Plan. Remote areas such as the North-Eastern region will continue to receive greater attention during the Plan so as to accelerate growth and employment opportunities.

57. In order to boost rural connectivity, Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched with the primary objective to provide connectivity by way of all-weather roads to the unconnected habitations in the rural areas with population 1000 and above by 2003 and those with population 500 and above by 2007. In respect of hilly/desert/tribal areas, the objective is to link habitations with population 250 and above.

58. The road transport sector has grown significantly during the last fifty years with the number of vehicles registering a compounded growth rate of 12.61 per cent. The fleet utilization, vehicle productivity, staff productivity, fuel efficiency etc., have improved considerably. Efforts would be made in the Tenth Plan to encourage public transport services and private sector participation by removing restrictive practices and take measures to reduce accidents and fatalities on roads so that the innovations in road transport could keep pace with the demand and developments in the overall transport sector.

59. Twelve major ports along the coastline of the country handle about 75 per cent of the port traffic and remaining 25 per cent is handled by minor / state ports. The productivity at the ports, in terms of average output per ship berth day, average pre-berthing waiting time and average turnaround time has registered an improvement. Average pre-berthing waiting time came down from 21.6 hours in 1999-2000 to 5.1 hours in 2003-04 and average turnaround time improved from 5.1 days to 3.6 days. The Annual Plan 2004-05 for port sector has been formulated keeping in view the objectives and thrust areas of Tenth Plan which include encouraging private sector participation; affecting organizational changes- corporatisation for management efficiency, institutional funding

and attracting private investment; establishing major gateway ports and provision of inter modal linkages through efficient rail and road services; rationalizing manning scales and making Tariff Authority of Major Ports (TAMP) an Appellate body and extending its jurisdiction on all ports. The traffic at major ports is projected at 366.97 million tonnes by 2004-05.

60. Telecommunications is one of the fastest growing sectors of the economy and has immense potential for growth in the future. Starting with about one lakh lines at the time of Independence, the Indian telecom network has increased to about 765.40 lakh lines including Cellular connections by the end of March, 2004. The telecom sector has been witnessing continuous reforms since 1991. A major milestone in this area was the enunciation of New Telecom Policy (NTP) 1999 which facilitated telecom revolution arising out of rapid technological changes like convergence of technologies, liberalization and opening of the economy. This process of reform was carried further and since then, quite a number of new policy initiatives have been undertaken.

61. In the year 2003-04, an unprecedented growth of over 40 per cent was achieved in network expansion alone. The total number of telephones increased to 765.40 lakh as on March, 2004. While the state owned Bharat Sanchar Nigam limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) put together contributed 33.10 lakh connections, bulk of the expansion came from the private sector which provided about 186.10 lakh connections. The share of private sector in the total telephones increased from 21 per cent as on March, 2003 to 39 per cent as on March, 2004. As a result, the tele-density zoomed from 5.11 per cent in March, 2003 to 7.02 per cent in March, 2004. This increase in tele-density is highly skewed in favour of urban areas and unfortunately many rural areas are short of even basic connectivity. About 85,000 villages still do not have access to a single connection, notwithstanding the 100 per cent year-on-year growth rate in mobile telephony. A continued positive shift has been observed in the use of mobile telephony. The share of mobile phones (Cellular and WLL-M) has increased from 23.77 per cent as on March, 2003 to more than 44 per cent as on March, 2004. The mobile subscriber base has already outnumbered the fixed line subscriber base. The fixed line (including WLL-F) subscriber base grew from 41.48 million on March, 2003 to 42.84 million on March, 2004, recording a meager annual growth of 3 per cent. This poor growth was due to a low subscription rate and surrendering fixed line phones by customers for cellular or WLL (M) connections. In fact, BSNL and MTNL lost over 2 million customers during the year 2003-04. The high level of disconnections was driven by cuts in GSM tariffs, low WLL tariffs and also unsatisfactory services by fixed phone line operators.

62. Steel is the backbone for any developing or developed economy. The year 2003-04 was one of the fortune years for the steel industry, as many of the steel manufacturing units in the country were able to make profits after a long depression. Both internal and external steel demand helped Indian steel industries to increase their production and export. The finished steel production in 2003-04 was 36.19 million tonnes (including an export of 5.3 million tonnes) which was 17.6 per cent higher than that of the previous year. The steel production target for the year 2004-05 has been set at 38.5 million tonnes. The share of the secondary producers in total steel production was 52 per cent which shows additional employment generation potential of the industry in private sector. As the Indian steel industries are operating at 90 per cent capacity utilization, there is a further scope for capacity addition and opening up avenues for additional employment generation.

63. The year 2003-04 witnessed higher steel prices due to increased raw materials costs and international shipping costs. The Government took measures like reduction in peak rate of customs duty, abolition of special additional duty of 4 per cent and reduction in customs duty on non-coking coal and nickel to stabilize prices. Excise duty on steel was reduced from 16 per cent to 8 per cent

and duty on non-coking coal reduced from 15 to 5 per cent. To promote domestic availability of steel, the Duty Entitlement Pass Book (DEPB) scheme was suspended for iron and steel items and later re-introduced on selective steel items only. The Indian steel industry has been witnessing positive trends for a steep growth and the same trend is envisaged in the foreseeable future provided there is continuous investment in domestic infrastructure, steel promotional activities, particularly in the secondary sector. The Indian steel industry has to endeavour to reduce production cost continuously to become competitive and to increase its market share in the international arena.

64. A comprehensive Foreign Trade Policy was enunciated by the government with the twin objectives of doubling the country's percentage share of global merchandise trade by 2009 and to act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas. The main strategy of the policy has been identifying and nurturing various special focus areas to facilitate developing India as a global hub for manufacturing, trading and services.

65. Since agriculture has the potential to bring prosperity to millions of our rural citizens and also the target of potential for enhancing employment in some of the poorest regions in the country, the Special Focus Initiative for Agriculture includes a new scheme called "Vishesh Krishi Upaj Yojana" which has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. A new scheme to accelerate fruits of exports called "Target Plus" has been introduced under which exporters who have achieved a quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed.

66. The external sector has progressed well during the year 2003-04 with the exports attaining a level of US $ 62952 million recording an impressive growth of 19.9 per cent. As against the projected 12.4 per cent growth in exports during the Tenth Plan period, the performance in the first two years was commendable with an average growth of about 18.4 per cent. This was mainly in view of the slow recovery in world output and the world trade volume in trade and services. The commodity structure of India's exports has shifted towards high value manufactures like gems and jewellery, chemicals and allied products, engineering goods, automobiles, electronics and petroleum products that together contribute to over 80 per cent of the export basket. The imports increased by 13.5 per cent and 21.8 per cent respectively during the first two years of the Tenth Plan as against a target of 16.3 per cent for the Plan as a whole. Import of POL products has increased considerably due to higher international crude prices. Imports of petroleum crude and products increased by over 15 per cent during 2003-04 while the share of these products in total imports is around 27 per cent. Further, the higher demand from buoyant domestic industrial sector has also contributed to higher imports. Imports of iron and steel increased by 52 per cent and capital goods by 32 per cent. Imports of machinery, transport equipment, project goods and electronic goods that constitute almost 24 per cent of total imports had a growth of 32 per cent.

67. There has been a substantial step up in foreign investment inflows with US $ 3137 million of foreign direct investment and US $ 11355 million of foreign portfolio investment in 2003-04. Thus, the total foreign investment inflow was US $ 14492 million in 2003-04 as against US $ 4555 million in 2002-03. The relatively higher interest rates in India compared to other international rates have contributed to the increased portfolio investment and there is continued effort to raise the more stable foreign direct investment. The foreign exchange reserves have been increasing continuously over time and reached US $ 110 billion by March 2004. Taking advantage of the comfortable foreign exchange reserves, the government has pre-paid a portion of the high cost currency from

the World Bank and the Asian development Bank and also some bilateral loans. The government has decided to discontinue taking bilateral aid from countries other than USA, Japan, UK, Germany, European Community and the Russian Federation.

Science & Technology and Environment

68. Science and Technology (S&T) is widely recognised as an important tool for fostering and strengthening the economic and social development of the country. Significant developments in Science and Technology have helped to overcome many of the problems including eradication of some of the major communicable diseases, food and energy shortages etc. The emphasis is now shifting towards utilization of S&T for sustainable development. In this background, the S&T programmes during the Tenth Plan have been focused on strengthening application oriented Research and Development (R&D) activities for technology generation, promoting human resource development, application of S&T for forecasting, prevention and mitigation of natural hazards, integrating developments in S&T with all spheres of national activities and harnessing them for improving livelihood, employment generation, environment protection and ecological security. Significant achievements have been made during the Annual Plan 2003-04 in various spheres of S&T. Successful launch of INSAT- 3A and INSAT-3E have enabled to increase the communication capacity to more than 130 transponders resulting in enhancing the capability for meteorological and disaster warning services. RESOURCESAT-1 (IRS-P6) on board seventh successful flight of Polar Satellite Launch Vehicle has led to enhancement of the scope of remote sensing applications by providing data with better spatial and spectral resolutions. With the successful launch of Geosynchronous Satellite Launch Vehicle GSLV- D2, India attained the capability to launch 2 tonne class of satellites into geosynchronous transfer orbit and thus became one of the six countries in the world to possess this type of launch capability.

69. Recognising the global economic order, the focus of the Tenth Plan in the Science & Technology sector would be to encourage research in and application of S&T for forecasting, prevention and mitigation of natural hazards, environment protection and ecological security. Environmental conservation must go hand in hand with economic development because any economic development which destroys the environment will create more poverty, unemployment and diseases and thus cannot be called even economic development. Environmentally destructive economic development will impoverish the poor even further and destroy their livelihood resource base. Therefore, the environmental concerns in the developing world must link with peoples' lives and well-being. The environmental problems facing India are different from those of the affluent countries and are more serious in nature as they threaten health and livelihood of people. Air pollution, soil degradation, deforestation, desertification, shrinking wetlands, inadequate public health and sanitation, growing water scarcity, falling groundwater table, lack of minimum flow in rivers and over extraction of ground water for irrigation purposes are some of the environmental problems that need to be addressed first, before any poverty alleviation programme can meet with success. In the ultimate analysis, environmental management and economic development should be mutually supportive aspects of the same agenda. A poor environment undermines development, while inadequate development results in lack of resources for environmental protection.

70. While the emphasis in the Tenth Plan would be on completing the ongoing schemes like Industrial Pollution Abatement through preventive strategies; Hazardous Substance Management to enhance safety in handling and management of hazardous substances; National River Conservation Plan under which polluted stretches of major rivers have been identified for cleaning and treatment; National Lake Conservation Plan for cleaning important urban lakes with high levels of silting and polluting and setting up of common effluent treatment plants for a cluster of small-

scale industry (SSI) units, the introduction of a few new programmes/schemes has also been felt necessary.

71. Cleaning of major polluted rivers by 2007 and other notified stretches by 2012 is a monitorable target in the Tenth Plan. Under the National River Conservation Plan (NRCP), polluted stretches of major rivers have been identified for sewage collection and treatment. NRCP at present includes works in 157 towns along 31 polluted stretches of rivers spread over 18 states. The scheme plans to tackle river pollution by setting up additional sewage treatment plants. Yamuna Action Plan Phase-II, Gomti Action Plan - Phase II and Musi River Plan will commence implementation during 2004-05. A decentralized approach for sewage interception, diversion and treatment is being adopted which not only minimizes the capital cost but also the operational and maintenance cost. However, institutional arrangements at the state level would need be strengthened for effective and timely implementation.

72. Forests play an important role in environmental protection, economic growth and sustainability. They render numerous goods and services, and maintain life-support systems so essential for life on the earth. They also meet nearly 40 per cent of the energy needs and 30 per cent of the fodder needs of the country. There is a need to review the existing policy, rules and regulations for removing constraints in holistic development of forestry with people's participation. The National Forest Policy stipulates that one-third geographic area of the country should be brought under forest/tree cover. The imperative has been echoed in the Tenth Five Year Plan and the roadmap for the future development of the forestry sector includes increasing forest and tree cover to 25 per cent by 2007 and 33 per cent by 2012. Recent assessment has shown that the green cover in the country is 23.03 per cent. Extending green cover beyond this would require extensive social/agro-forestry programmes beyond the limits of forests. Promotion of bamboo resources and bio-fuels in mission mode has been suggested which would contribute both towards expansion of the green cover as well as livelihood support of the rural communities. Continuous and sustainable development of forestry would depend on research inputs in crucial areas, solving problems and expanding knowledge. The scope of forestry research covers not only biological and technological aspects (forestry, forest products, conservation, wildlife), but also a wide spectrum of economic, environmental, sociological and policy research.

1.2 EXTERNAL SECTOR DIMENSIONS

The Tenth Five Year Plan Document recognizes that 'The acceleration in the growth rate proposed for the Tenth Plan cannot take place without tapping the opportunities offered by the international economy in terms of markets, investments and technologies'. The phenomenal growth achieved by the services sector, especially the knowledge sector in terms of its share in the country's GDP and in export has only re-emphasized the above words.

India's Exports of Principal Commodities

Commodity Group	2001-02	2002-03	2003-04*	02-03 over 01-02	03-04 over 02-03
	($ Million)			(Percentage Variation)	
(i) Primary Products	**7164**	**8706**	**9746**	**21.5**	**11.9**
Agriculture & Allied Products	5901	6710	7406	13.7	10.4
Rice	666	1205	899	81.0	-25.4
Marine Products	1237	1432	1320	15.8	-7.8
Ores and Minerals	1262	1996	2341	58.1	17.3
(ii) Manufactured Goods	**33370**	**40245**	**47616**	**20.6**	**18.3**
Leather & Manufactures	1910	1848	2025	-3.2	9.6
Chemicals & related Products	6052	7455	9228	23.2	23.8
Engineering Goods	6958	9033	12213	29.8	35.2
Textiles	9665	11036	11910	14.2	7.9
Gems and jewellery	7306	9030	10510	23.6	16.4
Handicrafts	549	785	442	43.1	-43.7
Carpets	510	533	569	4.4	6.9
(iii) Petroleum, crude & Products	**2119**	**2577**	**3518**	**21.6**	**36.6**
(iv) Others	**1174**	**1191**	**2574**	**1.5**	**115.9**
Total Exports (i+ii+iii+iv)	**43827**	**52719**	**63454**	**20.3**	**20.4**

* Provisional Source: Annual Report, 2003-04, R.B.I.

World Economic Outlook Projections

(Annual Percentage Change unless otherwise noted)

	2002	2003	Current Projections 2004	Current Projections 2005
World Output	3.0	3.9	5.0	4.3
Advanced Economies	1.6	2.1	3.6	2.9
USA	1.9	3.0	4.3	3.5
Germany	0.1	-0.1	2.0	1.8
France	1.1	0.5	2.6	2.3
Japan	-0.3	2.5	4.4	2.3
U.K.	1.8	2.2	3.4	2.5
Developing Countries	4.8	6.1	6.6	5.9
Africa	3.5	4.3	4.5	5.4
China	8.3	9.1	9.0	7.5
India	**5.0**	**7.2**	**6.4**	**6.7**

Source: **World Economic Outlook, Sept. 2004, IMF**

Global Economic Situation – With the global economic recovery becoming increasingly well established, the International Monetary Fund (IMF) in its World Economic Outlook, September, 2004 has projected global growth to average 5 percent in 2004, the highest for nearly three decades. However, the Report has added that the growth momentum has slowed from the second quarter of 2004 notably in the United States, Japan and China, while, oil prices have risen sharply. Taking these into account, the IMF is of the view that the coming period would likely be somewhat weaker than earlier expected. In case of India, IMF have projected real GDP to grow by 6.4 percent in 2004.

Exports

India's exports during April-March 2003-04 are valued at $ 63,454 million, which is 20.4 percent higher than the level of $52,719 million during April-March, 2002-03. This is over and above 20.3 percent export growth in April-March 2002-03 over the previous year. During the first six months of 2004-05 (April-September, 2004), exports grew by 24.4 percent to $33,750 million from the level of $27,132 million during April-September 2004. Foreign trade data for the period April-July of 2004 shows that India's exports to all major

Inward Workers' Remittances to India

Year	Inflows ($ Million)	Share in Current receipts (%)	Inflows (% of GDP)
1990-91	2,083	8.0	0.7
1995-96	8,539	17.1	2.4
1999-00	12,290	18.1	2.8
2000-01	13,065	16.2	2.8
2001-02	15.760	14.9	3.2
2002-03	17.189	15.8	3.2
2003-04	23,183	16.7	3.8
2004-05 (April-June)	5,209	15.1	-

Source: RBI.

destinations have gone up by over 20 percent in US dollar terms. Details regarding structure of India's exports are given in the table. Among the major items, engineering goods, chemicals and gems and jewellery showed the highest export performance. The increase in technological sophistication and the growing competitiveness of Indian manufacturing can be observed from the rapid expansion in exports of engineering goods, coupled with technology-intensive items, such as automobiles and iron & steel. Exports of primary products declined mainly in respect of the traditional items such as cashew, rice and marine products. Exports of non-traditional items such as wheat, other cereals, poultry products, fruits and vegetables, meat and meat preparation have shown marked improvement. Thus over the years, the composition of primary products has moved significantly in favour of non-traditional items. India's share in exports in world merchandize trade in 2003 was 0.7 percent and the country stood at 31st rank among exporters.

India's Imports of Principal Commodities

Commodity Group	2001-02	2002-03	2003-04*	02-03 over 01-02	03-04 over 02-03
	($ Million)			(Percentage Variation)	
I. Bulk Imports	**20263**	**24300**	**29371**	**19.9**	**20.9**
A. Petroleum, Petroleum Products & related material	14000	17640	20569	26.0	16.6
B. Bulk Consumption Goods	2043	2411	3059	18.0	26.9
C. Other Bulk Items	4220	4249	5742	0.7	35.1
Fertilizers	679	626	719	-7.8	14.9
Non Ferrous Metals	647	667	942	3.0	41.4
Metalliferrous Ores, Metal Scrap, etc.	1144	1038	1251	-9.3	20.5
Iron and Steel	834	944	1500	13.2	59.0
II. Non-Bulk Imports	**31150**	**37113**	**47661**	**19.1**	**28.4**
A. Capital Goods	9882	13498	17132	36.6	26.9
Machinery except Elelctrical and Electronic	2971	3566	4723	20.0	32.4
Electronic Goods incl. computer software	3999	6093	7876	52.4	29.3
B. Mainly Export Related Items	8260	10314	12699	24.9	23.1
Pearls, Precious & Semi-Precious Stones	4623	6063	7128	31.2	17.6
Organic & Inorganic Chemicals	2800	3025	4022	8.1	33.0
C. Others	13008	13301	17831	2.3	34.1
Gold and Silver	4582	4288	6817	-6.4	59.0
Professional, Scientific and optical goods	1041	1133	1226	8.8	8.2
Coal Coke and Briquittes, etc.	1143	1240	1410	8.4	13.7
III. Total Imports (I+II)	**51413**	**61412**	**77032**	**19.4**	**25.4**

** Provisional Source: Annual Report, 2003-04, R.B.I.*

Imports

India's imports during 2003-04 are valued at $77,032 million representing an increase of 25.4 percent over the level of imports valued at $61,412 million during 2002-03. During the first six months (April to September) of 2004-05, India's imports increased to $ 46,404 million from $ 34,555 million during the corresponding period of the previous year, thus showing an increase of 34.3 percent. With the opening up of the Indian economy and the greater foreign exchange inflows, imports have become somewhat more liberal. With liberalization, the country's imports are being sourced from a wider range of countries. New import partners from Africa and East Asia including China have emerged as major sources of imports in the recent period. Details regarding structure of India's imports is given in the table. Non-oil imports recorded an increase of nearly 29.0 percent, led by a sharp increase of 26.9 percent in the imports of capital goods during 2003-04. This is over and above the large increase in the preceding year. Non-oil imports excluding gold and silver increased by 25.7 percent. The pick-up in the domestic industrial activity added to the increase in imports of several intermediate manufactures and raw materials.

Trade Policy – - 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. Against the backdrop of robust export growth and a comfortable level of foreign exchange reserves, Government announced a new Foreign Trade Policy (FTP) for 2004-09 on August 31, 2004. A vigorous export led growth strategy of doubling India's share in global merchandise trade from 0.7 percent to 1.5 percent in the next five years with a focus on the sectors having prospects for export expansion and potential for employment generation, constitutes the main plank of the Policy. The thrust sectors include agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear. The FTP has introduced a new scheme `Target Plus' to accelerate the growth rate of exports. Under it, star export houses with an export turnover above a threshold level (Rs.10 crore), which achieve a quantum growth in exports would be entitled to duty free credit based on incremental exports. The FTP has introduced a new scheme called `Free Trade and Warehousing Zone' to create trade-related infrastructure to facilitate import and export of goods and services with freedom to conduct trade transactions in free currency for making India a global trading-hub. Various simplification/ rationalization and institutional measures have also been taken.

Foreign Exchange Reserves and Remittances – The level of foreign exchange reserves has steadily increased from less than $1 billion as of end-June 1991 to $54.7 billion at the beginning of the Tenth Plan in April, 2002. The momentum has been maintained and as on 19th November, 2004, foreign exchange reserves stood at $125.1 billion. The level of workers remittances is the highest in the world and has been a significant factor leading to a stable balance of payment situation in the country. From a level of $2.1 billion in 1990-91, the inward remittances from Indians working abroad reached $23.2 billion in 2003-04. The search for lower costs is driving multinational corporations to hire overseas workers. 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.

Key External Debt Indicators for India (Per cent)

Year	DSR	DGDP	ISR	DCR	STD/ TD	STD/ FEA	STD/ GDP	CD
90-91	35.3	28.7	15.5	328.9	10.2	382.1	3.0	45.9
91-92	30.2	38.7	13.0	312.3	8.3	125.6	3.2	44.8
92-93	27.5	37.5	12.5	323.4	7.0	98.5	2.7	44.5
93-94	25.4	33.8	11.1	275.6	3.9	24.1	1.3	44.4
94-95	25.9	30.8	10.0	235.8	4.3	20.5	1.3	45.3
95-96	26.2	27.0	8.6	188.9	5.4	29.5	1.4	44.8
96-97	23.0	24.6	8.0	169.6	7.2	30.1	1.8	42.3
97-98	19.5	24.3	7.7	159.8	5.4	19.4	1.3	39.5
98-99	18.8	23.6	7.5	162.1	4.4	14.5	1.0	38.5
99-00	17.1	22.1	6.7	145.6	4.0	11.2	0.9	38.9
00-01	16.2	22.6	5.6	127.5	3.6	9.2	0.8	**35.5**
01-02	**13.4**	**21.1**	**5.0**	**121.6**	**2.8**	**5.4**	**0.6**	**36.0**
02-03	**15.8**	**20.2**	**3.9**	**109.8**	**4.4**	**6.4**	**0.9**	**36.8**
03-04**	**18.1**		**4.2**	**141.1**	**5.1**	**5.9**		**36.4**

**** April-December, 2003.** DSR – Debt Service Ratio
DGDP – Debt to Gross Domestic Product Ratio
ISR – Interest Service Ratio. DCR – Debt to Current Receipts Ratio, Current Receipts excludes Official transfers. STD-Short Term Debt TD-Total Debt
FEA – Foreign Exchange Assets CD – Concessional Debt
Source: India's External Debt, A Status Report, Ministry of Finance, June, 2004.

Foreign Investment – Due to factors like greater financial liberalization, improvement in information technology, emergence and proliferation of institutional investors such as mutual and pension funds, etc. the world economy during the 1990s has witnessed high level of capital flows. In case of India, foreign portfolio investment rose to an all time high in 2003-04. FDI flows remained subdued during 2003-04 in line with the slowing down of FDI flows to the developing countries.

Foreign Investment Flows to India ($ Million)

Item	2001-03(R)	2002-03(R)	2003-04(P)
(a) Direct Investment	6131	4660	4675
Equity	4095	2700	2387
Reinvested Earnings	1646	1498	1800
Other Capital	390	462	488
(b) Portfolio Investment	2021	979	11377
Total (a+b)	**8152**	**5639**	**16052**

(R) Revised (P) Provisional
Source- Annual Report 2003-04 RBI

External Debt - The severe balance of payments crisis of 1990-91 necessitated a fresh look at the debt management strategy. One important aspect of external debt management since the 1990s has been control over short-term component. With cautious approach in debt management, the short-term debt as a percent of total debt as well as foreign exchange reserves are the lowest for India among the top 15 debtor countries in the world. The country has also improved her rank from third largest debtor after Brazil and Mexico in 1991 to eighth in 2002 after Brazil, China, Russian Federation, Mexico, Argentina, Indonesia and Turkey. In terms of indebtedness classification, since 1999 the World Bank has classified India as a less-indebted country. The policy approach on debt management has come in for praise by the IMF.

External Debt Outstanding By Creditor Category

(US $ Billion)

End March	Multi-Lateral	Bi-Lateral	IMF	Export Credit	Comm. Debt	NRI	Rupee Debt	Short Term Debt	Total
1991	20.9	14.2	2.6	4.3	10.2	10.2	12.8	8.5	83.8
1992	23.1	15.5	3.5	4.0	11.7	10.1	10.4	7.1	85.3
1993	25.0	16.2	4.8	4.3	11.6	11.1	10.6	6.3	90.0
1994	26.3	17.5	5.0	5.2	12.4	12.7	10.1	3.6	92.7
1995	28.5	20.3	4.3	6.6	13.0	12.4	9.6	4.3	99.0
1996	28.6	19.2	2.4	5.4	13.9	11.0	8.2	5.0	93.7
1997	29.2	17.5	1.3	5.9	14.3	11.0	7.5	6.7	93.5
1998	29.6	17.0	0.7	6.5	17.0	11.9	5.9	5.0	93.5
1999	30.5	17.5	0.3	6.8	21.0	11.8	4.7	4.3	96.9
2000	31.4	18.2	0.0	6.8	19.9	13.6	4.4	3.9	98.3
2001	31.1	16.0	0.0	5.9	24.2	16.6	3.7	3.6	101.1
2002	31.9	15.3	0.0	5.4	23.2	17.2	3.0	2.7	98.8
2003	30.0	16.8	0.0	5.0	22.5	23.2	2.8	4.6	104.9

Source: India's External Debt, A Status Report, Ministry of Finance, June, 2004.

At the end of December 2003, India's external debt stood at $112.1 billion as against $105.3 billion at the end of December 2002. The increase was mainly due to surge in NRI deposits. Inspite of increase in the overall external debt stock, external debt indicators have shown improvement in the recent period. Debt to GDP ratio declined from 28.7 percent in 1990-91 to 20.2 percent in 2002-03. Debt servicing as percent of current receipts declined from 35.3 percent to 15.8 percent during this period. Other critical indicators such as ratio of short-term to total debt and short-term debt to foreign currency assets have also improved over the years. The rate of accumulation of external debt came down in the last decade as policy focus shifted in favour of non-debt creating flows such as foreign direct investment and portfolio investment.

WTO Issues: Cancun and After - Before the start of the Fifth WTO Ministerial Conference at Cancun, Mexico, member governments broke the deadlock over intellectual property protection and public health on 30th August, 2003, whereby they agreed on legal changes that would make it easier for poorer countries to import cheaper generics made under compulsory licensing, if they are unable to manufacture the medicines themselves. The Fifth WTO Ministerial Conference was held at Cancun during 10-14 September, 2003. On the fourth day (13th September 2003), the Chairperson of the Conference distributed a new Draft Ministerial Declaration. Developing countries felt that the draft Declaration did not properly reflect their aspirations, especially those on Singapore issues and agriculture. As the consultations held on the last day also did not bring any consensus, the Conference ended without any declaration. One of the important developments during the WTO deliberations was the formation of Group of 20 countries led by India, South Africa, Brazil, China who put forth the views of developing countries with respect to issues concerning agriculture and withstood strong pressure from the European Union and the United States. The Brasilia

Declaration signed by the Foreign Ministers of Brazil, South Africa and India on 6th June, 2003 and the Dialogue Forum constituted by these countries was a precursor to the joint initiative by developing countries in the WTO fora. Since the issue of agriculture is the core to the success of the on-going negotiations, India has stated that the resolution of fundamental differences in the area of agriculture would depend on the depth of agricultural subsidy reform proposed to be carried out in the developed countries along with adequate safeguards to address livelihood and food security concerns of billions of farmers in developing countries.

In the UNCTAD-XI Ministerial Conference in Sao Paulo, Brazil 13-18 June, 2004, India called for balance between policy space and multilateral commitments, and between the role and responsibility of the State and that of the market, in order to provide a durable basis for development. The Ministerial Declaration, called the Sao Paulo Consensus, has reflected clearly the concerns of developing countries like India that the global trading system and trade negotiations should ensure development gains and give a positive impetus to the ongoing WTO negotiations in the spirit of the Doha Mandate. During the Conference, the third round of negotiations on the Global System of Trade Preferences (GSTP) among developing countries was formally launched.

WTO July 2004 Framework Agreement – The first draft brought out by WTO in mid-July, 2004 was considered by developing countries as not taking into account their interests, especially in agriculture. On 30th July, 2004, a revised Draft was brought out by the WTO. Since the Draft was more or less like the earlier one, developing countries put pressure for accommodating their interests. After considerable deliberations on 31st July, 2004, a package of framework and other agreements was approved by the Members of the General Council. The revised framework for negotiations which was adopted by the General Council of the WTO has taken into account many of the issues concerning developing countries. Some of the major aspects of the agreement relating to agriculture and other key areas are:

- The move to reduce the *De-minimis*, for developing countries was moderated. Without the change it would have adversely affected subsistence and resource poor farmers in developing countries by bringing down even the minimal level of domestic support being given to them.

- The issues relating to food security, livelihood security and rural development have to be addressed with the framework agreement stating that "developing countries will have the flexibility to designate an appropriate number of products as Special Products (SP) and a Special Safeguard Mechanism (SSM) will be established for use by developing country Members". SP refers to products of special sensitivity which would be exempt from tariff reduction commitments, while SSM is a mechanism which would enable the country to take safeguard measures against any surge in agricultural imports.

- The concept of proportionality, which would require lesser tariff reduction commitments from developing countries, and the tiered or banded approach taking into account the sensitivities of developing countries in agriculture such as their tariff structures being fundamentally different from that of developed countries has been accepted in the framework.

- On domestic support, the framework has provided that higher levels of trade-distorting domestic support would be subject to deeper cuts. Thus recognizing the point that heavy subsidies given by developed countries were depressing world agricultural prices and hurting the interests of farmers in developing countries who could not compete with heavily subsidized farm goods in foreign and domestic markets.

- With regard to the creation of a blue box of domestic support, which was sought by the US to transfer some of their trade distorting support to this box, the framework states that additional criteria would have to be negotiated before it is made operational. The criteria for the existing blue box used by developed countries has also been tightened.

- The agreement also provides for elimination of all forms of agricultural export subsidies by an end date. For developing countries like India, the framework has allowed extension of special and differential treatment provisions for agriculture export subsidies even beyond the implementation period of the Doha round.

- The framework for negotiations on modalities for non-agricultural market access (NAMA) lays down that the formula approach for tariff reduction will fully take into account the special needs and interests of developing countries including through less than full reciprocity in tariff reduction commitments. It also states that the negotiations may aim to reduce or as appropriate, eliminate tariffs, including reduction or elimination of tariff peaks and tariff escalation as well as non-tariff barriers, particularly on products of export interest to developing countries. The negotiations will also address issues of flexibility for developing countries with regard to treatment of the presently unbound tariffs and the sectoral issues.

Regional Trade Agreements – As part of trade strategy, and also to protect market access, countries are engaged on the RTA track. As against the earlier RTAs, which covered mainly trade in goods and limited to preferential market access, new RTAs go beyond tariff concessions and cover provisions on anti-dumping, safeguards, trade facilitation, dispute settlement mechanisms, services and various other activities. RTAs are gaining prominence because of the perceived benefits of South-South trade. Enhanced South-South trade is seen as a way to strengthen capacities of developing countries in managing the challenges of globalization and trade liberalization. The various regional and bilateral arrangements negotiated or being negotiated by India are:

- Bangkok Agreement (1975), SAPTA (1993) & GSTP (1998), all PTAs

- Bilateral treaties with Nepal and with Bhutan.

- First FTA signed with Sri Lanka in 1998.

- **India-Afghanistan** have signed a PTA in March, 2003.

- **India-MERCOSUR**: A Preferential Trade Agreement was signed on 25th January, 2004 with MERCOSUR (a regional grouping consisting of Argentina, Brazil, Uruguay and Paraguay).

- **India-ASEAN Framework Agreement on Comprehensive Economic Cooperation:** The Framework Agreement signed in October, 2003 has provisions relating to FTA in goods, services and investments and is aimed at strengthening India's trade and economic cooperation with its Southeast Asian neighbours, consistent with the country's Look-East Policy.

- **South Asia Free Trade Area (SAFTA)**

- **India-Thailand Framework Agreement on Free Trade Area:** Signed on 9^{th} October, 2003, it covers FTA in goods, services and investment as well as areas of economic cooperation. The Agreement also provided for an Early Harvest Scheme with a common list of 82 items on which tariff will be gradually eliminated in a two-year time frame.

- **BIMST-EC Agreement for Free Trade Area:** The initiative was taken by Thailand in 1994 and with the admission of Myanmar in December, 1997, it was named as "Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation" (BIMST-EC) to serve as a bridge linking ASEAN and SAARC. The Framework Agreement for the BIMST-EC Free Trade Area was signed on 8th February, 2004.

- **India-Singapore Comprehensive Economic Cooperation Agreement (CECA):** The Report of the Joint Study Group was submitted in New Delhi on 8th April, 2003. Negotiations for CECA are in progress.

- **With the Gulf Cooperation Council (GCC)**, comprising the six Gulf countries, India signed a Framework Agreement on Economic Cooperation on 25th August, 2004.

- **With South Africa Customs Union (SACU)** talks have been initiated on this subject.