

EXTERNAL ECONOMIC SITUATION IN INDIA

RECENT TRENDS AND POLICY IMPLICATIONS

This paper reviews the status of the external sector of the Indian economy. It is divided into 5 broad sections. Section I gives the trends of imports and exports, as well as the composition and direction of external trade, since 1984-85. It also includes the latest available position of balance of trade and exchange reserves, exchange rate movement, the latest Export Import Policy and the recent trends in foreign investment. The strategy to be followed to promote exports and improve the balance of payments situation is also discussed in this Section. In Section II, some of the issues relating to the agreements under the WTO, their implications and areas of concern for India are discussed. Section III looks at the South-East Asian Crisis and its impact on India's trade prospects as well as the lessons that India can learn from the crisis. Section IV discusses the impact of sanctions after the nuclear tests in May, 1998 on the Indian economy. Finally, the recent developments in the world economy and issues relating to modifications in the architecture of the international monetary system in the context of changed global scenario are flagged in Section V.

I. TRENDS IN IMPORTS AND EXPORTS

1.1 Imports

The level of imports in the Indian economy trebled from nearly US\$ 13.9 billion in 1984-85 to about US\$ 41.9 billion in 1998-99. The value of imports for some major commodity groups is shown in Annexure 1. The fuel products (mainly petroleum) and machinery & equipment accounted for the bulk of the total imports of the country. These two categories accounted for a little less than half of the total imports in 1984-85 and their share has varied in the range of 38-53% of the total imports till 1998-99, as may be seen from Table 1. The details on share of different commodity groups in total imports from 1984-85 to 1998-99 are given in Annexure 2. The other important items of imports have been chemicals, iron & steel, pearls, precious and semi-precious stones. In the recent years, there has been a spurt in the value of imports of gold and silver. In 1998-99 the country imported gold and silver worth nearly US\$ 4.9 billion. This accounted for approximately 11.6% of the total DGCI&S imports.

Table 1 : Share of Different Commodity Groups in Total Imports

Commodity Group	1984-85	1990-91	1994-95	1998-99
I Food & Allied Products of which	6.9	2.9	5.2	5.5
Cereals	0.9	0.4	0.1	0.5
Pulses	0.0	1.1	0.6	0.2
Edible Oils	5.0	0.8	0.7	4.0
II. Fuel of which	31.3	26.9	23.5	17.6
Coal	0.0	1.8	2.5	2.2
Petroleum Products	31.3	25.0	21.0	15.4
III. Fertilizers	4.7	3.4	3.2	2.4
IV. Chemicals	5.1	6.0	8.4	8.8
V Machinery & Equipment (Incl. Project Goods)	17.1	26.0	23.1	18.5
VI Iron & Steel	4.4	4.9	4.3	2.8
VII Pearls Precs. & Semi- Precs. Stones	6.2	8.7	5.7	9.0
VIII Gold & Silver	0.0	0.0	0.0	11.7
IX Others	24.3	21.3	26.7	23.8
TOTAL	100.0	100.0	100.0	100.0

Source : Based on DGCI&S Database

Imports during 1998-99 were nearly US \$ 42 billion, which is 0.9% higher than imports of US \$ 41.5 billion during 1997-98. The growth was nearly 14.2% in rupees terms. The imports of POL declined by 21% in this period and these accounted for 15.4% of the total imports in 1998-99 as compared to 19.7% in 1997-98. Non POL imports increased by 6.3% in this period and formed 86% and 80.3% of the total imports in the two periods respectively. The reduction in the POL bill has occurred mainly due to a decline in the international prices of crude oil and products on account of excess oil inventories, new oil fields brought on stream and new technologies that helped to save production costs.

Composition and Direction of Imports - Recent Trends

The broad composition of imports during 1998-99 vis-à-vis 1997-98 is shown in Figure 1 based on Annexure 3. It reveals that the imports of almost all major commodity groups declined. However, there was an increase of 2.7% in export-related imports (comprising mainly textile yarn, fabrics and made-up articles, raw silk and wool, rubber, leather, chemicals, and pearls, precious and semi-precious stones), 56% increase in imports of bulk consumption goods and 54% increase in the import of gold and silver, Imports of pearls, precious and semi-precious stones which is mainly an export item, increased by 12.6% and those of non-metallic mineral manufactures by 10.7%. Imports of gold and silver increased by 53.9% in 1998-99 as compared to 1997-98 and it represented over 70% of the increase of total imports (DGCI&S). Increase in the import of rough diamonds, gold and silver, sugar, vegetable oils and project goods more than neutralised the entire increase in imports during 1998-99 over 1997-98. The spurt in the import of gold can be explained in terms of liberalisation of gold sector since October 1997 and on account of the shift in the recording of such imports from baggage route to the DGCI&S reporting system. To moderate these imports, the customs duty was enhanced from Rs.250 to Rs.400 per ten grams with effect from 5th January, 1999. Imports of manufactures of metals, electrical machinery, electronic goods, project goods and professional instruments witnessed positive growth while those of machine tools, non-electrical machinery, computer software and transport equipment declined. Nearly half of India's imports in 1997-98 came from the OECD countries as compared to about 54% in 1985-86 and 1990-91. The share of Eastern European countries declined from 11% in 1985-86 to 7.8% in 1990-91 and further to 2.1% in 1997-98. The share of OPEC countries has in general tended to increase (17.4% in 1985-86, 16.3% in 1990-91 and 23.1% in 1997-98) with some year to year fluctuations. Similarly, the share of other countries has also increased from 18% in 1985-86 to 22.5% in 1997-98.

During 1998-99, imports from top sixteen countries decreased by 1.7% and they accounted for 72% of imports by India in 1998-99 as against 79% in 1997-98. These countries are USA, Switzerland, Belgium, UK, Japan, Germany, Saudi Arabia, UAE, Malaysia, Kuwait, Australia, Singapore, Nigeria, Republic of Korea, Italy and China (See [Figure 2](#)).

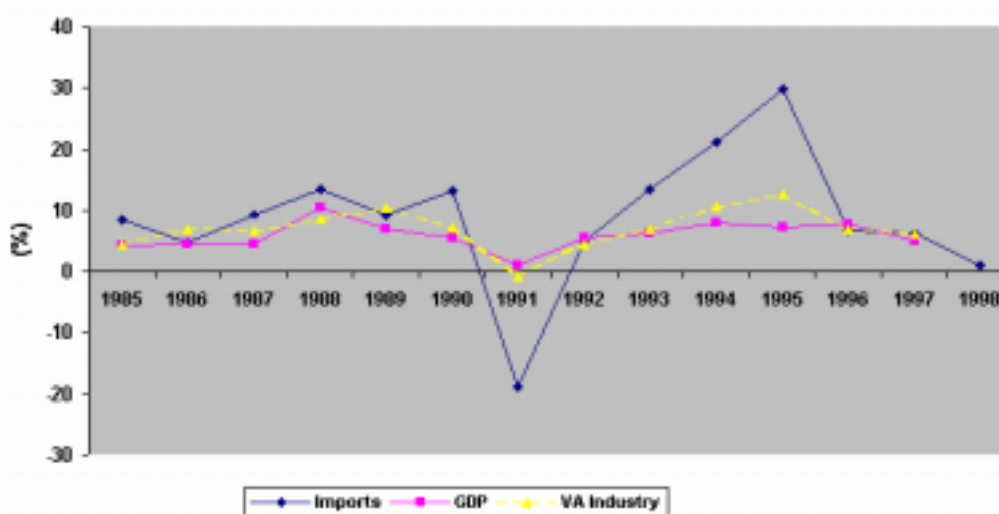
Trend of Growth in Imports vis-à-vis GDP

The rate of growth of imports has been 8.8% in the period 1984-85 to 1997-98. If we divide this period into two sub periods i.e. 1984-85 to 1991-92 (when the economic reforms process began) and 1991-92 to 1997-98, the following trends emerged :

The value of imports grew by 5% in 1984-85 to 1991-92 whereas it rose by over 13% in the second sub period. (It may be pointed out that in 1991-92, severe curbs were imposed on the level of imports across the board which resulted in an overall decrease in imports by 18.8% in 1991-92 as compared to 1990-91). Pearls, precious & semi-precious stones, chemicals and machinery and equipment increased at a faster rate, compared to the overall average. It may also be observed that the growth rate in the second sub-period has been lower for pearls, precious & semi-precious stones; machinery and equipment and fertilisers. For all other commodity groups, the growth rate has been higher in the second sub-period vis-à-vis the first sub-period.

Among the various factors that explain the higher growth in imports in the later period are the more liberal regime for imports and higher rate of growth of GDP in the second sub-period as compared to the first one. The GDP increased by 5.8% in the period 1984-85 to 1997-98. The growth rate of GDP in the sub period (i) and (ii) has been 5.2% and 6.5% per annum respectively. Also, the rate of growth of imports is compared to the rate of growth in the value added of the industrial sector. Figure 3 shows the trends of rates of growth of imports, GDP and value added in industrial sector. The performance in the industrial sector seems to have a clear bearing on the imports. Greater industrial activity is seen to be associated with higher growth in imports in the country.

Fig. 3 : Rate of Growth of Imports and GDP



The elasticity of imports with respect to GDP has been 1.5 in the period 1984-85 to 1997-98. It was close to unity in the period 1984-85 to 1991-92 and a little over 2 in 1991-92 to 1997-98. The details are shown in Annexure 4. It may, however, be mentioned that the elasticity is quite sensitive to the choice of the cut off year for the two sub-periods. In case 1990-91 is taken as the cut-off year (instead of 1991-92) the rate of growth of imports during 1984-85 to 1990-91 is 9.6% (against 5% seen earlier) and 7.8% in the second sub-period (against 13% earlier). The growth rate of GDP for these two sub-periods is 5.9% and 5.6% respectively, resulting in the elasticity of imports with respect to GDP at 1.6 and 1.4 respectively.

During the Ninth Plan, the imports are projected to increase by 10.8%. Oil imports are estimated to constitute about 22% of the total imports in 2001-02 as against the current level of about 15%. The greater dependence on oil imports to meet the growing needs of the economy is likely to put pressure on the balance of payments. This is more so in view of the recent increase in the prices of crude oil and petroleum products. The long-term elasticity (1953-1996) of oil consumption with respect to GDP has been 1.74. Even during the time period 1980-96, it has been in the range of 1.10 to 1.15. Assuming the same trend continues, the consumption of petroleum products will be increasing by 7.5% to 8% in the remaining years of the Ninth Five Year Plan. As a result, by the end of the Ninth Plan, the country may have to import nearly 75 million tonnes of crude oil and petroleum products and about 30-40 million tonnes of coal, thus putting pressure on the balance of payments.

1.2 Exports

The level of exports increased from US \$ 9.6 billion in 1984-85 to about US \$ 33.7 billion in 1998-99 thereby representing an increase by nearly 3.5 times. The major commodity-wise break-up (in value terms) can be seen in Annexure 5. The share of agricultural products has been declining while manufactured exports have increased as may be seen in Table 2.

Table 2 : Share of Certain Commodities in Total Exports (%)

	1984-85	1990-91	1994-95	1998-99
I Agri. & Allied, of which	23.1	18.5	15.9	17.8
Tea	6.2	3.3	1.2	1.6
Coffee	1.7	0.8	1.2	1.2
Cashew nut	1.5	1.4	1.5	1.1
Marine Products	3.0	2.9	4.3	3.1

II. Ores & Minerals	5.3	5.3	3.8	2.6
III. Manufactured Goods, of which	44.9	71.6	77.3	76.6
Leather & Leather Products	4.0	7.9	5.9	4.9
Gems & Jewellery	9.9	16.1	17.2	17.5
Drugs, Pharmcutes & Fine Chemcls.	0.0	3.1	3.0	4.3
Dyes etc. & Coal Tar Chemcl.	0.0	1.4	1.8	1.4
Inorganic/ Organic Agro Chemcls.	3.2	1.0	1.2	1.6
Manufactures of Metals	1.6	2.5	2.9	3.2
Machinery & Equipments incl. Machine Tools	4.7	6.5	6.0	5.9
Electronic Goods	0.0	1.3	1.5	1.5
Cotton Yarn, Fabrics, Madeups, etc.	3.8	6.5	8.4	8.2
Manmade Yarn, Fabrics, Madeups	0.2	1.2	2.4	2.1
Ready Made Garments	8.2	12.3	12.4	13.2
Handicrafts (Excl. Handmade Crpts)	1.2	1.2	1.5	1.9
IV. Crude Oil & Petroleum Products	1.9	2.9	1.6	0.3
V. Others	24.8	1.7	1.3	2.6
TOTAL	100.0	100.0	100.0	100.0

Source : Based on DGCI&S Database

It may be observed that the share of tea has declined from over 6% in 1984-85 to the current level of around 1.6%. A similar trend has been observed in the category of ores & minerals in which the share has declined from 5-7% in the mid-eighties to about 2.6% in 1998-99. The share of manufactured goods increased from about 45-55% in the mid-eighties to nearly 3/4th of the total exports at present. The details can be seen in Annexure 6. (It may be pointed out that the category "other" was about 25% in 1984-85 and it declined to 1-2% after 1987-88. This could be on account of different classification of the exports prior to 1987-88).

Exports during 1998-99 are estimated to be around US \$ 33.6 billion, as compared to 35 billion in 1997-98, representing a decline of 3.8%. This poor performance in exports is attributed to both domestic and external factors. The domestic factors include infrastructural constraints, high transaction costs, certain restrictive policies for small scale sector, inadequate standardised quality products. On the external side, there has been a slow down in the global trade that began in 1996 and continued to decelerate in 1997 and 1998 (more details in a separate section later). Slump in the world trade has led to imposition of protectionist measures (mainly in the form of non-tariff barriers by developed countries including stringent requirements of quality, testing and labelling and using investigations related to dumping and subsidies). This had an adverse impact on our exports, particularly those of textiles, engineering items, chemicals, pharmaceuticals, agricultural and marine products.

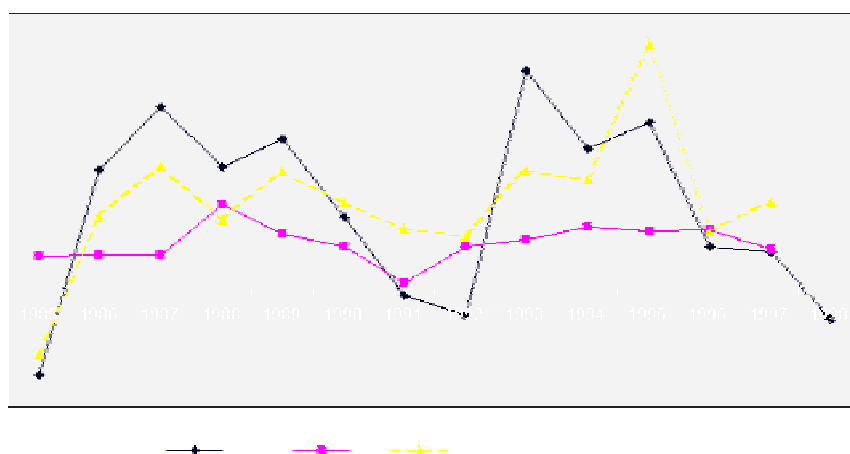
Composition and Direction of Exports - Recent Trends

The OECD countries account for over half of India's exports. The share of these countries in total exports increased from 50.8% in 1985-86 to 55.7% in 1997-98. The share of East European countries, on the other hand, registered a continuous decline from about 21% in 1985-86 to about 3% in 1997-98. The share of other countries has increased to about 31% in 1997-98 as compared to 20.5% in 1985-86. The Asian countries accounted for the bulk (21%) in this group. Their share increased consistently till 1996-97. However, in the wake of the Asian crisis, their share declined in 1997-98. More on this in a later section.

The broad composition and direction of exports during 1998-99 may be seen in [Figures 4 and 5](#) and Annexure 7. It may be seen that there has been a decline in exports of almost all major commodity groups except gems and jewellery, ready made garments and handicrafts which recorded an increase of 10.4%, 14.6% and 19% respectively. Exports of some agricultural products like tea, rice (other than basmati), manufactured tobacco, guergum meal and processed vegetables also registered some increase.

Trends in Growth of Exports vis-à-vis GDP

The rate of growth of exports has been 10.5% in the period 1984-85 to 1997-98. With a negative growth in exports in 1998-99, the growth rate for the period 1984-85 to 1998-99 declined to 9.4%. The trends in the annual rate of growth of exports are shown in Annexure 8. There are year to year fluctuations, with negative rate of growth in 4 of these 14 years. If we divide this period into two sub-periods as has been done in the case of imports; the rate of growth works out to 9.5% and 9.3% for the period 1984-85 to 1990-91 and 1991-92 to 1998-99 respectively. Overall, one observes two phases of high rate of growth of exports i.e. the period 1986-87 to 1989-90 and 1993-94 to 1995-96. The rate of growth has been higher in case of textiles, manufacture of metals and gems & jewellery. The trends in growth rates of exports (both in value & volume) and GDP are shown in Figure 6 (on page 13).



It may be observed that the years of slower growth rate in the GDP have also, generally, been the years when the rate of growth of exports has declined. Unlike the imports, the elasticity of exports with respect to GDP has been fairly stable in these two sub-periods. The elasticity of exports with respect to GDP has been 1.82 in the period 1984-85 to 1997-98. It has been 1.83 and 1.81 for the two sub-periods, i.e. 1984-85 to 1991-92 and 1991-92 to 1997-98 respectively.

There has been a slowdown in the rate of growth of value of exports since 1996-97. One of the reasons for this decline, is the reduction in the international prices of various commodities. According to the World Economic Outlook of the IMF, May 1998, the world prices of manufactured goods have declined by nearly 14% in the years 1996-1998. The performance of exports in volume terms has been fairly robust in the last few years as compared to the value of exports. A reduction in the global GDP growth rates as well as the slowdown in world trade in the last 2 years, coupled with certain non-trade barriers by several countries also had an adverse impact on India's exports.

The price competitiveness of exports (as reflected by the Real Effective Exchange Rate) also has an impact on the volume of trade. Joshi and Little (1994) have pointed out that "periods of rapid exports growth ... were associated with real exchange rate depreciation while periods of slow exports growth ... were associated with real exchange rate appreciation." Although the period Joshi and Little refer to is prior to the reforms, their observation is all the more relevant after 1993 when the unification of exchange rate made the rupee convertible for current account transactions. Table-3 gives the ten country REER of the Rupee with 1993-94 as the base.

Table 3 : Trends in REER of Rupee

1992-93	98.7
1993-94	100
1994-95	105.1
1995-96	101
1996-97	104.1
1997-98	109.1

Source : RBI, *Report on Currency & Finance, 1997-98*

As indicated earlier, the slow down in the growth rate of exports occur in the years following 1995-96, when there is an increase in the REER (indicating appreciation) and thereby affecting the competitiveness of the Indian exports.

1. 3 Movement of Exchange Rate in the Recent Period

After reasonable stability for a period of about eighteen months, the exchange rate of the rupee against the US dollar came under downward pressure intermittently since August 1997. However, from September 1998, the rupee appreciated slightly until November 1998, then depreciated in December and again witnessed marginal appreciation in January and February 1999. At the end of April 1999, the exchange rate was 42.43, recording a cumulative depreciation of about 6.9% from Rs.39.49 level during the end of March 1998.

Indices of real effective exchange rate (REER) and nominal effective exchange rate (NEER) of the Indian rupee have been indicated in Annexures 9 and 10. It may be observed that the trade-based REER broadly moved in consonance with the trade-based NEER. The REER continued to appreciate till October 1997 when the conditions in South-East Asian economies also affected the Indian economy adversely. Also, there has been positive inflation differential in India compared to its major trading partners which also had its impact on the trends in REER. In nominal terms, the depreciation in rupee since the beginning of the Asian crisis in July 1997, has been quite modest as compared to some of the other Asian countries. During July 1997 to January 1999 the depreciation has been 73% for Indonesian Rupiah, 33% for Malaysian Ringgit, 31% for Philippines Peso, 30% for Thai Baht, 24% for South Korean Won as against a little over 15% for the Rupee. This seems to have also resulted in loss in competitiveness of the Indian exports vis-à-vis these countries and hence a slowdown.

The process of globalisation of the Indian economy is irreversible and the opening of the economy has to be managed in a manner so as to derive maximum benefits from the world markets. The aim should be to strengthen the potential of Indian industry to compete effectively in the world markets. Though import tariff in India have been significantly reduced over time, they continue to be much higher as compared to other Asian and Latin American (developing) countries. Table 4 gives the import duties as % of imports for certain countries.

Table 4 : Import Duties as percent of Imports

	(average for various Years)		
	1974-75	1984-85	1994-95
Argentina	n.a	13.85	8.47
Brazil	n.a	6.23	n.a
India	29.27	41.92	26.09
Indonesia	8.04	3.87	4.03
Malaysia	9.44	8.68	3.42
Nepal	17.25	12.44	9.64
Pakistan	16.98	24.45	26.99
Republic of Korea	5.56	8.59	4.57
Sri Lanka	6.81	15.82	9.38
Thailand	14.74	13.74	8.27
Turkey	21.18	6.25	3.38

Source: F. Rodriguez and Dani Rodrik, *Trade Policy and Economic Growth: A Sceptics' Guide to the Cross National Evidence*. Working Paper 7081, NBER, April, 1999.

In this context, it is suggested that there is a need to bring about a phased reduction in the import tariff to bring them in line with other developing countries so that our industry becomes more competitive in the world market. It is further suggested that this, along with realistic market determined exchange rates could be helpful in reducing the costs of production and give an incentive to modernise industry. Simultaneously,

steps will have to be taken to strengthen the anti-dumping machinery to ensure that the domestic industry is not subject to unfair competition.

It is obvious from the above that maintenance of balance of payments stability is of paramount importance and this will require achieving high rates of exports growth. The recent slowdown in the rate of growth of exports is a matter of concern and needs to be reversed at the earliest. Exchange rate is one important determinant of export performance and it is essential to ensure that the exchange rate remains supportive of the export effort and the developmental process simultaneously.

Trade Balance and Foreign Exchange Reserves

Our trade balance has consistently deteriorated after 1993-94. The trade deficit was US \$ 1.1 billion in 1993-94 and it increased to US \$ 6.5 billion in 1997-98. Even in 1998-99, it continued to deteriorate. The trade deficit in 1998-99 was nearly US \$ 8.3 billion (Figure 7). Despite the widening trade deficit, India's foreign exchange reserves have continued to increase. These were US \$ 32.5 billion (comprising foreign currency assets, gold and SDRs) at the end of March, 1999 as compared to US \$ 29.4 billion in March 1998. These reserves are sufficient to meet about 9 months of imports.

I.3 The New Export Import (EXIM) Policy

The Export Import Policy for the year 1999-2000 was announced on 31st March, 1999. The restrictions on imports have been further liberalised by bringing over 1300 items to the free and special import licence category. Import of 894 items including consumer goods, agricultural products and textiles has been made free and 414 items placed under special import licence. There is an effort to give a boost to exports. The annual advance licence system has been introduced to take care of imports required by exporters. Free trade zones (FTZs) are proposed to be established from 1st July, 1999 to replace export processing zones and the FTZs will be treated outside the customs territory. The units in these zones will be allowed to undertake any manufacturing or trading activities and not be subjected to any pre-determined export obligation or value addition or other norms. The pre-export duty entitlement pass book scheme will allow credit entitlement up to 10% (as against 5% earlier) of the previous years export performance. Zero duty export promotion capital goods scheme has been extended to chemicals, plastics and textiles. Additional facilities have been provided for exports of gems and jewellery.

In spite of the policy initiatives for promotion of exports, it is imperative that there is continued effort to increase efficiency in the critical sectors viz. power, transport, ports, storage, processing and packaging, etc. to be able to push exports. Greater emphasis should be laid on areas with high export potential and improve competitiveness through vigorous R&D, quality upgradation and marketing strategy. This is all the more important to be able to achieve the Ninth Plan target of 11.8% growth in exports, especially in view of the slowdown in the global trade and output and with no significant improvement postulated during 1999.

I.4 Foreign Investment

Foreign direct investment (FDI) in India has increased from US \$ 129 million in 1991-92 to US \$ 3197 million in 1997-98. During 1998-99, FDI was of the order of US \$ 2062 million. India's share in global FDI flows to developing countries has risen to 2.2% in 1997.

Portfolio investment which was just US \$ 4 million in 1991-92 rose to US \$ 3824 million in 1994-95, and has since been fluctuating widely. It declined to US \$ 1828 million in 1997-98 and deteriorated further to US \$ (-) 61 million in 1998-99. India's share in net portfolio investment flows to the developing countries declined to 5.1% in 1997 after having increased to 8.7% in 1996.

The decline in portfolio investment since 1997-98 is on account of both foreign institutional investment (FII) and the Global Depository Receipts (GDRs). Fresh inflows under FII declined from US \$ 1926 million in 1996-97 to US \$ 979 million in 1997-98. Further, there was an outflow of US \$ 390 million during 1998-99. There has, however, been some buoyancy since April 1999, when there was an additional inflow of US \$ 716 million till June 11, 1999. The GDRs raised during 1997-98 was US \$ 645 million, which was less than half the amount raised in 1996-97. In 1998-99 it further declined to US \$ 15 million. The poor performance of portfolio investment is a consequence of both enhanced risk perception in wake of the South East Asian crisis, and the depressed domestic capital market.

Foreign investment provides external resources which help not only to finance the balance of payments deficit but also provides critical access to technology and other types of know-how as well as potential linkages to the world market. It is important to encourage foreign investment as part of the process of modernisation and technological upgradation of our industry.

The issue of liberalisation of capital account in order to increase our presence in the international market also needs careful consideration at this stage. Free access to capital from world sources would be advantageous but in a relatively poor developing country like ours, it could even be counter-productive as had been witnessed in South- East Asian countries. The sudden outflow of the short term debts freely borrowed by banks and corporations in these countries led to a virtual currency crisis. In India, the status of the capital markets and more so the banking sector still requires better regulations. Hence until appropriate regulations, prudential norms and macro economic fundamentals are not in place, it may be considered imprudent to follow capital account liberalisation.

1.5 External Debt

India's stock of external debt stood at US \$ 95715 million at end of September, 1998 (according to India's External Debt- Status Report, June, 1999) . The share of multilateral and bilateral government borrowings declined from 44.4% in 1995-96 to 42.5% at end of December, 1998. On the other hand, non-government borrowings increased from 6.6% at end of March 1996 to 7.9% at end of December, 1998. The share of IMF declined from 4.3% in March, 1995 to 0.4% at end December, 1998. Share of commercial borrowings increased from 13.1% to 21.1% during this period. NRI & FC (B&O) deposits were 12.6% in December, 1998. Short-term debt constituted 4.5% in March '95 and this declined to 3.8% at the end of December, 1998. The share of concessional debt declined from 45.3% to 39.3% during this period. External debt -GDP ratio declined to 23.8% March 1998. Debt service ratio was 19.4% in April-December 1998. Details are in Annexure 11 and it may be seen that the major indicators of external indebtedness have improved over time.

The external debt situation in India vis-à-vis selected developing countries is important in view of the Asian financial crisis. The Table-5 examines certain external debt indicators for some of the Asian countries.

Table 5 : External Debt Indicators: Selected countries in East & South Asia; 1996

	EDT/XGS	EDT/GNP	DS/XGS	CAB/GNP	SED/RES	CEDT/EDT	SED/EDT
India	235.6	28.3	30.4	(-)1.4	27.0	43.0	7.2
Indonesia	219.6	58.3	36.7	(-)3.5	166.5	20.3	25.0
S. Korea	84.0	27.4	9.4	(-)4.6	192.3	2.8	49.9
Malaysia	43.4	42.0	9.2	(-)4.9	39.7	6.4	27.9
Philippines	119.5	46.5	16.0	(-)4.6	67.8	23.4	19.9
Thailand	127.2	51.3	13.3	(-)8.3	97.3	7.8	41.5
China	75.1	16.0	9.2	0.9	22.7	14.5	19.7
Bangladesh	355.1	38.3	15.5	(-)3.9	8.7	94.4	1.0
Pakistan	278.6	46.1	30.7	(-)6.5	215.5	53.4	9.4
Sri Lanka	164.7	58.5	8.7	(-)5.0	28.5	78.4	7.1

Note : EDT : External Debt, XGS : Exports of Goods & Services, DS : Debt Service, CAB : Current Account Balance, CEDT : Concessional Component in External Debt
SED/EDT : Short Term Debt

Source: Derived from John Williamson: "Implications of the East Asian Crisis for Debt Management" in A. Vasudeva (Ed.), *External Debt Management: Issues, Lessons & Preventive Measures*, RBI, April 1999.

It may be seen from above that, although India stands favourably, vis-à-vis most of the Asian countries (except China) on the external debt front, its ratio relative to export is high. Our external debt to GNP ratio was 28.3% in 1996 and the current account balance was (-) 1.4% of GNP. The short term debt nearly one-fourth of the total exchange reserves and nearly 7% of the total debt. The relatively favourable position of external debt vis-à-vis other countries has been on account of continuous effort to optimally manage the external debt, so as to maintain a sustainable balance between maturity profiles and also limit the

interest/cost structure, with special emphasis on management of short term debt. However, the debt service to export ratio is higher than most other countries, except Pakistan and Bangladesh . This indicates the need for raising the growth rate of exports.

II. INDIA AND THE WTO

India is one of the founding members of the World Trade Organisation (WTO) since its inception on 1.1.1995. The participation in the WTO rule based system implies greater stability and predictability in the governance of international trade. Emerging from continued discussions in various multilateral forum, developmental issues along with trade are being increasingly focussed. Poverty concerns of developing countries along with development and trade policy are also being given cognisance. A recent high level symposium held in mid- March, 1999 on Trade and Development at the WTO noted the need for integration of trade policy with development strategies, increasing support to areas of finance and debt relief, importance of technology for development, improvement in market access for developing countries in sectors like textiles, clothing and agriculture and better access to dispute settlement mechanism for these countries. The issue of abuse of anti- dumping procedure, the problem of rules of origin criteria, technical barriers to trade, regional trading blocs, etc. were also considered.

The Government of India has taken several steps to implement the commitments made under some of the agreements, particularly under the agreements on Tariffs and Quantitative Restrictions, Agriculture, Intellectual Property Rights, Trade Related Investment Measures, General Agreement on Trade in Services apart from others. Each of these are discussed briefly here. The other commitments are in the technical barriers to trade, social agenda covering labour standards and also environmental & phyto sanitary issues which require establishment of national standards and technical regulations within a transparent system.

(a) Tariffs & Quantitative Restrictions

As far as the agreement on tariffs and quantitative restrictions is concerned, the pattern and amount of tariff reductions towards the bound rate were related to base levels in member countries, and differed for Indian industrial and agricultural products. The base rate for industrial products was the rate prevalent on 1.1.1990 and included all duties and charges on imports. For agricultural products, the base rate was either the rate prevalent on 1.1.1986, or a higher rate of tariff could be imposed for items on which a ceiling binding rate was applied.

Safeguards were provided to the least developed countries and relaxation given while undertaking tariff reductions as per the prescribed schedules. This was mainly to meet temporary exigencies due to balance of payments difficulty or other country specific problems. Many developing countries are under one or other form of relaxation. India too was allowed to maintain quantitative restriction (QRs) as a special dispensation under the balance of payments cover (under article XVIII-b). Approximately 667 tariff lines at the HS 8-digit level in manufacturing and mining sectors still continue to be subject to import licensing restrictions as on 1st April, 1999.

It is, however, important to add that the validity of the balance of payments cover to India was contested by the USA and this was taken up by the Dispute Settlement Body (DSB) of the WTO. The IMF is the expert body to advise the DSB on this issue. In a recent ruling, the DSB panel has upheld the charge of the USA on the basis of the present level of India's foreign exchange reserves aggregating to over 30 billion. This interim panel report has been taken up by the Indian Government. Apart from questioning the basic definition of a 'comfortable' balance of payments situation in India, it is suggested that there is a threat of immediate decline in reserves consequent to removal of restrictions, and there is a distinct possibility of getting into an external debt trap which would affect the development process. The Indian Government has already had to resort to medium term borrowings at commercial rates through Resurgent India Bonds amounting to over US \$ 4 billion by December, 1998.

Further, it is estimated that in case the quantitative restrictions are removed, the likely impact would be increase in imports of around US \$ 13 to 18 billion (at 1996-97 prices). The Ninth Plan projections are based on the estimates of the impact equivalent to US \$ 13 billion. Since the Plan projections have taken into account all available sources of financing, the balance of payments deficit with the steady increase in imports would lead to substantial decline in foreign exchange reserves and reach below the minimum recommended level. This would have an adverse impact on the growth of GDP during the Ninth Plan period and affect the development strategy itself. The Govt. of India has requested that the reduction in QRs may

be allowed in the six year time frame from 1997, and not immediately, as has been suggested in the panel report.

In India, the tariff rates have been brought down substantially from the average rate of 128% in 1990-91 to 40% in 1998-99, and 39.3% in 1999-2000. The number of items under quantitative restrictions has also come down. The remaining are required to be phased out by the year 2003. At the same time, the applied tariffs on those commodities which are often seen to be considerably lower than the bound rates (ranging from 100 to 300 percent for agricultural goods and for non-agricultural goods 40% ad-valorem on finished and 25% on intermediate goods, machinery & equipment) are likely to change once tariffication of the remaining commodities takes place.

On the other hand, even though tariff barriers in developed countries is relatively low, there are still "peaks" in tariff schedules in these countries on items like agriculture, textiles and clothing, which are of interest to developing countries like India and need to be reduced through negotiations.

(b) Agriculture

The Agreement on Agriculture is very complex and the commitments of member countries are in the field of market access, in terms of imports restrictions, domestic support to producers; and export subsidies. All farm activities can be subsidised under the agreement, and some of which can be provided support without any limit. These so called 'green box' subsidies are deemed to be minimally trade distorting and include subsidies for research, pest and disease control, marketing, infrastructure, public stocking, etc. India is required to implement its commitments by the year 2004. As of now, no concrete commitments have been made regarding market access, reduction of subsidies or tariffs.

Some of the aspects of the commitments are against the interest of developing countries like us. The minimum access for imports of primary goods by developing countries flouts the rule of free trade enshrined in the WTO agreements. The Government budgetary support for agriculture is subject to international discipline as the 'green box' areas and certain export subsidies are required to be clearly identified to be permissible while the rest is actionable by the WTO. India and some other developing countries have been stressing the importance of food security. Even though domestic support measures are relaxed for the purpose of food security and PDS also allowed but only at market price to targetted population for developing countries. A large country such as India which has high percentage of poor population and also dependent on agriculture, it is not in a position to buy agricultural products in the international market.

Moreover, support packages by developed countries under production-limiting programmes for retirement of producers, as well as resources employed for production of marketable surplus in the past is still beyond the purview of the subsidy discipline. This needs to be re-negotiated. Also, there is the issue of import access rights by agricultural exporters of developing countries who are restricted on grounds of phytosanitary regulations in developed countries. It is important that scientific phytosanitary standards are established at the international level so as to prevent protectionist measures by developed countries on this plea.

(c) Trade Related Investment Measures

The Agreement under Trade Related Investment Measures (TRIMs) primarily applies to trade of goods that takes place via trans national corporations (TNCs). These measures aim to protect conditions applied by domestic enterprises like purchase or use of products of domestic origin, volume or value of products of local production, export conditions, etc. The agreement does not cover restrictions by the Government on various performance criteria. India has notified the TRIMs maintained by it, which are required to be eliminated by 1.1.2000.

This agreement has been resented at various levels since all controls on operations of TNCs are required to be removed and complete freedom granted globally, including some of the unfair trade and industrial practices adopted by several powerful multi-national companies. Related to this agreement, the OECD countries have tried to introduce the Multilateral Agreement on Investment which widens the scope of entry of foreign companies and the definition of FDI, more of which is seen later.

(d) Trade Related Intellectual Property Rights

The Agreement on Trade Related Intellectual Property Rights (TRIPs) aims to provide returns for undertaking innovation by giving exclusive marketing rights. TRIPs establishes certain minimum standards concerning the availability, scope, use and enforcement of intellectual property rights to be extended transparently and non-discriminately. The agreement covers copy rights, trade marks, geographical indications, industrial designs, patents, lay out designs of integrated circuits and undisclosed information. India was required to enact the necessary legislation for revision in the Patents Act, 1970, before 1-1-2000 and only then registration will be administered by the trademark office. This is also important for protection of our products to be able to compete with other members of the WTO. The legislation to amend domestic Patent Laws have been passed so as to remain in conformity with our obligations under articles 70.8 and 70.9 of the TRIPs agreement. Under the TRIPs Agreement India has agreed to accept applications for product patents of pharmaceuticals and agro-chemicals from January 1, 1995 onwards. The applications will be received in a 'mailbox' and will be examined only with effect from January 1, 2005. The agreement requires granting Exclusive Marketing Rights to pharmaceuticals and agro-chemicals which have been given product patents and marketing approval in another member-country of the WTO.

It has been suggested that appropriate clause for dissemination of knowledge should be incorporated and ensure wider use of improved technologies and new products. Moreover, within the realm of geographical indication, there is need to negotiate rights to particular area specific names to include products like 'basmati' rice, Darjeeling tea and certain traditional medicines made from turmeric, neem, etc. in TRIPS, as has been done for certain wines and spirits in UK, France, etc.

(e) General Agreement on Trade in Services (GATS)

The GATS allows member countries to take on obligations in sectors of their choice. India has made commitments in 33 activities while the average for all developing countries is 23 activities. Entry to foreign service providers is encouraged in areas where there is highest advantage in terms of capital flows, technology and employment. The issues which are of particular interest to India include those relating to movement of natural persons, particularly access to certain professional positions in developed countries, and trade in specialist services, apart from movement of skilled workers, telecommunications and financial services, tourism and travel services etc. Greater access to these service industries which are of importance to us, need to be included in the negotiations.

(f) Multilateral Agreement on Investment (MAI)

The other important issue of concern is regarding the Multilateral Agreement on Investment which is being introduced by the OECD over and above the Agreement on Trade Related Investment Measures under the WTO. The MAI is being promoted by the developed countries which have an overwhelming control on the flows of FDI (around 82% of the total FDI in 1996). The demand is based on the need to further consolidate opportunities for increased market access in the world.

Foreign direct investment is seen to be complementary to trade and technology by the developing countries. At the same time, it is an important source for production internationally by TNCs. On this basis, the industrialised countries are taking an integrated view of trade in goods and services along with investment and technology and thus emphasising high level of multilateral disciplines in each of these areas so as to ensure increased market access for their enterprises around the world. The developing countries continue to be mainly recipients of FDI.

Under the WTO, the agreement on Trade Related Aspects of Investment Measures (TRIMs) seeks to reduce and ultimately eliminate restrictions that several developing countries had imposed on TNCs. However, even before TRIMs had actually been implemented by most of these countries, the Organisation for Economic Co-operation & Development (OECD) took the initiative of introducing multilateral agreement on investment to provide better opportunities for investments by TNCs. The OECD initiative covers all direct investment transactions, whether by non-resident enterprises or by domestic enterprises under foreign control. Three fundamental principles form the basis of the OECD instruments, viz., right of entry and establishment, national treatment and freedom of repatriation both on capital and current accounts, with the ultimate objective of progressive liberalisation of policies to be carried out by member countries in respect of FDI.

The focus has thus been towards shifting the obligations from the owners of capital i.e. of the industrialised world to the world of host countries and the instruments are sought to be made legally binding. It is expected that the obligations of the investors should be addressed by the national laws and regulations which are applicable to domestic and foreign investors alike, and subject to the country's international obligations. At

the same time, the inter-governmental agreements should be confined to the obligations and commitments of the signatory governments. This has implications on the developmental objectives that host country may want to address while inviting FDI and negotiating the multilateral agreement.

The developing countries feel the need for selective and judicious intervention of the government to support domestic industry and technology creation so as to ensure a level playing field for domestic enterprises. These countries also employ an appropriate mix of incentives and performance requirements for FDI to achieve specific developmental objectives. It is in this background that the important features of MAI needs to be looked into in greater detail and view the proposed agreement of bringing the world under a legally secure, non-discriminatory and stable regime for foreign investment.

III. THE SOUTH-EAST ASIAN CRISIS AND IT'S IMPACT ON INDIA'S TRADE

The South-East Asian countries were the most successful emerging economies in terms of sustained growth and gains in living standards for over three decades since the 1960s. These countries had become a model for many other developing countries. However, with gradual slow down in the markets in the industrialised world from the mid-1990s, there was not enough demand for products from South-East Asian countries. Over time there was excessive expenditure on creation of infrastructure and other forms of capital expenditure. There was greater concern on sustaining very high growth rate and inadequate attention was given to returns on the capital employed. The ICOR in these economies had increased. In Indonesia, it increased from 4.0 in 1987-89 to 4.4 in 1993-95, and the corresponding ICOR for Korea was 3.5 and 5.1, Malaysia 3.6 and 5.0, Thailand 2.9 and 5.2, Philippines 3.3 and 6.0. It is some of these factors which are suggested to have led to the South-East Asian crisis beginning in July 1997 and continued to deepen through well into 1998.

While the East Asian economies continued to achieve rapid economic growth in the 1990s, there were growing imbalances and weaknesses in these economies, both at the microeconomic and macroeconomic levels. Most importantly, there was a rapid build-up of short-term external debt along with a relatively weak financial system. This emerged from East Asia's successful track record which attracted foreign credits, and also from partial financial market liberalisation which opened new channels for foreign capital to enter these economies. The inflows led to appreciating real exchange rates along with a rapid expansion of bank lending.

Governments maintained exchange rates either with very little variation (Malaysia, Thailand, the Philippines) or small, predictable changes (Indonesia, Korea). The central banks absorbed the risks of exchange rate movements on behalf of investors, which helped encourage capital inflows, especially with short maturity structures. As a result, the exchange rates appreciated in real terms. Real exchange rates appreciated by more than 25% in the four Southeast Asian countries between 1990 and early 1997. In Korea, the appreciation was about 12%. At the same time, the devaluation of the Chinese Yuan in January 1994, the competitive effects of Mexico's participation in NAFTA and the peso devaluation, and the world-wide glut in semi-conductor production resulted in slow down in the rate of growth of exports of East-Asian countries.

The rising share of foreign borrowing was mainly in form of short-term debt, especially in Korea, Thailand, and Indonesia. Short-term debts to offshore banks in these three countries amounted to \$68 billion, \$46 billion, and \$34 billion, respectively, at the end of 1996. Radalet and Sachs have suggested that these numbers in fact understate total short-term liabilities, since non-bank finance like bonds etc. are not included in this data. The table below gives the position of short-term debt as a proportion of foreign exchange reserve for some of the Asian countries.

Table 6 : Short term debt as a Ratio of Foreign Exchange Reserves

	June 1994	June 1997
India	0.303	0.301
Indonesia	1.724	1.704
Korea	1.623	2.073
Malaysia	0.252	0.612
Pakistan	0.740	2.440
Philippines	0.405	0.848
Thailand	0.992	1.453
Turkey	2.061	0.814

Source: S. Radalet and J. Sachs : *The East Asian Financial Crisis* :

In Thailand, Korea and Indonesia – the three countries hardest hit by the crisis – the ratio of short-term debt to foreign exchange reserves exceeded unity after 1994. This, though sustainable in principle, indicates excessive vulnerability to crisis situation with loss of market confidence, as also witnessed in these countries.

The Role of Financial Sector in the East-Asian Crisis

The financial system plays a critical role in the economy. When it operates properly, it channels funds from those who save surplus funds to those who need these funds to engage in productive investment opportunities. The major barrier to the financial system performing this job properly is asymmetric information, i.e. one party to a financial contract does not have the same information as the other party.

There are two reasons why excessive risk-taking occurred after the financial liberalisation in East Asia. The first is that managers of banking institutions often lacked the expertise to manage risk appropriately when new lending opportunities opened up after financial liberalisation. Moreover, there was the inadequacy of the regulatory/supervisory system. In fact there was an implicit safety net provided by the government to bail out foreign and domestic lenders to the banks. This problem was made even more severe by the rapid credit growth in a lending boom which stretched the resources of the bank supervisors. Further, due to financial liberalisation, there were larger foreign capital flows into banks because it earned high yields. As a result, the capital inflows fuelled lending boom which led to excessive risk-taking on the part of banks. In East Asian countries such capital inflows amounted to between fifty to one hundred billion dollars annually from 1973 to 1996.

The outcome of the lending boom arising after financial liberalisation was huge loan losses and a subsequent deterioration of bank's balance sheets. In the case of the East-Asian crisis countries, the share of non-performing loans to total loans rose to between 15 and 35 percent. Also, a large part of the domestic bank lending was used to finance real estate, property and other non-developmental activity. Table 7 gives the lending by banks and other financial institutions to different sectors of the economy in some of the East Asian countries.

Table 7 : Loans and Advances by Sector (% Share)

Sectors	Indonesia		Malaysia		Philippines		Rep. Of Korea		Thailand	
	1990	1996	1990	1996	1990	1996	1990	1996	1990	1995
Agri. & Mining	9.0	6.0	6.4	2.4	13.8	6.5	6.6	5.0	6.2	3.5
Mfg.	35.0	27.0	21.3	22.0	38.5	32.3	44.0	39.9	23.7	23.1
Constn.			7.0	8.9	2.7	3.9	13.1	9.8	3.8	4.1
Tra&Tpt.	34.0	24.0	16.5	12.1	18.2	22.2	12.8	11.7	25.5	21.7
Fin.&Real Estate			39.5	39.2	16.9	21.8	4.8	6.6	19.2	21.5
Service Industry	18.0	31.0								
HH.ConsCredit			2.4	3.7			15.0	23.7	13.8	16.3
Others	3.0	11.0	6.9	11.8	10.0	13.3	3.8	3.3	7.9	9.7

Source: Radalet and Sachs, 1998, op cit.

All these factors resulted in the deterioration in the balance sheets of banking firms. This resulted in the inability of the banks to lend in order to improve their capital ratios. Deterioration in bank balance sheets resulted in currency crisis because it became very difficult for the central bank to defend its currency against a speculative attack.

The currency crisis and the subsequent devaluation resulted in the financial crisis. As a result of currency devaluation, the debt burden of domestic firms increased. Since assets were typically denominated in domestic currency, there was no simultaneous increase in the value of firms' assets. Therefore, devaluation

led to a substantial deterioration in firms' balance sheets and a decline in net worth. The damage to balance sheets from devaluation in the aftermath of the foreign exchange crisis has been a major source of the contraction of the economies in East Asia. This mechanism was particularly strong in Indonesia which saw the value of its currency decline by over seventy-five percent, thus increasing the rupiah value of foreign-denominated debts by a factor of four.

A sharp depreciation of the currency is also associated with upward pressure on prices which leads to a dramatic rise in both actual and expected inflation. A rise in expected inflation after the currency crisis exacerbates the financial crisis because it leads to a sharp rise in interest rates. The short duration of debt contracts along with higher interest rate leads to huge increases in interest payments by firms, thereby weakening firms' cash flow position and further weakening their balance sheets.

It is therefore clear that banks had many liabilities denominated in foreign currency which increased in value. The problems of firms and households meant that they were unable to pay off their debts, resulting in losses on the assets side of the banks' balance sheets. The result was that banks' balance sheets are squeezed from both the assets and liabilities side and the net worth of banks therefore declined.

As Frederic Mishkin (1999); pointed out, "..... the East Asian financial crisis was the result of a systemic collapse in both financial and non-financial firm balance sheets that made asymmetric information problems worse. The result was that financial markets were no longer able to channel funds to those with productive investment opportunities which then led to devastating effects on the economies of these countries."

The Impact of South East Asian Crisis on India

The crisis resulted in a sharp contraction in domestic demand in these countries. This even led to contraction in world commodity trade. The growth in world exports declined from 9.9% in 1997 to 3.3% in 1998 and is expected to be 4.4% in 1999 (World Economic Outlook, April, 1999). The Asian crisis was one of the main factors which led to slowing of the growth in world trade. Large declines in import volumes occurred in Asia in 1998 : imports of the "Asia – 5" – the five countries most affected by the Asian crisis (Indonesia, Korea, Malaysia, Philippines and Thailand) – are estimated to have fallen by 22% and those of Japan by 7.5% in this time period. The South-East Asian crisis and the deteriorating economic situation in Japan have had spillover effects on financial markets in the industrial countries. The crisis also had an impact on India's exports to these countries. The crisis also adversely affected the international financial flows. Depreciation of the currencies of these countries as against the rupee has reduced India's export competitiveness. The depreciation of Indian rupee has been modest compared to East-Asian currencies. The cumulative depreciation of Indian rupee since July 1997 has been 15.7% by end-January 1999 as against a depreciation of 73.4% of the Indonesian Rupiah, 33.6% of the Malaysian Ringgit, and similarly with some of the other currencies of the region, as discussed earlier in Section I.

Looking at India's export position during the year 1998-99 to China, Hongkong, Indonesia, Japan, Korea Peoples Republic, Malaysia, Philippines, Singapore and Thailand, it is observed that there has been a double digit decline. The decline was highest in the case of exports to Indonesia (57.3%), Korean Peoples Republic (41.3%) and Philippines (50.4%). Exports to these countries during 1998-99 comprised around 18% of the total DGCI&S exports as compared to about 24% during this period in 1997-98.

Decline in foreign direct investment to US \$ 2062 million in 1998-99 as against US \$ 2511 million during 1997-98. The decline in portfolio investment to US \$ -61 million in 1998-99 as against US \$ 1828 million in 1997-98 is partly due to the financial crisis in South-East Asia which has affected foreign investment flows to all emerging market economies.

In spite of the situation faced by India due to the Asian crisis, it is important to note that India was able to protect itself from the whirlpool of crisis directly since the country is a small player in world trade viz., 0.7% of world exports (WTO, 1998). The dependence on short-term debts is limited although large short-term portfolio investment has been playing an important role in supplementing domestic savings in the growth process. The importance of financial sector reforms and role of Central bank needs to be underlined. There is also need for suitable regulatory framework in order to ensure symmetric information and timely remedial measures, as and when required for restoring market confidence. Also, good corporate governance and investment in productive activities wherein adequate returns are ensured is essential. Greater emphasis on growth in services sector instead of concentrating only on manufacturing sector would also go a long way in ensuring growth with distribution concerns.

IV. IMPACT OF SANCTIONS AFTER NUCLEAR TESTS

After the nuclear tests undertaken by India in May 1998, sanctions were imposed against India by several countries, particularly the USA, UK, European Commission, Japan and others. The World Bank had put on hold sanction of new projects, although disbursement on ongoing projects have been allowed to continue while new projects relating to basic human needs was supported. The ongoing ADB projects have remained unaffected and only new projects relating to basic human needs continue to get support.

The largest amount of assistance was affected by sanctions imposed by the USA. Under the Nuclear Proliferation Prevention Act, 1994 of the USA, all assistance in the form of credit and credit guarantees by US government was denied and included termination of all new export-import bank credits and credit guarantees for US exports to India and discontinuance of US Overseas Private Investment Corporations guarantees for foreign investment in India. The existing EXIM Bank loans were not affected. The US banks were not allowed to make any loans or credits to Government of India except for food or agricultural commodity purchases. All sales of defence articles, services and designs were terminated and licences cancelled for export of any item on US munitions list and other military financing. The ongoing scientific projects were subjected to clearance by the State Department. Also, trade embargoes were placed on a large number of commodities relating to defence and atomic energy. However, after diplomatic discussions, the US sanctions have been considerably relaxed, particularly relating to the operations of US EXIM Bank, Trade Development Agency Programmes, Overseas Private Investment Corporations apart from resumption of US bank activities and the military education and training programmes. The opposition by US to several loans by the multilateral financial institutions has been considerably relaxed.

The Japanese aid for new projects continues to be frozen except for emergency humanitarian and grass root projects. In addition, Yen loans for new projects is frozen but support for ongoing projects is unaffected.

As far as aid from UK is concerned, disbursement on ongoing projects are continuing and new projects are being sanctioned. The European Commission's disbursement for ongoing projects has been unaffected. France has not cut development aid. Germany has also continued funding ongoing projects. Although the 1998 German Aid Negotiations were cancelled, fresh commitment has been made for technical assistance projects to the tune of DM 22.5 million. Netherlands has frozen macro-economic aid which is mainly in the form of debt relief but grants to ongoing as well as future projects are not affected. There is no effect on development co-operation from Italy and Belgium. As far as Switzerland is concerned, there was reduction in the budget of approximately SFr 3 million and new programmes with Government of India were suspended except poverty alleviation and human rights programmes. Denmark reduced aid although ongoing projects were not affected. Norway decided to freeze all aid except those directed towards poverty alleviation programmes. Sweden terminated its current co-operation agreement with India although it allocated SEK 40 million towards social sector projects ending June 1999.

On the whole, the sanctions did not have a major impact on the Indian economy. Most of the ongoing projects were allowed to be supported and developmental aid relating to poverty alleviation, basic human needs and grass root projects from the US, Japan, the EC countries have been allowed. Investments from the Scandinavian countries have, however, been restricted.

V. The Recent Global and Economic Monetary Trends and the Modifications in the International Monetary System

There has been considerable slowdown in the global GDP growth rates as well as in world trade during the last two years. The recessionary situation in the South-East Asian economies and Japan has worsened this. In addition, Russia has been facing severe economic problems. The Brazilian currency devaluation has also contributed to this down trend in the world economy, fall in world stock markets and commodity prices.

To elaborate, the growth in world output has declined from 4.2% in 1997 to 2.5% in 1998. The prospects for 1999 are no better. As seen in Section III this led to sharp deceleration in world trade volume from 9.9% in 1997 to 3.3% in 1998. Since mid-April 1998, monetary authorities in most industrial countries have held short-term interest rates steady as the deflationary effects of the Asian crisis and its repercussions have helped to keep inflationary pressures well contained. The weakening of the commodity prices (oil: -5.4% in 1997 and -32.1% in 1998 and non-fuel: -3.3% in 1997 and -14.8% in 1998, in terms of US dollars) has affected the commodity exporting countries, and led to deceleration in world economic activity (World Economic Outlook, IMF, 20-4-1999).

During this period, the Japanese economy also faced a recession as the output fell from 5% in 1996 to 1.4% in 1997 and then a decline of 2.8% in 1998 (IMF December, 1998). There has been stagnation of industrial production and investment and declining employment levels of private domestic demand. This is linked to difficulties in the financial sector as well as net exports demand with appreciation in yen. The Japanese government has attempted to stimulate private demand with fiscal packages although with limited success so far.

The Brazilian crisis has also imparted a new contractionary impulses to the global economy. The growth projections for Brazil have been revised downwards, for 1999. There has been a sharp fall in industrial production as tight fiscal and monetary policy has been adopted. The cost of external finance is also higher and contributed to the adverse effect on real economy. The economy has also been affected by the recent fall in export earnings from soya, sugar, coffee and several manufactured items. In addition, Brazil's abandonment of the crawling-peg exchange rate system in January, 1999 and associated developments have added to the problems in the region.

Financial sector fragility in several emerging market economies, including China, added to the risks associated with continued turbulence. In Russia, the delay in adopting coherent policies to promote stabilisation and reforms has postponed improvements in the economy. The Russian financial crisis, it may be recalled, emanated from the large fiscal deficit and the associated increase in holdings of Russian government debt by domestic and foreign investors. Series of domestic political events and external shocks, coupled with weak world oil prices in 1998 accentuated the problem. The government tried to extend the maturity structure of the debt in the context of an IMF programme. However, the market confidence could not be restored and selling pressures mounted in debt, equity and foreign exchange markets. In spite of several measures by the government to further restructure the debt, the domestic banking system still faces severe liquidity crisis. Russia faces heavy external debt - service obligations which are at totally unaffordable levels and investors are sceptical of potential default. In many cases, the trading opportunities were reduced and institutional investors were even forced to sell-off other market securities for improved liquidity. This has also had an impact on the accessibility of emerging market economies to global financial markets. The conflict in the Federal Republic of Yugoslavia will have severe effects on small neighbouring countries and broader adverse consequences for other countries in South-East Europe. Japan's economy still remains rather weak. Global trade imbalances have increased by the series of emerging market crises, as well as by the uneven pattern of growth among the United States, the Euro area and Japan. There is an apprehension that these imbalances may give rise to destabilising movements in exchange rates and may also increase protectionist pressures, which would adversely affect the developing countries like India.

Apart from these setbacks, there have been some positive developments in global trade. After the deep output contractions in Asia's crisis affected economies, activity has recently turned around in Korea and seems to have bottomed out in Malaysia and Thailand. Generally most of the advanced economies of North America and Europe and also Australia, have proved resilient. Particularly notable has been the continued strong growth of the US economy (3.9% each in the year 1997 and 1998). Developments in Brazil since early March 1999 have been encouraging, financial spillovers have been limited, and the slowdown seems unlikely to be prolonged. Japan's recession deepened further in late 1998. Indicators for early 1999 are mixed, and it remains unclear whether activity has stabilised, although survey evidence points towards a modest recovery in business confidence, and financial market developments suggest a turn around in investor sentiments.

The revival of the East Asian economies is important for the world economy and also for India. Effort has been made by these countries to initiate recovery and restore confidence for investors. Korea and Thailand have made considerable progress in this regard. The situation in Indonesia is still difficult. Malaysia has attempted to control external payments in order to insulate its economy. Japan has experienced limited recovery in spite of substantial fiscal stimulus and initiatives to handle banking sector problems. The Chinese currency has been under pressure. The impact of these developments has adversely affected the confidence of the financial markets. There has been a sharp slowdown in capital inflows not only to South East Asian economies but also India. As seen earlier, portfolio investment to India went down from the peak of US \$ 3824 million in 1994-95 to US \$ 1282 million in 1997-98 and deteriorated further to US \$ (-) 682 million during April-December 1998. The foreign direct investment (FDI) was US \$ 3197 million and US \$ 1562 million during April-December 1998.

In the light of these developments, there has been a talk of bringing about a change in the way the International Monetary System operates and in particular, the role of IMF.

Modifications in the International Monetary System

Originally, the mandate of the IMF was primarily to act as a lender of last resort to countries in distress and prevent competitive devaluation apart from encouraging current account convertibility. Later with the currency crises faced by many countries, the IMF has been rescuing these countries and also pushing for capital account convertibility. The IMF thus began to lend not only to combat trade deficits brought on by macro economic imbalances, but also to prevent currency contagion spread from one country into many others resulting from globalisation of finance. For instance, the Mexican crisis of 1994 affected most of Latin America, and more recently the virus spread from Thailand to many South-East Asian countries in 1997-1998.

It was in this background that need was felt for sketching out a new comprehensive framework for change in the international monetary system. The IMF Executive Board decided in April, 1998 to concentrate on five aspects for change in the international monetary system, viz., :

- (i) Strengthening domestic finance sector including supervision and regulation of this sector, improvement in accounting practices to conform with international standards; establishment of independent central banks along with auditing and valuation of bank assets and guidelines for effective corporate governance. It was decided that the IMF would play an important role in surveillance activities and disseminating internationally agreed standards for regulation, and also encourage members to adopt best practices.
- (ii) Strengthening IMF surveillance in preventing crises. This would be achieved through intensifying IMF's surveillance of financial sector issues in collaboration with the World Bank, Bank for International Settlements, and the private sector. Greater attention would be paid to capital account liberalisation with appropriate sequencing and pace. The focus would be to prevent large reversal of capital flows, rapid accumulation of short term debts, excessive currency fluctuations, etc.
- (iii) Promoting greater availability and transparency of information on the economic situation and policy of member countries. The need for broadening the IMF's special data dissemination standards is being emphasized so as to make available timely data, increasing its coverage & accessibility to public and market participants. This would in turn help to increase dissemination of information on policy recommendations and encourage member countries to increase transparency of their policy.
- (iv) The IMF should play a central role in crisis management, co-ordinate assistance from different sources, and anticipate and prevent every crisis. It was decided that the IMF would play a catalytic role to co-ordinate timely technical and financial support from all sources.
- (v) The world financial community should respond to balance of payments crises so as to ensure appropriate involvement of all groups of creditors including those from the private sector. The management of crises should help to prevent exposure of short term claimants to hazards of collapse of the financial system, which raise concerns about moral issues. It is suggested that the adjustment programmes should include continued involvement of private creditors through better use of information to analyse risks appropriately.

These suggestions of the IMF are indeed important for the multilateral financial institutions in the changed world scenario. However, scepticism has been expressed on the prescriptions of the IMF while tackling the more recent crises. Need has been felt for greater sensitivity on the basic cause for the problems faced by individual countries rather than a blanket move for macro-economic stabilisation with additional multilateral funds, which anyway are dwindling. It has been suggested that some of the above mentioned 'Strengthening' measures may not be useful enough to combat the crisis in a member country. It is important to first analyse the root cause of emergence & spread of the crisis. For instance, the South-East Asian crisis became widespread not because of macro-economic mismanagement but mainly due to poor credit appraisal and financial management. Later, the rampant spread of virus could have been curtailed by confidence building measures. It is suggested that the world monetary system should take due cognisance of these issues while prescribing appropriate remedial medicines to member countries. Prudential norms are required for short term capital flows. This would also help to prevent crises and restrain contagion. It has been suggested that capital account convertibility should be adopted after appropriate macro fundamentals and strong banking institutions are in place.

In order to contain fall in growth of world output and avert the crises faced by several countries, it has been felt that an easier monetary policy in developed countries may help to contain world deflationary situation.

An effective programme needs to be worked out to build suitable safety nets for vulnerable countries. International assistance has to be forthcoming to reduce pressure on the creditor countries. In addition, the developed countries need to resist protectionist pressures in their countries and maintain an open international trading regime, which is fair to developing countries.

In the above context, there is need to redefine the role of global financial institutions. The operational policies and procedures of these institutions are required to be reviewed. In fact, the IMF's intervention on almost all international trade issues have been questioned since it tends to override the expert opinions of various institutions like the ILO, UNEP, WHO and others, as the case may be. A credible mechanism for establishing prudential norms and monitoring of lending operations by international financial centres requires to be strengthened.

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Annexure-1

Value of Imports for Major Commodity Groups

(US \$ million)

	Commodity Group	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
I	Food & Allied Products of which	954	638	784	1297	1449	685	695	434	663	582	1465	1340	1566	1883	2285
	Cereals	121	68	37	51	534	227	102	71	302	93	35	24	137	292	225
	Pulses	0	0	0	194	266	137	268	104	103	181	183	205	251	321	96
	Edible Oils	696	502	479	747	504	127	182	101	56	53	194	676	825	744	1696
II.	Fuel of which	4341	4193	2264	3287	3299	4106	6468	5786	6047	6220	6636	8451	11031	9356	7378
	Coal	0	136	167	169	290	338	440	423	450	467	703	926	995	1192	940
	Petroleum Products	4341	4057	2097	3118	3009	3768	6028	5362	5597	5753	5933	7526	10036	8164	6438
III.	Fertilizers	655	717	482	253	471	890	829	836	808	756	899	1538	820	1022	994
IV.	Chemicals	702	657	904	982	1437	1416	1435	1526	1531	1542	2367	2811	2924	3255	3684
V	Machinery & Equipment (Incl. Project Goods)	2367	2984	4474	5325	5139	5673	6255	4541	4560	5547	6521	8848	8650	7959	7763
VI	Iron & Steel	616	849	1135	1018	1335	1384	1178	805	748	788	1215	1446	1371	1421	1179
VII	Pearls Precs. & Semi- Precs. Stones	864	899	1170	1557	2193	2548	2083	1971	2287	2644	1598	2106	2925	3342	3765
VIII	Gold & Silver	0	0	0	0	0	0	0	0	0	0	0	867	991	3169	4880
IX	Others	3367	4079	4487	3437	4174	4568	5130	3653	3886	5252	7556	9268	8854	10077	9959
	TOTAL	13866	15015	15701	17155	19497	21269	24072	19552	20530	23330	28257	36675	39132	41484	41887

Source : Based on DGCI&S Database

Annexure 2 Conld...

	Commodity Group	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
I.	Food & Allied Products of which	2.2	3.2	2.5	5.2	3.7	4.0	4.5
	Cereals	0.4	1.5	0.4	0.1	0.1	0.4	0.7
	Pulses	0.5	0.5	0.8	0.6	0.6	0.6	0.8
	Edible Oils	0.5	0.3	0.2	0.7	1.8	2.1	1.8
II.	Fuel of which	29.6	29.5	26.7	23.5	23.0	28.2	22.6
	Coal	2.2	2.2	2.0	2.5	2.5	2.5	2.9
	Petroleum Products	27.4	27.3	24.7	21.0	20.5	25.6	19.7
III.	Fertilizers	4.3	3.9	3.2	3.2	4.2	2.1	2.5
IV.	Chemicals	7.8	7.5	6.6	8.4	7.7	7.5	7.8
V.	Machinery & Equipment (Incl. Project Goods)	23.2	22.2	23.8	23.1	24.1	22.1	19.2
VI.	Iron & Steel	4.1	3.6	3.4	4.3	3.9	3.5	3.4
VII.	Pearls Precs. & Semi- Precs. Stones	10.1	11.1	11.3	5.7	5.7	7.5	8.1
VIII.	Gold & Silver	0.0	0.0	0.0	0.0	2.4	2.5	7.6
IX.	Others	18.7	18.9	22.5	26.7	25.3	22.6	24.3
	TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Based on DGCI&S Database

Annexure - 3

BROAD COMPOSITION AND MAGNITUDE OF IMPORTS						
DURING 1997-98 AND 1998-99						
S.NO.	COMMODITY GROUP	1997 - 98		1998 - 99		GROWTH
		IMPORTS	% SHARE	IMPORTS	% SHARE	RATE (%)
		Rs. Crore		Rs. Crore		
1	Export related imports	30016.23	19.47	34889.70	19.81	16.24
2	Bulk consumption goods	5418.94	3.51	9567.15	5.43	76.55
3	Fertilisers	4149.87	2.69	4515.94	2.56	8.82
4	Coal, coke and briquettes	4431.91	2.87	3953.87	2.25	-10.79
5	Petroleum crude and products	30341.19	19.68	27064.44	15.37	-10.80
6	Iron and steel	5281.37	3.43	4956.14	2.81	-6.16
7	Machinery, transport equipments, project goods and electronic goods	39178.57	25.41	41987.94	23.84	7.17
8	Gold and silver	11778.55	7.64	20514.40	11.65	74.17
9	Non-ferrous metals	3420.22	2.22	2823.40	1.60	-17.45
10	Others	20159.29	13.08	25825.65	14.67	28.11
	Total	154176.29	100.00	176098.63	100.00	14.22
Annexure 3 Concl...						
		IMPORTS US \$ million	% SHARE	IMPORTS US \$ million	% SHARE	GROWTH RATE (%)
1	Export related imports	8076.48	19.47	8295.22	19.81	2.71
2	Bulk consumption goods	1458.08	3.51	2274.64	5.43	56.00
3	Fertilisers	1116.61	2.69	1073.69	2.56	-3.84
4	Coal, coke and briquettes	1192.50	2.87	940.05	2.25	-21.17
5	Petroleum crude and products	8163.91	19.68	6434.72	15.37	-21.18
6	Iron and steel	1421.06	3.43	1178.35	2.81	-17.08
7	Machinery, transport equipments, project goods and electronic goods	10541.79	25.41	9982.87	23.84	-5.30
		0.00				
8	Gold and silver	3169.26	7.64	4877.41	11.65	53.90
9	Non-ferrous metals	920.28	2.22	671.28	1.60	-27.06
10	Others	5424.27	13.08	6140.19	14.67	13.20
	Total	41484.23	100.00	41868.43	100.00	0.93

Source :Foreign Trade Statistics of India, March' 99.

Rates of growth of Imports (Percent)

	Commodity Group	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
I	Food & Allied Products of which		-33.2	23.0	65.4	11.7	-52.7	1.5	-37.6	52.9
	Cereals		-43.4	-46.3	38.4	948.5	-57.5	-55.3	-30.3	325.5
	Pulses					37.3	-48.5	95.9	-61.1	-1.2
	Edible Oils		-28.0	-4.6	56.1	-32.6	-74.9	43.4	-44.2	-44.5
II.	Fuel of which		-3.4	-46.0	45.2	0.4	24.5	57.5	-10.6	4.5
	Coal			22.8	1.0	71.7	16.4	30.3	-3.7	6.3
	Petroleum Products		-6.5	-48.3	48.7	-3.5	25.2	60.0	-11.0	4.4
III.	Fertilizers		9.5	-32.7	-47.6	86.5	88.8	-6.8	0.8	-3.3
IV.	Chemicals		-6.4	37.6	8.6	46.3	-1.5	1.4	6.4	0.3
V	Machinery & Equipment (Incl. Project Goods)		26.0	49.9	19.0	-3.5	10.4	10.3	-27.4	0.4
VI	Iron & Steel		37.7	33.6	-10.3	31.2	3.7	-14.9	-31.7	-7.1
VII	Pearls Precs. & Semi-Precs. Stones		4.0	30.2	33.0	40.9	16.2	-18.2	-5.4	16.0
VIII	Gold & Silver									
IX	Others		21.2	10.0	-23.4	21.5	9.4	12.3	-28.8	6.4
	TOTAL		8.3	4.6	9.3	13.6	9.1	13.2	-18.8	5.0
	GDP at 1980-81 prices (Rs. Crore)	150433	156566	163271	170322	188461	201453	212253	213983	225240
			4.1	4.3	4.3	10.6	6.9	5.4	0.8	5.3

	Commodity Group	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	91-92/ 84-85	97-98/ 91-92	97-98/ 84-85
I	Food & Allied Products of which	-12.3	151.9	-8.6	16.8	20.3	21.3	10.6	27.7	5.4
	Cereals	-69.2	-62.8	-30.6	472.4	112.5	-22.9	-7.4	26.6	7.0
	Pulses	75.4	1.1	12.2	22.4	28.2	-70.1		20.6	
	Edible Oils	-5.5	265.5	248.2	22.0	-9.8	127.9	24.1	39.4	0.5
II.	Fuel of which	2.9	6.7	27.3	30.5	-15.2	-21.2	4.2	8.3	6.1
	Coal	3.7	50.8	31.6	7.5	19.9	-21.2		18.8	
	Petroleum Products	2.8	3.1	26.8	33.4	-18.7	-21.2	3.1	7.3	5.0
III.	Fertilizers	-6.5	18.9	71.1	-46.7	24.6	-2.8	3.6	3.4	3.5
IV.	Chemicals	0.7	53.5	18.8	4.0	11.3	13.1	11.7	13.5	12.5
V	Machinery & Equipment (Incl. Project Goods)	21.6	17.6	35.7	-2.2	-8.0	-2.5	9.8	9.8	9.8
VI	Iron & Steel	5.4	54.2	19.0	-5.2	3.7	-17.1	3.9	9.9	6.6
VII	Pearls Precs. & Semi-Precs. Stones	15.6	-39.6	31.8	38.9	14.3	12.6	12.5	9.2	11.0
VIII	Gold & Silver				14.3	219.6	53.9			
IX	Others	35.2	43.9	22.7	-4.5	13.8	-1.2	1.2	18.4	8.8
	TOTAL	13.6	21.1	29.8	6.7	6.0	0.9	5.0	13.4	8.8
	GDP at 1980-81 prices (Rs. Crore)	239145	257700	276132	296845	311687		5.2	6.5	5.8
		6.2	7.8	7.2	7.5	5.0				

Value of Exports for Major Commodity Groups

		US \$ Million														
	Commodity Group	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99
I.	Agri. & Allied, of which	2202	2270	2333	2561	2417	2853	3354	3219	2868	4027	4183	6111	6863	6626	5993
	Tea	594	499	430	464	421	551	596	495	317	338	310	350	292	405	546
	Coffee	167	192	240	202	203	208	141	136	120	174	324	449	402	436	405
	Cashew nut	147	176	251	240	189	219	246	274	243	333	396	369	362	372	382
	Marine Products	283	317	374	411	435	413	535	589	569	814	1122	1011	1129	1160	1038
II.	Ores & Minerals	510	619	532	600	825	1030	970	936	700	888	998	1175	1172	1061	890
III.	Manufactured Goods of which	4294	4403	5446	8195	10110	11972	12996	13243	13173	16655	20283	23747	24613	26545	25784
	Leather & Leather Products	381	421	616	964	1051	1172	1430	1278	1205	1300	1557	1752	1606	1657	1653
	Gems & Jewellery	949	1159	1612	2015	3033	3181	2924	2758	2884	3996	4501	5275	4753	5345	5901
	Drugs, Pharmcutes & Fine Chemcls.	0	0	0	252	327	510	565	633	497	641	794	1019	1223	1458	1462
	Dyes etc. & Coal Tar Chemcl.	0	0	0	134	191	235	247	319	313	367	473	486	562	600	474
	Inorganic/ Organic Agro Chemcls.	307	232	342	66	140	160	182	202	193	231	325	496	555	591	544
	Manufactures of Metals	152	127	0	222	305	446	456	488	553	663	749	826	914	1023	1081
	Machinery & Equipments incl. Machine Tools	452	485	759	669	846	981	1174	1150	1060	1288	1565	1835	2105	2231	1974
	Electronic Goods	0	0	0	154	200	303	232	267	200	304	406	670	784	760	499
	Cotton Yarn, Fabrics, Madeups, etc.	365	330	446	883	798	905	1170	1309	1282	1537	2214	2577	3122	3264	2772
	Manmade Yarn, Fabrics, Madeups	22	17	85	88	115	187	227	336	346	426	617	751	703	805	696
	Ready Made Garments	781	886	812	1403	1451	1938	2236	2215	2257	2586	3264	3676	3753	3876	4441
	Handicrafts (Excl. Handmade Crpts)	112	99	113	174	206	223	224	243	252	319	382	434	476	526	625
IV.	Crude Oil & Petroleum Products	180	219	324	500	349	418	523	418	450	398	417	454	482	353	89
V.	Others	2368	1005	1188	233	269	349	300	179	215	269	345	308	339	421	885
	TOTAL	9554	8517	9822	12088	13970	16623	18143	17995	17407	22237	26225	31795	33470	35006	33641

Source : Derived from DGCI&S Database

Percentage Share of Certain Commodities in Total Exports

		84- 85	85- 86	86- 87	87- 88	88- 89	89- 90	90- 91	91- 92	92- 93	93- 94	94- 95	95- 96	96- 97	97- 98	98- 99
I	Agri. & Allied, of which	23.1	26.7	23.7	21.2	17.3	17.2	18.5	17.9	16.5	18.1	15.9	19.2	20.5	18.9	17.8
	Tea	6.2	5.9	4.4	3.8	3.0	3.3	3.3	2.8	1.8	1.5	1.2	1.1	0.9	1.2	1.6
	Coffee	1.7	2.3	2.4	1.7	1.5	1.3	0.8	0.8	0.7	0.8	1.2	1.4	1.2	1.2	1.2
	Cashew nut	1.5	2.1	2.6	2.0	1.4	1.3	1.4	1.5	1.4	1.5	1.5	1.2	1.1	1.1	1.1
	Marine Products	3.0	3.7	3.8	3.4	3.1	2.5	2.9	3.3	3.3	3.7	4.3	3.2	3.4	3.3	3.1
II.	Ores & Minerals	5.3	7.3	5.4	5.0	5.9	6.2	5.3	5.2	4.0	4.0	3.8	3.7	3.5	3.0	2.6
III.	Manufactured Goods, of which	44.9	51.7	55.4	67.8	72.4	72.0	71.6	73.6	75.7	74.9	77.3	74.7	73.5	75.8	76.6
	Leather & Leather Products	4.0	4.9	6.3	8.0	7.5	7.0	7.9	7.1	6.9	5.8	5.9	5.5	4.8	4.7	4.9
	Gems & Jewellery	9.9	13.6	16.4	16.7	21.7	19.1	16.1	15.3	16.6	18.0	17.2	16.6	14.2	15.3	17.5
	Drugs, Pharmcutes & Fine Chemcls.	0.0	0.0	0.0	2.1	2.3	3.1	3.1	3.5	2.9	2.9	3.0	3.2	3.7	4.2	4.3
	Dyes etc. & Coal Tar Chemcl.	0.0	0.0	0.0	1.1	1.4	1.4	1.4	1.8	1.8	1.7	1.8	1.5	1.7	1.7	1.4
	Inorganic/ Organic Agro Chemcls.	3.2	2.7	3.5	0.5	1.0	1.0	1.0	1.1	1.1	1.0	1.2	1.6	1.7	1.7	1.6
	Manufactures of Metals	1.6	1.5	0.0	1.8	2.2	2.7	2.5	2.7	3.2	3.0	2.9	2.6	2.7	2.9	3.2
	Machinery & Equipments incl. Machine Tools	4.7	5.7	7.7	5.5	6.1	5.9	6.5	6.4	6.1	5.8	6.0	5.8	6.3	6.4	5.9
	Electronic Goods	0.0	0.0	0.0	1.3	1.4	1.8	1.3	1.5	1.1	1.4	1.5	2.1	2.3	2.2	1.5
	Cotton Yarn, Fabrics, Madeups, etc.	3.8	3.9	4.5	7.3	5.7	5.4	6.5	7.3	7.4	6.9	8.4	8.1	9.3	9.3	8.2
	Manmade Yarn, Fabrics, Madeups	0.2	0.2	0.9	0.7	0.8	1.1	1.2	1.9	2.0	1.9	2.4	2.4	2.1	2.3	2.1
	Ready Made Garments	8.2	10.4	8.3	11.6	10.4	11.7	12.3	12.3	13.0	11.6	12.4	11.6	11.2	11.1	13.2
	Handicrafts (Excl. Handmade Crpts)	1.2	1.2	1.2	1.4	1.5	1.3	1.2	1.4	1.4	1.4	1.5	1.4	1.4	1.5	1.9
IV.	Crude Oil & Petroleum Products	1.9	2.6	3.3	4.1	2.5	2.5	2.9	2.3	2.6	1.8	1.6	1.4	1.4	1.0	0.3
V.	Others	24.8	11.8	12.1	1.9	1.9	2.1	1.7	1.0	1.2	1.2	1.3	1.0	1.0	1.2	2.6
	TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source : Derived from DGCI&S Database

BROAD COMPOSITION AND MAGNITUDE OF EXPORTS DURING 1997-98 AND 1998-99						
S.NO.	COMMODITY GROUP	1997 -98		1998 - 99		GROWTH RATE (%)
		EXPORTS Rs. Crore	% SHARE	EXPORTS Rs. Crore	% SHARE	
1	Agricultural & allied products	24626.16	18.93	25224.67	17.81	2.43
2	Ores and minerals	3942.53	3.03	3748.26	2.65	-4.93
3	Leather and manufactures including footwear of leather	6157.06	4.73	6955.77	4.91	12.97
4	Gems and jewellery	19866.53	15.27	24838.70	17.54	25.03
5	Chemicals and allied products	14292.77	10.99	14840.06	10.48	3.83
6	Engineering and electronic goods including computer software	15139.12	11.64	15229.95	10.76	0.60
7	Iron and steel	3250.65	2.50	2452.79	1.73	-24.54
8	Yarn, fabrics, madeups etc.	16186.51	12.44	15677.12	11.07	-3.15
9	Readymade garments	14405.74	11.07	18693.94	13.20	29.77
10	Handicrafts	1954.35	1.50	2632.70	1.86	34.71
11	Carpets	2027.73	1.56	2250.19	1.73	10.97
12	Petroleum products	1310.99	1.01	376.22	0.29	-71.30
13	Others	6940.50	5.33	8683.16	6.67	25.11
	Total	130100.64	100.00	141603.53	100.00	8.84
		EXPORTS US \$ million	% SHARE	EXPORTS US \$ million	% SHARE	GROWTH RATE (%)
1	Agricultural & allied products	6626.17	18.93	5997.31	17.81	-9.49
2	Ores and minerals	1060.82	3.03	891.17	2.65	-15.99
3	Leather and manufactures including footwear of leather	1656.68	4.73	1653.77	4.91	-0.18
4	Gems and jewellery	5345.49	15.27	5905.54	17.54	10.48
5	Chemicals and allied products	3845.76	10.99	3528.31	10.48	-8.25
6	Engineering and electronic goods including computer software	4073.49	11.64	3621.01	10.76	-11.11
7	Iron and steel	874.65	2.50	583.16	1.73	-33.33
8	Yarn, fabrics, madeups etc.	4355.31	12.44	3727.32	11.07	-14.42
9	Readymade garments	3876.16	11.07	4444.59	13.20	14.66
10	Handicrafts	525.86	1.50	625.94	1.86	19.03
11	Carpets	545.60	1.56	535.00	1.59	-1.94
12	Petroleum products	352.75	1.01	89.45	0.27	-74.64
13	Others	1867.48	5.33	2064.47	6.13	10.55
	Total	35006.23	100.00	33667.03	100.00	-3.83

Source :Foreign Trade Statistics of India, March' 99.

Rates of growth of Exports (Percent)

		1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	91-92/ 84-85	97-98/ 91-92	97-98/ 84-85
I	Agri. & Allied, of which	3.1	2.8	9.8	-5.6	18.0	17.6	-4.0	-10.9	40.4	3.9	46.1	12.3	-3.4	-9.6	5.6	12.8	8.8
	Tea	-16.0	-13.9	7.8	-9.2	30.9	8.3	-17.0	-35.9	6.4	-8.1	12.8	-16.6	38.6	34.8	-2.6	-3.3	-2.9
	Coffee	15.5	24.6	-15.8	0.5	2.9	-32.6	-3.5	-11.9	45.6	86.5	38.5	-10.6	8.6	-7.2	-2.9	21.5	7.7
	Cashew nut	19.9	42.6	-4.4	-21.2	16.0	12.2	11.5	-11.4	37.1	18.7	-6.6	-2.0	2.8	2.6	9.4	5.2	7.4
	Marine Products	12.1	17.7	10.1	5.8	-5.1	29.6	10.2	-3.5	43.0	37.9	-9.9	11.7	2.8	-10.5	11.0	11.9	11.5
II.	Ores & Minerals	21.5	-14.1	12.8	37.6	24.9	-5.9	-3.4	-25.2	26.9	12.4	17.7	-0.2	-9.5	-16.1	9.1	2.1	5.8
III.	Manufactured Goods, of which	2.5	23.7	50.5	23.4	18.4	8.6	1.9	-0.5	26.4	21.8	17.1	3.6	7.8	-2.9	17.5	12.3	15.0
	Leather & Leather Products	10.5	46.3	56.6	9.0	11.5	22.1	-10.6	-5.7	7.9	19.8	12.5	-8.4	3.2	-0.2	18.9	4.4	12.0
	Gems & Jewellery	22.1	39.1	25.0	50.5	4.9	-8.1	-5.7	4.6	38.5	12.7	17.2	-9.9	12.5	10.4	16.5	11.7	14.2
	Drugs, Pharmcutes & Fine Chemcls.				30.1	56.0	10.8	12.1	-21.5	28.8	24.0	28.3	20.0	19.2	0.3		14.9	
	Dyes etc. & Coal Tar Chemcl.				42.4	23.4	4.8	29.5	-2.1	17.4	28.9	2.8	15.5	6.8	-21.1		11.1	
	Inorganic/ Organic Agro Chemcls.	-24.3	47.4	-80.8	113.3	13.8	14.0	11.0	-4.5	19.8	40.7	52.9	11.9	6.4	-7.9	-5.8	19.6	5.2
	Manufactures of Metals	-16.9	-100.0		37.3	46.1	2.4	6.9	13.4	19.9	13.0	10.3	10.5	12.0	5.7	18.1	13.1	15.8
	Machinery & Equipments incl. Machine Tools	7.4	56.3	-11.8	26.4	16.0	19.7	-2.1	-7.8	21.5	21.5	17.2	14.7	6.0	-11.5	14.3	11.7	13.1
	Electronic Goods				30.1	51.0	-23.2	15.0	-25.3	52.1	33.6	65.2	16.9	-3.1	-34.3		19.0	
	Cotton Yarn,	-9.6	35.2	98.0	-9.7	13.5	29.3	11.8	-2.1	19.9	44.0	16.4	21.2	4.6	-15.1	20.0	16.5	18.4

Indices of Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) of the Indian Rupee

Year	Trade based Weights	
	REER	NEER
1975-76	106.27	97.95
1976-77	101.34	98.67
1977-78	100.12	99.86
1978-79	91.98	97.18
1979-80	97.08	99.43
1980-81	104.48	103.46
1981-82	104.48	103.54
1982-83	101.17	104.75
1983-84	104.24	105.27
1984-85	100.86	101.47
1985-86	98.27	98.50
1986-87	90.24	85.85
1987-88	85.36	81.16
1988-89	80.41	75.57
1989-90	78.44	72.16
1990-91	75.58	67.20
1991-92	64.20	52.51
1992-93	57.08	43.46
1993-94	61.59	44.69
1994-95	64.75	43.37
1995-96	62.17	39.75
1996-97	63.43	38.98
1997-98(P)	66.92	40.01

Notes:

1. 36 country bilateral weights
2. The indices from 75-76 to 91-92 are based on official exchange rate and from 92-93 and onwards on FEDAI indicative rates.
3. P - Provisional

Source: *Report on currency & Finance 1995-96 & 1997-98*

Indices of Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) of the Indian Rupee

Monthly Averages			
Base : 1985 =100			
Year	Month	Trade based Weights	
		REER	NEER
1996	Jan	59.32	37.96
	Feb	57.95	37.03
	Mar	61.92	39.50
	Apr	63.08	39.94
	May	62.17	39.18
	Jun	62.52	39.25
	Jul	62.48	38.54
	Aug	62.26	38.14
	Sep	62.91	38.33
	Oct	63.42	38.63
	Nov	63.02	38.24
	Dec	63.52	38.48
1997	Jan	64.16	39.03
	Feb	65.69	39.85
	Mar	65.87	40.09
	Apr	66.38	40.31
	May	65.83	39.98
	Jun	66.01	39.92
	Jul	67.03	40.50
	Aug	68.16	41.13
	Sep	67.72	40.62
	Oct	68.27	40.79
	Nov	66.74	39.76
	Dec	65.59	38.82
1998	Jan	67.52	39.57
	Feb	67.14	39.57
	Mar	66.04	38.97
	Apr	66.22	38.78
	May	65.58	38.16
	Jun	64.28	37.07
	Jul	64.74	36.92
	Aug	65.01	36.92
	Sep	64.13	36.06
	Oct	62.91	35.13
	Nov	63.27	35.32

	Dec	62.23	34.96
1999	Jan	62.13	35.02
	Feb	63.05	35.57

Notes: 1. 36 country bilateral weights
2. The indices are based on FEDAI indicative rates.
Source : RBI Bulletin, June,1999

Fig-1:COMPOSITION OF IMPORTS (%)

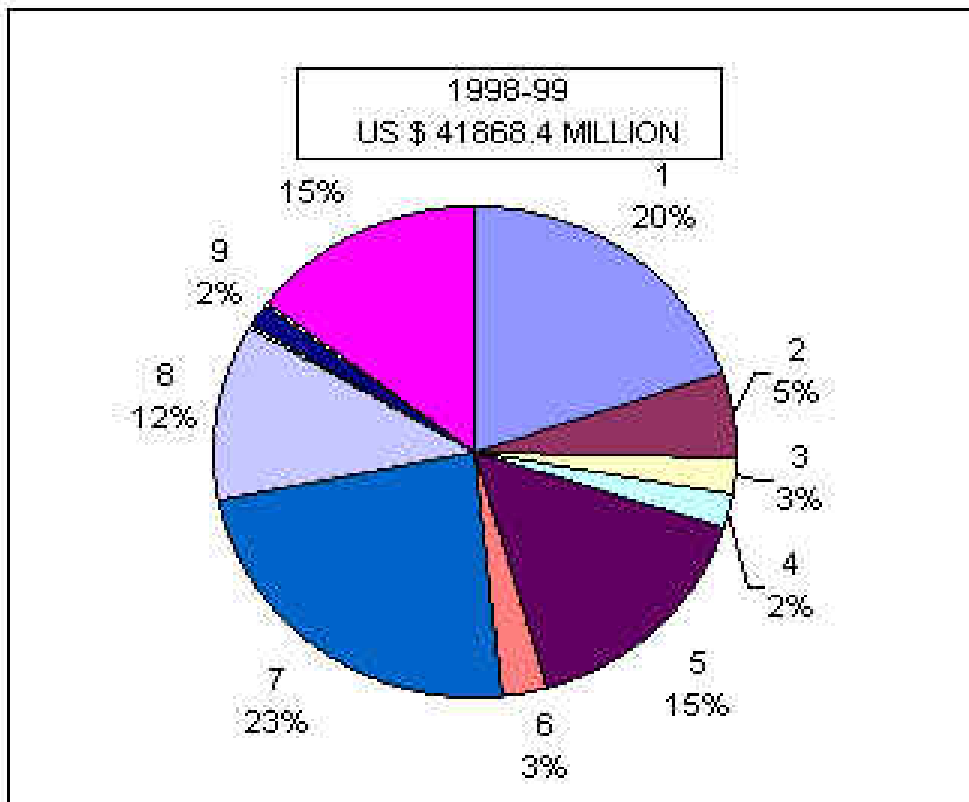
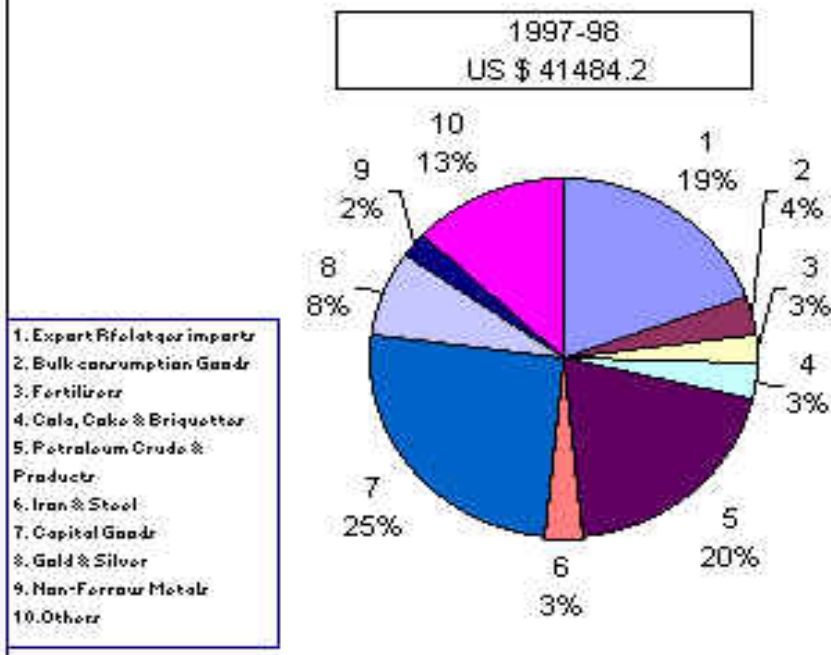
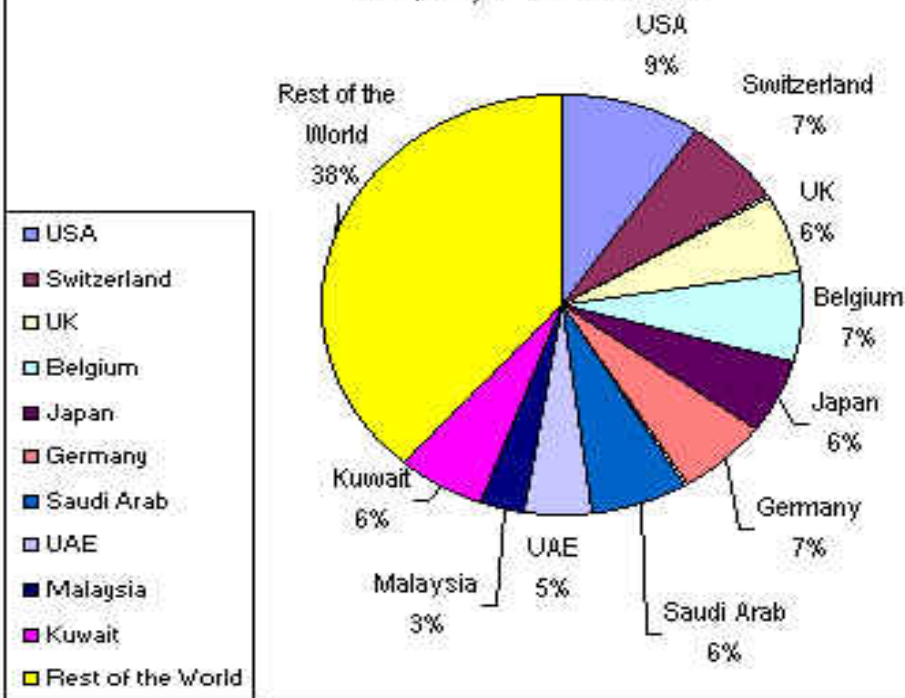


Fig-2: SOURCES OF IMPORTS 1997-98
US \$ 41,484.2 MILLION



1998-99
US \$ 41868.4 MILLION

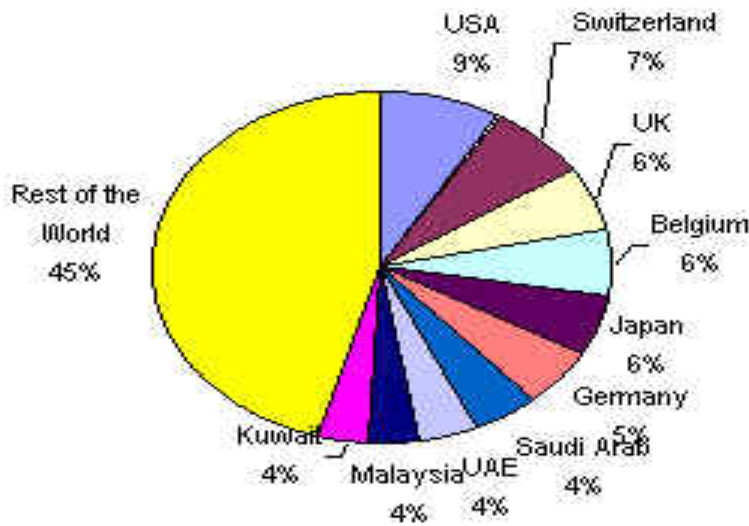
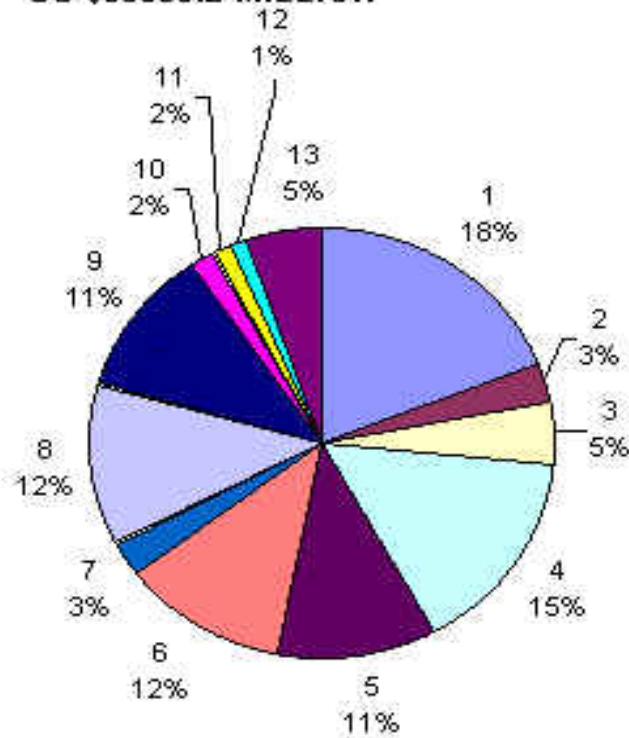


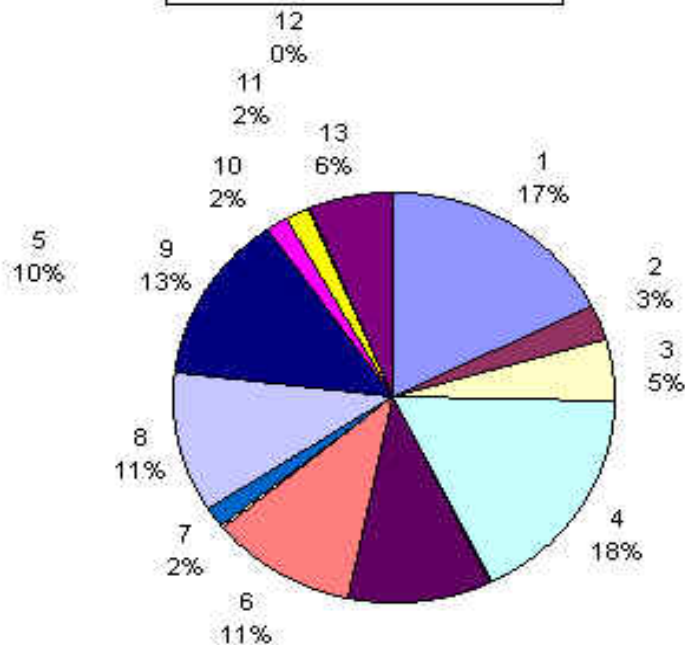
Fig 4: COMPOSITION OF EXPORTS (%)
1997-98

US \$35006.2 MILLION

1. AGRI. & ALLIED PROD.
2. ORES AND MINERALS
3. LEATHER & MANUF.
4. GEMS & JEWELLERY
5. CHEM. & ALLIED PROD.
6. ENGINEERING GOODS
7. IRON & STEEL
8. YARN, FABRICS & MADEUPS
9. READYMADE GARMENTS
10. HANDICRAFTS
11. CARPETS
12. PETROLEUM PRODUCTS
13. OTHER



1998-99
US \$ 33667.0 MILLION

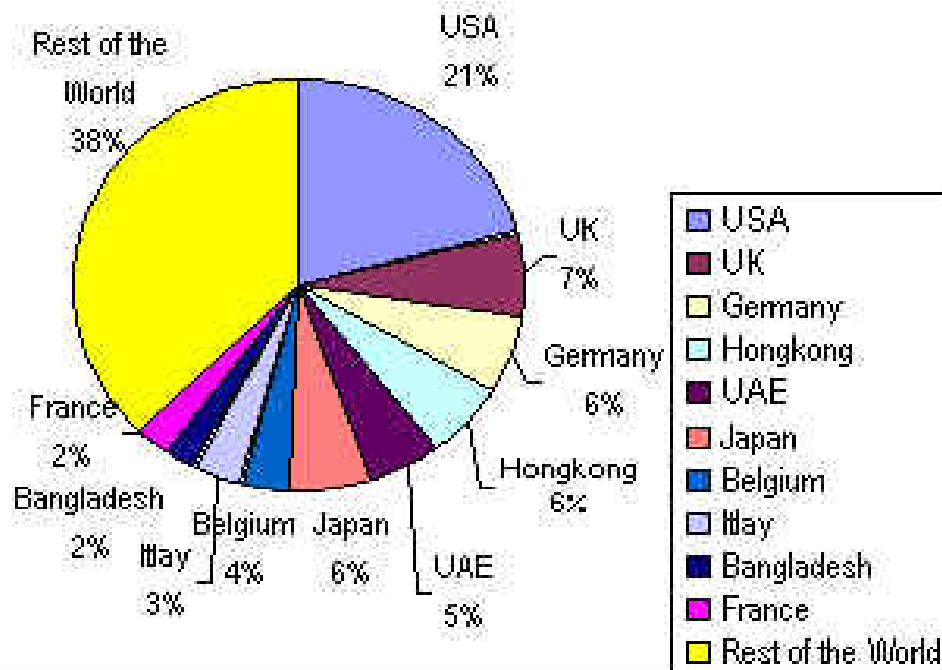


- | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|----|----|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|----|----|----|----|

Fig-5 : DESTINATION OF EXPORTS

1997-98

US \$ 35006.2 MILLION



1998-99

US \$ 33667.0 MILLION

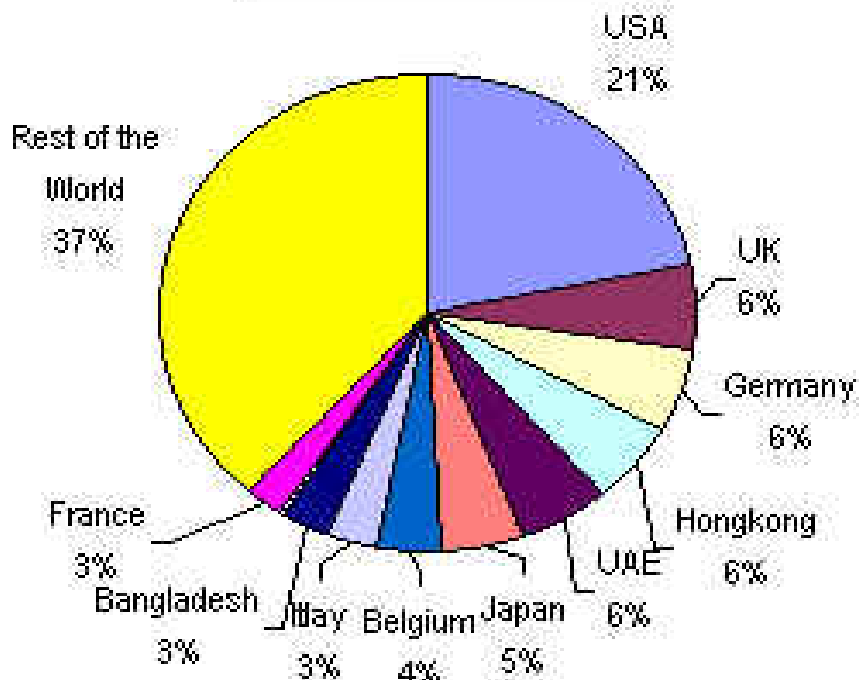


Fig-7:IMPORT EXPORT AND TRADE BALANCE
(In US Million \$)

