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EMERGING ISSUES, PERSPECTIVES, AND CHALLENGES OF INDIA'S FOREIGN ECONOMIC POLICY

Focus on Finance and Trade in the 21st Century

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Abstract

The paper focusses on India's commercial and economic interaction as the most vital component of its foreign economic policy and relations. Among other things, it considers the challenge to bring intrinsic strength to the country's position in the world economy; discusses the trend in favour of market-based foreign economic relations; and suggests that in future, foreign market fundamentals will have to be strengthened. And also that the new challenge of the emerging economic prowess of China will have to be met. Going by the 'SWOT' analysis of India's foreign economic policy, it finds that there are more strengths than weaknesses and greater opportunities than threats. To maximise strengths, it is imperative that opportunities are fully utilised. After a dose review of weaknesses and threats, it suggests a substantial and coordinated policy effort, that includes an innovative and proactive approach, a firm grasp of emerging market-based economic relations and behaviour of nation states in order to derive lessons for the future, and above all, to increase domestic economic strength arid maximise the nation's wealth.

Emerging Issues, Perspectives, and Challenges of India's Foreign Economic Policy
Focus on Finance and Trade in the 21st Century

Prologue

India's interest in keeping peace and good relations with different countries is a time-tested phenomenon. It has recognised the importance of pursuing a sound foreign economic policy **(**FEP**)** and in building resilient relationships in economic areas. India has constantly fostered cordial economic relations and has tried to expand its interdependence with the world to the extent permitted by its geography and the internal economic parameters. Recently, it has done so with a 'big bang'**.**

Commercial and economic interaction has remained the most vital component of foreign economic policy and relations. This is evident from historical times when international interaction induced free movement of people and their cultures across borders and coastlines.

Towards Integration with the World Economy

Recent efforts at integration with the rest of the world are thus not a new phenomenon for India. The ups and downs in such relationships over long periods are also not unusual. India has faced the biggest shocks (including the oil shock) with dynamism and adaptability. Its constant move towards an overall stable, and secular society, and its increasing integration with the world is indeed remarkable.

India with its vast area and large population provides an internal market to reckon with. However, historically it has never been a major exporting country, or a mercantilist power with high trade GDP ratio, despite its long coastline, and not being a land-locked country. Rather, the country suffered a decline in its share of world trade from around 2.5% at the time of Independence to around 0.5% in recent times. The share in world trade in services also works out to be around 0.5%. Its share in these two areas is on the increase now. A good number of outsiders, lured by the richness of the country and its culture, have been accommodated in India. A large number of immigrants from neighbouring countries enjoy India's relatively higher political and economic stability and job opportunities.

Vastness to Deepening

India is the seventh largest and the second most populous country in the world and is endowed with varied natural resources. But, presently it is a marginal player in the global economy in terms of its share in world exports. India exports as many as 7,500 commodities to 190 countries and imports 6,000 commodities from 140 countries (*see India-1995*). The vastness of its economic relations is thus clear. But, the process of deepening of economic relations has been in progress only recently with the opening-up of the economy as part of economic reforms and liberalisation. The share of exports and imports of goods and invisibles in the country's Gross Domestic Product (GDP) crossed the threshold of 30% by 1995-96 compared to around 20% five years ago. In the emerging perspective of openness and liberal interdependence, the present challenge of foreign economic policy is to bring intrinsic strength in the country's position by way of strategised and effective efforts aimed at increasing its presence in the world economy, and expanding gains to add to the national wealth and incomes. This is to be done through raising the country's share in world exports of merchandise as well as services. The volume in world trade in services can be raised much faster, than in goods, given the large populace and reservoir of human resources that is English- speaking, skilled, and has expertise in science and technology.

Growth and Foreign Support

For prosperity and strength, India has to sustain the present high growth rate in GDP at seven per cent plus. The investment as share of GDP needs to be raised between 28 to 30 per cent. The growth objective would require complementary resources from abroad, given the level of savings at around one-fourth of GDP.

The inflow of foreign investment, which is marginal at present, has to be raised. And for this much needed capital, we could consider foreign direct investment (FDI) or portfolio investment. The non-resident Indians (NRIs) are another source to be tapped increasingly given their stock and flow of foreign exchange earnings.

Net transfer of resources (external assistance minus repayments and servicing, i.e., interest payments) turned negative during the years 1995-96 and 1996-97. Foreign economic policy should aim to reverse this trend as the country remains a low-income country (LIC) with an average per capita annual income of about US $360 (1995). The policy effort should be oriented to bring out the need to get over the ill-effects of globalisation, notably substitution of 'development cooperation' by private capital flows. India deserves

It is likely that foreign direct investment (FDI) will be a leader among the different financial inflows; but we have to closely monitor what is known as 'asymptotic liability to export ratio' (ALER), and it has to be dealt with through expanding exports. Indeed, high export growth is warranted to attain 'self-reliance' in terms of reduced "external vulnerability" and "sustainable balance of payments", as defined in the Ninth Plan Approach Paper. Self- reliance should not mean import-substitution at any cost and thus producing everything at home.

Market-based Foreign Economic Relations

At the outset, the importance of reorienting foreign economic policy to move towards market-based foreign economic relations cannot be overemphasised. The concrete example of this is already in progress in the case of the erstwhile USSR. The increasing proportion of trade with Russia and other CIS countries is through hard currency and there is a cap on the trade through the debt repayment route, some counter trade notwithstanding. Such reorientation would call for strengthening and professionalising the diplomatic presence in major countries and use of state-of-the-art information technology, as also moving to a proactive system of foreign economic policy procedures and negotiations.

It would not be an exaggeration to say that to a large extent Indian foreign economic policy so far has been an attempt to adjust to the emerging world political economy, aimed at minimising any serious damage which may be caused to the economy and carrying out necessary changes in the domestic economic policies. In a similar vein, it should be asserted that languishing in the past history and culture will not contribute to the new objectives of foreign economic policy. It would be necessary to be innovative, besides being proactive.

Framework of the Paper

Elaborating on the issues brought out above, the paper is organised in five sections. Section 1 discusses the continuing disarray and asymmetry in the world economy and its impact on India. Changes in 'development cooperation' and in the pattern of foreign resource inflows are also discussed in this section. Section 2 discusses the different levels of foreign economic policy and relations—multilateral/regional/bilateral and the institutions involved. The dimensional importance of different countries in respect of trade and investment, and the resources of the Non-Resident Indians (NRIs) are also discussed in this section. Section 3 considers the issue of India and regional groupings. This section also covers India's policy on South-South Cooperation. Section 4 covers recent foreign trade and investment trends, emerging economic openness for which specific indicators are available, and its macro economic vision. Section 5 focusses on the emerging perspective and challenges of foreign economic policy. The perspective relates to the post-Uruguay Round prospects of expanding trade and to the new issues in trade relations being pursued by the OECD countries (labour standards, liberal investment conditions, competition policy, environmental protection, etc.). The epilogue gives a brief 'SWOT' analysis and summarises the recommendations.

Memo: FEP is taken as an all inclusive set of visible policy measures in respect of apparent two-way foreign trade, foreign investment and borrowings including aid, exchange rate, transfers on account of movement of peoples and services, etc., and the official position of the country on international/regional/ bilateral issues, as also responses to the emerging world economic order which has implications for the domestic economy.

1. Disarray and Asymmetries in the World Economy and India: Reverse Flow of Resources

India's foreign economic policy can be characterised as a series of damage-limiting efforts, given an international economic system with apparent disarray and full of asymmetries in the major areas of trade, capital flows, labour movement, and exchange rate, the general living standards notwithstanding. The disarray is sustained due to the large gap in GDP (per capita) levels and not so rapid growth in India, as also the general gap in technology and limited availability of investable funds, and above all in productivity.

The 'Asian Tiger' countries of South-East Asia have demonstrated that given certain initial conditions (land reforms, minimum education, health, etc.) and a synergic relationship between the private sector and the government, and with outward-orientation, i.e., tapping the world market for expansion of economic activities, and encouraging inflows of foreign private capital flows, higher productivity and growth can be obtained. India not only lacks the initial conditions but has not been so enthusiastic and optimistic about outward-orientation. The disarray and asymmetries, therefore, stare straight at the face of the country's foreign economic policy makers.

It creates a vicious circle in the sense that the country had not attempted outward-orientation until 1991 because the gains expected were limited, due to 'elasticity pessimism'; while disarray and asymmetries between India and the developed world (and certain developing countries) continue to rise due to slower growth which only increases the gap in productivity and per capita income.

India's active association (and leadership) with the developing countries whether in the context of the Non-Aligned Movement (NAM**)** or recently SAARC and APEC, based on the theory of 'common interests', has not helped in making foreign economic relations productive and helpful to rapid growth and modernisation. Although it has worked in the case of the 'tiger' economies and China, in recent years. A foreign economic policy which stands on its own merit and which is oriented towards the above mentioned objectives is, therefore, the need of the hour. Recent trends clearly show that there are more competing (not conflicting) interests, than common interests, among the developing countries of the East or West.

'Development Cooperation' in the Backseat

One of the main objectives of India's FEP has been to maximize 'development cooperation', an OECD term used for official development finance **(**ODF**)** or concessional assistance, given by the developed countries.

The assistance received by India has a checkered history. For quite some time, India has been a major beneficiary of 'development cooperation' as also of concessional assistance given by multilateral organisations, viz., the World Bank and the IMF**.** Out of these, India has been the top beneficiary of highly concessional assistance available from the International Development Assistance (IDA**)** fund of the World Bank. India as a 'blended' country, meeting certain criteria, is no more a big recipient of IDA entitlements as before.

Second, with the entry of China which is also a low-income country, India's share has come down, resulting in increasingly reduced share of concessional assistance in total foreign inflows. Considering recent trends and countdowns of different inflows from abroad, as shown in Chart 1, we find that due to increased repayment and interest liabilities, and little growth in gross (nominal) assistance (much less in real terms), there has been a negative assistance, i.e., reverse transfer of resources experienced for the first time in 1995- 96 which continued in 1996-97.

Private Capital Flows as Leader

Private capital inflows by way of foreign direct investment (FDI), portfolio investment, NRI deposits, Global Depository Receipts (GDRs), and commercial borrowings together seem to have been taken as a substitute rather than as additional ties. The objectives of foreign economic relations, therefore, need to be made clear to the players. The additional ties should be aimed at. India, which is still a low-income country should be entitled to increased net resource transfer from bilateral as well as multilateral sources, complementing the investable funds so necessary for the amelioration of structural poverty and rapid growth. India's recent efforts to promote private foreign capital flows cannot be doubted. The policies have been liberalised. But we need to work on the present objective to attract FDI at least at the level of $10 billion annually, since we were only able to attract about $2 billion in the last two years.

2. Levels of Foreign Economic Policy and Relations

The multilateral, regional or bilateral level foreign economic policy (FEP) is a function of partner-specific objectives which are likely to differ among partners and also change overtime.

The general objective of FEP has been to maintain cooperation and to increase participation in the global economy, while the specific objective has been to mobilise greater capital flows which may complement domestic savings, and to expand trade in goods and services.

Multilateral and Regional Relations

In the case of multilateral relations, India has been one of the founder members of the IMF and the World Bank, the Asian Clearing Union (ACU), the Asian Development Bank and recently of the World Trade Organisation (WTO**).** India has been a primary member of several Commissions/Committees set up under the aegis of the UN/multilateral system; and has also participated in international conferences held earlier on money and finance, industry, trade and development, and recently among others, on environment (Rio-de-Janeiro), social development (Copenhagen), and population (Cairo). Government as well as non-governmental bodies of India has contributed significantly at these conferences.

In the case of the IMF and the World Bank, decision system rests on quotas and shares. The formulae for distribution are so skewed and regressive that poor countries get increasingly lower proper) lions. In the past, India has tried to present technically sound alternative formulae. These have somehow not found favour with the member countries which matter (see the ‘Buff’ document circulated (1988) by India at the time of the Ninth (IMF**)** General Re-view of Quotas). Such efforts need to be revived, and the issue should be kept alive to enhance India’s share of development finance.

In the field of trade, India’s participation in the different Rounds of negotiations under GATT is notably aimed at increasing the country’s trade. The pragmatic stand taken by India in the recent Uruguay Round of trade negotiations, concluded in March 1994, has proved consistent with the economic liberalisation and reform measures undertaken since 1991. India’s policy has been one of ‘give and take’, to avoid isolation, and remain an important party in agreements—be it the trade in merchandise and services or intellectual property rights (IPRs) and trade related investment measures. With the emergence of new issues in the post-WTO framework of multilateralism, viz., protection of environment, social clause (child labour), free direct investment, rule based technology transfer and above all competition, India is faced with certain challenges which we shall discuss later in the paper. The country’s participation in the first WTO Ministerial Conference held in December 1996 in Singapore meant an encounter with these issues and IT agreement requiring an in-depth discussion by all concerned.

Regional level participation is discussed in a later section, but it is useful to point out at the outset that active participation in the growth of the SAARC (and SAPTA) and strategic promotion of the Indian Ocean Rim-Association for Regional Cooperation **(**IORARC) launched recently in March 1997 is notable. Pakistan's dithering over according the MFN status to India, undeterred even by the WTO order, has lowered the real significance of SAARC as two of the bigger nations of the region remain passive partners in trade. Neither Nepal nor Bhutan qualifies for the membership, but Pakistan does and so does Bangladesh. Both have yet to succeed in becoming its members. India's association with SAARC and IORARC is in no way mutually exclusive. The latest initiative for subregional cooperation among Bangladesh, Bhutan, India and Nepal is also not incompatible with SAARC.

As for the preferential regional trade arrangements (RTAs**),** the prevalent view, however, is that NAPTA and ASEAN and resulting discriminatory policies of the member countries have affected India's exports adversely and that these would come in the way of any future negotiations on free flow of 'natural persons'.

Bilateral Relations—Trade and Investment—'Look East'

Bilaterally, as mentioned earlier (see Prologue), India has trade transactions with a large number of countries with 66 offices of Commercial Representatives (CRs, as per Annexures 1 and 2). Major part of the trade is, however, accounted for by 15 to 20 countries. Over three-fourth of the exports in recent years were accounted for by 20 countries and the first seven countries in the order of scale of export remain the same, viz., the USA**,** Japan, Germany, the UK, Hong Kong, the UAE**,** and Belgium, altogether accounting for over one-half of the total. This is explained, among other factors, by the high per capita incomes and market potentials of the countries. Russia in 1995-96 ranked eighth, while the CIS countries including Russia ranked second in 1991-92. This has meant greater amount of market- based trade transactions.

There is a dynamics of markets in the sense that ranking has been changing among the rest of the countries. Due to India's political relations with the erstwhile USSR, Russia remains an important trade partner. The countries which have recently come up in the list include Bangladesh and Sri Lanka, from South Asia (which account for about 5% of total exports), and Indonesia, Thailand, South Korea and Malaysia from East and South East Asia, besides China, Hong Kong, Singapore and Taiwan. The latter, together with Japan, now account for over 30% of total exports (1996-97) compared to about one-fourth 1990-91. Thus, trade, is 'Looking East'. Countries, such as, Italy, Netherlands, Prance and Saudi Arabia remain among the first 15 (see Table 2).

The major commodities of Indian exports are gems and Jewellery, cotton yarn, fabrics and made-ups; readymade garments of cotton; drugs and pharmaceuticals, oilmeals, plastics and linoleum products, electronic goods and ready-made garments of man-made fibre fabrics. Due to supply constraints, agricultural products, notably foodgrains have shown high fluctuations in exports. Exports of processed products are constrained by limited processing, cold storage and infrastructure facilities. High growth rate (average 20%) of exports during 1993-96 was mainly due to the manufactured and processed agri-products, many of the items being high value added in which India has scope for gains in the future.

During 1995-96, the major (first-ten) countries of sourcing imports were as follows: the USA, Germany, Japan, Saudi Arabia, the UK, Belgium, the UAE, Singapore, Italy and Switzerland! Australia. The weight (in a total of 100) of Russia in sourcing has recently gone down due to the emphasis on the state-of- the-art capital equipment and market-based transactions. The weight of the SAARC partners in imports was hardly 1% of the total. China's share worked out to 2.2% in the year under consideration. The sourcing from Saudi Arabia and the UAE is of petroleum and other products; other sources being Kuwait, Bahrain and Singapore. Belgium and the UK are the main sources of semi-processed gems, which are processed and exported. Fertilizers are imported mainly from the USA**,** Saudi Arabia and Kuwait. Electronic goods are sourced mainly from Japan, Singapore and the USA**.** Project goods come mainly from Japan, Germany, Italy, South Korea and the UK. Edible oils are imported mainly from Malaysia, while newsprint from the USA**,** Germany and China. The import matrix of commodities-countries clearly shows the diversified sourcing by India and thus its wide ranging foreign economic relations.

The diversified pattern of exports and imports which is clearly illustrated by India's commodity-country and country-commodity matrices requires sustained policy efforts, with a number of countries, notably in East and South East Asia. And need to be in terms of maintaining cordial and growing relations supported by physical and financial infrastructure in which a number of ministries/departments, public sector corporations, the Central Bank (RBI) and the financial and banking system participate. The foreign economic policy in the coming years should be a catalytic tool in bringing outward orientation of the administration and the economy.

Bilateral relations in the area of foreign investment have gained new significance since external liberalisation policies were adopted in 1991. The interaction of business interest has increased. The movement of the economy's 'fundamentals' has been watched critically. The organisations under concerned government departments as well as private sector industry have been exposed to international business organisations. Several economic rating and consultancy organisations have come to the fore. The country's rules and regulations too have been tested. On its part, India has pursued several image-building exercises abroad in which state governments and apex chambers of commerce and industry have also participated. Participation by joint (government and industry) teams in the annual meetings of the World Economic Forum (WEF**)** has been watched with great interest by all concerned in the business world.

Portfolio investment (by foreign institutional investors FIIs**),** NRI and other investments, receipts from GDRs, etc., have surged (see Chart 1). The level of such inflows was only around $ 100 million in 1990-91, which increased to about $ 5 billion during the period 1994-96 and was $ 5.6 billion in 1996-97. FDI flows alone were $ 1.31 billion in 1994-95, $ 2.13 billion in 1995- 96 and rose to $ 2.70 billion in 1996-97. An annual target of $ 10 billion as FDI has been set. The position of actuals compared to approvals (see Table 3) has been a matter of concern. Low realisation ratio (actuals/approvals) in the case of the United State which is number one in approvals is revealing and calls for examination of the causes; and FEP should address these issues. On the basis of approvals amounting to $ 24.1 billion during 1991 to 1996, excluding NRIs and Euro Issues, the share of the US works out to

28.5%. The other major source countries are the UK (6%), Mauritius (5.4%), Japan (4.9%), Israel (4.7%), Germany (4.2%), and South Korea (4.2%). The causes of low realisation ratio in respect of other countries, notably the UK and Japan also need to be looked into.

Presently, FDI entailing joint ventures in India is thinly spread, but its economic linkages are seen in a vast number of areas covering core as well as consumer product industries, and it is likely that the level of inflow would pick up in the future. The foreign investment policy is being increasingly liberalised, especially for the FITs as evident from the 1997-98 Budget. There remain certain bottlenecks of complementing cheap financing and infrastructure. However, given the country's stress on incentives for foreign investment, and given the trends of increasing private capital inflows at international level, foreign economic policy needs new orientation. India's FEP should aggressively project the factors which show long-term investment profitability to foreigners and NRIs. A state-of-the-art system for feedback information to the domestic actors about investors' expectations should be developed urgently.

India's investment relations by way of joint ventures (JVs**)** and wholly-owned subsidiaries (WOSs) abroad are part of its foreign economic policy. There are as many as 584 JVs and 421 WOSs abroad (see Table 4). Out of these, 407 JVs and 340 WOSs are under implementation. As expected, majority of them are spread over a large number of co-developing countries, but the first two partner countries are from the developed world, viz., the USA and the UK; other important ones being Singapore, Hong Kong, Malaysia and Sri Lanka. India has as many as 35 JVs and 14 WOSs in Russia. The benefits accruing from the JVs and WOSs in terms of dividends and other repatriations have been meagre (Rs. 3.2 billion) due to the status, but additional exports are estimated to be about Rs. 20 billion by 1995 end which show their 'linkage' value.

3. India and Regional Groupings
Policy for South-South Cooperation

India has been an active partner of the Non-Aligned Movement (NAM) and the Group of Seventy Seven (G-77). With the end of the cold war, the rapid movement of the world economy towards globalisation, and the conclusion of the Uruguay Round of trade negotiations, some regional groupings of importance have emerged. Notably NAFTA in America, ASEAN in South-East Asia, and a continuing progress of European Union (EU), existence of APEC notwithstanding. These regional groups have to work within the multilateral framework of trade now under the WTO order. Among other regional associations, the SAARC is notable and India is one of its eight member countries. India is a 'Dialogue Partner' of ASEAN. The Association for Regional Cooperation among countries of the Indian Ocean Rim (IORARC) was inaugurated in March 1997 in Mauritius. India is a primary member and promoter. India, in recent years, has shown a desire to join the ASEAN and APEC regional organisations, where it may not be a dominant member. But, as shown on page 16, India's membership of the major regional organisations is not in sight.

A review of India's foreign economic policy shows that apparently no serious attempts were made for obtaining membership to the major regional organisations. Being a large country, as in the case of China, India has to find its own way to become a major player in the world economy. Indeed, India is presently the fifth largest economy, going by the estimates of GDP ($ 1169 billion, 1994) based on purchasing power parity (PPP, World Bank); the other four being the USA, China, Japan and Germany.

It is estimated that India is likely to be the fourth largest economy by the turn of the century, next only to the USA, China and Japan.

Partnership Model

It appears that in place of active membership in the existing distant regional groupings, India prefers partnership and cooperation in developing closer foreign trade with like-minded countries. This maybe an appropriate model of partnership. Though recently, India has made serious efforts firstly, o be a member of ASEAN, and secondly, to be an active promoter and partner of the Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC). This was launched in September 1996 and had its Ministerial meeting in March 1997, including a number of like-minded member countries. It is noteworthy that the idea of IOR-ARC was first floated by strategy analysts in India, who were increasingly concerned about the security of the region.

It would be useful to consider whether India really missed the opportunities for getting membership of regional groups and thus missed the bus which would have taken the economy to much greater openness.

	By 1996	2000	2010
OECD	x	x	x
EU	x	x	x
NAFTA	x	x	x
ASEAN	*	*	**
APEC	x	* (not before 1998)	**
SAARC-SAPTA	***	***	***
IOR-ARC	***	***	***

X no membership in sight
* dialogue partner
** may be a member depending on the 'openness' and growth, and stability
*** already a member

X no membership in sight
*** dialogue partner**
**** may be a member depending on the 'openness' and growth, and stability**
***** already a member**

South-South Cooperation

India's foreign policy strongly favours South-South cooperation, not only in terms of taking such a stand in multilateral forums but also in terms of providing assistance to countries from its own coffers. Financial assistance extended by India—a low income country—cannot be on a large scale. However, the assistance amounted to about $1.8 billion and by 1995-96 as much as $ 1.6 billion had been utilised by the developing countries (see Table 5). The countries include, Bangladesh, Bhutan, Nepal and Sri Lanka in South Asia, other major developing countries from different regions being, Vietnam, Mauritius, Burma, Nicaragua, Guiana, Cambodia, etc., and Uzbekistan and Kazakistan in Central Asia.

The Indian technical assistance provided under the International Technical and Economic Cooperation (ITEC) programme as also the assistance under the Special Commonwealth African Countries Assistance Plan (SCACAP) have been substantial.

India's effort has also been to develop joint infrastructural projects and promote joint ventures in the co-developing countries. Due to historical and geographical factors, joint ventures have developed, albeit at a small scale, in neighbouring countries, notably in Nepal and Bangladesh.

Indeed, India has been an active partner in the South-Asian Association for Regional Cooperation (SAARC**)** toward building good relations with the countries of the region, of which Nepal, Bhutan and Bangladesh are the least developed countries, others being low-income countries.

India's recent attempts to expand South-South cooperation in the South Asian region are reflected in the Agreement on SAARC Preferential Trading Arrangement **(**SAPTA) signed by seven countries on April 11, 1993. The agreement provides additional measures in favour of less developed Contracting States. Furthermore, efforts for developing the South Asian Foreign Trade Association (SAFTA) are in progress. India has liberally prepared the list of items where it is ready to give concessional treatment to the neighbouring countries. Being a large country, this is in line with its belief in pursuing cooperative efforts unilaterally.

However, South-South Cooperation cannot expand rapidly unless a few large scale infrastructural projects come into being. There is considerable scope for such projects based on natural resources and large scale markets of the region. The possible areas for such projects are multi-purpose irrigation and power projects in Nepal in which India could take most of the power; and natural resource based fertiliser projects in Bangladesh where India could take most of the products. The major hindrance in the materialisation of such projects is large fund requirements which partner countries cannot afford. The external support, particularly 'co-financing' under the aegis of the multilateral organisation like the World Bank is essential. Unfortunately, in recent years, there has been an adverse trend in the growth of external assistance for projects. This is more so in the area of bilateral assistance. In view of the fact that most of these projects are likely to be of high social rate of return but of long gestation period, there is need to revive claims and build up world opinion in favour of them. This is a challenge for India's foreign economic policy. This would also mean that partner countries duly take into account the challenges of environmental protection and rehabilitation of locally displaced persons when projects are finalised. Undoubtedly, the resulting higher growth of GDP in these countries would enable them to repay the cost of projects.

In terms of approach to international problems, India's participation in G15[*], as actively as in G-77, and in different UN forums, has been of great value. The Group provides a focussed forum for discussing issues of South-South cooperation whether they relate to the IMF**,** the World Bank or the WTO. India had organised a meeting of like-minded countries, in New Delhi, just before the Singapore (WTO**)** Ministerial Conference, enabling the participating countries to know each other's viewpoints. Such cooperation is also reflected in the Declaration signed in Singapore which has vastly moderated the attempts of developed countries to bring up new issues in the WTO.

[*] Algeria, Argentina, Brazil, Egypt, India, Indonesia, Jamaica, Malaysia, Mexico, Nigeria, Peru, Senegal, Venezuela, Yugoslavia, and Zimbabwe.

4. Recent Foreign Trade and Investment Relations— Increased Economic Openness and Macro-Economic Vision

Trade and aid are central to the foreign economic policy of a developing country like India, both in respect of multilateral as well as bilateral relations. With the scale of official development finance **(**ODF**)** or aid declining in relation to trade and output, it is trade and private capital flows (notably FDI**),—**rising faster than output**—**which should now be the focal points.

The world (merchandise) exports grew by 6% annually during 1950-94 compared to the growth of world output at 4%. World exports grew 14 times while world output grew only 5½ times (both in real terms) during the review period. According to the WTO**,** with 10% rise in world output, trade grew by 16% during the same period. The recent trends have been still more exciting as can be seen in the statistics on page 20.

The above trends are clearly reflected in the changing foreign economic relations. And have meant a change in the direction of India's FEP that is evident in the liberalisation policies adopted since 1991.

The recent buoyancy in world exports of merchandise and services enabled India to achieve about 20% growth in exports during 1993-96 and to raise its share in world exports from about 0.5% to above 0.6%. India expects considerable liberalisation in world trade following the Uruguay Round negotiations. India's policy is already reflected in trade liberalisation measures adopted since 1991. And the resultant increase in imports-GDP share since 1991-92 is discussed later in some detail.

The increased flow of private capital at the international level is

	1980-85*	1985-90*	1990-94 *	1994	1995	1996
World Export** (Vol.)	2.0	6.0	5.0	10.0	8.5	4.0
World Output**	1.5	3.0	0.5	3.5	3.0	3.0

* Annual Average (%)
** Merchandise

The overall world trade in commercial services grew somewhat faster than world merchandise trade (both in US $) in recent years

	1991	1992	1993	1994	1995	Av. (1991-95)	1996
-Mer. Exports	1.5	6.3	-1.0	13.0	19.5	7.9	4.0
-Service Exports*	5.8	12.0	1.0	8.0	14.0	8.2	5.0

* Commercial

Growth of ODF is drying up and has far lagged behind the growth of private capital flows as shown below (US $ million)

	1990	1991	1992	1993	1994	1995
Aggregate resource flow	101.9	127.1	155.3	207.2	207.4	231.3
of which ODF	57.9	65.5	55.0	53.0	48.6	64.2
Private flow	44.0	61.6	100.3	154.2	158.8	167.1
of which FDI	25.0	35.0	46.6	68.3	80.1	90.3

When converted at constant prices, i.e. in real terms, ODF shows significant decline.

reflected in raised commercial borrowings and foreign investment particularly during 1993-96. However, the magnitudes of capital inflows are no where near the expectations and least comparable to the long-term needs of the economy. The changed direction in FEP is reflected in the objectives oriented to maximise foreign trade and investment without making much effort for projecting and lobbying for ODF**.** But, FDI and other non-debt creating flows have also to be evaluated through “asymptotic liability to export ratio” (ALER).

Recent FEP efforts have been increasingly directed to tune state-level policies to attract foreign investors. These efforts have also been oriented to attract improved credit-rating of the country. There has been increased participation in global economic meetings (notably World Economic Forum) and different trade and investment exhibitions/fairs; and meetings of Joint Committees (Belgium, France etc.)/Commissions **(**EU, Swiss, CIS countries, etc.), Working Groups **(**EC**),** Commercial Alliance (USA) and Partnership Initiatives (Britain). The federal States have joined these efforts in projecting their potentials and prospects.

One of the features of FEP has been to tap the resource potential of NRIs. Their potential has been recognised and incentives to them became part of FEP during the eighties. The NRIs have recently been provided with certain privileges which include partial capital account convertibility. The NRI deposits (net) particularly Foreign currency Non Residents (Banks) and NR (Non-repatriable) Rupee Deposits have been substantial in recent years and responsive to the liberalised regime of the country. Inclusive of accrued interest, the total deposits were little over $2 billion in 1992-93, thereafter around $1 billion and were around $3 billion in 1996-97. These figures are quite attractive compared to the substantial withdrawal by NRIs during July 1991 when India was in the midst of a crisis. The remittances by Indians working abroad, known as ‘Private Transfers’, have been substantial in helping the country’s balance of payments position. They were 2.1 billion in 1990-91 which increased to $8.1billion in 1994-95, $ 8.5 billion in 1995-96, and $ 11.6 billion in 1996.97. Facilitating the expatriation of workers and the flow of their remittances should remain an important part of the FEP. Bilateral and regional level efforts should aim at getting a right deal for the workers by the recipient countries, notably the Gulf countries.

Increased Economic ‘Openness’

The stabilisation and structural adjustment process initiated by India in 1991 aimed to overcome the foreign exchange crisis. The Government took several liberalisation steps in the field of trade and industry, marked by adjustment in exchange and interest rates. This process is still continuing arid is facilitated by the comfortable level of foreign exchange reserves. The liberalisation measures during this period have aimed to bring greater integration of the Indian economy with the world economy, leading to increased economic ‘openness’ in terms of foreign trade-GDP ratio.

The maximum custom tariff on imports has been brought down from 400% irrl99l-92 to 50% in 1995-96 and further to 40% in the 1997-98 budget. The average (import-weighted) tariff has come down from 87% to about 30% over the period save for some adhoc increases. Several quantitative restrictions (QRs**)** have been removed and others moderated. The list of items under Open General License has been expanded while the Restricted List has been pruned. The discriminatory export subsidies have been abolished. The country has moved towards an overall enabling environment and macro-economic policy favourable to exports. For example, the nominal exchange rate which was about Rs. 18 per US $ when liberalisation began is now nearly Rs. 39. The recent trends in the movement of the Nominal Effective Exchange Rate (NEER) index and Real Effective Exchange Rate (REER) index shows that volatility has been limited, both indices have moved in line and timely corrections have enabled REER to move in a narrow range (see Chart 2).

Import-GDP ratio has increased from 8.4% in 1991-92 to 12.8% in 1995-96. Similarly, export-GDP ratio has increased from little over 7% to 10% over the same period. Among other indicators of economic openness, foreign investment-GDP as also foreign in- vestment/exports have increased significantly. The role of NRI deposits in financing capital account has increased, but dependence of the country's reserves on them has declined considerably (see Table 1).

The Case of Russia

The above economic trends have been complemented significantly by the decline in the share of the USSR, now CIS[*] countries, in exports and imports so far as part of trade is market- based. The amount available to Russia for trade through the debt repayment route is about Rs. 30 billion annually for ten years and a small amount for the subsequent 33 years.

The share of the USSR in India's total exports was over 16% in 1990-91, and after its collapse that of the CIS countries was 9.2% in 1991-92, which came down to 3.6% in 1995-96 and 2.7% in 1996-97. The share of Russia, in total exports, was 3.3% in 1992-93 and remained so in 1995-96, but came down to 2.4% in 1996-97. Thus, the decline in State-directed trade has been substantial. Furthermore, an increasing part of trade with the CIS countries would be market-determined and dollar-based.

With the reduced share of the USSR/CIS countries, and the commodity pattern moving further in the direction of manufactures, export-import prices would be based more on the world market situation, reflecting the degree of international competitiveness of the partner countries.

Gains from Trade

It is notable that India experienced an increase in the index of export unit values and decrease in the index of import unit values during 1991-92 to 1995-96. The index of terms of trade (TOT, base 1978-79) increased from 120 to 138 during this period. As the level of exports increased from US $ 18 billion to $ 31.8 billion during the same period, India obtained the 'gains from trade' which contributed to higher growth of GDP averaging over 7% during 1994-96. The index of net terms of trade (volume x TOT) increased from 250 in 1991-92 to 530 in 1995-96.

[*] Commonwealth of Independent States

The extent of people-to-people relations shows how far the FEP is people-friendly. Immigration/emigration and two way traffic of tourists are two indicators. While India faces stiff environment for movement of its ‘natural persons’, ‘immigration from the neighbouring countries has been substantial’. be it Tibet, Nepal or Bangladesh. It is estimated that there are about 20 million Indians spread over countries in the East and West, though mainly in the USA, the Gulf region and South-East Asia. Recent statistics show that the number of Indian tourists going abroad has increased substantially since liberalisation. It was little over 2 million in 1986 and increased only to 2.28 million in 1990. It declined to 1.94 million in 1991 but was little over 3 million in 1995. The number of foreign tourists coming to India had been an anemic growth of 2.3% during 1992-95, but recorded 14.5% growth during 1995-96. The total number of foreign tourists arriving in India was about 2.2 million in 1995-96, much less than 1% of all people crossing international borders. It is mainly sourced to the Western developed countries. Recently, there has been an increase in tourists coming to India from Japan and the South-East Asian countries.

Overseas branches of Indian banks service as an institutional source of public relations. The total number of these Indian banks (8 public sectors and 1 private sector) is presently 98 (at the end of March 1997). Furthermore, there are 14 Representative Offices of Indian banks abroad. The number of wholly owned subsidiaries and joint ventures is 11 and 7 respectively. The foreign banks operating in India are 41 with 180 branches, the number of representative offices of foreign banks being 27.

Projections of Economic Openness

The projections of trade, investment, and GDP for the next five years up to 2001-02 are such that economic openness is going to increase further and would necessitate a market-based foreign economic policy guided by macro-economic vision. The export-GDP ratio, for example, is expected to increase from around 10% to 15% and the foreign direct investment is to increase to $ 10 billion annually.

The increased economic openness is expected to lead to considerable benefits for the country, thus justifying a new approach to foreign economic policy. As discussed later, greater economic openness would mean new perspective and challenges for foreign economic policy. The major benefits include higher foreign inflows by way of non-debt creating channels like foreign investment, latest technology, improved quality of capital goods and several inputs imported by the country, and increased communication and travel enabling greater exposure of the people to the world economy. Indeed, greater interdependence would mean alignment with the world prices and constant move towards international standards and quality in different spheres. The country will have to adopt international legal (especially arbitration) standards and guard the economy from speculative activities as well as restricted trade practices with a well articulated framework of regulations. The foreign economic policy operation would be hazardous without these reforms.

Macro-Economic Vision

The imperatives of seven per cent plus growth rate of GDP, the corresponding warranted level of investable resources from the market and raising productivity* point to the macro-economic vision of the foreign economic policy that was recently outlined in the Ninth Plan Approach Paper. The imperatives include increasing competitiveness in the management of large resource flows, and technology transfers as also R&D ventures for building up technological capacity in support of high rate of growth in agriculture, industry and services. It also includes attracting large investments in physical infrastructure, increased public sector expenditure on education and health, with possibilities of commercial viability.

The re-orientation of FEP would, therefore, be expedient following the changes in economic and financial policies, at home and abroad, as the new macro-economic vision would have a significant external aspect.

The macro-level development experience of other developing countries, the economic performance of the OECD countries, and external sector prospects of the South-East Asian countries and China would have significant ramifications on FEP, notably in the areas of trade, investment and exchange rate.

A high-level of professionalisation arid specialisation would necessarily be called for in the formulation and execution of FEP. This would mean not only increased inputs from professionals but also networking mechanisms, use of latest information and analytical technologies and game-theoretic approach to negotiations.

* Meaning lowering economy-wide Incremental Capital-Output Ratio (ICOR**).** in ICOR in some sub-sectors due to improved technology is not ruled out.

5. Emerging Perspective and Challenges of FEP in the 21st Century

The emerging perspective of FEP is of a competitive world environment and greater opening-up of the economy. The survival and growth in the emerging perspective would depend on the fierce marketing of the country’s comparative advantages in certain products, large market, growing world trade in goods and services and private capital flows, notably FDI**.**

The South-East Asian countries and China are India’s main competitors. China excelled in attracting as much as $ 42 billion foreign direct investment during 1996 (over and above the $ 120 billion during 1990 to 1995), compared to $2.4 billion by India in the same year (less than $ 5 billion during 1990 to 1995). The share of incremental exports of South-East Asian countries and China in incremental world exports during 1990 to 1995 works out to 26% compared to India’s 0.77%. Asia’s total exports increased from $ 792 billion in 1990 to $ 1300 billion in 1995 when India’s exports increased from $ 18 billion to little over $30 billion. World exports increased from $ 3435 billion to 5020 billion during the same period. it is, however, to be noted that China began its economic liberalisation in 1979, while India adopted liberalisation policies in 1991.

Besides the economic factors, competition arises due to the high growth perception about competitive countries and lack of realisation of long-term potential of India. Indeed, the existing environment in the country is not yet favourable to expanded trade and FDI despite the many liberalisation pronouncements. There are oft-repeated complaints of administrative difficulties arising out of the approval systems and state-level problems in really setting-up factories. The States not only lack the required complementing infrastructure, but lack transparent and simple policies and procedures, though some have shown significant improvements. The perception of foreign investors about China (compared to India) is better where administrative procedures are concerned as they are confined in few hands, though corruption is common to both. The non-residents’ contribution to FDI has also been more encouraging in the case of China. The Transparency International (Paris) Perception Index (1996) places China as 50th and India as 46th among 54 countries as per scores based on their surveys of business people.

In the emerging perspective, improving the country’s image has, therefore, to be the main objective of FEP**.** This calls for a revamped system of commercial representatives (CRs**),** while the rest of the Embassy staff also needs to be professional, friendly and efficient. The role of the players should also not be confined to maximising sales and inviting partnership. The industry and trade have to aim at basic foreign market ‘fundamentals’ including promotion of long-term presence in the market, strong brands, standards and quality, and above all much needed reliability. Such a role requires strategic corporate policies as part of the corporate Boards’ decision systems.

The Ninth Plan Approach Paper outlines the macro-economic vision of the country’s approach to the world economy and foreign trade relations with different countries. The main elements which emerge from the Approach Paper are:

- deriving definite lessons from the past experience in respect of exports and external competitiveness;
- recognising that the actual BOP position India may obtain would depend on the developments in the world economy;
- significantly appropriate policy-mix for consolidating and building on the strength of the external sector achieved during the previous Plan;
- restructuring of the policies of the oil sector;
- maintaining orderly conditions in the foreign exchange market, managing exchange rate judiciously, and striving for capital account convertibility;
- supporting sustained robust, high export growth through certain policies;
- reforming tariffs, taking them to international levels, and phasing out QRs, all for competitiveness and efficiency;
- improving access of Indian industry to international capital markets and attractive non-debt creating flows; and
- regional initiatives in trade and investment under SAARC**.**

These should be the guiding principles of FEP in the coming years. The Five-Year Plan document when available would provide further details and a quantitative framework. The long-term perspective which will also be part of the Plan should help in outlining FEP for the 21st century.

Challenges and Recommendations

The challenges of FEP arise, first, from the need to maximise gains from the emerging world economic scene to complement rapid growth and pragmatic self-reliance, and second, from the need to respond to the world economic events with a positive mind-set. In both the cases, proactive approaches to foreign economic relations would be required in so far as economic openness would have to increase. It is recognised that India as a marginal player has the disadvantage of lack of external strength. But its prospects of achieving at least 1% share in world trade of goods and services are bright in the emerging scenario of world trade with prospects of expanded trade in agri-products as well as manufactures and services.

The market access schedules which are part of the Uruguay Agreement (1995) provide adequate encouragement for projecting high growth in world trade.

The service sector accounts for much over 40% of India’s GDP, though presently not all of it is tradeable. The increased trade ability of this sector is a function of the emerging world market. The growing market is dominated by value-added exchange of support services of different sorts, at high income levels, be it computer software, professional consultancy services, management services, educational and health services, banking and insurance, brokerage, leasing or franchises.

Many new issues are coming up in the multilateral fora, be it the WTO, the IMF, the World Bank, the ILO or the UNCTAD. The official stands in negotiations will have to be such that they strike a balance between the social and political needs of the country, on the one hand, and the need to give the right signals to world industry and capital market, on the other. The challenge lies in making adequate preparations before deciding on official positions on issues, and operating with flexibility during negotiations when all the cards are laid open.

Role Model for India

The role model adopted by India when the Non-Aligned Movement was at its peak was relevant during the cold war, now with the dissolution of a bi-polar world order, it needs to be changed. The available alternatives are indicated in the role played by China, on the one hand, and South Korea, Thailand and Indonesia, on the other, Malaysia being in between the two models. Japan's role model with its all-round dependence on the USA is not suitable for India. The USA model is too ambitious, given India's lack of comparable strengths in dealing with the outside world. Thus, a readymade role model is not available for India.

We have to adopt an eclectic approach, that would mean combining suitable elements of the different role models, such as, the strong and lone voice (China), pragmatic and flexible approach (South Korea), and readiness for compromises when national economic interests are at stake (Japan). The degree of eclecticism would differ from forum to forum.

An important challenge of FEP is to be able to live with the regional trading arrangements (RTAs). Given the problems of entry into the existing groups, viz., ASEAN and APEC, least in NAFTA and EU, India is keen to promote the Indian Ocean Rim- Association for Regional Cooperation. This is, however, far from a RTA which really helps rapid growth of intra-regional as well as overall trade and investment. It appears that membership of RTA is taken as an entry visa to the powerful League of Nations which is able to capture a significant part of incremental trade and private capital flows at the world level. The mobilisation of $ 10 billion (or more) of FDI on an annual basis will remain a challenge for India's FEP; and equally so of achieving 1% (or more) share in world trade of goods and services.

Challenge of China

The sixties, the seventies and much of the eighties passed with the premise that India is a populous, natural resource-rich and large country with its own market to reckon with and, therefore, economic reforms, liberalisation and outward orientation adopted by certain South-East Asian and Latin American high-growth countries may not be appropriate. The premise has been eroded over a period of time due to inefficient performance and low growth. The eighties witnessed certain reforms and limited liberalisation. The 1991 episode has changed the premise and now India is in the global business game.

India faces a challenge now that a larger and more populous country like China has somewhat excelled in economic reforms and liberalisation and is experiencing a high growth process. China has opened-up (in terms of exports/imports-GDP) to a greater degree even though it is yet to qualify to be a member of the WTO. India has also opened-up though to a lesser degree, and is one of the founder members of the WTO. The level of private capital in- flows coming to China is high, next to the USA. While India has recently joined the race and inflows are meagre.

Statistics show that (i) both countries in 1980 drew an equal amount of disbursed resources, but by the mid-nineties, the total for China grew three times than that of India; (ii) China has been able to attract whopping amount of private capital despite the more favourable political parameters of India; (iii) China has expanded its draft from IBRD, especially IDA (being a low-income country with nil in 1980) to an amount that was double (equal in terms of

The data below show the extent to which China has increased its draft over world resources compared to India.

(US $ million)

	China			India		
Disbursements	1980	1990	1994	1980	1990	1994
Multilateral-	0	511	704	863	2211	2230
concessional	(0)	(491)	(647)	(621)	(558)	(-2707)
Private	2294	7088	14113	673	2802	2134
Creditors	(1431)	(2617)	(6166)	(470)	(-159)	(631)
Total incl.	2539	9665	18314	2451	6586	5938
Others	(1609)	(3813)	(8126)	(1192)	(456)	(-1701)
Memo						
IBRD	0	591	1380	174	1219	741
	(0)	(176)	(701)	(37)	(132)	(-856)
IDA	0	507	680	652	762	966
	(0)	(488)	(630)	(602)	(551)	(651)

Figures in parantheses are net of repayments and interest.

Source: World Bank, *World Debt Tables*

net) of India's by the mid-nineties; and (iv) India, unlike China, is facing reverse (minus) transfer of resources in respect of multilateral sources if we consider disbursements net of repayments and interest payments shown above in parentheses.

The challenge is, however, much greater than it appears from the above. The much faster growth rate obtained by China in recent years is reflected not only in its expanded nominal purchasing power and thus in its market, but also in the whopping scale of material production, particularly in core areas like steel which exceeds 100 mt. China's oil production is at 156 mt. It is 35 mt in India. In 1950s India was ahead of China in megawatts of power. Now, China generates 230, 000 MW, while India has only 90,000 MW. In 1970, India's exports were higher than China's. Today (1996), China's exports amount to $151 billion compared to India $33 billion. By 1996, the FDI stock in China stood at $169 billion compared to much less than 10 billion in India. China's foreign resource strength has expanded adding additional dimension to its military strength. By the turn of the century, considering purchasing power parity based GNP**,** Chinese economy is likely to be number two in size, next only to the USA.

India will be facing an economy, in its close neighborhood, which is far more competitive and capable of providing supplies of goods and services, exactly in the areas in which India desires to export.

Not a Zero-Sum Game!

Thus, China provides a challenge as a competitive supplier of goods in the world market; and as a producer may adopt several techniques including dumping to gain over India in global business. When India opens up its economy sufficiently, permitting imports of anything from anywhere, it will find yet another challenge in the domestic market itself. The economic relations with China, therefore, need to be fine tuned with identification of areas of specific intra-industry trade cooperation. The apparent competing interests can then be minimised avoiding a zero-sum game.

The scenario would not be as dismal as it emerges in the above analysis, if India speeds up economic reforms and works hard to gain competitiveness, given its basic strength, viz., democratic polity, large number of skilled and English-speaking people, a well established Common Law/English legal system, vast institutional base, a large market-based economy, and comparable natural resources. India, for instance, is much ahead of China in software in terms of total value added and exports; the US**.** Microsoft Corp. has forged close ties with Indian developers. Indeed, India's FEP will require fine-tuning with necessary aggressiveness, professionalism and alacrity in its operating system, based on an effective strategy. Keeping this challenge in view, necessary measures have to be spelt out in right earnest.

Epilogue: 'SWOT' and Recommendations

India's foreign economic policy has been reviewed in this paper by discussing its perspectives, issues and challenges, and chalking out its 'should-be' road-map for the future in the context of the changing world economic order. The world economy looks different today due to the emergence of market-based economies, and adoption of economic reforms and attempts at economic liberalisation all over the world. This is evident from policies for privatisation, emphasis on competitiveness, shift to flexible exchange rate and interest rate systems, reduced tax rates, low import tariff rates, market-based resource mobilisation, and limiting the role of State to the promotion of physical infrastructure and active support for human resource development and environmental protection. The macro-economic vision on the domestic front has changed due to the possibility of a 7 per cent plus growth rate and the imperative of outward-orientation to move to an efficient and globally competitive economy.

A 'SWOT' analysis of India's foreign economic policy suggests that it has more strengths than weaknesses and has more opportunities than threats. To maximise strengths, it is necessary that opportunities are fully utilised and a close review of weaknesses and threats suggests measures to be taken to overcome them.

For such a strategy to be successful, substantial and coordinated policy efforts on the part of concerned departments is a necessary condition. These include innovative and proactive approaches, grasp of emerging market-based economic relations and behaviour of nation states to derive lessons for India, and above all increasing domestic economic strength and maximising the wealth of the nation by all available means.

As suggested in the prologue, one of the goals of India's FEP should be the 'deepening' of foreign economic relations with the objective of expanding the country's intrinsic strength in terms of its rightful place in the world trade vector of countries. The share needs to correspond to the country's size, population and **PPP** based GDP not only in trade of goods but also of services, not only in tourism, but also in capital flows and financial transactions which can add to incomes of the people and wealth of the country.

Certain specific areas which FEP should address are:

- Causes of reverse transfer of resources in respect of 'development cooperation';
- need for the country's image-building on the basis of long- term competitive advantages and emerging market, to double and quadruple private capital inflows to complement domestic investable funds;
- need to increase mobilisation of NRIs' resources including workers' remittances;
- reasons of low realisation of approvals of foreign investment in the case of the USA, the UK**,** and Japan;
- need for clear identification of 'give and take' in future economic relations with both the developed and the developing countries;
- development of infrastructural projects in cooperation with South Asian and Indian Ocean-Rim countries with international 'co-financing';

- a special plan of measures in respect of economic relations with China, recognising ‘competing interests’; the East and South-East Asian countries and the message is to further ‘Look East’;
- declining ‘competitiveness’ in relation to select countries as per international studies/reports;
- ‘big-bang’ approach to developing quality, standards and international brands for rapid growth of exports;
- application of ‘scenario-building’, discussion of alternatives, and specification of choice-set of FEP; and
- imbibing necessary elements in the light of the above, in selection, training and postings of personnel.

The above is not an all-exhaustive list and may need revision in the light of certain interactions and discussions.

Table 1. Indicators of Economic 'openness' of Indian Economy During Liberalisation, 1991-97
(Balance of Payments Data)

Indicators (in%)	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Openness							
1. Import*/GDP	9.4	8.3	10.2	10.4	11.8	13.3	13.0
2. Export*/GDP	6.2	7.3	7.8	8.8	8.8	9.9	9.5
3. i) FI net/GDP	0.03	0.06	0.2	1.6	1.6	1.4	1.5
ii) FI net Exports	0.6	0.8	3.1	18.7	18.0	14.4	15.9
iii) FDI net Exports	0.4	0.8	1.2	2.7	4.9	6.1	8.1
4. *Invisibles:*							
i) Invisibles Receipts/ GDP	2.5	3.8	3.8	4.4	5.1	5.4	6.2
ii) Invisibles Payments/GDP	2.6	3.1	3.2	3.3	3.3	3.7	3.8
Reliance on NRIs							
5. i) NRIs' (net) Deposits/Reserves	68.7	5.2	31.1	6.3	4.0	6.5	15.4
ii) NRIs' (net) Deposits/Total Capital Flows	21.4	7.7	68.2	12.4	1.9	23.6	32.6
Decline in Aid							
6. External Assistance (net)/total Capital Flows	30.7	80.4	63.3	20.8	16.7	18.9	10.8

7. Net Inflows of Aid/Total Capital Flow	18.8	52.1	21.1	7.4	1.8	(-) 10.4	0.35
Sustainability of BOP							
8. CAD/GDP	(-)3.2 (3.2)	-0.5 (-1.1)	-1.8 (-2.2)	-0.4 (-1.8)	-1.1 (-3.0)	-1.8 (-3.5)	-1.0 (-3.5)
9. Current Receipts/ Payments	71.5	95.2	85.4	95.6	91.7	88.9	93.1
10. Debt/GDP	30.4	41.0	39.8	35.9	32.7	28.7	26.0
11. Debt/Service Current Receipts	35.3	30.2	27.5	25.6	26.2	24.3	25.4
12. Liability Service **/Current Receipts	35.6	30.6	27.9	25.9	26.6	24.7	26.2
Memo:							
(i) Import Purchasing Power of Exports	212.2	249.3	238.8	373.1	446.0	530.0	...
(ii) Import cover of Reserve (in months)	2.7	5.6	5.1	8.6	8.5	6.1	6.9

Parantheses in row (8) show trade deficit as percentage of GDP.

*Merchandise ** Servicing of both debt and non-debt flows.

FI=Foreign Investment including FDI, FIIs, and Euro-Equities, etc.
FDI=Foreign Direct Investment
NRIs= Non-Residents Indians

Source of Data: Reserve Bank of India, *Annual Report, 1996-97, Report on Currency & Finance, 1996-97, and Department of Economic Affairs, Economic Survey, 1996-97*

Table 2. Ranking of Countries According to Level of India's Exports

(US $ million)

1991-92		1992-93		1993-94		1994-95		1995-96	
1. USA	2921 (16.4)	1. USA	3516 (19.0)	1. USA	3999 (18.0)	1. USA	5021 (19.1)	1. USA	5518 (17.3)
2. Japan	1652 (9.2)	2. Japan	1436 (7.7)	2. Japan	1741 (7.8)	2. Japan	2027 (7.8)	2. Japan	2217 (7.0)
3. CIS*	1640 (9.2)	3. Germany	1427 (7.7)	3. Germany	1539 (6.9)	3. Germany	1748 (6.6)	3. Germany	1983 (6.2)
4. Germany	1270 (7.1)	4. UK	1213 (6.5)	4. UK	1379 (6.2)	4. UK	1690 (6.4)	4. UK	2008 (6.3)
5. UK	1138 (6.4)	5. UAE	814 (4.4)	5. Hongkong	1250 (5.6)	5. Hongkong	1517 (5.8)	5. Hongkong	1818 (5.7)
6. UAE	738 (4.1)	6. Hongkong	765 (4.1)	6. UAE	1158 (5.2)	6. UAE	1266 (4.8)	6. UAE	1425 (4.5)
7. Belgium	666 (3.7)	7. Belgium	683 (3.7)	7. Belgium	843 (3.8)	7. Belgium	988 (3.8)	7. Belgium	1119 (3.5)
8. Hongkong	614 (3.4)	8. Italy	622 (3.4)	8. Singapore	752 (3.4)	8. Italy	858 (3.3)	8. Russia	1047 (3.3)
9. Italy	580 (3.2)	9. Russia	607 (3.3)	9. Russia	649 (2.9)	9. Russia	807 (3.1)	9. Bangladesh	1037 (3.3)
10. France	425 (2.4)	10.Singapore	589 (3.2)	10.Italy	604 (2.7)	10.Singapore	770 (2.9)	10. Italy	1016 (3.2)
11. Singapore	388 (2.2)	11.France	472 (2.5)	11.The Neth.	511 (2.3)	11.Bangladesh	645 (2.2)	11. Singapore	911 (2.9)

12. The Neth.	373 (2.1)	12. The Neth.	415 (2.2)	12. S. Arabia	511 (2.3)	12. The Neth.	586 (2.2)	12. The Neth.	761 (2.4)
13. S. Arabia	351 (2.0)	13. S. Arabia	407 (2.2)	13. France	504 (2.3)	13. France	582 (2.2)	13. France	747 (2.3)
14. Bangladesh	324 (1.8)	14. Bangladesh	355 (1.9)	14. Bangladesh	430 (1.9)	14. S. Arabia	436 (1.7)	14. Indonesia	661 (2.1)
15. S. Korea	248 (1.4)	15. Thailand	254 (1.4)	15. Thailand	356 (1.6)	15. Thailand	407 (1.5)	15. S. Arabia	479 (1.5)
Sub-Total,1-15	**13328** (74.6)		**13575** (73.2)		**16192** (72.8)		**19340** (73.5)		**22747** (71.5)
16. Switzerland	241 (1.3)	16. Sri Lanka	248 (1.3)	16. Sri Lanka	288 (1.3)	16. Sri Lanka	367 (1.4)	16. Thailand	474 (1.5)
17. Australia	203 (1.1)	17. Australia	223 (1.2)	17. China	279 (1.3)	17. Australia	346 (1.3)	17. S. Korea	441 (1.4)
18. Malaysia	202 (1.1)	18. Switzerland	199 (1.1)	18. Taiwan	276 (1.2)	18. S. Korea	332 (1.3)	18. Sri Lanka	399 (1.3)
19. Thailand	199 (1.1)	19. Canada	191 (1.0)	19. Malaysia	247 (1.1)	19. Malaysia	286 (1.1)	19. Malaysia	392 (1.2)
20. Spain	197 (1.1)	20. Malaysia	190 (1.0)	20. Australia	245 (1.1)	20. Spain	269 (1.0)	20. Spain	391 (1.2)
Sub Total,1-20	**14370** (80.7)		**14626** (78.9)		**17527** (78.8)		**20948** (79.6)		**24844** (78.0)
Total	**17865** (100.0)		**18537** (100.0)		**22237** (100.0)		**26330** (100.0)		**31831** (100.0)
Growth Rate(%)	-1.53		3.8		20.0		18.4		20.9

Figures in Parantheses show percentage share in total. Ranking based on 1997.

* CIS = Commonwealth of Independent States (Russia and Others)

Source : DGCI&S, *Foreign Trade Statistics of India (Principal Commodities and Countries), Monthly Brochure,*

Table 2 (Contd.)
Ranking of Countries According to Level of India's Exports

(US $ million)

	1996-97		% Change over	Annual Compound (1996-97 over 1991-92)
1.	USA	6545 (19.8)	18.6	17.5
2.	UK	2031 (6.1)	1.1	12.3
3.	Japan	1991 (6.0)	-10.2	3.8
4.	Germany	1867 (5.6)	-5.9	8.0
5.	Hongkong	1774 (5.4)	-2.4	23.6
6.	UAE	1467 (4.4)	3.0	14.7
7.	Belgium	1083 (3.3)	3.2	10.2
8.	Singapore	961 (2.9)	5.5	20.0
9.	Italy	927 (2.0)	-8.8	9.8
10.	The Neth.	842 (2.5)	10.6	17.7
11.	Bangladesh	820 (2.5)	-20.9	20.4
12.	Russia	779 (2.4)	-25.6	6.4
13.	France	711 (2.1)	-4.8	10.8
14.	China	593 (1.8)	78.4	65.2
15.	Indonesia	585 (1.8)	-10.3	31.6
		23075 (77.3)		
16.	S. Arabia	564 (1.7)	17.7	10.0
17.	Malaysia	525 (1.6)	34.0	21.0
18.	South Korea	500 (1.5)	13.4	15.0
19	Sri Lanka	470 (1.4)	17.0	23.5
20.	Thailand	444 (1.3)	6.3	17.4
		25578 (77.3)		
		33106 (100.0)	4.0	13.1

Ranking based on 1997.
Memo: Pakistan 44 64 45.5

Table 3. Approvals and Actual Inflows of Foreign Direct Investment According to First Ten Countries, 1991 to 1995

(US $ million)

	Country	APPROVALS / ACTUALS					
		1991	1992	1993	1994	1995	Total
				Approvals			
1.	Mauritius	-	-	29.8	170.4	557.8	768.3
2.	USA	81.9	438.6	1114.1	1111.7	2176.1	4922.5
3.	UK	14.1	41.9	200.4	414.0	532.3	1202.9
4.	Japan	23.2	217.8	82.8	127.7	467.1	918.5
5.	Germany	18.4	30.7	56.6	181.8	413.2	700.4
6.	Netherlands	24.6	34.4	103.5	65.7	298.1	526.7
7.	Hongkong	9.3	20.3	28.3	52.5	125.6	236.0
8.	France	8.5	10.5	41.5	28.6	129.5	218.9
9.	Singapore	0.6	21.5	21.8	84.6	305.7	433.7
10.	Switzerland	23.9	245.7	137.3	15.9	95.7	517.4
Total including Others*		**226.4**	**1288.4**	**2515.4**	**2698.5**	**9307.5**	**16036.2**

Table 3 (Contd.)

				Actuals			
1.	Mauritius	-	-	1.1	28.7	507.8	537.7 (70.0)
2.	USA	14.3	41.7	154.0	107.0	201.6	518.6 (10.5)
3.	UK	21.9	27.0	74.8	136.8	53.9	313.0 (26.1)
4.	Japan	3.3	25.7	20.9	86.6	67.3	203.8 (22.2)
5.	Germany	24.4	20.7	12.9	41.5	73.4	172.9 (41.8)
6.	Netherlands	6.8	5.3	37.0	46.6	43.5	138.7 (26.3)
7.	Hongkong	0.6	4.6	8.1	21.5	103.6	138.3 (58.6)
8.	France	6.2	9.5	9.4	72.2	-	97.3 (44.5)
9.	Singapore	-	4.4	0.4	5.9	76.9	87.1 (20.1)
10.	Switzerland	0.07	19.5	34.5	26.0	6.7	86.9 (16.8)
Total including Others*		**84.3**	**187.2**	**387.8**	**578.5**	**1357.2**	**2595.0 (16.2)**

* Excluding NRIs Investments.

Note
1. Ranking based on actuals total
2. Figures in parantheses show actuals as per cent age of approvals (Totals)
3. Totals may not tally with all annuals due to rounding, exchange rate conversions, and neg. figures in certain years.

Source: *SIA Newsletter*, January and March 1996

Table 4. India's Joint Ventures (JVs) and Wholly Owned Subsidiaries (WOSs) According to 15-Major Country Partners (1995-end)

A.	JVs		B.	WOSs	
1.	UK	51 (33)	1.	USA	104 (82)
2.	USA	45 (33)	2.	UK	82 (60)
3.	UAE	42 (33)	3.	Singapore	56 (43)
4.	Malaysia	39 (19)	4.	Mauritius	31 (30)
5.	Singapore	37 (23)	5.	Hongkong	22 (17)
6.	Sri Lanka	37 (20)	6.	Germany	16 (12)
7.	Russia	35 (32)	7.	Russia	14 (14)
8.	Nepal	30 (22)	8.	Switzerland	9 (6)
9.	Thailand	24 (14)	9.	UAE	9 (7)
10.	Indonesi	18 (7)	10.	Netherlands	8 (7)
11.	Nigeria	16 (3)	11.	Sri Lanka	8 (7)
12.	Hongkong	15 (11)	12.	Malaysia	6 (4)
13.	Mauritius	14 (12)	13.	Belgium	5 (5)
14.	Bangladesh	13 (12)	14.	Bangladesh	3 (2)
				Nepal	3 (2)
15.	Bahrain	12 (9)		Uganda	3 (3)
				Poland	3 (2)
				Australia	3 (3)
				South Africa	3 (3)
Total		584 (407)	Total		421 (340)

Parantheses show those under implementation.

Source : *Handbook of Industrial Policy and Statistics, 1996*

Table 5. India's Assistance* to the Developing Countries in Recent Years (up to March 1996)

(US $ million)

Year	Authorisation	Utilisation
Up to end of March 1990	1465.7**	1324.2**
1990-91	91.0	62.7
1991-92	61.8	68.6
1992-93	25.1	16.1
1993-94	46.7	13.8
1994-95	55.5	40.0
1995-96	55.0	31.8
Total up to March 1996	1799.8	1557.2

* Including loans and grants ** At 1989-90 exchange rate

Source : Reserve Bank of India, *Report on Currency and Finance*

Annexure-1

India's Commercial Representation in First-15 Destination Countries of Exports*

Commercial Mission	Personnel Strength		
	Diplomatic	Non-Diplomatic	Total
USA**	4	12	16
Japan	3	12	15
Germany**	4	19	23
UK	4	5	9
Hongkong	1	3	4
UAE	1	1	2
Belgium	4	7	11
Italy	2	9	11
Russia	3	4	7
Singapore	1	8	9
Bangladesh	1	3	4
Netherlands	1	2	3
France	3	11	14
Saudi Arabia	1	3	4
Thailand	1	6	9

* 1994-95

** Denotes more than one Commercial Mission

Source: A Presentation on Export Strategy with a Focus on Commodities/Countries Matrix, by the Commerce Minister, ITPO, December 1995.

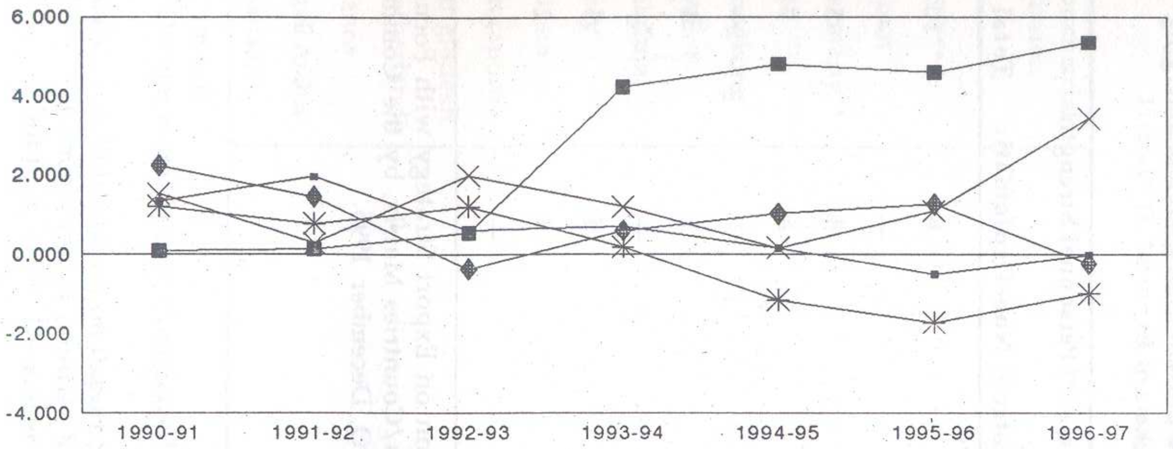
Annexure-2

India's Commercial Representation in Select Emerging Markets of Exports*

Commercial Mission	Personnel Strength		
	Diplomatic	Non-Diplomatic	Total
Australia	2	8	10
Brazil	—	—	—
Indonesia	1	4	5
Iran	1	6	7
Israel	—	—	—
South Korea	—	1	1
Malaysia	—	—	—
Nigeria	1	4	5
South Africa	1	1	2
Spain	—	—	—

Source: A Presentation on Export Strategy with Focus on Commodities/Countries Matrix, by the Commerce Minister, ITPO, December 1995.

Chart 1. Inflow From Abroad
Private Capital Flows as Leader, 1991-97



	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Ex. Ass	1.350	1.969	0.619	0.717	0.170	-0.487	-0.017
COB	2.249	1.456	-0.358	0.607	1.030	1.275	-0.227
IMF	1.214	0.786	1.214	0.187	-1.143	-1.715	-0.977
FI	0.102	0.139	0.555	4.235	4.807	4.604	5.358
NRI's	1.536	0.290	2.001	1.205	0.172	1.103	3.439

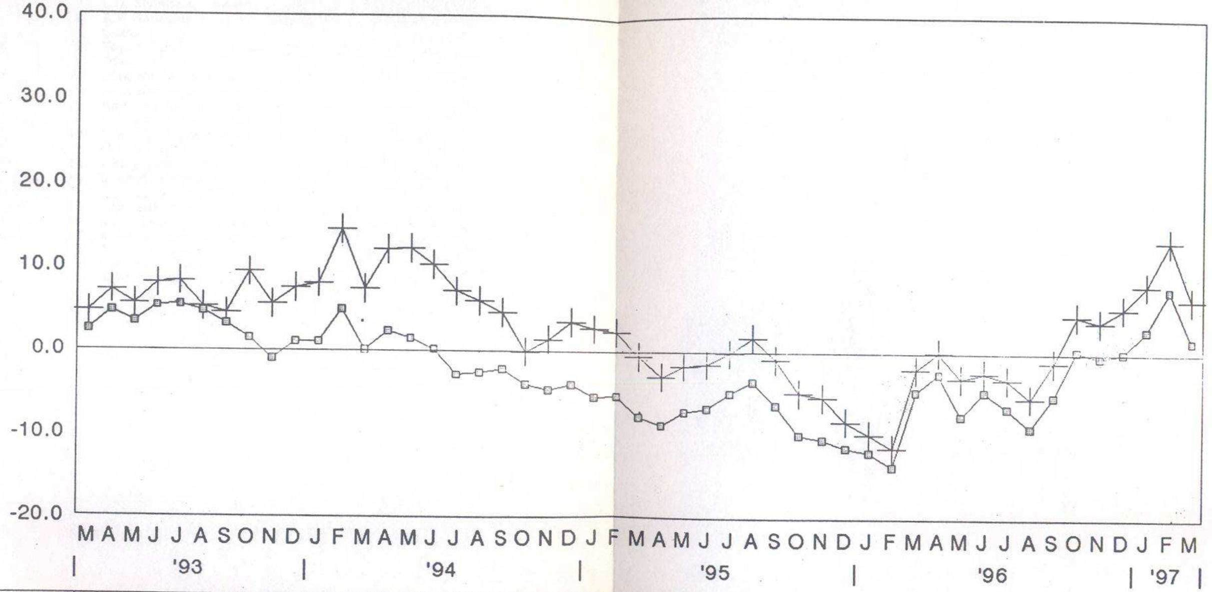
A = Net External Assistance (Resource Transfer)
B1 = Commercial (Net) Borowings
B2= IMF Loans(Net)
C = Foreign (Net) Investment*
D = NRIs (Net) Deposits
* covers FII,FDI, GDRs and Offshore funds

Ex. Ass COB IMF FI NRI's

Source of Data : Economic Survey and RBI's Annual Report/ Report on Currency & Finance

Chart 2. India: % Change* In NEER and REER Since March, 1993

(1985 = 100, Trade Weighted, RBI)



	M	A	M	J	J	A	S	O	N	D	J	F
% Change in NEER	2.4	4.7	3.4	5.3	5.5	4.7	3.2	1.5	-1.0	1.0	1.0	4.9
%Change in REER	4.7	7.2	5.6	8.0	8.3	5.2	4.4	9.4	5.6	7.5	8.1	14.5

	M	A	M	J	J	A	S	O	N	D	J	F
% Change in NEER	0.1	2.3	1.5	0.2	-2.9	-2.6	-2.2	-4.0	-4.7	-4.0	-5.5	-5.4
%Change in REER	7.4	12.2	12.3	10.3	7.1	6.0	4.6	-0.1	1.4	3.5	2.7	2.3

	M	A	M	J	J	A	S	O	N	D	J	F
% Change in NEER	-7.9	-8.9	-7.3	-6.8	-5.0	-3.6	-6.4	-10.	-10.	-11.	-12.	-13.
%Change in REER	-0.6	-3.0	-1.7	-1.5	-0.2	1.7	-0.9	-4.9	-5.4	-8.3	-9.8	-11.

	M	A	M	J	J	A	S	O	N	D	J	F	M
% Change in NEER	-4.7	-2.5	-7.6	-4.7	-6.6	-9.0	-5.2	0.3	-0.5	0.1	2.8	7.6	1.5
%Change in REER	-2.0	0.1	-3.1	-2.4	-3.2	-5.4	-1.1	4.5	3.7	5.4	8.2	13.4	6.4

* over the corr. month in the previous year. ** Minus sign indicates depreciation.

Source of Index : Reserve Bank of India Bulletins