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TRADE POLICY REVIEW

Report by

INDIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by India is attached.

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I. INTRODUCTION

1. This is the Fifth Trade Policy Review of India. The period since the previous Review in May 2007 largely fell under the shadow of the global economic crisis. Most parts of the world are still struggling to recover from the recession. While India did not escape unscathed, the pragmatic economic policies and calibrated reforms pursued during the past two decades minimised the impact of the global meltdown and enabled a return to a near normal growth rate in 2009-10.

2. While all the major macroeconomic variables, namely, GDP, exports and imports showed a decline in 2009-10, the impact on India was relatively muted when compared with most other major economies. The resilience of the Indian economy and its ability to cope with the global downturn despite greater openness, was the result of a range of reforms, including financial sector reforms, pragmatic banking regulations and supervision, a cautious approach towards the liberalization of capital flows, especially short-term debt, building up of ample foreign exchange reserves, coupled with strong domestic demand and underlying strong macroeconomic fundamentals.

3. The focus of the Government has been on sustainable and inclusive development. Significant attention is being given to rural development, skill development, innovation and financial inclusion. India faces enormous challenges in several areas, namely, physical and social infrastructure, inflation, energy security, agricultural growth and food security. The Government has taken various policy initiatives to tackle these challenges and is determined in its efforts to overcome them to ensure a smooth road to growth and development.

4. On the trade front, during the four year period under review, exports grew at a compound annual growth rate of 18.1%, while imports grew by 17.2%. India's share in global exports registered a small increase from 0.9% in 2006 to 1.3% in 2009. Her share in world imports also increased from 1.3% in 2006 to 2% in 2009.

5. Despite the global meltdown and its effect on the economy, India's engagement with the world continued to widen and deepen. India's ongoing transparency and trade facilitation efforts, including autonomous reduction of tariffs, stayed on course. India remained an active participant in efforts to further liberalize trade, especially in the multilateral trade negotiations in the WTO. In order to re-energise the Doha Round of trade negotiations, India took the initiative to host an informal mini-Ministerial meeting in New Delhi in September 2009, which had a positive impact on the process of negotiations. During this period, India negotiated and concluded WTO-consistent trade agreements with ASEAN, the Republic of Korea, Malaysia and Japan.

II. ECONOMIC ENVIRONMENT

(1) GROWTH

6. India is one of the fastest growing economies among the large economies of the world.[1] In terms of purchasing power parity (PPP), the Indian economy is the fourth largest after the United States, China and Japan.[2] India's share in world GDP (PPP) has increased from 4.3% in 1991 to 5.3% in 2009.

[1] According to the IMF's World Economic Outlook, April 2011, India had the highest growth rate of 10.4% in 2010, followed by China at 10.3%, while world output grew at 5%. For 2011, the IMF has estimated India's growth at 8.2%, while global growth is projected at 4.4%.

[2] World Bank: World Development Indicators Database; April 2011.

7. Strong macroeconomic fundamentals and a positive global environment led to a robust growth rate of over 9% during the period 2005-06 to 2007-08 (see Table 1). However, the growth momentum could not be maintained during the global economic crisis and the growth rate fell sharply to 6.8% in 2008-09. Proactive and timely policy support by the Government helped the economy to quickly recover to near normal. The Indian economy grew at close to 8% in 2009-10 and at 8.5% in 2010-11. However, with global recovery still far from complete, the outlook for the Indian economy in 2011-12 would depend, to an extent, on the pace of global recovery. Domestic factors, particularly inflation, have also led to a degree of moderation in the outlook for the current financial year.

Table 1
GDP and sectoral growth rates
(%)

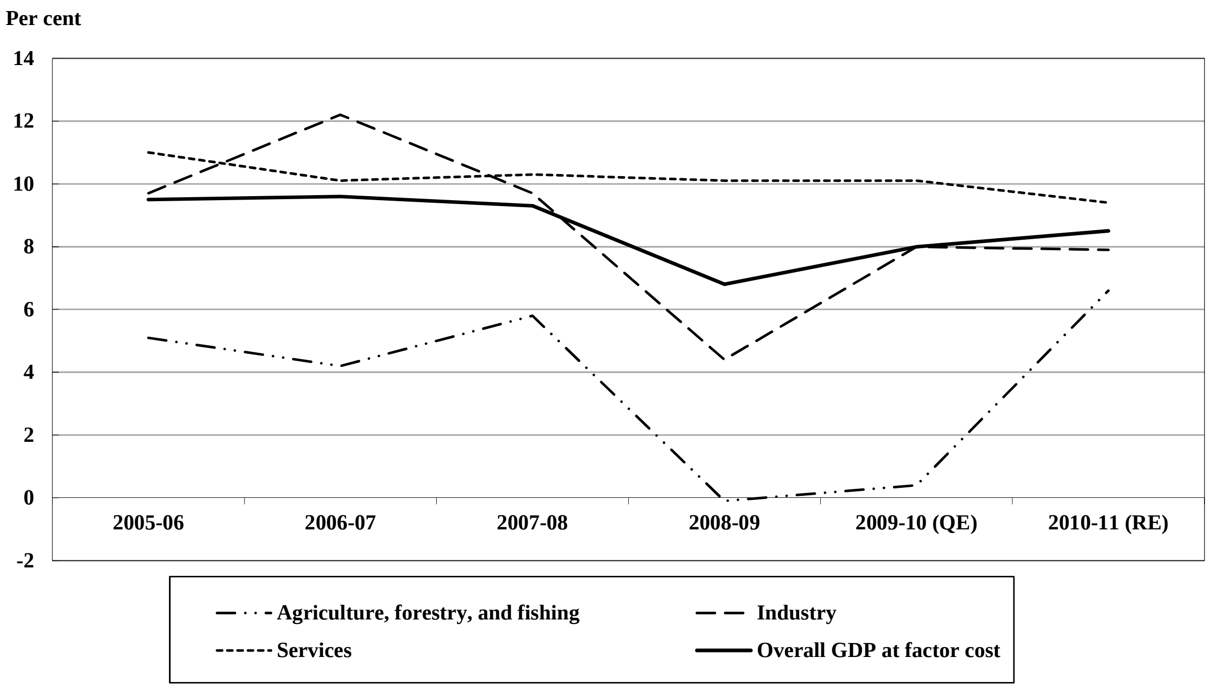
Year	Agriculture, forestry, and fishing	Industry[a]	Services[b]	Overall GDP at factor cost
2005-06	5.1	9.7	11.0	9.5
2006-07	4.2	12.2	10.1	9.6
2007-08	5.8	9.7	10.3	9.3
2008-09	-0.1	4.4	10.1	6.8
2009-10 (QE)	0.4	8.0	10.1	8.0
2010-11 (RE)	6.6	7.9	9.4	8.5

a Industry includes mining and quarrying; manufacturing; electricity, gas and water supply; and construction.
b Services include trade, hotels and restaurants; transport, storage and communication; financing, insurance, real estate and business services; community, social and personal services.

Note: QE: quick estimates. RE: revised estimates.

Source: Central Statistical Organization.

Chart 1
GDP and sectoral growth rates



Source: **Central Statistical Organization data.**

8. The sectoral growth rates may be seen in Table 1 above. While the growth rates of agriculture and industry have fluctuated, the services sector has been the engine of India's economic growth. With a share of more than 55% of the GDP and an annual growth rate of over 10%, this sector contributes about a quarter of the total employment.[3] It accounts for a high share in foreign direct investment inflows, and over one-third of total exports. The growth of the services sector has been consistently above the overall GDP growth since 1997-98 and has contributed to India sustaining a reasonable growth rate even during the crisis. While the rate of growth of agriculture and industry declined to (-) 0.1% and 4.4% respectively, in 2008-09, the services sector grew by more than 10%, resulting in an overall GDP growth rate of 6.8%.

9. While the services sector has performed well, agriculture and allied activities remain critical for a broad-based, inclusive and sustained growth. The performance of the agriculture sector has been less than satisfactory, particularly as about 58% of the population is still dependent on agriculture. Within the industrial sector, the share of manufacturing in GDP has also stagnated over the years and is currently just over 15%, which does not compare well internationally and is a source of concern.

Table 2
Share of different sectors in GDP
(%)

Year	Agriculture, forestry, and fishing	Industry[a]	Services[b]
2004-05	19.0	27.9	53.0
2005-06	18.3	28.0	53.8
2006-07	17.4	28.6	54.0
2007-08	16.8	28.7	54.5
2008-09	15.7	28.1	56.2
2009-10 (QE)	14.6	28.1	57.3
2010-11 (RE)	14.4	27.9	57.7

a Industry includes mining and quarrying; manufacturing; electricity, gas and water supply; and construction.
b Services include trade, hotels and restaurants; transport, storage and communication; financing, insurance, real estate and business services; community, social and personal services.

Source: Computed from Central Statistical Organization data.

(2) SAVINGS AND INVESTMENT

10. Gross domestic savings as a proportion of GDP (at market prices) increased from 32.4% in 2004-05 to 33.7% in 2009-10.[4] Gross capital formation (GCF), as a proportion of GDP, rose from 32.8% in 2004-05 to 38.1% in 2007-08. After a minor dip in 2008-09, to 34.5%, the GCF picked up again to reach 36.5% of GDP in 2009-10. Growing trends of savings and investment augur well for future growth.

(3) EXPORTS, IMPORTS, AND TRADE BALANCE

11. The Indian economy in 2011 is far more open to the external sector than it was in 2006-07. India's total trade in goods (exports plus imports) as a percentage of GDP increased from 32.9% in 2006-07 to 39.7% in 2008-09, though it came down to 33.7% the next year as a fallout of the global economic crisis (see Table 3). This increased openness has enhanced productivity and competitiveness, as reflected in India's export performance in recent years.

[3] India: Economic Survey 2010-11; Chapter 10: Services Sector.
[4] Economic Survey 2010-11; Chapter 1: State of the Economy and Prospects.

Table 3
Merchandise trade: exports, imports, trade balance, and trade openness
(US$ billion, unless otherwise specified)

Year	Exports			Imports			Trade balance		Trade openness
	Exports	as % of GDP	% growth	Imports	as % of GDP	% growth	Trade balance	as % of GDP	Trade as a % of GDP
2004-05	83.5	11.6	30.8	111.5	15.5	42.7	(-) 28.0	3.9	27.1
2005-06	103.1	12.4	23.4	149.2	17.9	33.8	(-) 46.1	5.5	30.2
2006-07	126.4	13.3	22.6	185.7	19.6	24.5	(-) 59.3	6.3	32.9
2007-08	163.1	13.1	29.0	251.6	20.3	35.5	(-) 88.5	7.2	33.4
2008-09	185.3	15.1	13.6	303.7	24.6	20.7	(-) 118.4	9.5	39.7
2009-10	178.8	12.9	-3.5	288.4	20.8	-5.0	(-) 109.6	7.9	33.7
2010-11	245.9	14.2	37.5	350.7	20.3	21.6	(-) 104.8	6.1	34.5

Source: India's Trade at a Glance, Department of Commerce, May 2011.

(i) Merchandise exports

12. The growth of India's exports has been robust at over 20% since 2002-03. The global recession only slightly moderated this growth, to 13.6% in 2008-09. The compound annual growth rate (CAGR) of India's merchandise exports during the five year period 2004-05 to 2008-09 was 22% as against 14% during the preceding five year period. However in 2009-10, export growth was negative at (-) 3.5%, reflecting the effect of the global recession. The Government announced remedial measures in the Union Budget 2009-10 and in the Foreign Trade Policy (2009-14) to address the adverse effects of global developments. These measures, coupled with the recovery of the global economy, enabled exports to grow at 37.5% during 2010-11.

13. In 2009-10, the major commodity groups in India's export basket in terms of percentage shares were manufactured goods (63.6%); crude and petroleum products and coal (17.8%); agriculture and allied products (9.9%); and ores and minerals, excluding coal (5.5%).[5]

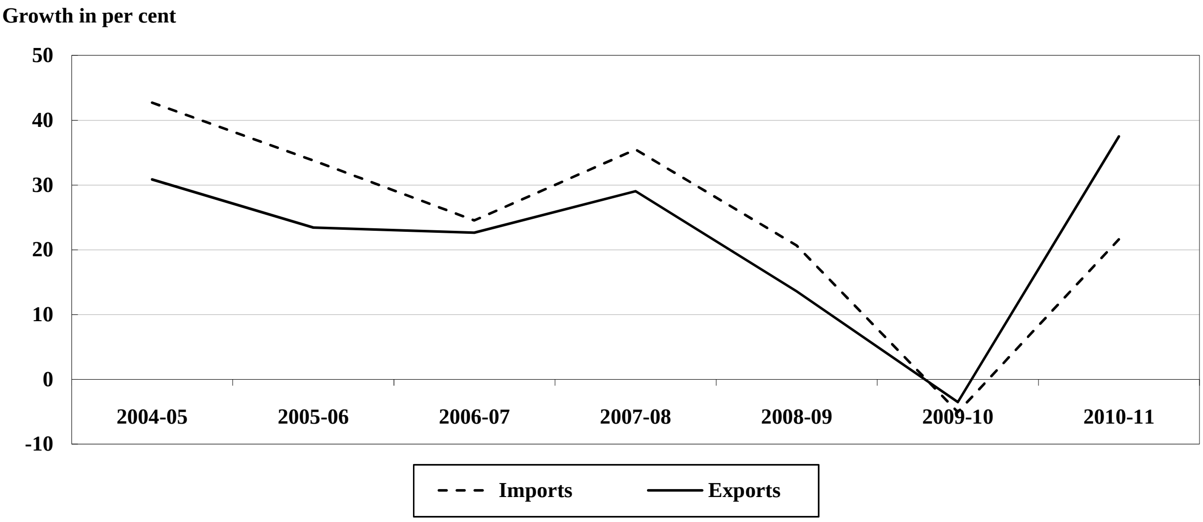
(ii) Merchandise imports

14. The CAGR of India's merchandise imports during the five year period 2004-05 to 2008-09 was 31.2% as compared to 13% during the preceding five year period. Imports witnessed negative growth in 2009-10, but picked up in the following year to 21.6%. A revival of demand, coupled with reduction in import tariffs and controls, has resulted in strong import growth.

15. In 2009-10, chemicals, iron and steel, non-ferrous metals, professional instruments, optical goods and electronic goods, pearls, precious and semi-precious stones, gold and silver accounted for 42.6% of India's import basket. Fuel (33.2%); capital goods (15%); fuel and allied products (3.7%); fertilizers (2.3%), paperboard manufactures and newsprint (0.5%) were the other major commodity groups.

[5] India: Economic Survey 2010-11; Statistical Appendix, Table 7.3 (B).

Chart 2
Import and export growth rates

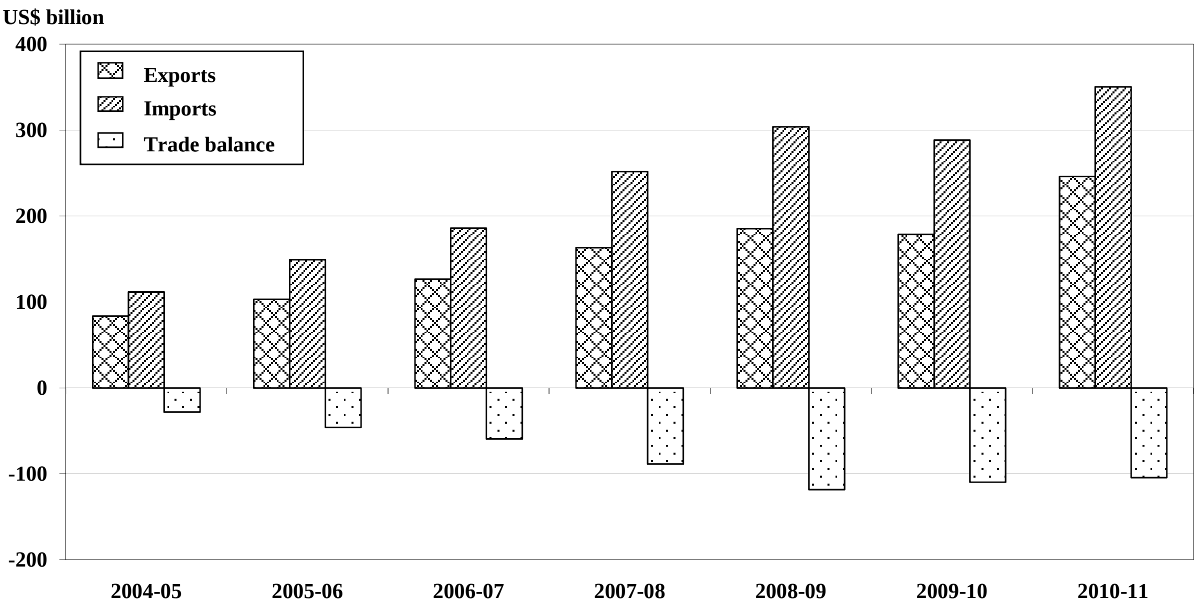


Source: India's Trade at a Glance, Annual Trade, Department of Commerce, May 2011.

(iii) Trade balance

16. In spite of the robust growth of exports, India's trade deficit continues to be large as the growth of imports has consistently outpaced the growth of exports. The trade deficit as a ratio of GDP increased from 5.5% in 2005-06 to 9.5% in 2008-09. In absolute terms, it remained more than US$100 billion during the past three financial years, 2008-09 to 2010-11.

Chart 3
Merchandise trade: exports, imports, and trade balance



Source: India's Trade at a Glance, Annual Trade, Department of Commerce, May 2011.

(iv) Direction of merchandise trade

17. The directional pattern of India's trade has not changed much since 2007-08, and the top 15 trading partners[6] continue to hold a share of around 60% of the trade. Country-wise, the United Arab Emirates (UAE) is India's largest trading partner since 2008-09, followed by China and the United States. The UAE has also displaced the United States as the topmost destination of India's exports since 2008-09 with an export share of around 13%. However, China remained the largest source of imports with a 12% share in India's total imports followed by the UAE, the Kingdom of Saudi Arabia, and the United States. Region-wise, during the period 2010-11 (April-September), Asia was India's largest trading partner, followed by Europe and the Americas.[7]

(v) Services trade

18. India's services exports continued on their successful growth path in the last four years. During the period 2004-05 to 2009-10, the CAGR of services exports was 16.7%, marginally higher than the 16.4% for merchandise exports during the same period.[8] Services exports reached US$106 billion in 2008-09 with a growth of 17.3% over the previous year. As a result of the global recession, services exports declined to US$95.8 billion in 2009-10 with a negative growth of (-) 9.6% but recovered in 2010-11 (April-September) with a growth rate of 27.4%. The major categories of services exports in 2009-10 included software services, travel, business services and transportation.

19. Imports of services increased from US$27.8 billion in 2004-05 to US$60 billion in 2009-10. While services imports in 2008-09 grew at a rate of 1.1%, the growth rate increased sharply to 15.3% in 2009-10 and to 46.9% in 2010-11 (April-September).[9] The major categories of services imports in 2009-10 included business services, transportation, travel and financial services.

20. During the period under review, the balance of trade in services has remained positive (see Table 4). However, this surplus has not been sufficient to bridge India's trade deficit.

Table 4
Trade in services
(US$ billion)

Year	Exports	Imports	Net
2005-06	57.7	34.5	23.2
2006-07	73.8	44.3	29.5
2007-08	90.3	51.5	38.9
2008-09	106	52	53.9
2009-10[a]	95.8	60	35.7
2010-11 (April to September)[b]	55.7	36.2	19.5

a Partially revised.
b Preliminary.

Source: RBI's Balance of Payments Statistics; RBI Monthly Bulletin, February 2011.

[6] United Arab Emirates, China, United States, Kingdom of Saudi Arabia, Germany, Switzerland, Singapore, Australia, Iran, Hong Kong, China, Republic of Korea, Indonesia, United Kingdom, Japan, and Belgium.
[7] India: Economic Survey 2010-11; Chapter 7: International Trade.
[8] *Ibid.*
[9] *Ibid.*

(4) FOREIGN INVESTMENT

(i) Foreign direct investment (FDI) and foreign institutional investment (FII)

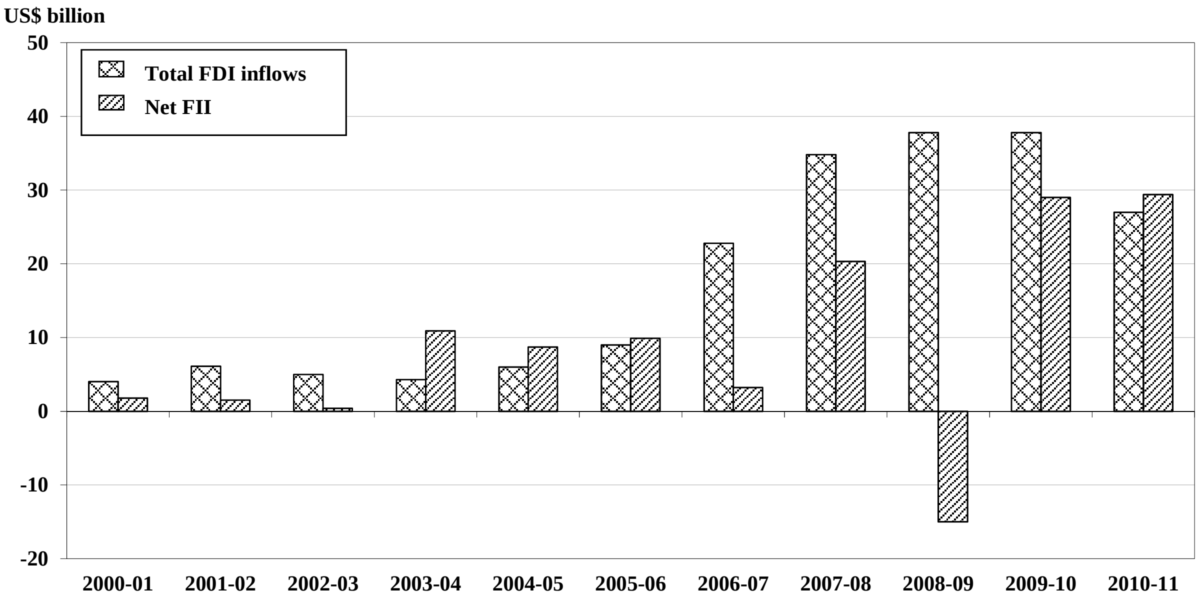
21. Strong macroeconomic fundamentals and a liberal foreign investment regime have made India an attractive destination for foreign investment. This is evident from the fact that India has witnessed a significant rise in foreign investment inflows since 2003-04. However, during 2008-09 there was a slowdown in foreign investment primarily due to a net outflow of foreign institutional investment (FII). During 2009-10, stronger recovery in India ahead of the global recovery, coupled with positive sentiments of global investors on India's prospects, induced a revival in capital inflows. This was driven mainly by foreign institutional investment, with net FII inflows of US$29.0 billion in 2009-10, representing a major reversal from the outflow of US$15.0 billion recorded during the previous year.

Table 5
FDI inflows and net FII
(US$ billion)

Year	Total FDI inflows	Net FII
2000-01	4.0	1.8
2001-02	6.1	1.5
2002-03	5.0	0.4
2003-04	4.3	10.9
2004-05	6.0	8.7
2005-06	9.0	9.9
2006-07	22.8	3.2
2007-08	34.8	20.3
2008-09	37.8	(-) 15.0
2009-10	37.8	29.0
2010-11	27.0	29.4

Source: Department of Industrial Policy and Promotion (http://dipp.nic.in/fdi_statistics/india_FDI_March2011.pdf).

Chart 4
FDI inflows and net FII



Source: **Department of Industrial Policy and Promotion (http://dipp.nic.in/fdi_statistics/india_FDI_March2011.pdf).**

22. Foreign direct investment (FDI), a more stable source of finance, outpaced FII inflows during 2006-07 to 2009-10, and compensated for the FII outflow during the crisis. FDI was channelled mainly into the services, telecommunications, computer software and hardware, construction, housing and real estate sectors.[10]

(ii) Outward investment by India

23. Though still a developing country, India is also emerging as a source of investments, which increased from US$19.1 billion in 2008-09 to US$19.7 billion in 2009-10 and US$18 billion in 2010-11 (April to December).[11] Mauritius received the largest share of gross outward FDI during 2010-11 (April-December), followed by Singapore, the United States, the Netherlands and the United Kingdom. The manufacturing sector (US$4.7 billion) accounted for the largest share of outward FDI during 2009-10 followed by the services sector (US$4.1 billion). However, the services sector has taken the lead in 2010.

24. The blossoming of Indian entrepreneurship combined with a calibrated relaxation of the foreign exchange regime has resulted in the current increase in outbound FDI from India. A number of Indian enterprises are now substantially increasing their overseas operations, which has also benefitted the host countries.

(5) OPPORTUNITIES FOR GROWTH

(i) A promising rural economy

25. The 2001 Census[12] reported that 72.2% of the Indian population resides in rural areas, and depends on agriculture for their livelihood. The Government has accordingly scaled up the commitment of resources to rural areas significantly to catalyse an inclusive development process, so that the benefits of India's growth reach every section of the society.

26. For the upliftment of the rural economy, the highest priority has been accorded to building rural infrastructure in order to facilitate better connectivity with urban areas and to provide basic amenities in rural areas. Recent initiatives of the Government include schemes such as the Mahatma Gandhi National Rural Employment Guarantee Scheme, Pradhan Mantri Gram Sadak Yojana (Prime Minister's Rural Roads Scheme), Bharat Nirman (for creating basic rural infrastructure), Total Sanitation Campaign, Rural Infrastructure Development Fund, National Rural Health Mission, etc. These initiatives will create new employment opportunities, boost demand, raise standards of living and accelerate the overall growth of the economy.

27. A vibrant rural economy is now seen as a driver of rapid growth and a potential profit centre by entrepreneurs. A focus on the rural economy is increasingly becoming central to the marketing strategies of enterprises, trying to widen the demand base for their goods and services. For instance, the number of rural telephones (as a percentage of the total number available in India) has steadily increased from around 16% in 2004 to 33% in 2010. During 2009-10, the growth rate of rural telephones was 62.6% as against 37.3% for urban telephones. The private sector has contributed

[10] India: Economic Survey 2010-11; Chapter 9: Industry.
[11] RBI: Monthly Bulletin, May 2011. According to RBI estimates total outbound investment from India is expected to cross US$43 billion during the financial year (April 2010–March 2011).
[12] 2011 Census results were not finalized, when this report was written.

crucially to the growth of rural telephones by providing about 84.5% of telephones as in November 2010.[13]

(ii) India's demographic dividend

28. India has a young population profile. The population in the working age group of 15-64 years is projected to increase steadily from 62.9% in 2006 to 68.4% by 2026, leading to a decline in the dependency ratio.[14] This demographic dividend is expected to give India an edge in the increasingly competitive global environment. India's policies focus on empowering its young population. Accordingly, government policies emphasise ensuring proper healthcare, education, skill development, and encouraging labour-intensive industry that provides employment in the manufacturing sector. Reforms have been introduced at all levels of education, including higher and technical education. The Right of Children to Free and Compulsory Education Act 2009, which came into force on 1 April 2010, provides for free and compulsory education to all children between the ages of 6 to 14. In the areas of higher and technical education, policy initiatives aim to make the population group between 18-24 years (about 12% of the total) employable and competitive. This is sought to be achieved through curriculum reforms, vocational training, information technology (IT) and distance education.[15]

(iii) Skill development

29. A National Skill Development Policy was initiated in 2010, which sets an ambitious target of equipping nearly 500 million persons with improved skills by 2022 for enabling access to decent employment and ensuring India's competitiveness in a dynamic global labour market. In addition, India has set up a three tier structure of coordinated action on skill development through: (i) the Prime Minister's National Council on Skill Development; (ii) National Skill Development Coordination Board; and (iii) National Skill Development Corporation. The Prime Minister's National Council on Skill Development was set up to outline the core operating principles with an emphasis on making skills bankable for all sections of society, including the poorest of the poor.

(iv) Innovation

30. Innovation holds the key to sustainable growth, inclusiveness and competitiveness. The decade 2010-20 was declared as the "Decade of Innovation". A National Innovation Council was constituted in 2010 with a mandate to formulate a Roadmap for Innovation for the decade 2010-20. The aim of the Council is to bring about a change in the mindset and create a congenial environment at the grassroots level to encourage a greater role for those engaged in innovative activities in education, business, government, NGOs, urban and rural development, in shaping a national level innovation strategy, going beyond formal R&D.

31. India has the potential to emerge as a leading hub of innovation in low-cost technology and process reinvention. The Mid-Term Appraisal of the 11th Five Year Plan (2007-12) has emphasised low-cost technology based innovation, also known as "frugal innovation"[16], e.g. low-cost eye and heart surgeries, low-cost phone services, small cars, etc. Besides generating high quality, low cost affordable products, such innovations also create employment opportunities. Innovations in

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[13] India: Economic Survey 2010-11; Chapter 11: Energy, Infrastructure and Communications.

[14] India: Economic Survey 2007-08, Chapter 10: Social Sectors.

[15] India: Economic Survey 2010-11; Chapter 12: Human Development, Equity and Environment.

[16] "Frugal innovation" produces more "frugal cost" products and services that are affordable by people at low levels of income without compromising the safety, efficiency, and utility of the products (Mid-Term Appraisal of 11th Five Year Plan 2007-12, Planning Commission, Government of India).

e-governance, e.g. the e-Sewa (e-service) project of Andhra Pradesh and the Bhoomi project (for computerisation of land records) of Karnataka, have improved public service delivery in these states.

32. The implementation of the Unique Identification (UID) Project will bring in transparency, accountability and efficiency in governance and public service delivery. This Project would provide a unique identification to each resident across the country and would be used primarily as the basis for efficient delivery of welfare services. It would also act as a tool for effective monitoring of various welfare programs and schemes of the Government. The Unique Identification Authority of India (UIDAI) was constituted in January 2009 to implement the UID Project.

(6) CHALLENGES

(i) Inflation

33. As the world economy has begun to stabilize in the aftermath of the global crisis, inflation has re-emerged as a major concern particularly in the fast-recovering developing economies. The rise in global prices of commodities, such as oil, food, industrial inputs and metals has been compounded by domestic factors that include both demand side pressures, a corollary to the recovery in the domestic economy, and supply side constraints.

34. The ten-year average headline WPI[17] inflation was around 5.3% from 2000-01 to 2009-10. During 2010-11, the average inflation of 9.5% was much higher than the decadal rate. While no sector remained unaffected, the primary articles and fuel group witnessed very high levels of inflation. Persistent food inflation is a major challenge. It first surfaced in 2009-10, partly due to failed monsoons and partly due to demand-supply gaps, and was accentuated in 2010-11. Two successive years of food inflation have led to serious supply side concerns. The risk of higher than average inflation continues in 2011-12 due to an uncertain outlook on international commodity prices and the possibility of the prices of food, fuel, minerals and metals staying firm.[18]

35. During 2010 and 2011, the Reserve Bank of India has, steadily and regularly, increased the repo and reverse repo rates to moderate demand side pressures. The Government has also taken measures to contain inflationary pressure. As a long-term remedy, structural concerns have to be addressed by reducing supply-side bottlenecks. Thus, maintaining the growth momentum in the economy with price stability is one of the biggest policy challenges that India is facing in recent times.

36. Measures have also been taken on the trade policy front to moderate inflation by reducing the import duty on rice, wheat, pulses, edible oils (crude), butter and ghee, and edible oils. Import of raw sugar is now allowed at zero duty. Full exemption from basic customs duty has been provided to onions and shallots with effect from 21 December 2010.

(ii) Fiscal deficit

37. The enactment of the Fiscal Responsibility and Budget Management Act (FRBMA) 2003 facilitated the fiscal consolidation process. The fiscal deficit and revenue deficit of the Central Government declined consistently from 2003-04 to 2007-08. Due to the extraordinary circumstances posed by the global crisis, the Government initiated an expansionary policy in 2008-09 combining an increase in expenditure with tax cuts in order to boost domestic demand. The decline in private

[17] Wholesale price index.
[18] Reserve Bank of India: Macro and Monetary Developments in 2010-11; May 2011; Chapter VI: Price Situation.

consumption expenditure was supplemented by an increase in Government expenditure. The greater fiscal space created during 2003-04 to 2007-08 also helped to counteract the impact of the global economic crisis. As the economy returned on a path to recovery, the Union Budget for 2010-11 outlined the steps towards a return to the pre-crisis zone of fiscal consolidation. The fiscal stimuli that had been put in place to mitigate the impact of the global financial crisis, were rolled back in large part in the Budgets of 2010-11 and 2011-12. As against a target revenue deficit of 4%, the actual revenue deficit was 3.1% during 2010-11.The fiscal deficit was brought down from an initial estimate of 5.5% to 4.7% of GDP in 2010-11, and is targeted to be 4.6% in 2011-12.

Table 6
Fiscal deficit and revenue deficit of the Central Government
(Percentage of GDP)

Year	Fiscal deficit (FD)	Revenue deficit (RD)
2003-04	4.5	3.6
2004-05	3.9	2.4
2005-06	4.0	2.5
2006-07	3.3	1.9
2007-08	2.5	1.1
2008-09	6.0	4.5
2009-10[a]	6.4	5.2
2010-11(P)[b]	4.7	3.1
2011-12 (BE)[a]	4.6	3.4

a Union Budget 2011-12.
b Provisional accounts for 2010-11 by the Controller General of Accounts.

Source: Economic Survey, 2010-11.

(iii) Infrastructure

38. The infrastructure deficit remains one of the major constraints to India's growth. Economic growth has outpaced the growth of infrastructure, thereby placing strains on physical infrastructure and accentuating the infrastructure deficit. The performance of other sectors like agriculture and industry is also dependent on the quality of infrastructure.

39. Infrastructure is a major focus of the 11th Five Year Plan (2007-12). Investment in infrastructure, which was 7.2% of the GDP in 2008-09, is expected to increase to 8.4% in 2011-12, the final year of the 11th Five Year Plan.[19]

40. The infrastructure gap in the power sector has been particularly high. Larger capacity addition on a sustained basis would be required to meet the growing demand. A deficit in power supply in terms of peak availability and total energy availability can limit the performance of the industrial as well as the agriculture sector. Capacity creation in the power sector, till December 2010, was only 40% of the 11th Five Year Plan target. The 12th Plan (2012-17) is likely to adopt a target of 100,000 MW as against an expected achievement of 50,000 MW under the 11th Five Year Plan.

41. During 2007-08 to 2009-10, capacity addition has been lower than the target in the road sector. The 11th Plan envisaged the construction of 55,448 km of roads under NHDP (National Highway Development Project). However, the work is currently behind schedule. Steps are being taken to expedite the progress of the NHDP through regular monitoring and progress reviews. India is also implementing a National Highways Interconnectivity Improvement Programme for the improvement of the entire national highways network.

[19] Mid-Term Appraisal of the 11th Five Year Plan (2007-12).

42. The capacity constraint in the crude oil sector is being addressed through the New Exploration Licensing Policy (NELP) initiative of the Government. Some external acquisitions, particularly in oil, gas and coal too could support the domestic capacity gaps in the energy sector.[20]

43. While public investment remains dominant in infrastructure development, increasing participation of the private sector is being encouraged to bridge the infrastructure gap. Government has allowed 100% FDI (under the automatic route) in all infrastructure sectors including roads, power, ports and airport sectors; 74% in telecom services; 100% in telephone equipment; and 49% to 100% for various services in the aviation sector. According to a preliminary assessment, the requirement of investment for infrastructure during the 12th Five Year Plan period (2012–17) would be about US$1 trillion. It is projected that at least 50% of this investment would come from the private sector.[21]

(iv) Agricultural growth and food security

44. The growth of the agriculture sector, which accounts for about 58% of the employment in the country, is crucial for food and livelihood security.[22] From the supply-side perspective, increasing agricultural production and productivity remains a challenge. From the demand side, increasing the purchasing power of the producers – farmers and rural labourers – is crucial to broad base consumption and to provide a fillip to growth.

45. During 2004-05 to 2010-11, overall GDP grew by an average of 8.6%, while the agricultural sector lagged behind at 3.5%, resulting in a fall in the share of agriculture to 12.3% of GDP (2009-10).[23] Growth in agricultural production and productivity has been constrained, *inter alia*, by the small size of landholdings, dependence on rain-fed irrigation, and a low level of capital investment in the agriculture sector.[24]

46. In order to increase farm productivity in a sustained way and for creating adequate infrastructure for transport, storage and distribution of agricultural produce, investment – both by the public and the private sector – has to increase. The Government has launched several schemes to increase the production and productivity of agriculture. The National Food Security Mission (NFSM), Rashtriya Krishi Vikas Yojana (National Agriculture Development Scheme) and the National Horticulture Mission are some of the initiatives in this direction.

47. These initiatives have to be supplemented by efforts in agricultural research and development, dissemination of technology, provision of agricultural inputs (such as quality seed, fertilizers, pesticides, and irrigation) and diversification of agriculture. Animal Husbandry, Dairy Development, Fisheries and Horticulture play a significant role in supplementing family incomes of farmers and generating gainful employment in the rural sector, particularly among landless labourers, small and marginal farmers and women. The food processing sector is also receiving attention as a means of value addition and employment generation.

48. A critical planning and policy parameter in India is food security – in terms of availability, accessibility and affordability of food to all persons at all times. Persistently high food inflation has further aggravated the problem of attaining food security. The challenge is exacerbated by episodes of drought and volatility in international prices of food. A Public Distribution System, and various

[20] Reserve Bank of India: Annual Report, 2009-10; Chapter II: Economic Review.
[21] Economic Survey 2010-11.
[22] India: Economic Survey, 2010-11; Chapter 8: Agriculture and Food Management.
[23] *Ibid*.
[24] Gross capital formation in the agriculture sector has remained low: 2.2 to 3% of GDP during 2004-05 to 2009-10.

nutrition-based welfare schemes with an inherent component of food security are in place. To increase the availability of food grains, the National Food Security Mission was launched in 2007-08 with a target of increasing the production of rice by 10 million tonnes, wheat by 8 million tonnes and pulses by 2 million tonnes by the end of the 11th Plan (2011-12). The Union Budget for 2011-12 announced the tabling of the National Food Security Bill in 2011, which proposes to provide certain minimum quantities of food grains per month at affordable prices to families living below the poverty line.

III. MOVING AHEAD ON REFORMS

(1) FISCAL REFORMS

49. Over the last few years, tax reforms in India have aimed at enhancing the efficiency and equity of the tax system by rationalizing and simplifying the tax structure, maintaining moderate levels of taxation, improving administrative compliance and expanding the tax base. These reforms have been implemented through a gradual and sequenced reduction in the rates of both customs and excise duties. As a result of successful tax reforms and increase in the levels of income in India, there has been a gradual shift in the composition with an increase in the share of direct taxes in total tax revenue from 36.2% in 2000-01 to 58.6% in 2009-10.[25]

Table 7
Sources of tax revenue
(US$ billion)

	2000-01	2005-06	2006-07	2007-08	2008-09	2009-10[a]
Direct tax (a)	**15.0**	**35.6**	**48.5**	**73.5**	**69.5**	**77.4**
Personal income tax	7.0	12.6	16.6	25.5	23.1	25.8
Corporate tax	7.8	22.9	31.9	47.9	46.4	51.6
Indirect tax (b)	**26.0**	**45.0**	**53.3**	**69.3**	**58.6**	**52.1**
Customs	10.4	14.7	19.1	25.9	21.7	17.8
Excise	15.0	25.1	26.0	30.7	23.6	22.1
Service tax	0.6	5.2	8.3	12.7	13.2	12.3
Gross tax revenue	**41.3**	**82.7**	**104.6**	**147.4**	**131.6**	**132.1**
Direct tax as a % of gross tax revenue	**36.2**	**43.0**	**46.4**	**49.9**	**52.8**	**58.6**

a Provisional actual.

Note: Gross tax revenue includes taxes referred to in (a) and (b) and taxes of union territories and "other" taxes. Direct taxes also include taxes pertaining to expenditure, interest, wealth, gift, and estate duty.

Source: Union Budget documents.

50. Some of the important steps taken to expand the direct tax base and maintain a moderate level of taxation are: a gradual revision of tax slabs for personal income tax to provide relief to low income earners and senior citizens; and reduction of the surcharge on corporate income tax. The Government is set to introduce systemic structural changes in direct taxes through the Direct Taxes Code (DTC) Bill 2010. This seeks to simplify, consolidate and integrate all direct tax laws, namely, income tax, dividend distribution tax and wealth tax, so as to establish an economically efficient, effective, and equitable direct tax system that will facilitate voluntary compliance and help increase the tax to GDP ratio. It also envisages stability in direct tax rates and strengthens taxation provisions for international transactions.

51. The emphasis of the indirect tax reforms has been on simplification and rationalisation of the tax structure, as well as removal of the tax cascading effect. The proposed Goods and Service Tax

[25] India: Economic Survey, 2010-11; Chapter 3: Fiscal Developments and Public Finance. Also available at http://indiabudget.nic.in/.

(GST), likely to be introduced in 2012, would replace a number of indirect taxes levied by the Centre and State governments on goods and services.[26] It intends to remove the cascading effect of taxes and provide a common national market for goods and services. Considerable progress has already been made to facilitate movement towards a unified GST. The implementation of the GST is contingent on a Constitutional Amendment Bill, which has been tabled in Parliament in 2011.

(2) FINANCIAL SECTOR REFORMS

52. The financial sector reforms, begun in 1991, have been gradual and calibrated, with the objective of making the financial system efficient and competitive by providing operational flexibility and functional autonomy to financial institutions and enabling them to diversify. As a result, the financial sector gained strength and remained resilient during the global financial crisis, despite some volatility.[27] There was no material stress on the balance sheets of banks and non-banking finance companies on account of toxic financial instruments or any solvency problems. The prudential policy framework for institutions and markets evolved over the years and the unconventional measures taken in response to emerging risks are now widely acknowledged to have played a significant role in protecting the Indian financial system from key vulnerabilities. Some of the major elements of this approach were a prudential framework for banks addressing, *inter alia*, leverage, liquidity and counter-party risk concentration; recognition of large non-banking finance companies as systemically important; an active capital account management framework, particularly in regard to the debt flows into the economy; and explicit regulation of over-the-counter derivative markets.

53. A very large segment of the Indian population is not part of the formal financial system. Meeting the small credit needs of the people, giving them access to the payments system and providing remittance facilities is high on the policy agenda of the Reserve Bank of India and the Government. To this end, various initiatives have been taken, for example, opening up of "no frills" accounts for low income groups with low or minimum balances and minimum charges; easier credit facilities; credit counselling centre facilities; formation of self-help groups (SHGs); smart credit card facilities; mobile banking facilities and introduction of a business correspondent model to ensure a closer relationship between the poor and the organised sector.[28]

54. The focus of financial reforms is now on financial inclusion, deepening of domestic capital markets, updating the legislation relating to financial markets and improving macro-prudential safeguards. Some of the major initiatives taken to carry forward the financial reforms in recent years include, the introduction of equity finance for small and medium enterprises (SMEs) through setting up of a stock exchange/trading platform for SMEs by recognised stock exchanges; the setting up of the Financial Sector Legislative Reforms Commission for re-writing and cleaning up of financial sector laws to bring them in tune with current requirements and to evolve a common set of principles for governance of financial sector regulatory institutions; setting up of the Financial Stability and Development Council – an apex-level body – to strengthen and institutionalize a mechanism for maintaining financial stability and development.

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[26] GST will subsume many taxes levied at the Centre, including excise duty, additional excise duties, excise duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act 1955, service tax, additional customs duty, special additional duty, central surcharges and cesses (excluding those applicable to income tax). At the state level, it will subsume state value added tax/sales tax, entertainment tax (unless levied by local bodies), luxury tax, taxes on lottery, betting and gambling, taxes on advertisements, state cesses and surcharges and entry tax, not levied by local bodies.

[27] Reserve Bank of India: Financial Stability Report, March 2010.

[28] Economic Survey, 2010-11, Chapter 5: Financial Intermediation and Markets.

55. Banking sector reforms in India are based on, *inter alia,* strengthening of prudential norms and market discipline, adoption of appropriate international benchmarks, management of organisational change and consolidation, technological upgradation, and human resource development. All commercial banks in India, excluding regional rural banks and local area banks, became Basel II compliant as on 31 March 2009.

(3) REFORMS IN FOREIGN INVESTMENT POLICY

56. An objective of the Government is to attract foreign investment for growth and development. India has evolved a liberal and transparent policy on foreign direct investment (FDI). The liberal investment regime is complemented by a moderate and stable tax regime. Tax holidays and other such special incentives are available for investment in certain sectors (for example, infrastructure projects). A single-window facility in the form of a Foreign Investment Promotion Board (FIPB) has been made available to foreign investors for seeking approval of investment proposals. India already has in place a stable investment policy with a long term perspective, which has increased the confidence of foreign investors in India's investment policy.

57. India's FDI policy has been progressively liberalized and rationalized since 1991 through raising of sectoral investment caps, bringing more industries under the automatic route and allowing FDI in more sectors. In 2000, Government allowed FDI up to 100% under the automatic route for most activities, except for a small negative list, where either the automatic route was not made available or limits were placed on FDI. Further liberalization took place in 2008, when the Government allowed FDI in most sectors of the economy, either through the Government approval route or the automatic route of RBI.[29] This included allowing the raising of FDI caps in the civil aviation sector; and rationalisation of the FDI policy in the petroleum and natural gas sector.

58. Since 31 March 2010, the Department of Industrial Policy and Promotion has been bringing out bi-annually, a consolidated FDI policy circular, integrating all regulations pertaining to FDI policy.[30]

(4) INDUSTRIAL REFORMS

59. The industrial policy since 1991 has focused on deregulation, discontinuation of licensing requirements, removal of conditions for expansion of large scale industries, de-reservation of industrial sectors for SMEs (small and medium enterprises), encouragement to competition, removal of restrictions on import of foreign technology and encouragement to foreign investment in industries. These policies have been pursued and deepened. Some initiatives have been taken in recent years to further simplify the policy. For example, in 2009, in the policy for import of foreign technology, the limits on payments for royalty, lump sum fee for transfer of technology, use of trademark/brand name, etc., were done away with and such payments were brought under the automatic route, without any requirement of Government approval. To further encourage technology inflows into the country, the condition for prior approval in case of existing joint ventures/technical collaborations in the same "field" has been removed with effect from 1 April 2011. India has also prepared a discussion paper on National Manufacturing Policy and invited suggestions from stakeholders.

60. The Micro, Small and Medium Enterprise Development (MSMED) Act 2006 redefined micro, small and medium enterprises on the basis of the level of investment. The Act provides for

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[29] Except in sectors like retail trading (except single brand product retailing), atomic energy, lottery business, gambling and betting, business chit fund, Nidhi companies, trading in transferable development rights (TDR) and activities/sectors not opened to private sector investment.

[30] The consolidated circular on FDI Policy is available at DIPP's website http://dipp.nic.in/.

facilitating the promotion and development of micro, small and medium enterprises and enhancing their competitiveness. The thrust of reforms is to make MSMEs globally competitive through technological upgradation, skill development, a cluster development approach, etc. The MSME sector now contributes significantly to manufacturing output, employment and exports.[31]

61. The disinvestment policy of the Government is aimed at improving corporate governance, and bringing about greater transparency, accountability and market discipline within the central public sector enterprises (CPSEs). The current policy was adopted in November 2009 which has the following approach to disinvestment: (i) already listed profitable CPSEs (not meeting the mandatory shareholding of 10%) are to be made compliant by "Offer for Sale" by Government or by the CPSEs through issues of fresh shares or a combination of both; (ii) unlisted CPSEs with no accumulated losses and having earned net profit in the three proceeding consecutive years to be listed; (iii) follow-on public offer would be considered in respect of profitable CPSEs having 10% or higher public ownership, taking into consideration the need for capital investment of CPSE, on a case to case basis. The Government could simultaneously or independently offer a portion of its equity shareholding in conjunction; and (iv) disinvestment to be considered on merits and on case-to-case basis since each CPSE has a different equity structure, financial strength, fund requirement, sector of operation and factors that do not permit a uniform pattern of disinvestment.

62. India is continuing efforts towards simplifying and streamlining IPR regulations. The Trademark Amendment Bill 2010 was passed by the Parliament to align the Indian Trademark statute with the provisions of the Madrid Protocol. In addition, the Office of the Controller General of Patents, Designs and Trade Marks has now made the trademarks database freely accessible. The Traditional Knowledge Digital Library (TKDL) MOU have been signed with the European Patent Office (EPO) and the USPTO in 2009, with the UKIPO, Canadian Intellectual Property Office (CIPO), Intellectual Property Australia and Japan Patent Office in 2011.

IV. TRADE POLICY

(1) FOREIGN TRADE POLICY

63. India believes that trade can contribute significantly to economic growth and employment generation. The Foreign Trade Policy (FTP) 2004-09 set out the objective of doubling India's percentage share in total global merchandise trade within a time-frame of five years and to use trade as an effective instrument of economic growth and employment generation.[32] India's exports increased from US$63 billion in 2003-04 to US$185 billion in 2008-09. India's share in global merchandise trade increased from 0.8% in 2003 to 1.4% in 2008, as per WTO estimates. India's share in total global goods and services trade was 0.9% in 2003, which increased to 1.6% in 2008. The increase in exports in the period 2004-09 created nearly 14 million jobs directly or indirectly.

64. The Foreign Trade Policy 2009-14 was announced in 2009 in challenging times, when there was a slowdown in exports all over the world due to the global economic crisis. The immediate objective of FTP 2009-14, therefore, was to arrest and reverse the declining trend of exports. The Policy aimed for an annual export growth of 15% with an annual export target of US$200 billion by March 2011. It also envisaged returning to a high export growth path of around 25% per annum in the remaining three years of the FTP i.e. up to 2014. The long-term policy objective of the FTP is to

[31] Annual Report 2010-11, Ministry of Micro, Small and Medium Enterprises, Government of India. It is estimated that in terms of value, the MSME sector accounts for about 45% of the manufacturing output and around 40% of the total exports of the country.

[32] Foreign Trade Policy 2009-2014, Department of Commerce, Government of India, available at http://www.doc.nic.in/.

double India's share in global trade by 2020. Special emphasis has been given to employment intensive sectors such as textiles, leather, handicrafts, etc., to arrest the job losses in these sectors in the wake of the global recession.

65. India's export performance exceeded the target of US$200 billion in 2010-11 by US$46 billion. India now aims to achieve exports of US$500 billion by 2013-14, with a compound annual growth rate of 26.7%, through quality upgradation of export products; export of high technology products; diversification of markets; expansion of the export basket; and moving up the value chain.[33]

66. India has put in place a policy for developing special economic zones (SEZs), with the main objectives of development of infrastructure facilities, generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources and creation of employment opportunities.

(2) Continuous Tariff Liberalization

67. By March 2001, India had removed all quantitative restrictions maintained earlier on account of balance of payment reasons. Further, following the opening up of the economy in 1991, India has progressively simplified and autonomously lowered its import duties. To bring about a moderate and simplified tariff structure and to align it to ASEAN levels, the peak rate of basic customs duty on non-agricultural products was brought down progressively from 150% in 1991-92 to 40% in 1999-00 and to 10% in 2007-08. Free trade agreements have further reduced tariffs.

68. As a result of progressive reduction of customs duty rates and exemptions on various counts, customs duty realization as a percentage of the value of imports has been declining quite rapidly, which is an indicator of liberalization. It declined from 21.9% in 1999-00 to 7.4% in 2008-09.

(3) Trade Facilitation Measures

69. In order to reduce transaction time and costs, a number of initiatives have been taken in the recent past. A provision of "self-assessment", both for imported goods and export goods, was introduced, by amending the Customs Act 1962 in the Budget of 2011-12. After the implementation of the electronic data interchange system and risk management system, the practice in most customs formations has been to carry out assessment on selected bills of entry based on risk parameters and to allow the balance to be facilitated. While aligning the legal provisions with current practices, the proposed amendments would move the Customs administration further along the path of trust-based compliance management. These amendments would provide a basis for progressive reduction in the levels of Customs intervention in clearance of import/export cargo leading to significant enhancement in facilitation for compliant trade. This would release resources for more incisive verification and audit of consignments that involve a high degree of risk, enabling the Customs to strike an optimal balance between the concerns of trade facilitation on the one hand and enforcement on the other.

70. A Task Force on Transaction Costs in Exports was set up in 2009 to identify the elements of transaction costs that could be addressed in the short-term with the objective of providing immediate benefits to traders. It was also mandated to suggest measures to reduce transaction costs and the time involved in foreign trade transactions. The Task Force has identified 44 issues for reduction of transaction costs out of which 21 issues have already been addressed.

[33] India: Department of Commerce: Press Release "Salient Points of Strategy for Doubling Exports in Next Three Years 2011-12 to 2013-14", dated 3.05.2011.

(4) Trade Policy Challenges Facing India

71. India's share of world trade continues to be a small, with only around 1.3% of global merchandise exports (2009). However, it has been subjected to a disproportionate number of trade defense actions. The large scale initiation of anti-dumping action has led to considerable disruption and loss of trade. Out of the 90 anti-dumping measures taken against India during the period January 1995 to June 2010, 22 relate to chemicals, 19 to plastics, 11 to textiles and 26 to metal products (mainly iron and steel) – areas in which India has gained a degree of comparative advantage globally in recent times.

72. The rising incidence of non-tariff barriers, in the form of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), has emerged as a major trade concern. New SPS and TBT–related measures, very often have market access implications and it is, therefore, important that these are imposed without causing unjustifiable social and economic cost on exporting countries.

V. INDIA AND THE WTO

(1) WTO Negotiations

73. India has always stood for an open, equitable, predictable, non-discriminatory and rules-based multilateral trade regime. India is a founding member of the GATT and the WTO and believes that such a regime best serves the needs of developing countries. The Doha Round of trade negotiations in the WTO provides a historic opportunity to correct distortions in global trade and to improve and strengthen the rules to enable developing countries to play a greater role in world trade.

74. With development at the heart of the Doha Development Agenda, it is important to ensure that the demands on developing Members are commensurate with their economic capacities, development levels and needs. The requirements of developing countries in terms of financial and technical assistance for capacity building have to be addressed on priority, in order to achieve truly meaningful results from further trade liberalization efforts.

75. Agriculture continues to be a means of livelihood for large sections of the population in many developing countries. With about 58% of the population still dependent on agriculture for their livelihood, India has a substantial stake in the Agriculture negotiations. India's priority in the Agriculture negotiations has been to safeguard the interests of low income and resource poor agricultural producers, in terms of their food and livelihood security and rural development needs. A substantial and effective reduction in trade-distorting domestic support, the elimination of all forms of agricultural export subsidies and improvements in the transparency and predictability of agricultural trade would be important benchmarks of this Round. This would level the playing field for farmers in the developing world and enable them to access global markets.

76. In this Round it is important for India and other developing countries to be able to protect the interests of their nascent and vulnerable industries. These include the micro, small and medium enterprises, employment intensive sectors, industries employing socially and economically vulnerable sections such as women, traditional artisans and fishermen, as well as industries in the rural, semi urban, economically disadvantaged and geographically inaccessible regions of the country. The development interests of industries cannot be sacrificed for mercantilist considerations.

77. Notwithstanding the status of the Doha Round talks, India is of the view that the credibility of the WTO should not be allowed to be eroded. The WTO provides a solid and stable framework for global trade relations and this multilateral rules-based system is critical to the vitality of the world economy.

(2) Duty Free Quota Free (DFQF) Access

78. India became the first developing country to extend duty free quota free (DFQF) access to all least developed countries (LDCs) in line with the WTO's Hong Kong Ministerial mandate. India's Duty Free Tariff Preference (DFTP) Scheme for LDCs came into effect in April 2008 with tariff reductions spread over five years. This Scheme covers about 92.5% of global exports of all LDCs and provides duty free and preferential tariff access on 94% of India's tariff lines; 27 countries (19 of which are from Africa) are already availing of the market access and the rest are in the process of completing their documentation for joining the scheme.

VI. REGIONAL AND BILATERAL ARRANGEMENTS

79. Free trade agreements (FTAs), in India's point of view, should be "building blocks" towards achieving the overall objective of trade liberalization and complement the multilateral trading system. India's initial regional trade engagements were the Bangkok Agreement (1975), the Global System of Trade Preferences (GSTP, 1988), and the SAARC PTA (SAPTA, 1993). India has built on these initiatives to engage all major continents and trading blocs. So far India has concluded 10 free trade agreements, 5 limited scope preferential trade agreements and is in the process of negotiating/expanding 17 more agreements. India's important trade engagements are briefly listed in this section.

(1) South Asia Region

80. The seven member countries of SAARC (India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and Maldives) signed the Agreement on South Asian Free Trade Area (SAFTA) in the year 2004 which was joined by Afghanistan as the eighth member in 2007. The signing of the SAARC Agreement on Trade in Services (SATIS, 2010) has deepened the engagement. In addition, India has bilateral trade agreements providing preferential market access to Bhutan and Nepal, a preferential trade agreement (PTA) with Afghanistan (2003), and a free trade agreement with Sri Lanka (1998) which is being expanded into a Comprehensive Economic Partnership Agreement (CEPA) covering trade in services and investment.

(2) South East and East Asia

81. The India ASEAN Trade in Goods Agreement became operational in January 2010 and further negotiations on Services and Investments are ongoing. Besides this India has signed a bilateral agreement with Thailand (2004) which is being expanded, a Comprehensive Economic Cooperation Agreement (CECA) with Singapore (2005), a CECA with Malaysia (2011) and has launched negotiations for a similar comprehensive agreement with Indonesia. An India-Republic of Korea Comprehensive Economic Partnership Agreement (CEPA) came into force in 2010. A CEPA with Japan was signed in February 2011.

(3) Australia and New Zealand

82. India has launched negotiations with New Zealand (2010) and Australia (2011) for a comprehensive agreement, covering economic cooperation, trade in goods, services and investments.

(4) Americas

83. Limited scope preferential trade agreements (PTA) were signed with MERCOSUR and Chile in 2004 and 2006, respectively. India is in the process of expanding these Agreements by widening the product coverage and deepening preferences.

84. India and Canada have launched negotiations in 2010 for a comprehensive agreement, covering economic cooperation, trade in goods, services and investments.

(5) EUROPE

85. India is currently negotiating a Broad Based Trade and Investment Agreement (BTIA) with the European Union (27 countries) and the EFTA countries (Iceland, Norway, Liechtenstein and Switzerland). The negotiations cover goods, services, investment, sanitary and phytosanitary measures and technical barriers to trade, trade facilitation and customs co-operation, etc.

(6) MIDDLE EAST AND AFRICA

86. India is negotiating a preferential agreement with the Southern African Customs Union (SACU). Negotiations are also underway for FTAs with the Gulf Cooperation Council (GCC) and Mauritius.

(7) OTHER AGREEMENTS AND NEGOTIATIONS

87. As an active member of the Global System of Trade Preferences (GSTP) promoting South-South trade, India participated in the third round of negotiations which were concluded in 2010.

88. The Asia Pacific Trade Agreement (APTA, 2005), operational among five countries, namely, Bangladesh, China, India, the Republic of Korea, and Sri Lanka was the result of re-negotiations on the text of the Bangkok Agreement (1975). India is currently participating in the Fourth Round of Negotiations, which include the areas of goods, services, trade facilitation and investment.

89. India, as a member of a regional group consisting of Bangladesh, India, Myanmar, Sri Lanka, Thailand (BIMSTEC, 1997) is negotiating an FTA in goods, services and investment amongst the members.

VII. CONCLUSION

90. The period under review has been a tumultuous one, with the global economic crisis shaping events and consequently, public policy, over much of this period. The Indian economy weathered the storm with remarkable resilience due, in large part, to the steady and calibrated continuation of the reform process that was set in motion two decades ago.

91. There are, undoubtedly, many challenges, amongst which the high rate of inflation, particularly in food items, is a major one. The uncertainty of the global economic outlook also casts a shadow on prospects for economic growth. To sustain the tempo of growth, the Government is taking various policy measures to address the major challenges, namely, improving physical and social infrastructure, enhancing agricultural growth and ensuring food security. India's development strategy will be firmly focussed on making the growth process socially inclusive and regionally balanced.

92. As part of the reform process, India embraced globalisation without losing sight of the need to contain and deal with some of its destabilising effects. The country's economic policies in general, and trade policies in particular, have been tailored to ensure inclusive growth. The emphasis on skill development, education and health and financial inclusion will help in harnessing the tremendous opportunities opened up by globalisation and the greater integration of the Indian economy with the rest of the world.

93. During the period under review, India's engagement with the world continued to expand, slowly but steadily. India's commitment to trade openness did not falter even at the peak of the global crisis. Many export restrictions were rolled back and several safeguard investigations were terminated without imposing duty. Similar restraint was shown in respect of anti-dumping investigations.

94. India took these steps in a global environment in which, regrettably, numerous trade barriers were being erected. Moreover, unlike the more transparent tariff measures that developing countries tend to use, these were mostly non-tariff barriers, for example, administrative regulations, unjustified applications of sanitary and phytosanitary measures and technical barriers to trade, slower customs procedures and additional requirements in the administration of import licensing measures. In addition, this period witnessed a slew of non-WTO compatible measures such as explicit subsidies for industries and preferences for national products over imports.

95. Not only did India unilaterally roll back its trade defence measures, but it in fact increased its engagement with the world during this period through regional, preferential and free trade agreements. Moreover, India kept its market open for the LDCs through its Duty Free Tariff Preference Scheme.

96. In a large and complex economy like India, the diversities and inequalities in income and levels of development present enormous challenges to policy makers. Economic policy, including trade policy, has to balance the requirements posed by increasing globalisation, with the need to ensure that the benefits of economic growth, development and global integration reach the poorest and most economically backward sections of the population. In any reform process, regardless of whether it is a developed or a developing country, there will be various pulls and pressures along the way. Despite tremendous social and economic challenges, India has made considerable progress, managing all kinds of conflicting pressures along the way, to reach the position it is in today – one of the fastest growing economies in the world. India is committed to continuing along this path of reform, openness and greater integration with the global economy.