



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.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on India.

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1 INTRODUCTION

1.1. The Sixth Trade Policy Review of India is taking place at a time when the prognosis for India's growth prospects is robustly optimistic as reflected in various forecasts. Several significant steps have been taken to re-energise the economy and there is a strong focus on accelerating growth, enhancing investment and passing on the benefit of the growth process to the common man.

1.2. The Government's emphasis is on developing infrastructure, creating a roadmap for reforms, promoting ease of doing business, ramping up investment, rationalizing subsidies, creating a competitive, predictable, and clean tax policy environment, and accelerating disinvestment. Coupled with large outlays on the social sectors to provide a safety net, these measures will have a significant impact on boosting demand and generating investment. This, in turn, will spur growth in trade, industry and exports.

1.3. Foreign trade today has begun to play a significant part in India's economic development. India's two-way merchandise trade crossed US\$760 billion in 2013-14 or 44.1% of the GDP. If services trade is added, India's trade reached nearly US\$1 trillion. This has been achieved despite the global contraction and is indicative of India's resilience and increasing integration with the global economy. During the four-year period under review (2010-11 to 2013-14), exports grew at a compound annual growth rate of 8.0%, while imports grew by 6.8%.

1.4. Reports present a mixed picture on the external environment. According to the IMF, global growth will receive a boost from lower oil prices – a result mainly of higher supply – but while the recovery in the United States was stronger than expected, economic performance in all other major economies, particularly Japan, fell short of expectations. The euro area growth projections are weaker. Slower growth in China and the recovery in the US will have significant repercussions on India's trade.

2 ECONOMIC ENVIRONMENT

2.1 Recent Growth Record

2.1. According to the latest indicators, emerging from the recently revised estimates of national income brought out by the Central Statistics Office, economic growth, measured by growth in Gross Domestic Product (GDP) at constant market prices, is estimated at 5.1% and 6.9% respectively during 2012-13 and 2013-14. Growth for the year 2014-15 is likely to be 7.4%.

2.2. The estimates at disaggregated level (Table 1) indicate that growth in agriculture and allied sectors – including crops, livestock, forestry and logging, and fishing – picked up in 2013-14. The manufacturing sector registered a growth of 6.2% and 5.3% respectively in 2012-13 and 2013-14. The services sector triggered the growth momentum in 2013-14. Services such as trade and repair services, rail transport, communication and broadcasting services and miscellaneous services achieved double-digit/close to double-digit growth during the year.

Table 1 Growth in GVA(Gross Value Added) at Constant (2011-12) Basic Prices

(%)

	2012-13	2013-14	2014-15
Agriculture, forestry & fishing	1.2	3.7	1.1
Industry	2.3	4.5	5.9
Mining & quarrying	-0.2	5.4	2.3
Manufacturing	6.2	5.3	6.8
Electricity, gas, water, supply & other utility services	4	4.8	9.6
Construction	-4.3	2.5	4.5
Services	8	9.1	10.6
GVA at basic prices	4.9	6.6	7.5
GDP (at market prices)	5.1	6.9	7.4

Source: Economic Survey, Government of India, 2014-15, Volume II.

2.3. The services sector continues to account for more than 50% of the Gross Value Added in the country and its share has been slowly increasing over the years. However, the share of the

agricultural sector is witnessing a gradual decline, with its share estimated to be 19% in 2014-15 (Table 2). The share of industry has declined since 2011-12 and accounts for a little more than 28% of GDP in 2014-15.

Table 2 % Share of different sectors in GVA at basic prices

Year	Agriculture ^a	Industry ^b	Services ^c
2011-12	21.58	29.90	48.52
2012-13	20.77	29.27	49.96
2013-14	20.24	28.67	51.09
2014-15 ^d	19.07	28.36	52.58

a Agriculture includes agriculture, forestry & fishing, mining & quarrying.

b Industry includes manufacturing, construction, electricity, gas & water supply.

c Services include trade, hotels and restaurants; transport, storage and communication; financing, insurance, real estate and business services; community, social and personal services.

d Advance estimates.

Source: Calculated on the basis of Statistical Tables in Economic Survey, 2015.

2.2 Savings and Investment

2.4. After reaching its historical peak in 2007-08 (36.8%), the gross domestic savings as a proportion of GDP (at market prices) declined from 33.9% in 2011-12 to 30.6% in 2013-14. Gross Capital Formation (GCF), as a proportion of GDP, declined from 38.2% in 2011-12 to 32.3% in 2013-14, on account of a fall in investment by both the corporate and household sectors. Though public sector investment increased during the period, it was not sufficient to compensate for the lower investment by the corporate and household sectors.

2.3 Inflation

2.5. Inflation had been a significant economic challenge confronting the economy since 2010-11. Retail inflation, as measured by the Consumer Price Index (CPI) (combined)¹ had remained stubbornly sticky at around 9-10% during 2012-13 and 2013-14. However, since the second quarter of 2014-15, both WPI (Wholesale Price Index) and CPI inflation have moderated significantly, with moderation in inflation observed in all the three major subgroups, viz. food and beverages, and tobacco; fuel and light; and others. As per the revised CPI (new series) with the base year 2012, headline CPI inflation stood at 5.1% in January 2015.

2.6. The decline in inflation was the result of both global and domestic factors. Global factors, namely the decline in crude prices, soft global prices of tradables, particularly edible oils and even coal, helped moderate headline inflation. At home, the tight monetary policy of the Reserve Bank of India (RBI) was helpful in keeping the demand pressures contained, creating a buffer against any external shock, and keeping volatility in the value of the rupee under check.²

2.4 Exports, Imports and Trade Balance

2.7. During the four-year period under review (2010-11 to 2013-14), exports grew at a compound annual growth rate of 8.0%, while imports grew by 6.8%. India's share in global exports registered a small increase from 1.5% in 2010 to 1.7% in 2013. Its share in world imports increased from 2.3% in 2010 to 2.5% in 2013.

2.8. The Indian economy has continued the trend of increasing trade openness during the period under review. India's total trade in goods (exports plus imports) as a percentage of GDP was 42.4% in 2008-09 which declined to 36.3% in 2009-10, as a result of the global economic crisis (Table 3). It however recovered in the following years and the trade-GDP ratio increased to 44.1% by 2013-14.

¹ Base year 2010=100.

² Economic Survey of India, 2014-15.

Table 3 Merchandise trade: exports, imports, trade balance, and trade openness

(US\$ billion, unless otherwise specified)

Year	Exports			Imports			Trade Balance		Trade Openness
	Exports	% growth	as % of GDP	Imports	% growth	as % of GDP	Trade Balance	as % of GDP	Trade as % of GDP
2010-11	251.1	40.5	14.5	369.8	28.2	21.4	-104.8	6.1	34.5
2011-12	306.0	22.5	16.60	489.3	32.3	26.6	-183.4	-10.7	46.4
2012-213	300.4	-1.8	17.61	490.7	0.3	28.8	-190.3	-11.2	46.5
2013-14	314.4	4.7	19.20	450.2	-8.3	27.4	-135.8	-7.8	44.1
2014-15 ^a	241.1	4.0	13.75	351.2	3.6	20.0	-110.0	-6.3	33.8

Note: GDP at constant market prices.
The US Dollar conversion rates calculated on the basis of monthly average rates of RBI.

a Provisional - for the period April-December.

Source: Economic Survey, 2014-15.

2.4.1 Merchandise exports

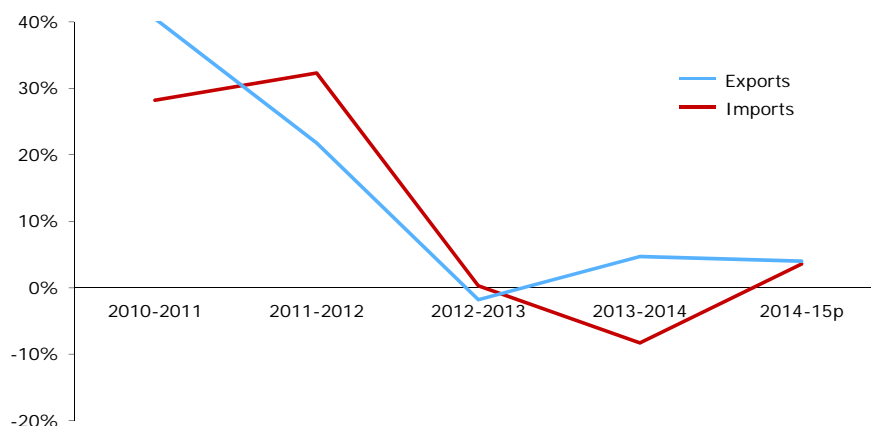
2.9. After registering a very high growth of 37.5% in 2010-11, the growth of merchandise exports moderated to 22.5% in 2011-12. The high growth in two years led to overall exports crossing the US\$300 billion mark. In 2012-13, though exports were still above the US\$300 billion mark, the growth in exports could not be sustained and marginally declined by 1.8%. During 2013-14, however, exports recovered to post a growth of 4.7% (US\$314.4 billion). In 2014-15 (April-December), the growth of exports moderated to 2.4% (to reach US\$241.1 billion compared to US\$237.73 billion for the same period in 2013-14).

2.10. In 2013-14, the major commodity groups in India's export basket in terms of percentage shares were Petroleum Crude and Products (20.1%); Gems and Jewellery (13.2%); Textiles and Allied products (11.8%); Agri and allied products (10.5%); and Chemicals and Related Products (9.8%).

2.4.2 Merchandise imports

2.11. During the four-year period under review (2010-11 to 2013-14), imports grew by 6.8%. In 2014-15 (April-December), imports grew by 3.6% to US\$351.2 billion as compared to US\$338.9 billion in 2013-14 (April-December). Non-POL and non-gold and silver imports which largely reflect the imports needed for industrial activity grew by 7.8% in 2014-15 (April-January), after registering a decline of 0.7% and 6.9% respectively in 2012-13 and 2013-14.

2.12. In 2013-14, the major commodity groups in India's import basket in terms of percentage shares were Petroleum Crude and Products (36.6%); Gems and Jewellery (13.0%); Chemicals and Related Products (7.9%); Electronic Items (7.2%); and Machinery (6.9%).

Figure 1 Import and export growth rates

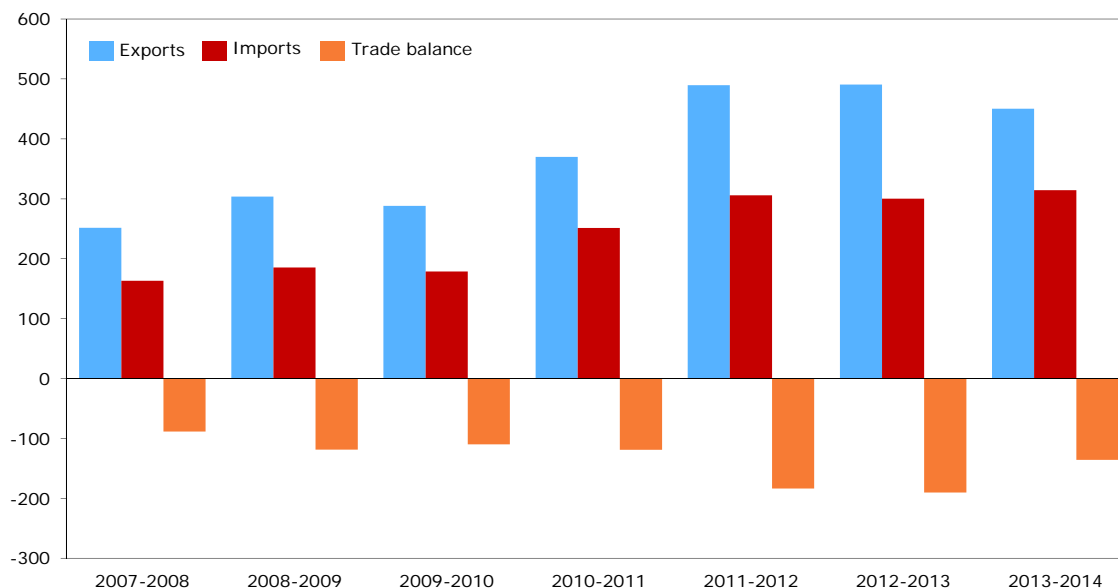
Source: Union Budget, Economic Survey of India 2014-15.

2.4.3 Trade Balance

2.13. The trade deficit, as a percentage of GDP, increased from 8.5% in 2009-10 to 11.2% in 2012-13. It more than doubled within the space of four years, from US\$88.5 billion in 2007-08 to US\$183.4 billion in 2011-12. It rose further to US\$190.3 billion in 2012-13 before falling in 2013-14 to US\$135.8 billion as a result of various steps taken by the Government. The heavy dependence on imports of essential commodities including crude oil, gas, coal, pulses, edible oils, fertilizers, electronics etc. has kept India's trade deficit at a high level.

Figure 2 Merchandise trade: exports, imports and trade balance

(US\$ billion)



Source: Union Budget, Economic Survey of India 2014-15.

2.4.4 Direction of Merchandise Trade

2.14. There has been significant market diversification in India's trade in recent years – a process that has helped in coping with the sluggish global demand.

2.15. Region-wise, India's export shares to Europe and America have declined over the years – from 23.6% and 20.1% respectively in 2004-05 to 18.6% and 17.2% respectively in 2013-14.

However, the United States of America continues to be the topmost destination for India's exports with a share of 12.4% followed by the United Arab Emirates (9.7%) and China (4.7%) in 2013-14.

2.16. The shares of India's exports to Asia and Africa have increased from 47.9% and 6.7% respectively in 2004-05 to 49.4% and 9.9% respectively in 2013-14. Exports to Asia still constitute around 50% of India's exports. While India's exports to ASEAN (Association of South East Asian Nations) grew only by 0.4%, exports to South Asia grew at 15.9% with high growths to all the four major SAARC (South Asian Association for Regional Cooperation) countries, Sri Lanka, Bangladesh, Nepal and Pakistan, besides Bhutan. Exports to China and Japan grew at 9.5% and 11.7% respectively.

2.17. As regards imports, the share of Europe in India's imports also declined from 23.0% in 2004-05 to 15.8% in 2013-14 while the shares of Asia and Africa increased substantially from 35.6% and 3.6% in 2004-05 to 60.7% and 8.1% respectively in 2013-14. The share of America in India's imports has also increased from 8.8% to 12.8% during the same period. China is the major source of India's imports, accounting for 11.3% of India's total imports, followed by Saudi Arabia (8.1%), the UAE (6.5%), and the United States (5.0%) in 2013-14.

2.18. The top three trading partners of India are China, the United States, and the UAE, with the top slot shifting among the three.

2.4.5 Services Trade

2.19. The services sector plays a very important role in the Indian economy. The high growth rate achieved by the Indian economy over the last decade or so has much to owe to the Services sector. The services sector contributes more than 50% to the GDP of the country, 35% to exports and accounts for more than 50% of FDI into the country.

2.20. India's services exports continued on their successful growth path in the last four years. During the period 2010-11 to 2013-14, the CAGR of services exports was 6.7%, slightly lower than the 8% for merchandise exports during the same period. Services exports reached US\$151.5 billion in 2013-14 with a growth of 4.0% over the previous year. The IT/ITeS sector dominates India's services exports. The other major categories of services exports in 2013-14 included business services, travel and transportation.

2.21. Imports of services decreased from US\$80.6 billion in 2010-11 to US\$78.5 billion in 2013-14. The major categories of services imports in 2013-14 included business services, transportation, travel and financial services.

2.22. During the period under review, the balance of trade in services has remained positive (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
2010-11	124.6	80.6	44.1
2011-12	142.3	78.2	64.1
2012-13	145.7	80.8	64.9
2013-14	151.5	78.5	73.0

Source: RBI Handbook 2013-14.

2.23. Besides IT/ITeS, India has a huge potential in exports of other business services like Management Consultancy, professional services such as Accountancy, Architectural and Engineering Services, Medical Value Tourism, Audio-Visual Services, R&D Services, Wellness Tourism Services, Recreational Services, Financial Services, Construction Services and Health Related professional services.

2.24. Moreover, there exists tremendous potential in trade in services in almost all sectors through all the four modes of supply. Today, given the requirements of rapidly ageing populations and the compulsions to remain competitive in a highly globalised world, developed countries are increasingly relying on the services of skilled professionals from developing countries like India.

With its demographic advantage and the large pool of skilled and low cost English speaking workforce, India can well provide the solution to the world's skills shortage problem.

2.25. A new initiative to boost the export of services is the annual Services Conclave held twice so far. This is intended to bring all stakeholders on a single platform, identify issues and prepare a road map for the promotion of services exports.

2.26. The next logical step is to engage business and governments from across the world to promote greater trade in services between India and the rest of the world. With this aim, the Ministry of Commerce and Industry, Government of India in association with the Services Export Promotion Council (SEPC) and the Confederation of Indian Industry (CII) is organizing a Global Exhibition on Services (GES) from 23 to 25 April 2015 in New Delhi. The main objective of the Exhibition is to create a global platform for increased trade in services. It is expected to enhance strategic cooperation and develop synergies to strengthen multilateral relationships between all stakeholders, tap the potential for services' exports and to increase FDI flow in the services sector. More than 40 countries are expected to participate in the GES.

2.5 Foreign Investment

2.5.1 Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII)

2.27. During the review period, FDI inflow reached an all-time high of US\$46.5 billion in 2011-12, registering a year-on-year growth of around 34% (Table 5). However, since then, FDI inflows have hovered around the range of US\$30-35 billion. Mauritius, Singapore, United Kingdom, Japan and Netherlands have been the largest sources of FDI inflow. The sectors that have attracted a high share of total inflows in recent years include services, construction, telecommunications, computer software and hardware, drugs and pharmaceuticals, automobile industry, chemicals and power.

Table 5 FDI inflows and net FII

(US\$ billion)

Year	Total FDI Inflows	Net FII
2008-09	41.8	-15.01
2009-10	37.7	29.05
2010-11	34.8	29.42
2011-12	46.5	16.81
2012-13	34.2	27.58
2013-14	36.0	5.01
2014-15 ^a	31.8	-

a April to November, 2014.

Source: RBI.

2.28. Net FII inflows have seen a high degree of volatility during the period, largely due to the developments in the international financial scene. In 2013-14, net FII inflow was US\$5 billion.

2.5.2 Outward Investment by India

2.29. Outward FDI investment by India stood at US\$17.1 billion in 2010-11 and declined to US\$11.1 billion in 2011-12 and further to US\$7.1 billion in 2012-13. In 2013-14, it increased marginally to US\$9.2 billion. The major destinations of India's outward investment in 2013-14 included British Virgin Islands, Mozambique, Netherlands, Singapore, Mauritius and the United States. Agriculture and mining (US\$6.3 billion) accounted for the largest share of outward FDI during 2013-14 followed by the manufacturing sector (US\$2.6 billion) and financial, insurance and business services (US\$1.8 billion).

2.6 Major Challenges

2.6.1 Agriculture and Food Security

2.30. While nearly half of the population of the country is engaged in agriculture for livelihood, the share of agriculture in total GDP is only around 20%. As against a growth target of 4% for

agriculture and allied sectors for the period 2012-17, the growth registered in the first year was 1.2%, 3.7% in 2013-14 and 1.1% in 2014-15. In recent times, agricultural incomes in the country are under stress on account of the rising cost of inputs and the inability of farmers to get reasonable prices for their produce.

2.31. Given the limited scope to increase the area under production, future agricultural growth is contingent on increasing agricultural productivity. This is necessary not only to ensure reasonable returns to farmers but also to bolster food security – including availability and affordable access. Measures are required to increase the irrigated area, improve the efficiency of existing irrigation systems and promote agro-based industry for value addition. Moreover, the agriculture and food sectors need huge investment in research, education, extension, fertilizers, and laboratories to test soil, water, and commodities, and warehousing, and cold storage.

2.6.2 The Manufacturing Challenge

2.32. India accounts for 1.8% of the world's manufacturing output. However, manufacturing growth, in recent years, has remained tepid. The share of manufacturing has stagnated at about 16% of GDP and manufacturing exports have remained stagnant at about 10% of GDP. While basic and capital goods appear to be on the path of recovery, intermediate goods are yet to emerge out of difficulties, and the consumer goods sector led by consumer durables continues to experience negative growth. Our second major challenge is thus to boost industrial growth in general and manufacturing growth in particular. This is imperative because of the large numbers joining the work force each year; the limited ability of the Services sector alone to absorb low-skill workers and a saturation in the absorption capacity of agriculture.

2.33. The Government's "Make in India" initiative aims to promote the country as an investment destination, spur manufacturing and promote employment. It also envisages the development of infrastructure including i-ways besides highways, ports, optical fibre networks, gas grids and water grids.

2.6.3 Infrastructure Development

2.34. One of the major challenges to India's growth is the infrastructure deficit. Massive investment is needed to build the infrastructure required to sustain a high growth rate, including roads, railways, ports, airports, electricity, telecommunications, oil gas pipelines and irrigation.

2.35. According to the Twelfth Five Year Plan projections, during the Plan period – 2012-17, an investment of US\$1 trillion is required in the infrastructure in India. Recognizing the pressing need to increase public investment, budgetary support for infrastructure has been substantially increased in the Budget for 2015-16. Major initiatives announced for funding infrastructure creation include a National Investment and Infrastructure Fund, tax free infrastructure bonds for projects in the rail, road and irrigation sectors and revitalization of the PPP mode of infrastructure development. Ports in the public sector will be encouraged to corporatize, and become companies under the Companies Act so as to be able to attract private sector investment as well as leverage the huge land resources lying unused with them.

2.36. The Government also proposes to set up 5 new Ultra Mega Power Projects, each of 4,000 MWs in the "plug-and-play" mode, i.e. all clearances and linkages will be in place before the project is awarded by a transparent auction system. The Government is also considering a similar approach in other infrastructure projects such as roads, ports, rail lines, airports etc.

2.37. Overcoming infrastructure bottlenecks is also the key to achieving accelerated export growth. Better multi modal transportation is required for improved road connectivity to ports, rail heads and airports, faster throughput at ports and shorter dwell time, faster movement of rakes by railways and quicker air cargo movement coupled with the requisite trade facilitation measures.

2.38. Supportive infrastructure required for exports includes laboratories for testing, more tool rooms and plant quarantine facilities, larger trade facilitation centres and land customs stations and enhanced cold storage facilities for pharmaceutical and perishable goods.

2.39. While India is now a significant supplier of agro products to the world, these remain largely confined to commodities such as cereals, groundnut, castor, oil meals, guar gum etc. of which surpluses are limited. India aims to promote a shift in focus towards processed and value added exports, niche products such as organic, culinary herbs and herbal products. For this, a range of facilities and infrastructure is needed on the post-harvest front, such as: cold chain facilities and transport logistics from the farm to the ports and airports; silos with temperature control mechanisms to preserve the quality of produce; state-of-the-art pack houses with complete cold chain arrangements; and integrated post-harvest facilities and centres for perishable cargo with uninterrupted power supply and connection to National Highways.

2.40. Containerized trade is growing in importance. On the lines of Container Freight Stations (CFSs) and Inland Container Depots (ICDs) for maritime cargo, similar off-site clearing mechanisms for air cargo, known as Air Freight Stations (AFSs), have been approved. Approval for AFSs will also be provided through the same single window mechanism that approves ICDs and CFSs. A plan for development of ICD/CFS/AFS has been prepared. The development of container trade and infrastructure depends in turn upon the development of ports, railways, road networks, warehouses, shipping and logistics companies.

2.41. India's Special Economic Zones Scheme has enabled the development of world class infrastructure facilities to some extent. The concept of Special Economic Zones reflects the core philosophy of the Government's Make in India initiative in its emphasis on promoting the 'ease of doing business' through the simplification of procedures, online processing and approvals, and accountable and transparent procedures. This Scheme will be further strengthened.

2.6.4 Increasing demand on public investment and the need for fiscal discipline

2.42. Fourth, the country is facing two conflicting challenges – the short-term imperative of boosting public investment to revitalize growth and ensure development with the need for maintaining fiscal discipline. Public investment is indispensable for supporting several important national priorities such as agriculture, education, health, and rural infrastructure, along with programmes targeted for the poor and the under-privileged. Meeting such priorities, however, not only reduces fiscal space, but in fact, squeezes it. Meeting the fiscal deficit target of 3% of GDP in 2017-18 is a daunting challenge.

3 THE NEW REFORM AGENDA

3.1. The Government has embarked on an ambitious reform agenda to meet the challenges of spurring growth, creating jobs and improving the quality of life of the common man. Over the last few months, various initiatives have been announced for financial inclusion, health and hygiene of the common man, the education of girls, employment for the youth, an improved and non-adversarial tax administration, effective delivery of benefits, investment and job creation, welfare of labour, improving agricultural productivity and increasing farm incomes, enhancing digital connectivity, skilling youth; and improving the ease of doing business.

3.1 Ease of Doing Business

3.2. To improve India's low ranking on ease of doing business parameters, reforms are being undertaken in areas such as starting a business, dealing with construction permits, registration of property, power supply, paying taxes, enforcing contracts, and resolving insolvency. The important measures that have been undertaken are:

- liberalization of licensing and deregulation of a large number of defence products;
- extending the validity of licenses to provide enough time to licensees to procure land and obtain the necessary clearances/ approvals from authorities;
- adoption of a checklist with specific time-lines for processing all applications filed by foreign investors in cases relating to retail/non-resident Indian (NRI)/export-oriented unit (EoU) foreign investments;

- automation of processes for registration with the Employees Provident Fund Organization and Employees State Insurance Corporation;
- processing of environment and forest clearances online;
- reducing the number of documents for exports;
- Adoption of best practices by states in granting clearances and ensuring compliance through peer evaluation, self-certification, etc.

3.2 Make in India

3.3. The Make in India programme aims to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure. Information on 25 sectors has been provided on a web portal along with details of FDI policy, National Manufacturing Policy, intellectual property rights, and the Delhi-Mumbai Industrial Corridor and other National Industrial Corridors. An Investor Facilitation Cell has been created in 'Invest India' to guide, assist, and handhold investors.

3.3 Reforms in FDI policy

3.4. Over the years India has put in place an investor-friendly FDI policy, which has been progressively liberalized and rationalized. FDI up to 100% is permitted under the automatic route in most sectors/activities.

3.5. The Government has liberalized the FDI policy in the defence sector by raising the FDI cap from 26 to 49%. Further, FDI above 49% has also been allowed subject to approval by the Cabinet Committee on Security, to allow access to modern and 'state-of-art' technology. 100% FDI under the automatic route has been allowed in specified rail infrastructure projects. The Indian Parliament has recently passed the Insurance Laws (Amendment) Bill 2015 which, among others, raises the FDI cap in the insurance sector from 26 to 49%. It was announced in the Budget 2015-16 that in order to further simplify the procedures for Indian companies to attract foreign investments, there would no longer be any distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments; instead there would be a composite cap. The sectors which are already on a 100% automatic route would not be affected.

3.4 Introduction of Goods and Services Tax

3.6. A major game changing reform in the near future would be the introduction of the Goods and Services Tax (GST) effective from 1 April 2016. The implementation of the GST would lead to the elimination of other taxes such as Central Excise duty, Service tax, State Value-Added tax, octroi, Central Sales Tax, State-level sales tax, entry tax, stamp duty, turnover tax, tax on consumption or sale of electricity and taxes on transportation of goods and services, thus removing the multiple layers of taxation that currently exist in India.

3.7. The GST is expected to help Indian exporters significantly. The simplification and harmonization of the indirect tax regime of the country will make Indian trade and industry more competitive by integrating markets, reducing inflation and the cost of production.

3.5 Skill development

3.8. India is one of the youngest nations in the world with more than 54% of the total population below 25 years of age. The current size of India's formally skilled workforce is small, approximately 2%. Moreover, as per the National Skill Development Corporation of India, for the period between 2013 and 2022 there is an incremental requirement of 120 million skilled persons in the non-farm sector. To meet this challenge, a dedicated Department of Skill Development and Entrepreneurship to promote skill and entrepreneurial activities has been set up. Work is being undertaken on setting up common norms for skill training across central ministries/ departments. Thirty- one industry/employer-led Sector Skill Councils (SSCs) are now operational and these have

been aligned with the 25 sectors of "Make in India". Efforts are on to create a common standard for skills training and certification in the country.

3.6 Labour-sector reforms

3.9. The multiplicity of labour laws is often cited as an obstacle to industry. A number of measures have been initiated to make it easier to comply with these laws and do business. The objective is to align the laws with the requirements of a changing labour market. These include the launch of a unified labour portal ("Shram Suvidha" portal) for online registration of units, filing of self-certified, simplified, single online returns by units, introduction of a transparent labour inspection scheme via computerized system as per risk-based criteria, uploading of inspection reports within 72 hours and timely redressal of grievances. A Universal Account Number has been launched facilitating portable, hassle-free, and universally accessible Provident Fund accounts for employees. The Apprentices Act, 1961 has been amended so as to make it flexible and attractive to youth and industry and a scheme has been launched to support micro small and medium enterprises (MSME) in the manufacturing sector in engaging apprentices (the "Apprentice Protsahan Yojana").

3.7 Fostering Inclusive Growth

3.10. A major programme for financial inclusion, the Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched on 28 August 2014. The PMJDY envisages universal access to banking facilities with at least one basic banking account for every household. The scheme is expected to provide a big push to the Direct Benefits Transfer scheme. In a short period of 100 days, over 125 million families had already been brought into the financial mainstream. The PMJDY platform is also being used to design and launch a slew of social security schemes to ensure that every Indian citizen is provided suitable cover during illness, accidents, or penury in old age.

3.8 Rationalizing Subsidies

3.11. The endemic poverty in India, the persistent inequalities of income and opportunities, the challenges of earning a livelihood in rural areas and currently inadequate financial inclusion make it essential for government to provide support through a range of subsidies. At the same time, it is critical to ensure that these subsidies reach their intended beneficiaries and achieve their objectives. The debate today is not about whether, but how best to provide active government support to the poor and vulnerable. Subsidies for some purposes can be effectively provided through direct cash transfers. For example, cooking gas subsidies are now being paid directly into the bank accounts of about 97.5 million recipients.

3.12. The Government supports the farm sector in India through various programmes for agricultural research and education, extension, irrigation and for facilitating easier and cheaper access to inputs such as seeds, fertilizers and credit. An important policy instrument used by the government for supporting farmers and ensuring India's food security is the Minimum Support Price (MSP) scheme. Food grains are procured from farmers at the MSP for the Public Distribution System.

3.13. Given the large numbers engaged in agricultural activities, on a per capita basis, the support to farmers is far below the levels of support extended by many of the developed countries. Moreover, the support extended in India seeks to sustain the livelihoods of the scores of small and marginal farmers rather than for large scale commercial farming.

3.14. The Government has undertaken various measures such as decentralized procurement, to enhance the efficiency of procurement and public distribution, to extend the benefits of MSP to local farmers and to remove the bias towards wheat and rice in incentive structures. An ambitious Soil Health Card Scheme has been launched to improve soil fertility on a sustainable basis.

4 TRADE POLICY

4.1 Foreign Trade Policy

4.1. International trade is an important part of India's economy with merchandise trade constituting around 44% of the country's GDP in 2013-14 as compared with 34.5% in 2010-11.

India's share in world services exports (at 3.3% in 2013) has been increasing faster than its share in world merchandise exports. India's foreign trade policy is primarily focused on accelerating exports. This is sought to be implemented through various schemes intended to exempt and remit indirect taxes on inputs physically incorporated in the export product, concessional duty import of capital goods, stimulating services exports, focus on specific markets and products etc. The Foreign Trade Policy (FTP) attempts to dovetail these schemes with the specific market access openings that India has achieved through negotiations with its trading partners for various bilateral and regional trading arrangements.

4.2. The FTP has, conventionally, been formulated for five years at a time and reviewed annually. The FTP for the period 2015-20 is being formulated by the Department of Commerce and will shortly be announced.

4.3. Market and product diversification will continue to be the twin pillars of the FTP. The Foreign Trade Policy 2009-14 included several measures to encourage exports through greater diversification of export destinations in Latin America, Africa, East Europe, parts of Asia and Oceania and by focussing on exports of products with high export intensity and employment potential.

4.4. India seeks to further achieve growth through focus on manufacturing and exports of value-added agricultural products, products with high potential and high technology products and products which are important for regional value chains.

4.5. India has deliberately kept governmental intervention in trade policy to the minimum even during the peak of the global economic crisis. While several countries resorted to various forms of protectionist trade measures such as liberal doses of subsidies to their enterprises, restrictions on imports, fiscal incentives, and promoting the purchase of domestically produced goods and services, India, on the other hand, resorted to few trade restrictions during the crisis; and even these measures were temporary and quickly dismantled.

4.6. India's foreign trade policy reflects its unwavering commitment to trade liberalization and deeper integration with the global economy. Import duties have been autonomously lowered over the years. While the average bound MFN rate for all products is around 48%, the applied rates are much lower than the bound rates especially in the case of agricultural goods, a testament to India's steady and continued autonomous tariff liberalization. The simple average MFN applied tariff for all products was just about 13.7% and for non-agricultural products 10.4% in 2012. As many as 69% of India's agricultural tariff lines attracted MFN applied tariffs ranging from 25 to 50% *ad valorem*. In case of non-agricultural tariff lines, the MFN applied rates range from 5 to 10% *ad valorem* for as many as 76% tariff lines. Apart from the occasional adjustment in the tariffs on some agricultural commodities in the face of high volatility in food prices, in most cases tariffs have been reduced rather than raised and have generally been continued at the lower levels.

4.7. Tariff policy will be further optimised in order to take advantage of the manufacturing opportunities offered by regional and global value chains, while retaining the necessary policy space to strengthen and develop domestic industry.

4.2 Trade Facilitation Measures

4.8. A number of initiatives are being introduced to make export and import competitive and reduce transaction costs. These include reducing the number of documents, enlarging the scope of electronic data inter-change (EDI), promoting acceptance of electronic in place of physical documents and seamless flow of information amongst the various Departments or agencies involved in border management. Steps are also being taken to convert the remaining non-EDI ports into EDI ports to ensure speedier processing by Customs at a larger number of locations, enlarge the scope of self-assessment and risk management systems at the Customs.

4.9. Steps are being taken by various Ministries and Departments to simplify administrative procedures and reduce transaction costs based on the recommendations of two Task Forces on Transaction Costs. One of the major trade facilitation projects implemented during the review period, is the linking of banks and offices of the Directorate General of Foreign Trade. The eBRC

(Electronic Bank Realization Certificate) project launched on 5 June 2012 created an integrated platform for receipt, processing and subsequent use of all information related to bank realization. Since August 2012, DGFT started accepting eBRCs uploaded by banks onto the DGFT server instead of physical copies of BRCs. This has brought down the cost of doing business for Indian exporters and enhanced the productivity of banks, DGFT and many other organizations.

4.10. A trade portal (www.indiantradeportal.in) was launched on 8 December 2014. This portal provides vital information to Indian industry on forty-two export markets and also a mechanism to take advantage of the increased market access provided through various regional and bilateral free trade agreements (FTA) and comprehensive economic cooperation/partnership agreements. The information can be accessed in four easy steps, which will contribute to ease of doing business. It will also help exporters to utilize the FTAs and take advantage of the preferential tariffs available to them in various countries.

4.11. Recognizing the synergetic relationship between standards and trade, India organized a Standards Conclave in 2014 at New Delhi. The objective was to arrive at a coordinated national response to meet the challenges of standards and conformity assessment procedures. Participants included regulators, standard setting bodies, accreditation bodies and industry bodies. The stakeholders were sensitised on the importance of international standards and the need to harmonise domestic standards with the international ones, wherever possible. The Standards Conclave is planned to be held as an annual event. Further, the legislative and institutional reforms identified through the deliberations of the Standards Conclave such as amendments to the BIS (Bureau of Indian Standards) Act, have been initiated.

4.12. Yet another important significant initiative is the E-Biz Project. A Government to Business (G2B) portal has been set up to serve as a one-stop shop for delivery of services to investors and to address the needs of business and industry from inception through the entire life cycle of the business. Entrepreneurs can apply online for industrial licences and industrial entrepreneur memorandums and this service is now available on 24x7 basis. Other services of the central government are being integrated on top priority. An Expert Committee is being appointed to examine the possibility of obviating the need for multiple prior permissions.

4.3 Trade Policy Challenges

4.13. India's share of world trade continues to be small, with only a slight increase from 1.3% in 2009 to 1.7% of global merchandise exports in 2013. Further, given uncertainties in the international economic environment in general and within India's major trading partners in particular, the country foresees challenging times ahead for its trade sector. Moreover, domestic factors like weak infrastructure, rising wages and scarcity of skilled labour in the case of services are inhibiting growth of trade and related activities.

4.14. The rising incidence of non-tariff barriers, in the form of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), continues to remain a major trade concern. While tariffs have been going down globally (also as a concomitant to rising number of FTAs), the use of technical regulations/mandatory standards as barriers has grown, along with the growth of a variety of conformity assessment procedures. The resultant increased transaction costs arising from complying with such regulatory requirements adds to the costs of India's exports and erodes price competitiveness.

5 INDIA AND THE WTO

5.1 WTO Negotiations

5.1. In keeping with its strong commitment to multilateralism and the Doha Development Agenda, India has been working with rest of the WTO Membership to ensure that the imbalances in global trade rules are corrected in order to ensure better integration of developing countries in international trade.

5.2. The outcome of the Bali Ministerial Conference of the WTO in December 2013 is significant for its recognition of some of the imbalances in the agricultural trade rules through the decisions on the issues of public stockholding for food security purposes, and export competition. The need for

policy space in the area of food security, a very genuine requirement of the developing countries to ensure the livelihood and food security of their poor, was not only recognized but it was also decided in November 2014 in WTO to find a permanent solution on the issue in a time bound manner.

5.3. A major outcome of the Bali Ministerial Conference is the decision on a Trade Facilitation Agreement (TFA). India is a party to this decision and would abide by the obligation to notify its Category A and B commitments in accordance with the provisions of the Agreement. India has undertaken a host of autonomous reforms even before the WTO agreed to have a TFA, with the following objectives:

- i. To simplify laws and procedures and streamline fees and formalities dealing with release and clearance of goods;
- ii. To ensure greater transparency in trade law administration; and
- iii. To enhance and initiate measures for border cooperation and free movement of transit goods.

5.4. India took up customs modernization in 1990s with the introduction of the EDI (Electronic Data Interchange) system at major customs locations, which was subsequently rolled out to other locations. Some further trade facilitation reforms that India took up autonomously include the introduction of the "Risk Management System" and "Post Clearance Audit" for imports. Very recently India has launched the Risk Management module for exports also. Where feasible, India allows for electronic payments of customs duties, which is again one of provisions in the Trade Facilitation (TF) text. In 2012, India launched the Authorised Economic Operators (AEO) Programme, based upon the WCO's SAFE Framework.

5.5. While substantive customs reforms have been undertaken in India, the implementation of TFA involves multiple border management agencies owing to which its implementation is a challenge. While many of the TF provisions are already in place in India, some of them would require suitable legal and/or procedural modifications. In such cases, being a developing country, India would be entitled to adequate transition time for implementing the Agreement.

5.6. India is in the process of finalizing its categorization of commitments under the Agreement and would be filing the notification in keeping with the provisions of TF agreement. The process of constituting a National Trade Facilitation Committee is also underway.

5.7. On future negotiations under the aegis of the WTO, India is committed to the Doha Development Agenda (DDA). The DDA primarily seeks to restore a balance in international trade by providing a level playing field to the developing countries. Special and Differential Treatment is the cornerstone of the DDA, as it provides opportunities to the developing countries to better integrate into the global trading system in accordance with their developmental needs.

5.8. Agriculture is the mainstay of the developing countries and India is no exception. With a large population dependent on agriculture, India has very high stakes in the negotiations on agriculture in the WTO. The historically high domestic support and export subsidies available to farmers in the rich countries are a matter of grave concern to the developing countries. India's efforts are, therefore, to protect the interests of the poor farmers, which can be achieved through substantial reduction in the very high level of trade distorting subsidies given by some of the developed countries, as well as through specific provisions in the WTO Agreement on Agriculture to provide protections and options to the developing countries for a level playing field.

5.9. Similar cooperation is required to conclude the rest of the issues of the Doha Development Agenda. India is working with Members to ensure that the development mandate of the Doha round is not diluted. There is a need to respect the special needs of the developing countries to encourage and protect their nascent and vulnerable industries, which 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.

5.2 Duty Free Quota Free (DFQF) Access

5.10. One of the elements of the Hong-Kong Ministerial Declaration of December 2005 was to extend Duty Free Quota Free (DFQF) access to the Least Developed Countries (LDCs). India was the first developing country to extend this facility to Least Developed Countries (LDCs). India's Duty Free Tariff preference (DFTP) Scheme for LDCs came into effect in August 2008. The Scheme came into full operation in October 2012 with 85% of India's total tariff lines made duty free, 9% tariff lines enjoying a Margin of Preference ranging from 10% to 100% and only 6% of total tariff lines retained in the Exclusion List with no duty preferences, for the exports from LDCs.

5.11. Moreover, to fully meet the obligations under the Hong Kong Ministerial Mandate of 2005, a proposal for expansion of India's DFTP Scheme was initiated by the Department of Commerce and the scheme has since been expanded. Effective from 1 April 2014, the DFTP scheme now provides duty-free market access on about 96 % of India's tariff lines and 2.2% of the lines are under preferential duties. Only 1.8% of the tariff lines have been retained in the Exclusion List, with no duty concessions.

5.12. Apart from the recent expansion in the product coverage of the Scheme, there has also been an initiative to simplify the procedural matters related to the Rules of Origin provisions of the DFTP Scheme and would be notified in near future.

5.13. At present, 31 out of 48 LDCs have become beneficiaries to the scheme. Out of this, 21 LDC beneficiaries are from Africa. The rest are countries in Asia and Asia-Pacific region.

5.3 LDCs Services Waiver

5.14. As per the WTO mandate and pursuant to the decisions of the WTO Ministerial Conferences and requests made by the LDCs, India has indicated, in February 2015, preferential treatment to LDCs in respect of:

- i. **Visa related issues** where India has agreed to waive the visa fee for LDC applicants seeking Indian business and employment visas.
- ii. **Technical Assistance and capacity building** in financial services, insurance services, MSME sector, agriculture and rural development, railways & specially designed courses in consultancy services and technical assistance for development of chartered accountancy and company/corporate secretary professions in LDCs.
- iii. **Market access** commitments in 15 subsectors, improved commitments in 4 sub-sectors and for a number of categories of professionals from LDCs.

5.15. India was the only WTO Member offering a waiver of visa fees. These preferences will remain valid for a period of 15 years from the date of notification by India. India proposes to notify these offers at the earliest.

6 REGIONAL AND BILATERAL ARRANGEMENTS

6.1. In order to put exports on a high growth trajectory, India needs a market diversification strategy based on the changing dynamics of growth in the world economy. In future engagements, India seeks to engage with regions and countries that are not only promising markets but also major suppliers of critical inputs and have complementarities with the Indian economy.

6.2. India views regional trade agreements (RTAs) and preferential trading arrangements (PTAs), as "building blocks" towards achieving the overall objective of trade liberalization. India's initial foray into RTAs were through 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 with countries and regional blocs around the globe. So far India has concluded 11 free trade agreements (FTAs) and 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.

6.1 South Asia Region

6.3. 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.

6.2 South East and East Asia

6.4. The India ASEAN Trade in Goods Agreement became operational from January 2010 onwards (with different dates for ASEAN countries). The Services and Investment Agreement was concluded on 9 September 2014 and would enter into force on 1 July 2015. 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 Comprehensive Economic Cooperation Agreement (CECA) with Malaysia (2011) and has launched negotiations for a similar comprehensive agreement with Indonesia. The India-Republic of Korea Comprehensive Economic Partnership Agreement (CEPA) came into force in January 2010. A CEPA with Japan was signed in February 2011 which came into force in August 2011.

6.3 Australia and New Zealand

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

6.4 Americas

6.6. Limited scope preferential trade agreements 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.

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

6.5 Europe

6.8. India is currently negotiating a Broad Based Trade and Investment Agreement (BTIA) with the European Union (28 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.

6.6 Middle East and Africa

6.9. 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), Israel and Mauritius.

6.7 Other Agreements and Negotiations

6.10. India is one of the members of the Global System of Trade Preferences (GSTP) which is an agreement among 43 developing countries and intended to promote South-South trade. India participated in the third round of negotiations (known as the Sao Paulo Round) which was concluded in 2010. However, as of January 2015, only 3 countries namely Cuba, India and Malaysia have submitted their schedules of concessions. It would be ratified only if a fourth participating country submits its schedule.

6.11. The Asia Pacific Trade Agreement (APTA, 2005), operational among six countries, namely, Bangladesh, China, India, Lao PDR, 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.

6.12. India, as a member of a regional group consisting of Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand (BIMSTEC, 1997) is negotiating an FTA in goods, services and investment amongst the members. As of January 2015, eighteen round of negotiations have been held under BIMSTEC.

6.13. India, is also negotiating the mega agreement known as the Regional Comprehensive Economic Partnership (RCEP) which constitutes the 10 countries of ASEAN and their six FTA partners namely Australia, China, India, Japan, Republic of Korea, and New Zealand. The negotiations are comprehensive and cover a number of areas like goods (both tariffs and non tariff issues), services, investment, intellectual property, competition, economic and technical cooperation, and legal and institutional issues.

7 CONCLUSION

7.1. Overall, since India's last Trade Policy Review in 2011, the Indian economy has weathered a number of challenges, both in the domestic and external sectors. However, since 2013-14 the economy seems to have turned the corner and there is an easing of the pressures associated with an economic slowdown, persistent inflation, an elevated fiscal deficit, slackening domestic demand, external account imbalances, and oscillating value of the rupee. Factors such as the steep decline in oil prices, plentiful flow of funds from the rest of the world, and the potential impact of the reform initiatives of the government coupled with its commitment to calibrated fiscal management and consolidation bode well for the growth prospects and the overall macroeconomic situation.

7.2. At the same time, the Government is conscious of challenges that can be posed by the uncertainties in the external environment, possible spill-overs of below normal agricultural growth and challenges relating to the massive requirements of skill creation and infrastructural upgradation.

7.3. While pursuing its domestic economic agenda, India is equally aware of its international obligations as well responsibilities in the community of nations. While it looks forward to engaging itself in fruitful negotiations in the WTO to establish a more fair and equitable international trading system, it has been engaging itself in concluding/furthering new/existing trade as well as economic partnership agreements with its trading partners, both individually and collectively. The ultimate objective would be to reap the benefits of international trade to meet the development needs of the country.
