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INDIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998 1/	1999 1/	2000 2/
Income, Production and Employment:			
Nominal GDP 3/	420.0	448.0	480.0
Real GDP Growth (pct) 4/	6.8	6.4	5.8
GDP by Sector (pct estimated):			
Agriculture	26.7	26.6	26.0
Manufacturing	25.3	24.5	22.8
Services	48.0	49.0	51.2
Government	N/A	N/A	N/A
Per Capita GDP (US$)	425.0	452.0	486.0
Labor Force (millions)	410.0	420.0	436.0
Unemployment Rate (pct)	22.5	22.5	22.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	19.2	13.6	15.0
Consumer Price Inflation 5/	13.1	3.4	6.0
Exchange Rate (Rupee/US$ annual average)			
Official	42.08	43.5	45.3
Parallel	42.08	43.3	45.6
Balance of Payments and Trade:			
Total Exports FOB 6/	33.2	37.6	42.5
Exports to U.S. 7/	7.3	8.5	9.3
Total Imports CIF 4/	42.4	47.3	52.0
Imports from U.S. 7/	3.6	3.6	3.6
Trade Balance 6/	-9.2	- 9.6	-10.5
Balance with U.S. 7/	3.7	4.9	5.5
External Public Debt 8/	97.7	98.4	98.0
Central Government Fiscal Deficit/GDP (pct)	4.5	5.6	5.1
Current Account Deficit/GDP (pct)	1.0	0.9	1.2
Debt Service Payments/GDP (pct)	2.6	2.5	2.2
Gold and Foreign Exchange Reserves	29.4	32.5	38.1
Aid from U.S. (US$ million)	121.8	142.9	142.5
Aid from All Other Sources	2.7	N/A	N/A

1/ Data for 1998 and 1999 differ from data contained in previous reports inasmuch as previous figures provided by the Government of India were provisional.

2/ Data are for the Indian fiscal year (IFY), April 1 to March 31, unless otherwise noted. Figures for 2000 are either Embassy or Center for Monitoring the Indian Economy (CMIE, a private research agency) estimates based on data available in September 2000.
3/ GDP at factor cost.
4/ Percentage changes calculated in local currency.
5/ Wholesale price index is benchmark for inflation.
6/ Merchandise trade.
7/ Source: Directorate General of Commercial Intelligence Service, Department of Commerce, on a fiscal year basis. Figures for 2000 are estimates based on data available through September 2000.
8/ Includes a rupee debt of $3.4 billion to the former Soviet Union.

Sources: Government of India economic survey, Government of India budgets, Reserve Bank of India bulletins, World Bank, IMF, USAID, and private research agencies.

1. General Policy Framework

Economic reforms since 1991 have helped India achieve a large measure of macroeconomic stability and a moderate degree of liberalization of its trade, investment and financial sectors. These reforms boosted annual economic growth to around seven percent in the 1994-1997 period. In the Indian Fiscal Year (IFY) 1997-98, growth slowed to 5 percent on the heels of the Asian financial crisis but increased to 6.8 percent in 1998-99 and then 6.4 percent in 1999-00. For IFY 2000-01, the Center for Monitoring the Indian Economy (CMIE) projects GDP growth of about 5.8 percent and industrial growth of about 7 percent. The United States continues to be the largest investor in India and its biggest trading partner. The Indian economy has the potential to perform well, and the long-term prospects remain encouraging.

There are continuing concerns, though, over inadequate infrastructure and chronic large budget deficits. Inefficiencies and shortfalls in capacity are reflected in congested roads and ports, power failures, and drinking water shortages. Infrastructure investments have diminished, largely because of the inefficient pricing structure of power and other services. In IFY 1999-2000, the central government's gross fiscal deficit rose to 5.6 percent of GDP with the consolidated public sector deficit (including states) over 10 percent. The high fiscal deficit/GDP rate continues to be a significant drag on economic growth.

During the first five months of IFY 2000-01, the money supply (M3) rose by an estimated 14 percent, almost reaching the Reserve Bank of India's (RBI) target of 15 percent for the year. Credit policies announced in April 2000 have focused on structural and financial sector reforms while emphasizing the need to guard against emerging inflationary pressures (e.g., a higher oil import bill that will affect foreign exchange levels and overall inflation). Government and private sources predict an average inflation rate (as measured by the Consumer Price Index) of 7.5 to 8 percent during IFY 2000-01, compared to 3.4 percent the previous year.

2. Exchange Rate Policy

On March 1, 1993 the exchange rate was unified and the rupee was made fully convertible on the trade account that year and on the current account in the following year. Controls remain on capital account transactions, with the exception of Non-Resident Indians (NRIs) and foreign institutional investors, but the gradual removal of these controls is expected as foreign exchange reserves increase and India makes progress in merging its capital markets with international financial markets. In June 1997 the Tarapore Committee on Capital Account Convertibility recommended a three year (1998-2000) period for complete capital account convertibility of the rupee. The government has defended its position in that India is in no hurry to complete full convertibility, especially given the crisis in East Asian economies and the need to strengthen the banking sector further.

The RBI intervenes in the foreign exchange market to maintain a stable rupee. The rupee is tied to a basket of currencies with the dollar playing a predominant role. In IFY 1999-00 the average exchange rate was rupees 43.28 per dollar. From April to August 2000, the rupee depreciated substantially (6.4 percent) against the dollar and is, as of October 2000, trading in the range of 45.50-46.38 per dollar. India was shielded from the East Asian currency crisis due to a staged approach to liberalization and its relatively low degree of exposure to global financial markets. In addition, India's short term foreign borrowing is relatively low and Indian banks and financial institutions have very little exposure to the real estate sector.

3. Structural Policies

Pricing Policies: Central and state governments still regulate the prices of many essential products (e.g., food-grains, sugar, edible oils, basic medicines, energy, fertilizers, and water), while many basic foods are under a dual pricing system. Some output is supplied at fixed prices through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices in government outlets usually are regulated according to a cost-plus formula. Regulation of basic drug prices has been a particular problem for U.S. pharmaceutical firms operating in India, although changes in national drug policy have sharply reduced the number of price-controlled formulations from 142 in 1994 to 72 at present. Agricultural commodity procurement prices have risen substantially during the past eight years, while prices for nitrogenous fertilizer, rural electricity, and irrigation are subsidized. Acute power shortages are forcing several states to arrest the financial decline of the state electricity boards by moving to market pricing. The federal government has also begun to scrutinize more carefully the cost of its subsidies, especially in the power sector.

Tax Policies: Public finances remain highly dependent on indirect taxes, particularly import tariffs. Between 1991 and 1999, indirect taxes accounted for about 69 percent of central government tax revenue. India's direct tax base is slight: only 23 million taxpayers out of a possible 200 million households. Marginal corporate rates are high by international standards, although the corporate income tax rate for foreign companies has been lowered from 55 percent to 48 percent. Tax evasion is rampant. The government has stated that future rate cuts will

depend on the success of efforts to improve tax compliance. Over the last eight years, the government streamlined the nation's tax regime, increased the revenue share from direct taxes, introduced a Value-Added Tax (VAT), and worked to simplify India's complex tax code. In the 2000-2001 budget, the excise and custom duty structure was rationalized by reducing three tiers of excise duties to one, and five tiers of custom duties to four. The government also provides certain tax incentives, such as a 10-year tax holiday for infrastructure projects, research and development projects, and software technology park projects.

Regulatory Policies: The "new industrial policy" announced in July 1991 considerably relaxed the government's regulatory hold on investment and production decisions. Industrial licenses now are only required for six "strategic" areas. Some restrictions remain for manufacturing in the public and small-scale industrial sectors. Most plant location strictures have been removed. The Indian government recently established a Telecommunications Dispute Settlement and Appellate Tribunal to adjudicate disputes between licensors and licensees. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. As economic reforms take root at the federal level, the focus of liberalization is gradually shifting to state governments, which, under India's federal system of government, enjoy extensive regulatory powers. The speed and quality of regulatory decisions governing important issues such as zoning, land-use and the environment can vary dramatically from one state to another. Political opposition has slowed or halted important regulatory reforms governing areas like labor and bankruptcy law that would enhance the efficiency and levels of domestic and foreign investment.

4. Debt Management Policies

External Debt Structure and Management: India's total external debt reached $98.4 billion in March 2000. Debt service payments were estimated at $4.5 billion in IFY 1998-99. Roughly two-thirds of the country's foreign currency debt is composed of multilateral and bilateral debt, with much of it (approximately 38.5 percent) on highly concessional terms. The addition of new debt has slowed substantially, as the government has maintained a tight rein on foreign commercial borrowing and defense-related debt and has encouraged foreign equity investment rather than debt financing. As a result, the ratio of total external debt to GDP fell from 39.8 percent in IFY 1992-93 to 22 percent in IFY 1999-00. By October 2000, India's reform program had succeeded in boosting foreign exchange reserves to $32.7 billion (excluding gold and SDRs). Forex reserves had grown to $35.1 billion by March 2000 but have declined as the RBI has spent dollars defending the rupee.

Relationship with Creditors: India has an excellent debt servicing record. Citing its growing foreign exchange reserves and ample food stocks, India chose not to negotiate an extended financing facility with the IMF when its standby arrangement expired in May 1993. In October 1998 Standard and Poor's (S&P) downgraded India's foreign currency rating from BB+ to BB. In October 1999 Moody's upgraded India's foreign currency rating outlook from stable to positive while maintaining an unchanged speculative grade rating of Ba2. In October 2000 S&P downgraded its outlook on India from positive to stable, due to slow structural reforms and burgeoning fiscal deficits.

5. Significant Barriers to U.S. Exports

Import Licenses: U.S. exports have benefited from significant reductions in India's import-licensing requirements. Since 1992, the government has eliminated the licensing system for imports of intermediates and capital goods. India's import-weighted tariff has fallen from 87 percent in 1992 to 25.4 percent at present. U.S. exports to India increased from $2.0 billion in 1991 to $3.6 billion in IFY 1999-00. India historically maintained quantitative restrictions (QRs) on imports on balance of payments grounds. Pointing to an improved foreign exchange situation, the United States sought removal of the restrictions. In November 1997 the United States moved within the WTO to resolve the issue. In April 1999 a dispute settlement panel favored the United States, a decision that was affirmed on appeal in August 1999. India and the United States subsequently reached agreement on a two-stage phase out of the QRs. The first stage, which went into effect April 1, 2000, lifted restrictions on half of the QRs (715 items), including consumer products and processed food items. The second stage, which will go into effect April 1, 2001, will eliminate the remaining QRs and affect (among other items) fertilizers, food grains, automobiles, tobacco, and crude petroleum products.

Some commodity imports must be channeled ("canalized") through public enterprises, although many "canalized" items are now decontrolled. The main canalized items currently are petroleum products and some pharmaceutical products. Pursuant to the report of the above-mentioned WTO panel, India must eliminate the canalization requirement by April 1, 2001. Import licenses are still required for pesticides and insecticides, some fruits and vegetables, breeding stock, most pharmaceuticals and chemicals, and products reserved in India for small-scale industry. This licensing requirement serves in many cases as an effective ban on importation.

Services Barriers: The Indian government runs many major service industries either partially or entirely, but private sector participants are increasingly being allowed to compete in the market. Entry of foreign banks remains highly regulated, but approval has so far been granted for the operation of 25 new foreign banks or bank branches since June 1993, when the RBI issued guidelines under which new private banks may be established. As of July 2000, 45 foreign banks were operating approximately 180 branches in India. Furthermore, financial authorities have permitted sweeping changes in non-bank financial services since then. India does not allow foreign nationals to practice law in its courts, but some foreign law firms maintain liaison offices in India. India recently opened the general insurance and domestic long distance telephony sectors to private and foreign investment. Foreign investors, however, are limited to a 26 percent share of insurance companies and a 49 percent stake in domestic long distance firms. Foreign and domestic joint ventures participate in telecommunications, advertising, accounting, and a wide range of financial and corporate consulting services. There is a growing awareness of India's potential as a major exporter of services, particularly in the information technology field, and of the increasing demand for a more open services market.

Standards, Testing, Labeling and Certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. However, India's food

safety laws are often outdated or more stringent than international norms. Where differences exist, India is seeking to harmonize national standards with international norms. Labeling of genetically modified organisms (GMOs) is not yet an issue in India and imports of GMOs are negligible.

Investment Barriers: The industrial policy introduced in July 1991 achieved a dramatic overhaul of regulations restricting foreign direct investment (FDI). The requirement for government approval for equity investments of up to 51 percent in 48 industries covering the bulk of manufacturing activities has been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes. Automatic approval up to 74 percent of FDI is permitted in eight categories including drugs/pharmaceuticals, mining, storage, warehousing, and transport. In addition 100 percent of FDI is automatically approved in a few sectors - electricity generation and transmission, construction/maintenance of roads, venture capital funds, and business e-commerce. However, government approval of foreign infrastructure projects that are not subject to the automatic approval process frequently is held up for lengthy periods of time.

Most sectors of the Indian economy are now open to foreign investors, except those linked to national security such as defense, railways and atomic energy. The United States and India have not negotiated a Bilateral Investment Treaty, although an agreement covering the operations of the Overseas Private Investment Corporation (OPIC) was updated in 1997. OPIC operations resumed in December 1998, following the partial lifting of sanctions imposed on India after its nuclear tests in May 1998. In 1994 India became a member of the Multilateral Investment Guarantee Agency, an agency of the World Bank. The Indian government ratified the Uruguay Round GATT Agreement on January 1, 1995 and is a member of the WTO. With regard to Trade-Related Investment Measures (TRIMs), the United States is challenging in WTO the local content and trade balancing measures that India applies to foreign joint ventures in the motor vehicle manufacturing sector.

Government Procurement Practices: Indian government procurement practices are not transparent and occasionally discriminate against foreign suppliers, but they are improving under the influence of fiscal stringency. Price and quality preferences for local suppliers were largely abolished in June 1992. Recipients of preferential treatment are now concentrated in the small-scale industrial and handicrafts sectors, which represent a very small share of total government procurement. According to a recently renewed rule, public sector units receive preferential treatment inasmuch as they may undercut the lowest bid on a government contract by 10 percent. Defense procurement through agents is not permitted, forcing U.S. firms to maintain resident representation. When foreign financing is involved, procurement agencies generally comply with multilateral development bank requirements for international tenders. India is not a signatory of the WTO Government Procurement Agreement.

Customs Procedures: Liberalization of India’s trade regime has reduced tariff and nontariff barriers, but it has not eased some of the worst aspects of customs procedures. Documentation requirements are extensive and delays are frequent. In 1996, the Indian

government switched to the harmonized system of commodity classification, removing ambiguities and providing more transparency to its export-import policy.

6. Export Subsidies Policies

The 1991 budget phased out most direct export subsidies, but a web of indirect subsidies remains. Export promotion measures include exemptions or concessional tariffs on raw materials and capital inputs, and access to Special Import Licenses (SILs) for restricted inputs. The SIL requirement must be eliminated by April 1, 2001, pursuant to the WTO panel report on balance of payments-based QRs. Concessional income tax provisions traditionally applied to exports (export earnings were tax-exempt), although the Indian government is eliminating this provision over five years in equal stages. In IFY 1999-2000 80 percent of export earnings are exempt from taxes. Commercial banks provide export financing on concessional terms.

7. Protection of U.S. Intellectual Property

In India, various statutes for the protection of intellectual property rights exist although enforcement is poor and piracy is rife. Copyright enforcement, particularly with the proliferation of the Internet and cable television, is generating increased attention from the Indian judiciary. Still, there have been only four criminal convictions for piracy in India since a new copyright law went into effect in 1995. In April 1998 the United States and India reached an agreement to resolve a long-running dispute over India's failure to implement its obligations under the WTO TRIPS Agreement. In April 1999 the Indian Parliament passed a patent bill establishing a "mailbox" system for the filing of pharmaceutical and agricultural chemical product patent applications and allowing exclusive marketing rights. India failed, however, to meet the WTO deadline to bring its intellectual property laws and enforcement efforts into TRIPS compliance by January 1, 2000. A draft Patents Bill, amending the Patents Act of 1970, was introduced in the Indian Parliament in December 1999 and currently is pending with a joint parliamentary committee. Passage of the bill is not expected until 2001. The Indian government has announced its intention to take full advantage of the 2005 transition period allowed for developing countries under TRIPS before implementing full patent protection. India is a member of the Bern Convention for the Protection of Literary and Artistic Works. In August 1998 it became a member of the Paris Convention, and in December 1998 it became a signatory to the Patent Cooperation Treaty.

Over the past decade, the USTR has targeted India as a Priority Foreign Country in the "Special 301" process, and despite some improvements, India is still included in the "Special 301" Priority Watch List. India was identified in April 1991 as a "Priority Foreign Country" under the "Special 301" provision of the 1988 Trade Act, and a Section 301 investigation was initiated in May 1991. In February 1992 the USTR determined that India's denial of adequate and effective intellectual property protection was unreasonable and burdens or restricts U.S. commerce, especially in the area of patent protection. In April 1992 the United States suspended duty-free privileges under the Generalized System of Preferences (GSP) for $60 million in trade from India. In June 1992 additional GSP benefits were withdrawn, increasing the total affected trade to approximately $80 million.

India's patent protection is weak and has especially adverse effects on U.S. pharmaceutical and chemical firms. Estimated annual losses to the pharmaceutical industry due to piracy are about $500 million. India's Patent Act prohibits patents for any invention intended for use or capable of being used as a food, medicine, or drug or relating to substances prepared or produced by chemical processes. Many U.S.-invented drugs are widely reproduced since product patent protection is not available. Processes for making drugs may be patented, but the patent term is limited to the shorter of five years from the grant of patent or seven years from the filing date of the patent application. Product patents in other areas are granted for 14 years from the date of filing.

Trademark protection is considered good and was raised to international standards with the passage in December 1999 of a new Trademark Bill that codifies existing court decisions on the use and protection of foreign trademarks, including service marks. Enforcement of trademark owner rights has been indifferent in the past, but is steadily improving as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights' holders.

India continues to have high piracy rates for all types of copyrighted works. Strong criminal penalties are available on paper, and the classification of copyright infringements as "cognizable offenses" theoretically expands police search and seizure authority. Still, severely backlogged Indian courts coupled with the excessive requirements of Indian criminal procedure have led to infrequent and lax enforcement. The recently passed Information Technology Act provides a legal framework for the prevention of piracy and protection of intellectual property rights, to include penalties for the unauthorized copying of computer software.

The proliferation of unregulated cable television operators (estimated at over 40,000) has led to pervasive cable piracy. A strong anti-piracy effort in the business applications software field, where India ranks third in the world with $5 billion in sales in 1999, has produced a drop in the business software piracy rate from 78 percent in 1995 to 61 percent in 1999. According to a recent industry report, trade losses due to the piracy of U.S. motion pictures, sound recordings and musical compositions, computer programs, and books totaled $310 million in 1999.

8. Worker Rights

a. *The Right of Association:* India's constitution gives workers the right of association. Workers may form and join trade unions of their choice and work actions are protected by law. Unions represent roughly 2 percent of the total workforce, and about 25 percent of industrial and service workers in the organized sector.

b. *The Right to Organize and Bargain Collectively:* Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited by the constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor." Despite implementation of the 1976 law, bonded labor continues in many rural areas. Efforts to eradicate the practice are complicated by extreme poverty and jurisdictional disputes between the central and state governments; legislation is a central government function, while enforcement is the responsibility of the states.

d. *Minimum Age for Employment of Children*: Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The government's 1991 census estimated that 11.3 million Indian children from ages 5 to 15 are working. Non-governmental organizations estimate that there may be more than 55 million child laborers. A 1986 law bans employment of children under age 14 in hazardous occupations and strictly regulates child employment in other fields. Nevertheless, hundreds of thousands of children are employed in the glass, pottery, carpet and fireworks industries, among others. Resource constraints and the sheer magnitude of the problem limit states' ability to enforce child-labor legislation. The U.S. Department of Labor has initiated cooperative programs with the Indian government to address child labor.

e. *Acceptable Conditions of Work:* India has a maximum eight-hour workday and 48-hour workweek. This maximum is generally observed by employers in the formal sector. Occupational safety and health measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors with U.S. Investment:* U.S. investment exists largely in manufacturing and service sectors where organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker-rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		-386
Total Manufacturing		466
Food & Kindred Products	-65	
Chemicals & Allied Products	92	
Primary & Fabricated Metals	-31	
Industrial Machinery and Equipment	355	
Electric & Electronic Equipment	131	
Transportation Equipment	-123	

Other Manufacturing	108	
Wholesale Trade		128
Banking		420
Finance/Insurance/Real Estate		263
Services		50
Other Industries		247
TOTAL ALL INDUSTRIES		1,189

Source: U.S. Department of Commerce, Bureau of Economic Analysis.