INDIAN TRADE POLICY

The trade policy of India has undergone various changes from time to time and with the changing structure of the modern day's international trade, foreign trade policy has become more diverse with the objective to increase India's percentage share in global trade. The path of evolution of India's EXIM / Trade policy can be divided into two parts-

1. PRE – REFORMATION PERIOD (PERIOD BEFORE 1991)

A. Import policy framework

- Restrictive import policy – Items were categorised under-
    - Banned items – items which could not be imported like drugs, wildlife items
    - Restrictive items – items which could be imported with restrictions like firearms or ammunition
    - Canalised items – items which can be imported by a canalising agency recognised by the government by using specific procedures or methods of transport like crude oil, metals and minerals.
    - Items under Open General License (OGL) were reduced – Import of goods can be done without having any license.
- Import Substitution policy – It is basically producing the substitutes of imported goods within the country so that people switch to Indian products and imports get reduced.
- Import liberalisation policy – The Government of India reduced the restrictions on import of certain commodities like capital goods, technology so that manufacturin / production can be done in domestic country.

B. Export policy framework

- Phase I – Export pessimism (1947-52) – exports could not be increased as there was not much demand.
- Phase II - Export pessimism (1952-66) – though the government of India removed restrictions on exports, the exports could not be increased due to widespread scarcity in supply of products.
- Phase III - Export pessimism (1966-73) - exports could not be increased due to bureaucratic crip (no proper management by govt) on the export of products.
- Phase IV (1973-81) – Phase of export promotion where even after promoting exports so much in order to maintain a favourable balance of payment, the GOI could not achieve its target because there was increase in the prices of petrol which again led to the deficit in BOP.
- Phase V (1981-91) - same

2. REFORMATION PERIOD (PERIOD AFTER 1991) – INTRODUCTION OF LPG POLICY

A. **Liberal import and export –** The Govt of India liberalised and simplified the process of import and export so that more export and import could be done in order to have good trade relations with different countries of the world.
B. **Decanalisation –** Less no of products can be traded with the help of a canalising agency.
C. **Development of tariff structure on rational grounds –** Less developed countries should not be charged heavy tarriffs and more developed country products should not be charged less tarriff. Charges should be on rational grounds for the products imported.
D. **Liberal exchange rate management –** The value of rupee with respect to foreign currency should be determined with respect to market forces of demand and supply.
E. **Special economic zones to be setup –** The GOI also laid emphasis on setting up of SEZs where industries can be set up for producing commodities for both domestic consumption as well as exports.
F. **Incentives, exemptions and concessions –** Given to liberalised imports and to promote exports of the country.
G. **Trading houses (Star trading house and Super Star trading house) –** The GOI established the trading houses to look after the imports and exports of the country and these trading houses were categorised as 1 star trading house, 2 star trading house ….. depending upon its annual turnover. Trading house with maximum annual turnover is named as superstar trading house.

   ****Trade houses are business firms that work with the physical commodities that are traded in the open market****

WHAT IS BILATERAL TRADE?

Bilateral trade is the exchange of goods between two nations promoting trade and investment. The two countries will reduce or eliminate tariffs, import quotas, export restraints, and other trade barriers to encourage trade and investment.

The main advantage of bilateral trade agreements is an expansion of the market for a country's goods through concerted negotiation between two countries.

The goals of bilateral trade agreements are to expand access between two countries' markets and increase their economic growth. Standardized business operations in five general areas prevent one country from stealing another's innovative products, dumping goods at a small cost, or using unfair subsidies. Bilateral trade agreements standardize regulations, labour standards, and environment protection

ADVANTAGES

- Compared to multilateral trade agreements, bilateral trade agreements are negotiated more easily, because only two nations are party to the agreement.
- Bilateral trade agreements initiate and reap trade benefits faster than multilateral agreements.
- Bilateral agreements increase trade between the two countries. They open markets to successful industries. As companies benefit, they add jobs therby increasing employment.

- The country's consumers also benefit from lower costs. They can get exotic fruits and vegetables that can get too expensive without the agreement.

- They are easier to negotiate than multilateral trade agreements, since they only involve two countries. This means they can go into effect faster, reaping trade benefits more quickly. If negotiations for a multilateral trade agreement fails, many of the nations will negotiate a series of bilateral agreements instead.
- Bilateral trade agreements also expand the market for a country's goods.

DISADVANTAGES

- Any trade agreement will cause less successful companies to go out of business. They can't compete with a more powerful industry …
- Bilateral trade agreements can also result in the closing down of smaller companies unable to compete with large multinational corporations.
- When negotiations for a multilateral trade agreement are unsuccessful, many nations will negotiate bilateral treaties instead. However, new agreements often result in competing agreements between other countries, eliminating the advantages the Free Trade Agreement (FTA) confers between the original two nations.
- The bilateral trade agreements can skew a country's markets when large multinational corporations, which have significant capital and resources to operate at scale, enter a market dominated by smaller players. As a result, the latter might need to close shop when they are competed out of existence.

MULTILATERAL TRADE AGREEMENT

A multilateral agreement is a trade agreement established between three or more countries with the intention of reducing barriers to trade, such as tariffs, subsidies, and embargoes, that limit a nation’s ability to import or export goods. They are considered the best method of encouraging a truly global economy that opens markets to small and large countries on an equitable basis.

ADVANTAGES

Liberal economists are perhaps the leading proponents of using multilateral agreements as the ideal way to encourage free and unencumbered global trade. The benefits they point to include:

Granting of "favored nation status" – No nation that is a party to a multilateral agreement can be granted more favorable trading rights than any other party to the agreement. Each country is treated as an equal partner.

Best use of a nation's resources – Countries can focus on producing only those goods that are deemed valuable by its partners to the agreement, creating efficiencies in the allocation of resources.

Exported goods are cheaper – Reduced tariffs mean that countries exporting their products no longer face artificial barriers to trade.

Standardization of regulations - Companies can more easily navigate trade between signatory countries as a result of agreed upon rules of commerce. In addition, international intellectual property rights can receive greater protection.

One agreement versus many – While multilateral agreements are often complex by their very nature, they actually save countries the time and effort it takes to negotiate separate agreements with every potential trading partner.

Emerging markets flourish – Bilateral agreements tend to favor the powerful. Multilateral agreements level the playing field for all participants, particularly the little guys who have been pushed around for years.

DISADVANTAGES

Multilateral agreements also have their opponents. Their reasons for seeing these agreements as failing to provide any lasting benefits include:

Ceding of sovereign rights – Countries that are partners in a multilateral agreement give up degrees of sovereignty over the way they conduct business with other countries, which often is in direct opposition to the democratic principles on which they were founded.

Some parties win, but some parties lose – Certain industries within partner countries may be adversely affected by the low cost of imported goods by competing nations.

Complex and time-consuming negotiations – Due to the complex nature of an agreement that must be negotiated by several countries with often competing interests, multilateral agreements can take a great deal of time to complete. There is no guarantee that after years of negotiation an agreement will actually be reached.

Misunderstandings and Misconceptions - Negotiations during an agreement are often conducted in a confidential manner that breeds mistrust and controversy between corporations, special interest groups, labour organizations, and the media.

Rise of multi-national corporations – Smaller businesses often find it difficult to compete with large corporations as traditional borders to trade are erased. This can lead to unemployment in certain industries and lower standards of living as wages are cut in order for these companies to compete.

In general, trade agreements between nations are either bilateral, involving only two nations, or multilateral. By their very nature, requiring concessions by several countries that have traditionally used trade barriers to protect certain industries or domestic goods, multilateral agreements are much more difficult to negotiate than bilateral agreements.

The main difference between multilateral and bilateral free trade agreements (FTA) is the number of participants. Multilateral trade agreements involve three or more countries without discrimination between those involved, whereas bilateral trade agreements consist between two countries. Both countries have certain privileges for example; they have favourable import quotas which are not available for other trading partners and only for the two nations which have the bilateral contract.

Multilateral negotiations are the most effective way of liberalizing trade in an interdependent global economy, because concessions in one bilateral or regional deal may undermine concessions made to another trading partner in an earlier deal. It is also important to mention that under multilateral trade agreements, regional trade arrangements take place and examples of this are the North American Free trade Agreement (NAFTA) and the European Union (EU).

Major differences between Bi-lateral and Multi-lateral agreement are:

Bilateral Agreement	**Multilateral Agreement**
Bilateral Groupings consists of 2 nations.	Multilateral Groupings consists of 3 or more nations
In Bilateral Groupings, larger and more powerful nations will have more power.	Multilateral Groupings give more power and voice to smaller nations over larger nations.
Bilateral Trade agreements are less complex than multilateral trade agreements since	Multilateral Trade agreements are very complex as it involves many countries

bilateral agreements involve just 2 countries	
Under Bilateral agreements, the time taken for concluding negotiations is much lesser compared to multilateral agreements.	Under Multilateral agreements, the negotiations take a longer duration to conclude
Bilateral trade agreements give access to smaller market as there are only 2 countries involved in the negotiations	Multilateral trade agreements give access to a larger market
Trade barriers may get reduced between 2 countries and not over a larger region.	Under Regional Multilateral groupings, trade barriers get reduced over a larger region, an example would be the North American Free Trade Agreement (NAFTA).

RECENT WORLD TRADE SCENARIO (Pre and post covid scenario)

Pre Covid scenario

1) Policy of liberalisation was followed by almost all countries of the world. WTO has made continuous efforts to reduce restrictions to trade.
2) Policy of export promotion is followed by less developed countries (LDC's) and also developed countries. The developed countries are removing tariffs and quota restrictions on the goods coming from LDCs.
3) Emergence of economies in World Trade scenario by providing cheap labour and labour intensive products thereby providing goods at low rates. For example China, Singapore, Hong Kong etc. thus making a market for goods amongst common man like smartphones smart TV in IT sector.

4) There has been a shift in the direction of trade. Earlier less developed countries felt pride in trading with developed countries like US, European countries, UK etc. because of which the value of exports were low and imports were high. Now countries like India, find new partners who are welcoming Indian Products like UAE, Saudi Arabia, Bangladesh, China, Singapore etc.

DURING AND POST COVID:

1) Strong recovery in demand can be seen due to subsidizing pandemic restrictions. No long period lockdown and economic layoffs exist thus bringing economic activity back to momentum.

2) Less fatality of pandemic due to large scale vaccination to the people all over the globe. India provided vaccination to large fraction of its eligible population. So economic process did not come to a halt.

3) Economic stimulus packages announced by all the governments of different countries placed economic power with the masses. The demand for goods and services did not suffer a setback rather economies bounced back and had a V- shaped recovery. Higher demand for goods and services due to accumulation of money as less expenditures were incurred during covid period on excursions, travels and luxury because people were confined to the homes during lockdown.

4) Higher demand for products provided boost to production process leading to higher incomes for factors of production like labour and capital and it had a multiplier effect rather putting breaks to the economic activity in the third wave of covid.

5) The medical sector has grown stronger in the countries with increase in supplies of medicines, medical equipments and facilities at the hospitals globally.

6) Online work culture has brought countries close to each other and better economic ties exist today than any other time in history. Companies have found a better alternative where employees can devote their working hours to the organisation from their homes with ease.

GATT (General Agreement on Tariffs and Trade)

Background

The General Agreement on Tariffs and Trade (hereinafter “GATT”) of 1947 emerged from the post-Second World War negotiations on international economic cooperation. These negotiations resulted in the Bretton Woods agreements – the International Monetary Fund and the International Bank for Reconstruction and Development – but there was the belief that the Bretton Woods institutions needed to be complemented by an organization dealing with trade. The negotiations for the Havana Charter, that would incorporate an international trade organization (hereinafter “ITO”), were based on the view held in both the United States and the United Kingdom, who took the lead in the negotiations, that trade liberalization was essential to avoid the protectionism of the inter-War years which had been harmful to most economies. The United States was interested in seeing the end of British imperial preferences and the United Kingdom was interested in the lowering of the high United States tariffs.

However, in the initial negotiations for a comprehensive international trade organization, it became clear that negotiations would take some time and a group of States decided to negotiate a parallel separate arrangement of a more limited scale which, by focussing on reducing State barriers to trade in particular tariffs, would realize early gains for States from trade liberalization. Hence, the negotiation of a general agreement on tariffs and trade which would essentially cover one of the chapters of the ITO and could be integrated into the ITO once it came into existence.

The fact that GATT was seen as having a provisional nature, to be ended when the ITO came into being, affected its implementation, the way it functioned and how it was perceived. It had no real institutional structure; its signatories were designated as the CONTRACTING PARTIES, and it was administered by an “interim” secretariat which had been put in place to be the secretariat for the future ITO. Partly because it was an instrument negotiated by economists, GATT was seen not as a treaty but rather as a “contract” and for many years did not enter the horizon of public international lawyers. The language was often opaque and understanding it required knowledge of how domestic customs regimes operated. It was the work of John Jackson and Robert Hudec that made GATT accessible to international lawyers.

OBJECTIVES:

The objectives of GATT are as follows:

1. To encourage full employment and large and steadily growing volume of real income and effective demand.

2. To improve the world production and exchange of goods.

3. To ensure the full use of world resources.

4. To ensure a steady improvement in the living standards of people in member countries.

5. To settle the disputes through consultation within the framework of GATT.

Round	Year	Venue	Issues and Outcomes
I	1947	Geneva (Switzerland)	Signature on first GATT agreement

II	1949	Anesi (France)	Tariff reductions on specific products
III	1950- 51	Torquay (England)	Tariff reductions on specific products
IV	1956	Geneva	
V (Dillion Round)	1960-61	Geneva	Induction of European Community for the first time & 20% tariff reduction.
VI (Kenedy Round)	1964 – 67	Geneva	33% reduction is restrictions on manufactured goods.
VII (Tokyo Round)	1973 – 79	Geneva	Non-tariff restrictions, etc.
VIII (Uruguay Round)	1986 – 93	Punta Del Este(Beginning in Uruguay and closing at Geneva)	Agriculture, Service, TRIPS, TRIMS, related issues

DEFECTS OF GATT

The major defects of GATT are as follows:

1. No Enforcement Authority:

The GATT has attempted to prescribe an international code of conduct in the sphere of trade. But there was no enforcement authority to oversee the compliance of GATT regulations by contracting parties and to settle their trade disputes.

2. Problems in the Formulation of General Rules:

The members of GATT are much diversified in nature, they had varied in economic and political motives and they were also at different stages of development. These reasons created difficulty in framing and implementing uniform general rules of conduct concerning trade, tariffs and payment.

3. Less Benefits for the LDC's:

Most of the members of GATT were in the category of the LDC's (Least developed countries) . The GATT had provided less benefit to these countries. At present, there are more restrictive trade arrangements in the world. The Commodity-to-Commodity based approach has proved to be detrimental to the interests of LDC's.

This approach creates difficulty in their future planning of production and exports. The GATT also not given any compensation to the less developed countries on account of damage to their economies caused by the actions of developed countries.

4. Quantitative Trade Restrictions:

The GATT had certainly ensured the sealing down of tariff structure but the quantitative trade restrictions remained for a long time outside the GATT ambit. Consequently, the developed countries had used with exemption, the quantitative trade restrictions such, as import quotas, export subsidies, voluntary export restraints, health and safety regulation etc.

Even though the 1993, agreement of GATT disapproved the adoption of quantitative trade restrictions and the substitution of tariffs in their place, it did not prohibit the contracting parties from taking recourse to them.

GATT (IN BRIEF)

The international conference of 1944 recommended the establishment of IMF (International Monetary Fund) and World Bank.

It also recommended the establishment of ITO (International Trade Organisation) but it did not materialise.

In 1948 GATT was established.

It was signed by 23 nations in Geneva on Oct 30, 1947 and took effect on January 1, 1948.

It remained in effect until the signature by 123 nations in Marrakesh on April 14, 1994 which established the WTO on January 1, 1995.

GATT was a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas, substantial reduction of tariffs, mutual advantage basis.

OBJECTIVES

The primary objectives of GATT was to expand international trade by liberalising so as to bring about all round economic prosperity.

- Raising standards of living.
- Ensuring full employment.
- Developing full use of resources of the world.
- Expansion of production and international trade.

PRICIPLES

- Any proposed change in the tariff or any type of commercial policy of a member country should not be undertaken without the consultation with the other parties to the agreement.
- The countries that adhere to get work towards the reduction of tariff and other barriers to the international trade should be negotiated within the framework of GATT.

EVALUATION

- When GATT was signed in the year 1947 only 23 nations were party to it.
- In 1986, there were 117 members.
- One of the principle achievement of GATT was the establishment of forum for continuing consultation.
- The average level of tariff on manufactured products in industrial countries was brought down from 40% in 1947 to 3% in 1986.
- Agricultural trade was an exception to the liberalizations. Trade in agriculture became progressively good by the support given to the farmers in agricultural sectors.

WTO (WORLD TRADE ORGANISATION)

The World Trade Organization is an intergovernmental organization that regulates and facilitates international trade between nations. Governments use the organization to establish, revise, and enforce the rules that govern international trade.

Headquarters: Geneva, Switzerland
Founded: 1 January 1995
Purpose: Reduction of tariffs and other barriers to trade
Membership: 164 countries (160 UN countries, EU, Hong Kong, Macau and Taiwan)
Official languages : English, French, Spanish

OBJECTIVES

The WTO has six key objectives:

(1) to set and enforce rules for international trade,

(2) to provide a forum for negotiating and monitoring further trade liberalization,

(3) to resolve trade disputes,

(4) to increase the transparency of decision-making processes,

(5) to cooperate with other major international economic institutions involved in global economic management,

(6) to help developing countries benefit fully from the global trading system.

(7) to protect the environment.

FUNCTIONS

1. To implement rules and provisions related to trade policy review mechanism.

2. To provide a platform to member countries to decide future strategies related to trade and tariff.

3. To provide facilities for implementation,

administration and operation of multilateral and bilateral agreements of the world trade.

To administer the rules and processes related to dispute settlement.

5. To ensure the optimum use of world resources.

6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

PRINCIPLES OF WTO

- Non discrimination – MFN
- National treatment – imported and locally produced goods should be treated equally in the market
- Fair competition
- Transparency
- Free trade
- Predictability- stability in market to foresee market demand
- Encourage development and economic reforms

ACHIEVEMENTS

i. Greater market orientation has become the general rule;

ii. Use of restrictive measures for BOP problems has declined markedly;

iii. Services trade has been brought into the multilateral system and many countries, as in goods, are opening their markets for trade and investment either unilaterally or through regional or multilateral negotiations;

Tariff-based protection has become the norm rather than the exception;

vii. The trade policy review mechanism has created a process of continuous monitoring of trade policy developments;

vii. It has been agreed to reduce import tariffs on industrial goods,

LIMITATIONS

i. The trade reform process is incomplete in many countries.

ii. Some reversals in the overall liberalisation process in some developing countries.

iii. Did not encourage non tariff barriers to imports from UDCs

iv. International trade is given priority over other local issues.

v. Trade policy implementation issues.

vi. Policies and rules appropriate to the industrialised world are getting established.

vii. Benefits of WTO enjoyed more by countries of North.

viii. Combination of globalisation and technological change benefits high skill and creates social division.

UNCTAD

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development was established in 1964 as an intergovernmental organization intended to promote the interests of developing states in world trade. UNCTAD is the part of the United Nations Secretariat dealing with trade, investment, and development issues.

Headquarters location: Geneva, Switzerland

Head: Secretary-General; Rebeca Grynspan

Founded: 30 December 1964

Parent organization: United Nations General Assembly; United Nations Secretariat

Objectives

The objective of UNCTAD is
(a) to reduce and eventually eliminate the trade gap between the developed and developing Countries, and
(b) and to accelerate the rate of economic growth of the developing world.

Functions:

The main Functions of the UNCTAD are:
(i) To promote international trade between developed and developing countries with a view to accelerate economic development.

(ii) To formulate principles and policies on international trade and related problems of economic development.
(iii) To make proposals for putting its principles and policies into effect, (iv) To negotiate trade agreements.
(iv) To review and facilitate the coordination of activities of the other U.N. institutions in the field of international trade.
(v) To function as a centre for a harmonious trade and related documents in development policies of governments.

The important activities of UNCTAD include
(a) research and support of negotiations for commodity agreements;
(b) technical elaboration of new trade schemes; and
(c) various promotional activities designed to help developing countries in the areas of trade and capital flows.

Basic Principles:

The UNCTAD I held in 1964 specified that action programmes and priorities of the UNCTAD would be based upon the following basic principles:

(i) Sovereign right of each member country to dispose of freely its natural resources in the interest of its development, well-being of its population and furtherance of its trade with other countries.
(ii) International economic and trade relations shall be based on such principles as respect for sovereign equality of states, self-determination and non-interference in the internal affairs of the others.
(iii) No discrimination among member countries on account of differences in socio-economic system and independent pursuit of economic and other policies.
(iv) Extension of preferential concessions.
(v) Greater market access for the products of the less developed countries.
(vi) Reduction in tariff and non-tariff restrictions on trade.
(vii) Unconstrained flow of international aid.

Generalised System of Preferences (GSP) by UNCTAD :

The stability of prices of primary products is necessary from the viewpoint of the LDC's but it is not sufficient. In order to enlarge their export earnings, to promote their industrialisation and to step up their growth rates, these countries urged upon the developed countries to give tariff preferences on their manufactured and semi manufactured products.

BALANCE OF TRADE AND BALANCE OF PAYMENT

Balance of trade

The balance of trade is the distinction between the value of a nation's imports and exports for a given time frame. The BoT is the largest constituent of a nation's balance of payments. Economists utilise the BoT to compute the associative potency of a nation's economy. The BoT is also known as the trade balance or the international trade balance.

Balance of payment

The balance of payment is a statement of all the transactions that are made between entities in one nation and the rest of the world over a particular time frame, such as a quarter or a year. To put it in other words, the BoP is a set of accounts that identifies all the commercial transactions operated by the nation in a specific period with the remaining nations of the world. It documents a record of all the monetary transactions performed globally by the nation on goods, services, and income during the year.

Meaning

Balance of payments refers to the recording of all economic transactions of a given country with rest of the world.Each country has got to enter into economic transactions with other countries of the world.As a result of such transactions,it receives payments to other countries.Balance of Payments is a statement of accounts of these receipts and payments.

Ordinarily a country has to deal with other country in respect of three items:

1. Visible Items

It includes all kind of physical goods imported and exported.

2. Invisible Items

It includes all kind of import export services.

3. Capital Transfers

These are concerned with capital receipts and capital payments like investment by foreigners in India.

Balance of trade	Balance of payments
Definition	

Balance of trade or BoT is a financial statement that captures the nation's import and export of commodities with the rest of the world.	Balance of payment or BoP is a financial statement that keeps track of all the economic transactions by the nation with the rest of the world.
What does it deal with?	
It deals with the net profit or loss that a country incurs from the import and export of goods.	It deals with the proper accounting of the transactions conducted by the nation.
Fundamental Difference	
Balance of trade (BoT) is the difference that is obtained from the export and import of goods.	Balance of payments (BoP) is the difference between the inflow and outflow of foreign exchange.
Type of transactions included	
Transactions related to goods are included in BoT.	Transactions related to transfers, goods, and services are included in BoP.
Are capital transfers included?	
No	Yes
What is its net effect?	
The net effect of BoT can be either positive, negative, or zero.	The net effect of BoP is always zero.

Main Causes of unfavourable balance of payment of India are as follows:

- Import of Machinery: ...

- Import of War equipments: ...
- More demand of Consumption Goods. ...
- Price disequilibrium. ...
- Expenditure on Embassies. ...
- Foreign Competition. ...
- Increase in price of Crude Oil. ...
- Payments of interest on foreign Debts.

Suggestions to remove adversity in BOP

- As suggested by Prof. Sukhmoy Chakravarty in his book Development Planning – the Indian Experience (1987), to relieve the pressure on our BoP, we have to carry out a policy of impart substitution in certain crucial sectors, such as, energy, edible oils and nitrogenous fertilisers.

- Secondly, efforts need to be made for raising our earnings from invisibles India should encourage tourism by developing new tourist spots and improving the facilities at the existing ones.

- Thirdly, the country should take advantage of GATT 1994 in boosting its export of software and services in software programming.

- Fourthly, efforts should be made to explore and territories of export markets.

- Fifthly, India's import-export structures should be changed radically with modernisation and growth of its industrial development through technological upgraduation.

- Sixthly, India's export industries should be made more efficient and competent. Qualities of Indian products must come upto international standards and foreign buyers' expectations.

- Seventhly, the government should accept the recommendations of the Rangarajan Committee (1993) for correcting the BoP and act upon. Especially, the suggestions such as:

- 1. A realistic exchange rate and a gradual relaxation of restrictions on current account transactions have to go hand in hand;
- 2. Trade policy are exchange rate regime should be managed for stability as well as promoting exports – so that, India's annual exports growth in dollar term should at least be 15 per cent on an average.
- 3. The current account deficit of 1.6 per cent of GDP projected for the eighth plan be treated as ceiling rather than as target;
- 4. The government should exercise caution against extending concessions or facilities to foreign investors;
- 5. A cautious policy is needed for guarantee external borrowings;
- 6. Efforts should be made to replace debt flow with equity flow;
- 7. The approval of debt linked to equity should be limited to ratio of 1:2;
- 8. A national law should be framed to codify the existing policy and practices relating to dividend repatriation, disinvestment, 'employment of foreign nationals, etc.
- 9. The country's recourse to external debt should be continuously monitorial over the eighth plan period to ensure sustainability, cost-effectiveness and use-efficiency.
- 10. India's recourse to exceptional financing, including IMF credit, would be inevitable. But the objective would be to phase out exceptional financing needs by the end of the eighth plan.

- 11. The Committee laid down fine principle towards the policy of management of short-term debt. These are: (a) Short-term debt should be permitted only for trade related purposes; (b) Resources to short-term debt should not be taken as an instrument for protecting reserves; (c) The roll-over beyond 6 months should be agreed without careful consideration of implications; (d) Any short-term debt falling outside these three norms should be specifically approved by the RBI.
- 12. The Committee does not favour debt refinance as a solution to a BoP crisis.
- 13. Further, in its view, debt-equity conversion is undesirable for debt management in India.
- 14. The Committee insists that the minimum foreign exchange reserves should be maintained which can enable the imports of atleast 3 months.
- 15. There should be a policy. A prioritising the use to which external debt should point.