## Outlook

6.62 The current international economic scenario harbours significant downside risks to global economic recovery. The events of September 11, 2001 have exacerbated the slowdown and heightened the downside risks to global recovery. This broadening and deepening of the global slowdown has increased vulnerability of the world economy to shocks and has made the downturn self-reinforcing. The prospects of recovery in the medium term depend heavily upon the policies to be adopted by the advanced economies and the effect of these policies in marginalising the enhanced downside risks. India has remained reasonably protected from the global slowdown, due to the relatively low share of the external sector in its GDP. Nevertheless, a reversal of the downturn in advanced economy markets can increase the demand for Indian exports. Such higher demand for exports can positively impact the overall demand levels in the economy and help support the domestic measures to pull the Indian Economy out of the current economic slowdown.

6.63 India's external sector has emerged with considerable inner strength to meet the challenges of foreign as well as domestic shocks, following the economic reforms in the 1990's. The Indian economy is now more open than ever before. As the economy opens up further, it will derive efficiency gain but will not remain insulated from adverse effects of external shocks, through trade and financial linkages. India can cushion against the adverse effects of such shocks by further strengthening the country's economic fundamentals. This requires continuous policy improvement in the areas of exports, POL imports, tourism earnings, software service exports, foreign investment flows and domestic monetary and fiscal policies. Exports hold the key to a sustainable balance of payments. The level of current account deficit has remained low after 1995-96, largely because of subdued demand for non-oil imports. The slow growth of non-oil imports largely reflects the slowdown in industrial growth. The industrial slowdown has dampened the absorption of even the moderate capital inflows, resulting in build up of foreign exchange reserves to a large extent. The demand for non-oil imports will expand and current account deficit will widen, when economic growth accelerates, as envisaged in the Tenth Plan. This would imply that net capital flows would have to increase substantially from the current level to finance the larger deficit on the current account. Further efforts will have to be made to increase non-debt creating capital flows, especially foreign investment flows. Besides, the level of foreign exchange reserves at present is very comfortable and provides a source of great strength to the external sector. It is necessary to ensure that the quantum of reserves in the long run is in line with the growth of the economy and the size of risk adjusted capital flows.

6.64 Keeping in view the experiences of several emerging market economies in the recent past, India must continue to follow a caliberated approach toward capital account liberalisation. This will greatly help India to grow in an environment of a viable BOP, reasonably stable exchange rate, a sustainable external debt profile and an external sector with durable strength and vigour. India attaches utmost importance to the rule based multilateral trading system and would continue to pursue a stakeholder driven approach with focus on seeking enhanced market access for developing countries in future WTO negotiations.