Outlook

6.70 The external sector viability during the five to six years following the 1991 crisis was made possible because of the dynamic export growth, especially, during 1993-94 to 1995-96, buoyancy in private transfers and a major structural shift of capital flows in favour of non-debt creating foreign investments, both direct and portfolio. The deceleration in export growth in recent years and the sharp slowdown, especially since 1998-99, in foreign investment flows as a fall out of the East Asian crisis have been a major cause for concern in the management of the BOP. Maintaining external balance requires achieving an equilibrium position in the current and capital accounts. In practice, it implies achieving a level of current account deficit that could be sustained by medium term capital flows. Despite the unfavourable outcomes on exports (with the recovery in 1999-2000) and foreign investment, the current account deficit has been contained and the viability of the BOP has been sustained, largely because of continued strength of net surplus in the invisibles account and deceleration in import growth.

6.71 With international prices of oil having strengthened considerably and with continued revival of industry, the growth of total imports is likely to increase. To ensure the medium-term viability of India's balance of payments it is extremely important to sustain export growth in the range of 12 to 15 per cent (in US dollar terms) per year on average and revive the inflows of foreign investment.

6.72 POL imports have risen sharply in 1999-2000, as a result of the substantial increase in international prices of oil. Moderation in POL imports will allow room for larger imports of raw materials, components and capital goods, which are essential for increasing domestic production of international standards. Towards this goal, there is need for increasing the domestic production of crude oil substantially from the current level. Simultaneously, the domestic demand for petroleum products will have to respond to market-determined pricing on a continuous basis.

6.73 The tourism industry has been a major segment of the Indian economy. It is fast emerging as an industry with substantial potential contribution to employment generation (and concomitant poverty alleviation), environmental regeneration and advancement of women. Tourism has also become an instrument for the promotion of handicrafts, arts and cultural heritage of the country. As indicated elsewhere before, foreign currency receipts from tourism have been sluggish in recent years for various reasons. The tourism industry is handicapped by inadequate basic infrastructure facilities and some impediments to private sector investment in the sector. Vigorous efforts are required to address these issues to make India an attractive tourist destination.

6.74 Software exports have emerged as a dynamic item of invisible earnings. Earnings from software exports have grown at a rate of about 52 per cent per annum during 1996-97 to 1998-99. However, in absolute terms, India's share in total world software trade is still very small. On the other hand, India is blessed with an advantage in terms of possessing an abundant pool of trained English-speaking manpower and its relatively low cost. With growing opportunities in the world market, India has an excellent opportunity to capture a sizeable portion of the global market, especially in opportunities emanating from the explosive growth in e-commerce. To achieve this, concerted efforts will have to be made to move up the value chain by overcoming weaknesses in telecom infrastructure and effectively dealing with competition.

6.75 Foreign investment flows have an important role in the management of the BOP, especially since they are non-debt creating flows and therefore help finance the current account deficit without adding to the external debt. Foreign investment flows had peaked at a level of $6.1 billion in 1996-97 and FDI inflows peaked at US $3.6 billion in 1997-98. Since 1998-99, both total foreign investment flows as well as FDI inflows have decelerated significantly for various reasons, including a higher risk perception of emerging economies. In view of the importance of these flows in BOP management, there is need for efforts to strengthen and further liberalise reforms in the area of foreign investment, especially by imparting greater automaticity in the clearance process.

6.76 Lastly, it is important for successful management of the BOP and the exchange rate that the general Government fiscal deficit (Centre and States) is steadily brought down and that the monetary policy stance of the RBI has to strike a fine balance between providing for the legitimate credit needs of the Government and the productive sectors versus controlling inflation and maintaining orderly conditions in the foreign exchange market.