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I am grateful to Prof Malhotra for his invitation to me to speak at this very important Annual Conference of IEA. And, I am privileged to be with distinguished economists speaking in this Session. Thank you for this, Prof Malhotra.

The Agenda Paper for this Session on “Strategies for the External Sector” lists 13 issues. It reflects the complexity of the subject. Because of my background and experience. I shall focus on 10 of these issues which together are all Trade and Investment related.

First, a brief word about history. From 1947 to 1990, India was essentially a closed, protected economy with significant controls even on domestic production and growth. The average growth rate was around 3% and it brought India to an economic crisis situation. Back to the wall, 1991 saw a paradigm shift in economic policy, deregulation at home and opening of the economy to trade and investment. The growth rate surged. It was also the birth of Competition in India.

Second, India has always had a domestic economy focus with its large internal market. It has never been, and it is not, an export economy. Its growth rate has evolved through investment in India, FDI in increasing measure especially in the last few years and domestic investment.

Third, the world has experienced financial volatility for many years. In fact, 2018 is the 10th Anniversary of the 2008 massive financial crisis. And, today, global indicators are not encouraging, especially because of the policies of USA and China. In addition, the Eurozone is unstable. Wealth and Income inequality have increased. It is likely that India will have to function in a global environment in which Economic, Political and Social shocks are likely to continue.

This is the backdrop for a discussion on India’s External Sector.

Let me first turn to Trade Issues.

1. China and USA are engaged in a trade war which impacts India too, and others.

2. The WTO is in poor shape and maybe permanently incapacitated, thanks to USA, in particular, but, also China.

3. FTAs entered into by India earlier are seem to be damaging to domestic industry. Hence, a halt has been called.

4. The RCEP (Trade Agreement), covering Asia, is held up because of the trade policies of China which are opaque and make it impossible for India to compete with China.

5. India has reversed its policy of 25+ years by increasing imports tariffs on 50 products to afford protection to Indian industry which has been undermined by Chinese exports into India at very low price. India has taken this step most reluctantly.

6. Indian imports from China continue to far exceed exports to China imposing a heavy trade deficit on India. Access to the Chinese market is made impossible by NTBs by China.

7. India still does not have a dedicated agency with specialists to enhance India's knowledge and negotiation strength similar to USTR of USA.

8. There are calls for imports substitute but, as yet, no clear strategy or plan of action specially to support low technology items manufactured by small and medium industries and coming in from China currently.

9. A common thread in regard to India's external trade is China. It is the principal cause of pain to the domestic economy of India and puts huge stress on our External Sector.

10. India's exports are worrisome. The 24x7 focus and action and Export strategy for the next 5-10 years, is it clear?

Plus is there a clearent policy and procedures for Services Exports and agricultural Exports, reflecting continuity and stability? These are 10 Trade related issues of deep concern for India.

Let me turn now to investment:

1. India has taken a position of further Bilateral Investment Treaties (BITs). Again like, FTAs, because of the view that BITs adopted earlier were not to India's advantage. This has become an issue since investing companies seek safeguards under BITs.

2. FDI has been showing a steady rise, partly due to liberalized policies, partly due to few global options (China is no longer seen as attractive). However, the FDI policy for the Insurance Industry has been seen negativity because, by law, 49% foreign equity is allowed but the management control has to be with the Indian partner. This is the only such case in Indian policy

and has caused widespread concern because if it without precedent in India. Even Defence Industries which allow FDI do not have this clause relating to management. Even though National Security is involved. Whereas, Insurance Industry growth will add to long term Savings!

3. Even though India's ranking in the World Bank's "Ease of Doing Business" is now at 100, as against 130 earlier, investors still find it complex and challenging to do business in our country. The procedure remain a challenge.

4. In regard to FDI, the Join Venture route into India is increasingly avoided because of differences in culture with Indian companies.

As a result of all these factors, the Full potential for much higher FDI into India is not being realized though the government has been proactive in this area and the growth has been impressive. The external sector of India can also be positively impacted by earnings from Tourism but, because of infrastructure inadequacies, the reality is far below the potential. For example, Japanese are deeply interested in the Buddhist route and sites in the East but het problem is travel and stay inhibit them. Also, there are serious concerns about safety, especially for women.

The one area where India continues to perform well is on the area of Inward Remittances which are at the level of $80 billon p.a.. This is a major positive for India. India ranks No. 1 in the world.

One area which needs special attention is Crude Oil Imports. I am therefore dealing with it separately from the issue of Trade generally. This has a huge impact on India's External Sector and on India's economic situation.

India cannot be proud to be the world's 3rd largest importer at 4% of global oil imports. A major contributor to our External Debt of nearly $500 billion.

Do we take it that nothing can be done about this? Surely not. I will come back to this issue.

To conclude, let me summarise my approach as far as the External Sector of India is concerned.

1. We must set up a India Trade Negotiations Authority to be the expert, technical body to deal with all trade policy and trade negotiations. USA has this and they are able to take the offensive based on Data example USA vs India Agri subsidies but USA Agri subsidies India!

2. Exports needs to be multiplied, the basket of products widened and specific plans must be implemented to increase exports to Asian Countries, USA and China (the 2 largest markets). The External Sector will benefit hugely.

3. The Import Basket needs to be reviewed. There are product groups such as Electronic Products which can be manufactured in India and bring savings in our Import Bill. There are several similar examples. The Make in India Strategy needs to focus here.

4. We have to attack the crude oil import bill and not accept the continuation of the current situation. Multiple steps can be taken to bring down India's expense on crude oil imports. The PCRA has done detailed work and made many recommendations which need to be implemented.

5. We cannot expect WTO, severely wounded as it is, to address our trade policy challenges which essentially relate to USA and China. We have to equip ourselves to deal bilaterally – and build the capability to do so. ITNA is the way to go.

6. We should not, avoid being in international trade agreements such as APEC, RCEP, etc. But, we must negotiate and influence with data and research-based strategy. We do not need to be on the defensive. Other countries are more protectionists. We must fight for better agreement terms. Being out of these groups will put India a disadvantage.

7. We can review some of our Foreign Investment policies/procedures to attract more FDI. The assets will be crated in India and the employment will be generated here. In particular, we should get into The Global Supply Chain in manufacturing and, here, we can take very good advice from our own technical experts who know how this system operates. FDI and Exports can go together. Make in India for the world with the best Technology. Not obsolete. This will particularly stimulate MSMEs (Companies).

8. Let us tell the world what kind of BIT is welcome and reasonable. And, push to get this accepted. Shying away is not the answer.

9. Tourism and Inward Remittances can bring in more income and strengthen our Balance Sheet. We need to organize ourselves to make these happen.

A plus point today is our FE Reserve of about $400 billion. But short term debt is over 5%, long term debt is also over 5% and Govt debt is near 22%. So, there can be no complacency.

On the Trade side, in 2017/2018, Impact growth was 22%. Exports only 11%. Again, a worry.

CAD has been 1.8% of GDP in 2017/18. And, rising beyond 2%. Another worry.

I have not gone into detailed statistics but there are many. The simple message is to be practical and positive in tackling the challenges of the External Sector. We can do so. The very fact that our FE Reserve are at $400 billion is a reflection of our capability. But, we need to think and act for India more effectively.

Indians are so talented, so capable. The best human resources in the world. There are no more capable people than Indians. Therefore, Today, we do not need to fear the world. I have confidence that we can take in the world given the right strategy to build the Indian Economy into a stronger force, remembering always that the MSME is the backbone of Industry.

And, all this will make major difference to India's External Sector.

Thank you.