GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED
L/718
23 October 1957
Limited Distribution

CONTRACTING PARTIES
Twelfth Session

INDIAN IMPORT RESTRICTIONS

Statement by the Government of India on the Licensing Policy for the period October 1957 and March 1958

This statement supplements Part IV of document MGT/89/57 which describes the import policy announced by the Government of India for the period July to September 1957, and explains the circumstances necessitating the cuts in imports which had been imposed during that quarter. In the succeeding paragraphs an attempt has been made to indicate the subsequent developments, to give a more up to date picture of the country's monetary reserves and to describe briefly the salient features of the import licensing policy which has since been announced for the period October 1957 to March 1958.

During January/June 1957 the sterling balances which constitute the foreign exchange reserves of India had declined rapidly and had fallen by Rupees 766 million. During the period the Government of India had also utilized in addition a credit of Rupees 950 million from the International Monetary Fund. During July/September 1957, the reduction in the reserves amounted to Rupees 1,000 million. The reserves today stand substantially below the minimum prescribed by law, namely Rupees 4,000 million which the Reserve Bank is required to maintain. The law permits Government to give a temporary relaxation under which the Reserve Bank can permit its external balances to decline to Rupees 3,000 million subject to a time limit of twelve months.

The main reason for the decline in reserves has been the increase in imports which rose from Rupees 7,506 million in 1955/56 to Rupees 10,765 million in 1956/57. The recent cuts in imports have not yet resulted in any significant reduction in the volume of imports and as nothing has been done to interfere with import licences previously issued and which enjoyed varying periods of validity ranging from six months to three years from the date of issue, the total volume of imports even without any additional licences being issued is expected to continue to be well above the 1955/56 level for a considerable time to come.

In these circumstances the Government of India would have been fully justified in making the import policy for October 1957 to March 1958 even more restrictive than the one in force during July/September 1957. In actual fact the October-March policy is in many respects very much more liberal than the policy in the immediately preceding quarter. The text of the import

licensing announcement for October 1957 to March 1958 which is a printed volume of 474 pages is available with the secretariat. Its salient features are set out below:

(a) During July/September the grant of quota licences to importers based on their past volume of business had been suspended. In the current policy provision has been made for quota licensing of a wide range of items. These include items like exposed cinematograph films, powdered milk and milk foods for infants, drugs and medicines, cotton and other fabrics, dates, spices, copra, photographic films and papers as well as a wide range of goods required by Indian industry to keep itself going.

(b) The policy announcement sets out groups of items within which licences will be interchangeable. The intention is to provide greater flexibility to the trade to import what is most needed having regard to the nature of demand and the volume of imports expected under licences issued earlier.

(c) For certain items the import of which need to be arranged more than six months in advance or at particular times when crops are marketed, the import licences will be issued to cover twelve months requirements subject to the condition that payments are equally divided between the two half years.

(d) Open General Licences for the import of samples, advertising matter as well as for certain commodities of Pakistan origin, continue to be in force.

(e) Import licences for capital goods for setting up new industrial projects will be subject to the strictest scrutiny and except for relatively small projects which are expected in a relatively short period of time to improve the country's foreign exchange position, new import licences will only be granted if the project is covered by external investment in one form or another.

It will be seen from what has been stated above that the import policy for October 1957 to March 1958 is by no means too restrictive having regard to the trends in the country's monetary reserves and the urgent need to rectify the situation. Broadly, the policy seeks to provide for the importation of industrial raw materials, etc., to sustain - in some cases with small cuts - the levels of production in the country and to provide though necessarily on a restricted scale, the main consumer goods which are of interest to the bulk of the people. Inevitably, however, the provision is not as liberal as the Government of India themselves would have wished to see, and what might be described as non-essential goods, including those which are mainly consumed by people in the higher income groups have been cut much more drastically and even shut out altogether.

In applying these cuts care has been taken to follow non-discriminatory policies throughout. It will be recalled that in Indian import licensing a distinction is made only between the dollar area and the rest of the world which is treated as the soft currency area. The discrimination between dollar and non-dollar sources has been reduced steadily to the maximum extent having due regard, however, to the sterling area's payments position with the dollar area since India belongs to the sterling area. In January/June 1957, it had been decided to allow established importers to utilise 50 per cent of the face value or where the value of the licence was not more than Rupees 5,000 the full value of all soft currency licences for imports from the dollar area. The October 1957 to March 1958 policy provides that half the value of the soft currency quota licences or Rupees 5,000, whichever is more, can be utilised for imports from the dollar area.

It is necessary briefly to refer to measures other than a cut in imports which the Government of India are taking to restore a better balance in India's external trading. These are briefly as follows:

(a) Anti-inflationary measures have been taken and the latest budget has not only raised excise duties but has introduced a taxation on wealth and expenditure.

(b) Credit policy has been severely tightened.

(c) Efforts are being made to raise credit abroad from institutions like the World Bank and elsewhere.

(d) Greater emphasis is laid on export promotion though the efforts of the Government in this direction necessarily depend upon the co-operation and policies of India's trading partners. The main items in India's export trade, namely cotton textiles, jute manufactures and tea, still suffer from many serious obstacles in external markets.

Finally, it is necessary to add that the current import policy would not be unduly protective or lead to uneconomic development because for the next two or three years only such new development is likely to take place as had been committed prior to the coming into force of these restrictions or which are authorized after the very close scrutiny which has now been imposed on all new projects. The cut in capital goods imports is in fact far more drastic than in any other field. Fiscal and credit policies will also play a part in this.