

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COMMITTEE III ON EXPANSION OF TRADE

Report of the Examination of the Third Five-Year Plan of India

Terms of Reference

1. In implementation of section II/2 of its basic work programme¹, the Committee met from 5 to 9 June 1961 to examine in detail, as agreed at its meeting held from 21 to 28 March 1961, the trade and payments aspects of the Third Five-Year Plan of India. This was the first time that the Committee had considered trade prospects and difficulties confronting an individual contracting party in relation to its development needs and programme. At previous meetings the Committee, under this section of its work programme, had examined various aspects of trade measures affecting possibilities for less-developed countries of expanding exports of particular products, including manufactured products, which they could produce efficiently.
2. In conducting the examination, the Committee had before it: (i) the Draft Outline of the Third Five-Year Plan of the Planning Commission of India; and (ii) a secretariat paper on trade and payments aspects of the Third Five-Year Plan of India (COM.III/47). In accordance with the agreed "Arrangements for Studying Development Plans" (Annex B of document L/1435), the Committee in its discussions concentrated on those aspects of the Plan which related to the maintenance and expansion of India's export earnings.

Opening Statement by the representative of India

3. The representative of India explained that the Third Five-Year Plan had de facto entered into effect as from 1 April 1961. The Plan covering the period April 1961 to March 1966, was soon to be finalized after careful examination and review by the National Development Council, and the final version of the Plan would be published shortly. The Indian representative expressed the hope that the experience gained in the examination of the Indian Third Five-Year Plan would be of assistance to the Committee when examining the development plans of other less-developed countries and would lead to conclusions being reached on the best means of channelling investment in existing industries or starting of new industries by less-developed countries into directions where such countries will be economically efficient producers.

¹Section II/2 of the Committee's work programme calls for a "study of the possibility of channelling expansion of existing industries or starting of new industries by less-developed countries into directions where such countries will be economically efficient producers".

4. The representative of India expected that although the final version had not yet been published, the broad outlines of the Plan, as contained in the Draft Outline, would not undergo fundamental change. He said that the data, particularly in regard to the volume of total investment, resources and export targets would be revised in the finalized Plan. Nevertheless, the information available to the Committee was indicative of trends and quantities sufficiently near the final expected picture to permit a meaningful examination to be carried out.

5. The representative of India informed the Committee that the major change would be an increase of 3 to 4 per cent in the overall target of investment of Rs.102,000 million¹ envisaged in the Draft Outline for the period of the Third Plan. This upward revision had been necessary in order to cover increased requirements for maintenance imports and increases in investment in capital equipment, and also to allow for improvement in certain new directions. On the resources side, expectations would be somewhat lower also, especially because of a drastic reduction in earnings under the heading "Invisibles" from Rs.1,200 million to nil. This would be because of additional repayment and servicing obligations on loans, a decline in earnings of interest on balances held abroad and increased payments on account of freight for a larger volume of imports. Export targets for certain items, particularly those for which sufficient foreign demand could be forecast, had been increased in order to cover the larger gap between investment and resources. He pointed out in this context that, despite the proposed increase in overall investment and the increase in foreign exchange requirements for maintenance and developmental imports, the Indian Government did not intend to seek additional foreign financial assistance over the level of Rs.26,000 million envisaged in the Draft Outline for the period of the Third Five-Year Plan. The Indian Government and people would make every effort to increase the range and quantity of goods available for export in order to earn additional foreign exchange. The revised export targets envisaged total export earnings to reach a minimum of Rs.37,000 million for the five-year period as compared to the earlier export target of Rs.34,500 million. However, no allowance had been made in these estimates for any increases in import prices which might occur during the five-year period.

6. The representative of India expressed his Government's appreciation of the generous financial assistance of \$2,225 million to be made available to India over the next two years, which had been pledged by a six-nation consortium comprising the United States, the United Kingdom, the Federal Republic of Germany, Japan, Canada, France, and by the IBRD and the IDA. While this assistance was sincerely appreciated, as well as the aid provided by other countries - notably the USSR - the representative of India stressed that a very considerable increase in export earnings would be required for India to be able to service these loans and evolve quickly into a self-sustaining and developing economy. His Government was therefore attaching the greatest importance to

¹Rs.4.76190 = US\$1.00.

finding ways and means of increasing the country's foreign exchange earning capacity. It was hoped that the examination by the Committee of the trade and payments aspects of the Indian Third Five-Year Plan, and ultimately of other development plans, would lead to a greater awareness by contracting parties of the difficulties faced by less-developed countries in channelling investment into directions leading to the most efficient production and of the measures taken by these countries to overcome these difficulties. At the same time, it was hoped that the examination by the Committee would assist contracting parties, less-developed countries as well as industrialized countries, to determine the problems which needed to be resolved most urgently and to take appropriate and energetic action.

7. The Committee expressed appreciation of the statement of the representative of India and took note that additional financial assistance had been pledged to India under the agreement with the Aid-to-India Consortium. The Committee also noted in this context that the communiqué issued on 2 June 1961 by the IBRD on the agreement reached by the Consortium had stated that "India had demonstrated a capacity to make effective use of foreign aid" and had endorsed the aims and objectives of the Third Five-Year Plan of India. The Committee agreed with the representative of India that foreign aid could not in the long term be a substitute for trade. It was therefore of vital importance that all possibilities should be explored, both by India and by other contracting parties, for eliminating obstacles to an expansion of India's export earnings. It was noted that the Government of India had expressed its determination and readiness to take measures to provide a progressively larger surplus for export.

Export forecasts for the Third Five-Year Plan

8. In its evaluation of the export targets contained in the Indian Third Five-Year Plan, the Committee was impressed with the cautious realism of India's overall export targets which envisaged an increase of only about 12 per cent over export earnings during the Second Plan. The Committee noted in particular the relatively modest targets for such major exports as tea, jute manufactures and cotton textiles. The Committee recognized that these export forecasts, although in some instances being influenced by difficulties in developing larger export surpluses, were based on the existence of various restrictions and measures in force in a number of important markets which had the effect of limiting export possibilities for several major products of interest to India. It appeared that additional production capacity could in many instances be made available within a short time-span and with but little extra effort. This was, for example, the case for tea and cotton textiles. For jute manufactures, there was already installed capacity which was not fully utilized. The Indian representative stated that, given an encouraging response by importing countries to the efforts by India for expanding exports, it was thought possible to improve upon the level of exports envisaged in the Third Plan estimates.

Obstacles facing Indian Exports

9. Although every effort was being made by India to diversify production and exports, the country continued to depend for the bulk of its export earnings on a few traditional export commodities. Tea alone had accounted for more than 20 per cent of total export receipts during the Second Plan. Tea, jute manufactures and cotton textiles, when taken together, had accounted for almost 50 per cent of the total. If account were taken of the restrictions of various kinds facing exports of these and such other important commodities as leather goods and footwear, coir manufactures, carpets, coffee, vegetable oils, fruits and vegetable products, fish and fish products, and tobacco, about two thirds of India's export trade was faced with obstacles in importing countries. With respect to some of the newer export items also, such as sewing machines and bicycles, India found export opportunities limited because of the imposition by certain countries of quantitative restrictions and high tariffs.

Tea

10. Commenting on the considerations which had induced the Indian Planning Authorities to forecast virtually unchanged exports of tea, of approximately 500 million pounds a year valued at Rs.1,350 million, as compared to actual average exports per annum of about 480 to 490 million pounds, valued at Rs.1,300 million, during the Second Plan, the representative of India explained that his Government was viewing with concern the lack of progress, in response to the findings of the Committee, in eliminating obstacles to an expansion of tea exports. As a result of the very high fiscal charges on tea, the retail price per unit of tea was in many countries considerably higher than that for coffee (COM.III/44). This obviously had a pronounced inhibiting effect on consumer expenditures on tea, particularly in those markets where coffee was the normally consumed beverage. While India was also a producer of coffee and while it had consistently supported the view that the high fiscal charges should be reduced and eliminated on all tropical products to which they were applied, it had to be pointed out that India, as the world's largest exporter of tea, was probably the country suffering most from the market limitations confronting this commodity. Were it not for the measures inhibiting the consumption of tea, an increase in export earnings from this commodity would be well within the capacity of India. Even a small increase in investment in the industry for replanting and increased use of fertilizers, could be expected to contribute significantly to the level of production, as was evident from the results of efforts and investments made by the Indian tea industry in recent years. It had to be appreciated, however, that further investment in the tea industry, desirable as it might be for increasing labour productivity and yield per acre, could hardly be justified in view of India's scarce capital resources so long as market outlets for this commodity remained unfavourable.

11. In the discussion on particular measures which would permit an expansion of exports of tea from India, the representative of India renewed the appeal made by India and other tea exporting countries at earlier meetings of the Committee, that industrialized countries, notably certain of the countries in Western Europe, should at an early date reduce or remove high tariffs,

revenue duties and fiscal charges. The representative of India said in this connexion that the decision by the EEC to establish the duty for tea in its common external tariff at 18 per cent ad valorem rather than at 35 per cent as previously envisaged was an initial move in the right direction. However, even a rate of duty of 18 per cent was high and in any event above the duty previously applied to tea imports by the Netherlands, the major tea consuming country in the Community. Moreover, in one country among members of the EEC, the benefits of the downward adjustment of the duty were being offset by compensatory internal taxes. He expressed the hope that this response by the EEC to the representations of tea exporting countries would soon be followed by other measures by Member governments of the EEC which would effectively open import opportunities for tea and other tropical products.

Jute Manufactures and Cotton Textiles

12. Turning to export prospects for other major export items, the representative of India explained that the forecast of practically unchanged export earnings during the Third Plan over those of the Second Plan, for jute manufactures and cotton textiles, were primarily due also to market limitations in overseas markets, rather than to problems arising on the side of supply. With respect to jute manufactures, India was making every effort to overcome certain shortages in the supply of raw jute, which during the Second Plan had at times led to reduced production and consequently also reduced availabilities for export. The fact, however, that during most of the Second Plan period about 12½ per cent of Indian jute looms had had to remain sealed, was not the result of inadequate raw material supplies, but a reflection of the restrictions on imports of Indian jute manufactures in force in a number of important markets. The representative of India welcomed the measures reported by the representatives of France and of the Federal Republic of Germany on measures they were taking for assisting domestic industries in adapting themselves to increasing competition from imports. He welcomed the renewed assurance by the representative of the Federal Republic of Germany that imports of jute manufactures still subject to restrictions would be liberalized by 1964, in accordance with the waiver granted by the CONTRACTING PARTIES. The representative of India pointed out, however, that notwithstanding slight progress in certain countries toward liberalizing imports, exports of jute manufactures from India remained subject to severe restrictions in many important countries. He appealed to governments of contracting parties, particularly industrialized countries, maintaining such restrictions, to review their respective import policies and to proceed as rapidly as possible towards the dismantling of remaining restrictions on imports of jute manufactures.

13. Members of the Committee noted with satisfaction that increased efforts were being made by India for assuring adequate supplies of raw jute. They pointed out in this connexion that the recurring shortages of the raw material had led to fluctuations in the price of the finished product and that these fluctuations had also been a factor inhibiting exports of Indian jute manufactures.

14. With respect to cotton textiles, the representative of India explained that the annual export target of 850 million yards, valued at Rs.670 million in the Third Plan, was primarily a reflection of the disappointing export realization from cotton textiles during the Second Plan. He explained that the Third Plan target was considerably below the target of 1,000 million yards originally forecast in the Second Plan for 1960/61, and, in terms of export value, even below the revised export target for 1960/61 of Rs.680 million. Partly as a result of the widespread application of quantitative import restrictions on cotton textiles in other countries, production in the mill sector had not been expanded. Provision was made, however, in the Third Plan for an expansion of production in the mill sector in the final year of the Plan by about 15 per cent as compared with production in 1960/61. The representative of India pointed out that cotton textiles was another commodity where the removal of barriers by certain importing countries could make a significant contribution to an expansion of export earnings from less-developed countries. He was aware of the problem of "market disruption" and was aware that cotton textiles would be the subject of multilateral discussions in the near future. Nevertheless, he pointed out that, as a considerable producer of raw cotton and as the possessor of considerable manufacturing skills in this field over a very long period, direction of investment in India into this industry would be normal and legitimate.

Other Traditional Exports

15. The representative of India explained to the Committee that exports of such items as gums, resins and lac, raw hides and skins, raw cotton and waste, raw wool and hair, mica, spices, cashew nuts and most metal ores, were on the whole not significantly affected by tariff or non-tariff measures. On the other hand, some of these products, for example, mica, gums, resins and lac, were affected by the use of substitutes which had the effect, at any rate, of limiting the growth of the market. Similarly, export demand for manganese ores was affected by changing industrial requirements as also by procurement through monopolies and bilateral barter arrangements. Other items in the category of goods having relatively unimpeded access to foreign markets were either specialities such as spices and cashew nuts or raw materials such as raw hides and skins, raw cotton, and iron ores, for which there existed a ready market in industrialized countries, particularly for some of the special varieties exported by India. While India was anxious to expand its export earnings by making available for export all types of products for which there existed a ready export market, some of the items for which this was true were in short supply domestically. While provision was made in the Plan for increasing production of products in short supply in order to meet the growing domestic as well as foreign demand, it was obviously desirable, where economically justified, to progress towards more processing of raw materials in order to increase the country's foreign exchange earning capacity.

16. In this connexion the representative of India pointed out that it was to be regretted that tariff and licensing policies continued to be in force in many industrialized countries which, by providing more favourable import treatment for raw materials than for processed products, were a factor in

retarding the development of processing industries in less-developed countries. Examples of products which suffered from this differentiation in import treatment and of export interest to India were vegetable oils, leather goods and footwear, woollen manufactures and rugs and carpets. It had to be realized that whatever justification might have existed for this differentiation in import treatment when these measures were first introduced, the effect of their continued operation was primarily to discriminate against imports from less-developed countries which were dependent on exports of raw materials and products processed therefrom. He expressed the hope that this matter would find the serious and sympathetic consideration by governments it deserved in order to find measures which would be of assistance to less-developed countries in developing and expanding processing industries and in increasing their foreign exchange earning capacity. He also pointed out that, with respect to other commodities which less-developed countries like India were in a position to export, such as fruit and vegetable products, tobacco, fish and fish products, many important markets were subject to restrictions imposed in connexion with the implementation of the various aims of national agricultural and fishery policies. Moreover, such items as tobacco, for which there existed State trading and monopoly procurement in a number of countries, were handicapped by purchasing policies which often did not take full account of commercial considerations. In these circumstances it was difficult for a country like India to obtain a share in such markets, e.g. in some markets in Western Europe.

Non-traditional Exports

17. In discussion with the representative of India concerning export prospects for the newer lines of exports such as the products of the engineering, chemical and pharmaceutical industries, members of the Committee noted the very great efforts and the remarkable progress which had been made by India, particularly in recent years, in expanding both production and exports of these items. The Committee recognized, however, that although trade in these items constituted one of the most dynamic elements in India's export trade, a reasonably rapid expansion of overall export earnings could not be expected to result from increased exports of these items alone as long as such exports accounted for only a small part of total export trade, as at present. While exports of items such as agricultural implements, machinery, builders' hardware, electric motors, pumps, etc., were on the whole not subject to quantitative restrictions in markets of industrialized countries, exports of other items such as sewing machines and bicycles, which were among the potentially more important foreign exchange earners in this category of exports, remained subject to restrictions in a number of industrialized countries. Moreover, many of these products were subject to customs duties at such a level to affect trading opportunities. While it was realized by India that an expansion of exports of machinery, diesel engines, electric fans and appliances and other industrial products required, in the first instance, trade promotion and the provision of adequate sales and servicing facilities in order to permit the product to become established in the market, tariffs and quantitative restrictions also constituted real obstacles in certain markets to an expansion of exports of these items.

The representative of India urged therefore that contracting parties, bearing in mind the not inconsiderable difficulties experienced by less-developed countries in establishing their products in new markets, reduce and eliminate tariff and non-tariff barriers affecting exports from less-developed countries. The Committee noted that the initial benefit from the removal of tariff and non-tariff barriers relating to manufactured products might accrue to the export trade of industrialized countries. However, this should not prevent contracting parties from adopting measures for removing obstacles to trade in these products. In order to secure benefits for themselves there was need for the less-developed countries to pay particular attention to trade promotion in this field.

Prospects for increasing regional trade

18. Some members of the Committee felt that possibilities existed for the products of India's industries in the markets of other developing countries.

19. Some members of the Committee also pointed out that countries in the region might find it useful to co-ordinate certain lines of production in order to avoid duplication of effort and the establishment of industries which might be viable only if they were to be granted continuing protection. The representative of India stated that possibilities for useful specialization in the field of production and trade between different countries of the region were limited by the very low levels of average per capita income prevailing at present in these countries. He stated that the first need in these countries was the creation of employment leading to an increase in and a wider diffusion of purchasing power. As economic development in these countries progressed new trading opportunities were likely to arise and specialization could be expected to increase, as could be seen from the experience of industrialized countries. India was aware of the desirability of increasing trade with other countries in the region and considerable efforts for expanding this trade were being made. Many of the metal and engineering products exported from India, such as machine tools, cotton textile machinery, transport equipment, electric fans, bicycles, went to neighbouring countries.

20. Some members of the Committee explained that, although several of the products exported by India might be particularly suited to markets in other developing countries, consumer preference in some of these countries was often for products which had had a long standing in the market. Thus, experience in certain markets had shown that exports of certain products such as sewing machines, bicycles, semi-manufactures for industrial use, including those produced to standard specifications, were often not easier to sell in less-developed countries than in industrialized countries. The representative of India pointed out, however, that special efforts were being made in the production and design of items destined for export in order to take account of the special requirements of different markets.

Export Promotion Measures

21. The Committee recognized that in market economy countries governments could not direct goods to be imported from particular sources and agreed with the representative of India on the importance of trade promotion. The Committee welcomed the broad and many sided programme which had been instituted in recent years by India in this respect. On the other hand, members of the Committee pointed out during the discussion on individual items, that there existed still considerable scope for an expansion of promotional efforts both by the Government of India and by Indian business. The Committee recognized that there was little point in trade promotion in importing countries on those items which were severely restricted. In other instances, however, where markets were open, market research and trade promotion should lead to considerable trade gains, particularly in respect of some of the newer export lines. In this connexion some members of the Committee mentioned that facilities existed in their countries of which Indian exporters might avail themselves, often at no or only nominal charges, for assistance in the marketing of their products. The representative of India stated that his country would continue to give close attention to measures of export promotion and to expand such measures to the extent possible. The Committee noted that one country represented in the Committee had prepared a projection of import opportunities in its national market at the end of the Indian Third Five-Year Plan for some major products of interest to India. The Committee felt that indications of this kind, with all their natural limitations, could be of assistance to less-developed countries in the planning of their development and export trade and invited other contracting parties to submit, as far as possible, similar indications at the forthcoming meeting of the Committee in September.

Future work of the Committee in studying development plans

22. The Committee considered that the exchange of views had been very useful and the experience gained would be of assistance in subsequent examinations of the trade-and-payments aspects of other plans for development. The Committee instructed the secretariat to collect information and to prepare the necessary background data for the Committee concerning the trade-and-payments aspects of development plans which other less-developed countries might wish to see examined at subsequent meetings of the Committee.

Conclusion

23. The Committee recognized the magnitude of the task before the Government of India in increasing per capita incomes and the standard of living of the Indian people. In order to achieve these ends a great deal of foreign exchange would be required both for continuing investment and for servicing current loans. India would, therefore, have to increase its foreign exchange earnings very considerably. This was a matter of importance not only for India, but for other trading countries also, as otherwise India would have to rely increasingly on policies aimed at import substitution rather than on

development leading to increased levels of trade and a rational division of labour. Similar considerations would also apply to the development of other less-developed countries. The Committee noted that many Indian export products continued to be subject to tariff and non-tariff barriers to trade which limited the possibilities open to India for substantially increasing her foreign exchange earnings. By reason of the availability of raw materials, manpower and skills, actual or potential, India would be able to expand several industries if these barriers were relaxed and thereafter quickly removed. Such action would also lead to the channelling of investment into directions of expanding existing industries or developing new industries with a view to securing efficient allocation of resources and the maximum expansion of trade.