

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Committee on Balance-of-Payments Restrictions

### REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH INDIA

1. In accordance with its terms of reference, the Committee has conducted a consultation with India under Article XVIII:12(b). The Committee noted that a consultation under the simplified procedures (L/3772/Rev.1) had been held in January 1978 (BOP/R/97) when it had been decided that a full consultation would be held under the applicable procedure. The previous full consultation with India under the provisions of Article XVIII:12(b) had been held in October 1973. In conducting the present consultation the Committee had before it a basic document supplied by the Government of India (BOP/194) and a background paper provided by the International Monetary Fund, dated 13 October 1978.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 18th Supplement, pages 52-53). The consultation took place on 21 November 1978. The present report summarizes the main points of the discussion.

#### Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with India. In accordance with the agreed procedures, the representative of the Fund made a statement concerning the position of India, as follows:

"Developments in India's economy in 1977/78 (fiscal year ended March) were generally favorable. The economy expanded at a rate of about 6 per cent, considerably faster than in the previous year (2 per cent) or the average achieved so far during the 1970s (about 3 per cent). A 12 per cent increase in agricultural production was the main impetus. Continued favorable weather and the expansion of irrigation and intensive production techniques resulted in a 13 per cent increase in foodgrain output to a record 125 million tons. Despite a virtual halt to grain imports and measures to limit government grain procurement and to expand public distribution, stocks have been maintained at high levels. Output of most other agricultural products also increased considerably. By contrast, industrial production was sluggish, increasing by less than 4 per cent and for the third successive year investment fell short of the domestic savings capacity. The factors responsible for the modest industrial performance included shortages of certain key industrial inputs (including electricity), an increase in industrial disputes, and a squeeze on profit margins resulting from the relatively rapid cost increases in the wake of the surge in inflation in 1976/77. Moreover, recent major changes in industrial policy favoring small-scale producers, labor-intensive production techniques, and decentralization may have generated some uncertainty in the industrial sector.

"Monetary growth slowed somewhat in 1977/78. Bank credit to government expanded more rapidly than in the previous year as a sharply higher budget deficit was financed in part by increased borrowings from commercial banks. Credit to the commercial sector grew only moderately because of weak credit demand. Credit policies were gradually tightened with the aim of offsetting the expansionary impact of the continued surplus on external transactions. Inflation - which had reached 12 per cent during the 12 months ending March 1977 - abated during 1977/78 and wholesale prices showed a small decrease over the year.

"Present indications are that 1978/79 will be another good year for the Indian economy. The weather has so far been favorable and good autumn crops are expected. Sample data on industrial activity in the early months of the year suggest that an upturn in industrial growth and investment may now be emerging, although the recent severe floods may hamper the recovery. The 1978/79 budget is planned to be more expansionary than that in 1977/78. Monetary expansion gathered pace in the first quarter but overall price stability has been maintained.

"A striking feature of India's economy over the past several years has been the strong balance of payments position. For the third successive year the balance of payments was in substantial overall surplus in 1977/78. Exports increased only moderately and export volume stagnated, reflecting weakened world demand conditions, supply

shortages, restrictions on the export of certain commodities and increased protectionism in industrial countries. By contrast, industrial imports increased considerably, largely as a cumulative effect of the import liberalization measures undertaken over the past three years, described below. However, capital goods imports increased only marginally, reflecting the sluggishness of industrial production referred to above. Net foreign aid receipts declined somewhat from levels reached in the previous two years. These developments were, however, more than offset by a substantial increase in other capital and net invisible inflows - which more than doubled to SDR 1.4 billion; the major factor was a large increase in remittances from Indian workers abroad. As a result, there was an overall balance of payments surplus of SDR 1.7 billion.

"The favorable overall balance of payments position has continued so far during the current year. Exports declined (in SDR terms) in the first four months of 1978/79 while imports were substantially higher. However, continued large capital and invisible inflows more than offset the widened trade deficit. As a result, there was an overall balance of payments surplus of about SDR 0.4 billion in the first five months of 1978/79. Gross foreign exchange reserves at the end of August 1978 amounted to SDR 5.0 billion, equivalent to some ten months' imports at the 1977/78 rate.

"Since September 1975, the exchange rate for the Indian rupee has been pegged to a basket of currencies of India's most important trading partners within margins of 2.25 per cent. The exchange rate for the rupee in terms of the pound sterling, the intervention currency, was adjusted five times during 1978. During the first half of 1978, the export-weighted effective exchange rate of the rupee depreciated by about 3 per cent.

"The complex framework of payments and import restrictions has been considerably liberalized over the past three years, especially during 1977/78 and the current year. In 1978 the bilateral payments agreements with Afghanistan, Hungary, and North Korea were terminated. The value of import licenses issued has increased substantially since 1975/76, and flexibility in their utilization has been enhanced. Moreover, a large number of commodities has been exempted from licensing requirements by being placed under Open General License (OGL). The free licensing system, itself introduced as a liberalization measure and expanded to cover many commodities in 1977/78, was abolished and merged with the OGL system in 1978/79. The scheme of Automatic Licenses introduced in 1975/76 has been made progressively more liberal both in amount and coverage. The terms of Import Replenishment (REP) licenses for exporters have also been relaxed by widening the permissible imports covered, increasing the value of REP licenses and progressively removing restrictions on the transferability of REP licenses so that since the beginning of the current year they have been freely transferable. Smallscale producers were

provided special import facilities in 1977/78, and these were extended in 1978/79 in line with the new industrial policy. The long-standing policy to encourage import substitution in the capital goods industries by import restrictions has been partly reversed. Restrictions on capital goods imports based on indigenous production have been eased, and a number of capital goods imports have been transferred to the OGL list over the past two years. The list of banned import items was reduced substantially in 1977/78 and the policy is now being flexibly administered to allow imports of banned items in cases of domestic shortages. Import duties on a number of finished and intermediate goods were reduced in 1978, although several duty rates were also increased. In 1978/79, import duties on selected capital goods were cut from 40 per cent to 25 per cent. A number of changes to the extensive system of export incentives have been introduced over the past two years. In addition to the changes in REP import licenses for exporters noted above, cash subsidy payments to exporters increased sharply in 1977/78 but have been reduced in the current budget as the facility has been withdrawn or reduced for a number of exports. Some duty drawback rates have also been changed.

"The Fund welcomes the liberalization measures taken by India. While these measures have already had a discernible impact on India's trade, their full effect is likely to be realized only under more buoyant domestic demand conditions. At present, the overall balance of payments position continues to be strong and international reserves are high, and there appears to be scope for continuation of the recent trend towards liberalization. An appropriate balance between policies to increase investment and measures to reduce further import protection would improve productive efficiency, reduce domestic shortages, and to promote economic development."

#### Opening statement by the representative of India

4. In his opening statement, the full text of which is annexed to the report, the representative of India explained in detail the extent of trade liberalization which had been undertaken and the major changes introduced in the current 1978/79 policy. This comprehensive revision of import policy and procedures had been based on recommendations made by an expert committee, the policy directives contained in the Government's new industrial policy statement of December 1977, and the development strategy contained in the draft five-year plan 1978-83. He then brushed a picture of the past and present balance-of-payments situation and pointed to the relationship with the priorities of economic development. He also emphasized that India's problems of balance of payments were aggravated by the growing protectionism in the markets of developed countries, and said that these tendencies were a cause of the concern. The sectors most affected were textiles, engineering products, leather manufactures, marine products, chemicals etc. In the field of textiles MFA restraints were posing constraints on India's export expansion and the growth rates permitted were inadequate compared to the supply possibilities of India. Despite these obstacles the Government had pursued

its measures of "unprotectionism" in the hope that neo-protectionism would be a passing phase and that the developed countries would soon see their way to absorbing higher imports from developing countries in the overall interest of development. The delegation of India stated that simplified consultations were the procedures applicable to developing countries. India had agreed to a full consultation in a spirit of co-operation, and this was without prejudice to her position on the question of applicable procedures for balance-of-payments consultations.

Parts I and II

Balance-of-payments position and prospects and alternative measures to restore equilibrium

5. Members of the Committee congratulated the Indian authorities for the impressive performance of the Indian economy and for the extensive liberalization and efforts of simplification of the import régime. They welcomed the considerable improvement in India's balance-of-payments situation which had turned from a prolonged deficit to a surplus in 1977/78. They emphasized that the main object of this consultation was to examine developments in India's economy and external accounts with a view to acquiring a better understanding of the situation and to assess the scope for further liberalization. It was generally noted that the trade deficit of the first six months of 1978 was largely covered by the surplus on services account which originated from remittances of Indian workers abroad. It was also noted that India's foreign exchange reserves in August 1978 were very high and amounted to some ten months imports (1977-78). It was also noted that the Indian authorities had been successful in containing inflation which now stood at some 12 per cent per annum.

6. Several questions were asked concerning level of reserves. The representative for India acknowledged that foreign exchange reserves had accumulated and stood at some eight to ten months imports. However, it was important to examine the composition of these reserves; a large part of which was made up of remittances from workers abroad and it was well known that this was a volatile source of income. Furthermore, his authorities were concerned over recent trends in foreign countries employing Indian workers to impose restrictions on these remittances. The Indian authorities believed that the present level of reserves was adequate to ensure the execution of the development plan which called for a 20 to 22 per cent increase in the level of capital goods and other essential imports. Also a reasonable margin of reserves had to be kept to face emergency imports, due to recurrent catastrophes such as recent massive floods. The combination of a volatile source of income and the need for increased imports and contingency imports called for the present level of reserves.

7. Several questions were asked concerning India's policy on domestic private investment and private foreign investment and why foreign investments were discouraged in certain sectors of production. The representative of India explained that Indian public investments had been the motive force for encouraging and increasing private investments and had the massive step-up in public investments of the current Five-Year Plan in various sectors e.g. energy, railways, irrigation, steel, etc. would encourage new private investments; this had already started as could be seen in the recent trends. He added that as far as foreign investments were concerned, the Indian Government had a well defined policy and that foreign investment in certain areas was encouraged. There was no ambiguity as to this policy and, once set up, foreign enterprises were treated on the same footing as similar domestic enterprises.

8. In reply to questions concerning the diversification of export production the representative for India recalled that while exports had grown by 7 per cent per annum in real terms in recent years, they had increased by only 5 per cent in value terms in the last year and, in the first five months of the current year, exports had marginally declined. Government policies were aimed at increasing the diversification of exports. The Government encouraged diversification of export production, but not in areas where no comparative advantage was apparent. Export incentives were given in order to overcome some of the structural impediments facing exporters. Asked to comment further on structural impediments the representative of India gave as an example the levels of indirect taxation prevalent in India which resulted in many components of export production being taxed. This was unavoidable unless one moved to direct taxation. Export incentives consisted in helping exporters remove the cost of indirect taxation on export components and inputs. Members of the Committee asked whether the International Monetary Fund believed that the Indian export incentives were the appropriate methods under existing circumstances for the development of India's exports.

9. The representative of the International Monetary Fund said that while in certain circumstances export incentives could be justified on a temporary basis, care had to be taken not to provide artificial incentives in areas where there was no apparent comparative advantage. In the case of India, the Fund staff had over the years discussed with the Indian authorities their system of export incentives and subsidies and he referred to the background paper of the IMF which described in some detail the various measures of liberalization and rationalization that had been undertaken by India in recent years.

10. Members of the Committee asked questions to the International Monetary Fund representative concerning the use of "export weighted effective exchange rate" of the rupee; in a recent GATT meeting concerned with conversion of specific duties it had learned that the preferred method for calculating currency devaluations for that purpose was an "import weighted effective rate" and it was asked what the reason was for using a different

method here. The representative of the International Monetary Fund replied that as regards the reference to an export weighted effected exchange rate in the Fund's statement as compared to the use of an import weighted effective rate that had been discussed at a recent meeting on specific duties, the Fund representative said that the choice of the method depended on the purpose for which it was constructed. While an import weighted effective rate was suitable for the measurement of the effect of exchange rate changes on specific duties, an export weighted rate was preferable in showing the effect of exchange rate changes on the competitiveness of exports and this was of relevance in discussing India's balance of payments. In reply to a further question, he said that India had a flexible exchange rate system based on a basket of currencies and that the use of sterling as the intervention currency was essentially a matter of practical convenience since sterling was a convertible currency and the exchange rate for other currencies could be derived from the sterling rate.

11. Members of the Committee also commented on the background note by the International Monetary Fund where it was pointed out that India's poor overall export performance was attributable among other things to growing protectionism. It was asked whether the Fund believed that restraints against exports of India affected the export earnings of India more than was the case with other contracting parties with whom the Committee had consulted. The representative of the International Monetary Fund said that protectionism was of considerable concern to the Fund, not only because of its commercial policy aspects but also because it interfered with an effective adjustment mechanism. As regards the specific question of whether or not India was more affected by protectionism than other countries, this was difficult to quantify. As a general rule, it could be said that the more diversified a country's exports the less seriously it would be affected by protectionist measures in other countries.

#### Parts III and IV

#### System and method of the restrictions and effects of the restrictions

12. The Committee welcomed the substantial efforts made by India to liberalize its import régime, particularly measures taken in the course of 1977/78. It was noted that the new import policy was to be in force for one year during which time several government committees would review the operation of the policy and the use of the open general licence system. It was asked what were the conclusions of these reviews to date. The representative of India said that the reviews had already been undertaken and drew attention to his opening statement in which he had described the trend and details of the major changes in the policy effected in July and September 1978. The direction of the import policy continued toward liberalization.

13. It was remarked that the overall level of the Indian tariff protection was quite high and members inquired whether the Indian authorities would reduce in the future their reliance on high tariffs. The representative of India said that tariffs were raised mainly for revenue in order to finance development. This was all the more necessary as no other resources were readily available.

14. Members of the Committee noted that the efforts toward simplification of the import régime now resulted in only four categories of imports and asked what percentage of imports was covered in each one of these categories. It was also asked whether products could be moved from one list to another. With regard to the import policy for capital goods which had been liberalized it was asked how the Government committee concerned approached the question of selection of suppliers. The representative of India said that no readily available breakdown of trade per category of import was available. However, all details could be found in the Indian handbook of import control. With respect to the capital goods import he added that it was the general policy to leave the choice of make and specifications to the applicant. Three governmental committees examined these applications according to the values involved: up to one million rupee, from one million rupee to two and a half million rupee and imports beyond two and a half million rupee. The principles and criteria involved were essentiality to the industrial user, the ability of Indian industry to produce, and the availability of indigenous equivalent. There were provisions under the current policy concerning some fourteen projects/industries where global tenders were made which contained a slim advantage for domestic suppliers. With regard to import prohibitions on particular products, members of the Committee noted that such prohibitions could not be considered as consistent with Article XXVIII:10, which states that such restraints should not "prevent unreasonably the importation of any description of goods in minimum commercial quantities". The representative of India stated that no facts had been presented by any member, even on being requested to do so, to justify this contention. He maintained that their import régime reflected their priorities of economic development and was in conformity with Article XVIII:10, and that Article XVIII:B did not disallow prohibitions of imports of any description of goods.

15. In reply to a question concerning import replenishment licensing system the representative of India said the Alexander Committee had pointed toward the objective that the government facilitate the reconstitution to the country of stocks that had been used in export production.

16. One member of the Committee expressed concern with the tariff treatment that was given to commercial samples and products brought into the country for submission at trade fairs; these seemed to be subject to customs duty despite the fact that they were re-exported six months later.

The representative of India asked for concrete examples as there was no duty imposed on commercial samples or trade fair products. Such goods were imported under a customs clearance permit and duties were imposed only if the goods were sold in India.

17. In reply to a question as to whether there were no advance formalities of any kind required for imports under open general licence, the representative of India confirmed that the eligible importer was not required to take out a licence in paper form but could apply directly to a bank to arrange the connected remittances overseas.

18. Turning to the question of bilateral trade and payments agreements, it was asked which country these agreements were signed with and how they could be based on "an m.f.n. treatment providing non-discriminatory treatment in all matters" as was stated in the Indian submission. The representative of India said that this point had been extensively discussed in the past. He also confirmed that these bilateral agreements were non-discriminatory. Furthermore, he emphasized that the agreements in no way caused trade diversion but rather supplemented trade. The number of bilateral agreements had been reduced and the objective of the existing ones was to contribute to the aim of increased employment and production.

19. Members of the Committee pointed out that importers of restricted raw materials could automatically import up to 110 per cent of the previous year's level. In this context it was asked whether imports beyond this level were prohibited and whether there were provisions for shortfall and also whether there were any carry-over provisions i.e. if an importer imported less than 110 per cent one year, whether he could import a greater amount the next year. The representative of India replied that the provision of 10 per cent increase over the previous year was meant as a guideline and took into account the needs of growth in demand and the effects of inflation. There were shortfall provisions but no carry-over facilities. The policy was set every year, and whereas an importer could go beyond the 110 per cent level by seeking a supplementary licence, whatever under-utilization he had made of the current year's licence could not be carried over to the next.

20. With reference to State trading a question was asked as to the meaning of the term "fully canalized". The representative of India explained that the idea of State trading was to group purchases in order to have the benefit of bulk purchases and bulk shipments which were of particular help to small end-users.

Conclusions

1. The Committee commended the Indian authorities for the performance of the Indian economy, the significant improvement in the balance-of-payments situation, the comfortable foreign exchange reserve position and, in particular, for the liberalization and simplification of its import régime.

2. In agreement with the International Monetary Fund, the Committee concluded that the overall balance-of-payments situation provided scope for continued liberalization which, together with policies to increase investment, should promote the economic development of India and the interests of its trading partners. However, the Committee was aware that certain restrictive policies in other countries posed problems to the expansion of India's exports. The Committee recommended that India pursue its policy of liberalization and simplification of import restrictions.

ANNEX

Opening Statement by the Representative of India

You are all aware of India's unique contribution in this year for making liberalized trade policies and simplified procedures. These measures extend to a wide range of sectors and products. Although the process of liberalization had been going on for a few years, the current policy of 1978-79 has introduced major changes. These are also accompanied in many cases by appreciable reductions in import tariffs which too supplemented decisions taken in the previous year. The reduction in tariffs again relates to diverse products. The summary background material for GATT prepared recently by the IMF gives these in some measure. Moreover, recently the duties on a number of capital goods have been further reduced. As late as in November 1978, our Government has reduced the customs duty on more items of capital goods from 40 per cent to 25 per cent, significantly brought down the import duties on twenty-five raw materials used by electronic industries and placed an additional forty-eight items of leather machinery for import under Open General Licence. May I observe that these measures are in addition to the first announcement of the current import policy in April 1978 which was further liberalized and simplified twice later in July and September 1978.

This comprehensive revision of import policy and procedures has been based upon recommendations made by an Expert Committee, the policy directives contained in the Government's new industrial policy statement of December 1977 and the development strategy contained in the draft Five Year Plan 1978-83. The highlights of the recent import policy liberalization are as follows:

- (a) The list of Capital Goods items which Actual Users may import on OGL has been enlarged substantially.
- (b) In the case of plant and equipment required for about a dozen important industries like fertilizers, power generation, minerals exploration, petroleum and petro-chemicals, professional electronic equipment, drugs and pesticides as well as fully export-oriented industries, the investor has been given the choice of buying his equipment on the basis of global tenders, subject to a moderate preference to indigenous producers.
- (c) The Actual Users (Industrial) get their full requirement for the year automatically. Licences are required by them for only such items as are restricted in the interest of indigenous industries and other social objectives. Again, import of iron and steel items requires no separate clearance.

- (d) Import requirements of the small scale, tiny and cottage sectors are now available wholly in free foreign exchange and the local committees set up at licensing offices can decide the applications for capital goods up to Rs 1 million.
- (e) The new policy recognises all local authorities, hospitals, educational institutions, Research and Development and other such establishments and centres of high learning, farmers service centres, printers and publishers, etc. as Actual Users in the non-industrial category and a large number of them are allowed full freedom to import their genuine requirement of technical items which are not available indigenously. Individuals doing scientific and research work on their own are entitled to import such requirements up to Rs 10,000.
- (f) The list of canalised items for imports has been reviewed in the light of certain general criteria suggested by the Expert Committee, and certain items such as A.B.S., nylon and polyethylene moulding powders, PVC resins and rough ophthalmic blanks have been decanalised to suit the requirements of the small-scale sector.
- (g) The whole import procedure has been rationalized, deleting or simplifying several forms and provisions. In planning this earlier policy of allowing actual users to import only identified items, the current policy permits them to import for manufacturing purposes items of raw material, component, spares and consumables which are not individually banned or restricted for imports.

These changes, comprehensive as they are, are naturally subject to the basic objectives of India's national economic strategy which includes employment generation, development of small-scale and rural industries, rise in the standard of living of the poorest sections and the achievement of social justice. These objectives indeed represent fundamental human values shared by the world community as a whole.

The steps just outlined have to be seen in the background of our basic balance-of-payments situation. India has experienced massive deficit in the balance of trade in 1977-78. Our imports rose as a result of our liberalized policies by more than 20 per cent and the deficit in 1977-78 was as high as Rs 61 million; one of the major causes of the deficit was the slackening in the growth of exports due to the factors beyond our control. The data available for the current year, i.e. April to August 1978, shows that the adverse trade balance in the first five months is as high as Rs 5,000 million already. Imports have increased by

30 per cent compared to last year while exports have shown decline even in value terms, a phenomenon which has appeared in India's foreign trade after almost fifteen years. If the present trend continues, we expect the trade deficit for the year 1978-79 as a whole to be as large as Rs 14 to 15 thousand million.

Our balance-of-payments problem is essentially due to the priorities of economic development where the economy is trying to increase its rate of growth so as to meet the basic needs of the population. These are tasks of gigantic dimensions. The Planning Commission has estimated that in 1977-78 290 millions of our citizens were below the poverty line, set at incomes less than US\$10 per month per capita. Overt unemployment, significant underemployment and low productivity are the main causes of this state of affairs. Our import structure will have to be consistent with the development needs of employment creation and economic transformation. Our Government proposes to step up investment in all the sectors and expand production that is employment generating in both agricultural and decentralized industrial sectors. These investments and the needs of price stability will call for substantial imports of capital goods, intermediate inputs like fertilizer and energy and items of mass consumption like fats and oils, cereals, etc. Even with the modest growth rate of 4.7 per cent per annum, our Plan estimates show that during the 1978-83 period, the trade deficit would be up to Rs 100,000 million at 1976-77 prices i.e. more than perhaps Rs 120,000 million at current prices. Even to contain the deficit at this level, it would be essential for India to increase her exports by at least 7 per cent per year in volume terms over the next five years which was the actual growth experienced in this sector during 1970-71 to 1976-77. Our projections indicate that the existing foreign exchange reserves will be barely adequate for meeting normal requirements by 1982-83. Even so, in the given circumstances the Government of India have gone as far as they could to liberalize imports.

But it is here that India's problems of balance-of-payments are getting aggravated by the growing protectionism in the markets of developed countries. In the context of the planned step-up of imports to raise our levels of investments and achieving price stability, these current tendencies are indeed a cause of deep concern to us.

India has been subjected with increasing intensification to various measures of non-tariff barriers against her exports of manufactured products. The sectors which are affected are textiles, engineering products, leather manufactures, marine products, chemicals etc. The presence of such adverse measures is almost ubiquitous although they are of varying intensities as far as individual products or sectors are concerned. India is being faced with these measures in almost all markets of consequence to her foreign trade. These measures have already made their presence felt by

deceleration in the growth of India's exports in 1977-78 and even more so in the first six months of 1978.

Perhaps the most vivid example of the adverse effect is found in India's experience in exports of textiles especially apparels. In value terms, beginning from a small level spectacular increases were registered in 1971-72 to 1976-77 by ready-made garments exports, garments made both out of handloom and powerloom or mill sector. In the year 1977-78, although the performance in the fabrics sector was weaker compared to the year 1976-77, in a few important markets, ready-made garments did meet quota levels and this affected their overall growth. Exports of ready-made garments which were increasing rapidly every year until 1976-77, in fact declined in the year 1977-78 by almost Rs 1,000 million. The impact of constraints is even more heightened in the six months of 1978-79. In the current year, as far as ready-made garments are concerned, India has reached quota levels in almost all the important markets. In other words, as far as ready-made garments are concerned, India is hit by both quota levels and by the permissible growth rates that are provided by the MFA. These growth rates are obviously inadequate compared to the supply possibilities for India's garments industry. MFA is posing constraints in India's export expansion in another way i.e. diversification of ready-made garments. Given the size of the world market for such products in the textile sector, this would mean that India is being denied the opportunity of considerable proportions.

Engineering goods and steel-based items have been one of the dynamic sectors in recent years. Given India's resource endowment and industrial capacities, in this sector, India can increase supplies to world markets at competitive prices. Although the growth rates of these exports have been higher in recent years, India's share in the world trade of these products continue to be rather nominal. However, in the last twelve months, various measures have been instituted in the developed markets against India's export of simple steel-based items and it has created avoidable non-tariff barriers affecting adversely the export expansion possibilities. Some of the important examples affected are industrial fasteners, industrial castings, stainless steel software and PC steel wire. Such devices as the trigger price mechanism (TPM) has inducted intrinsic bias against new exporters like India as it implicitly assumes one source to be the most efficient producer of all types of steel and steel-based items. Not only could one show that this is not valid for many steel-based products even when TPM was initiated but in the context of the rapid appreciation of currencies, the validity of this basic assumption of TPM looks even less convincing.

Although the protectionist measures, that have been adopted in the area of leather products and other items are not yet proving to be a dominant constraint in our exports, there is little doubt that they could prove to be so within a medium-term framework.

I mentioned earlier, the Government of India took major steps towards liberalization of the import régime at the commencement of the 1978-79 year unilaterally because of its abiding faith in the new international economic order, although the protectionist tendencies were well in evidence even at that time in many a developed country. Our Government, however, went ahead with the measures of "unprotectionism" in the words of the "Economist" of London. It hoped and still hopes that neo-protectionism would be a passing phase and the developed countries would soon see their way to absorbing higher imports from developing countries in the overall interest of development. If the developed economies continue to maintain impediments in the path of imports from developing countries India's balance-of-payments position will be constrained further. Under such circumstances, we shall of course have to keep under review constantly our import policies and adjust them at such levels as can be paid for on the basis of our own export earnings.

India earnestly hopes that in consonance with the goal of the New International Economic Order the developed countries will enable her to pursue her liberalization policy and speed up her economic development, by a willingness to absorb more of the products in which India has a comparative advantage.