

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES

Twentieth Session

REPORT OF THE COMMITTEE ON  
BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION  
UNDER ARTICLE XVIII:12 WITH

I N D I A

1. In accordance with its terms of reference, the Committee has conducted the consultation with India under paragraph 12 of Article XVIII on the import restrictions of India, including the recent measures of substantial intensification of the restrictions.<sup>1</sup> The Committee had before it: (a) a basic document for the consultation BOP/15, and a statement by the authorities of India describing recent adjustments in import controls, BOP/19, and (b) documents provided by the International Monetary Fund as noted in paragraph 2 below. In conducting the consultation the Committee followed the 'Plan' for Consultations (BISD 7/S, pp.97,98). The discussion with the Committee was completed on 25 October 1962. The present report summarizes the main points of discussion during the meeting.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with India. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of India. The statement made was as follows:

"The Fund is pleased to accept the invitation of the CONTRACTING PARTIES to consult with them on the various measures here under consideration.

"The Fund has transmitted to the CONTRACTING PARTIES the background material and the Executive Board decision of February 26, 1962,<sup>2</sup> relating to the Fund's most recent Article XIV consultation with India. In addition, the Fund has prepared a supplementary paper, dated October 8, 1962, containing more recent information on India's economic situation.

"With respect to Part I of the 'Plan' for Consultations, relating to balance of payments position and prospects, and to Part III, relating to system and methods of the restrictions,

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<sup>1</sup>See GATT/AIR/301

<sup>2</sup>See Annex II

the general level of restrictions of India which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the Executive Board decision taken at the conclusion of its last consultation with India. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of India

3. In his opening statement, the full text of which is annexed to this report, the representative of India gave a brief survey of economic and financial developments since the last consultation and of measures taken to cope with the continuing difficult balance-of-payments position of his country.

4. Referring to the earlier discussion in Committee III of the trade and payments aspects of the Third Five-Year Plan of India, as contained in the Draft Outline of the Plan, the representative of India informed the Committee that in the final version of the Plan the export target for the Five-Year period which began on 1 April 1961 had been raised from \$7,248 million to \$7,773 million; this compared with actual export earnings of \$6,414 million over the Second-Plan period. Against this, debt repayments would amount to approximately \$1,155 million. The minimum import requirements over the period of the Third Plan were estimated at \$12,080 million, of which \$3,992 million would be requirements of project imports, and \$420 million imports of components needed for increasing production of capital goods, leaving \$7,668 million for non-project imports. Although these last-mentioned imports were not directly related to development projects under the Plan a large part of them for example steel, would enter importantly into capital formation.

5. After a brief recapitulation of the major aims and objectives of the Third Five-Year Plan, the representative of India explained that in the first year of the Plan, as compared with the last year of the Second Plan, agricultural production as a whole had shown only little improvement, due to unfavourable weather conditions, and that, for the same reason, production of raw cotton had registered a sharp drop. On the industrial side, there had been a substantial increase of approximately 25 per cent in the output of steel and of electricity generated. Industrial production as a whole had been approximately 6 to 7 per cent higher than in the previous year, a rate which might have been still higher had it not been for some shortages of raw materials. The increase in national income had been of the order of 2.2 per cent. In view of his Government's policy of monetary restraint and because of the additional taxes imposed under the Third Plan, it had been possible to keep the general price level virtually unchanged over the past year. Recently, various taxes had been further increased and there had been an increase in interest rates.

6. Turning to the development of trade and payments, the representative of India explained that exports in 1961/62 had amounted to \$1,401 million, the level projected for the first year of the Third Five-Year Plan. On the

other hand, foreign assistance actually utilized had been substantially lower than anticipated, due partly to delays in the arrival of imports of capital equipment. Total imports in 1961/62, other than those financed under United States Public Law 480, had amounted to \$1,874 million, compared with the Plan estimate of \$2,376 million. While non-project imports had been somewhat below the level projected in the Plan, there had been a decline in the sterling balances of \$13 million, even after utilizing a net drawing of \$122 million from the International Monetary Fund. He explained that the availability of foreign assistance for non-project purposes had been less than expected and there had also been some payment, in the first instance, from reserves for non-project imports for which foreign assistance was being sought. An important event in 1961/62 had been the promise by members of the Aid India Club of assistance for the first two years for the Third Five-Year Plan. Taking into account the carry-forward of assistance from the Second Plan and assistance offered by other countries, total funds available under foreign assistance for commitment in the first two years of the Plan amounted to \$3,150 million for project imports and \$840 million for non-project imports.

7. While this assistance and some increase in export receipts in recent months had permitted India to go ahead with the implementation of its development plan, it had not been feasible in drawing up the import policy for 1962/63 to provide for a relaxation of restrictions in view of the low level of overall reserves, large debt repayment obligations and a deterioration of earnings from invisibles. While the import policy for 1962/63 aimed at preventing overseas reserves from falling further, sterling balances during April and May 1962 had registered a decline of \$57 million, partly because receipts from non-project assistance and exports had been lower than anticipated. A stand-by credit of \$100 million had to be secured from the International Monetary Fund and import controls had to be further tightened. While these measures and a slight improvement in exports had had the effect of preventing a further decline in reserves, apart from the use of a drawing of \$25 million from the International Monetary Fund, reserves continued to be uncomfortably low. By the middle of October 1962 sterling reserves had amounted to only \$195 million. Indeed, it would be necessary to increase reserves to a higher level during the winter months in order to provide for the usually higher seasonal import requirements during the summer. For that reason it would be necessary to effect a further reduction in exchange allocations for imports to be paid for in cash. An announcement regarding licensing allocations for the six-months period ending March 1963, was shortly to be made. It was expected that, apart from unforeseen circumstances the reduction in import allocations would not exceed 8 per cent. The representative of India said that the CONTRACTING PARTIES would, of course, be advised as soon as the announcement was made.

8. While some industries would undoubtedly suffer a setback in production as a result of the tightening of restrictions, it was nevertheless hoped that the adverse effects could be kept to a minimum and that it would be possible to increase the overall level of industrial production by about the same percentage as in 1961/62.

The representative of India explained that production was expected to be maintained or increased for the sugar, cement, paper, steel and other industries requiring little or no imported materials, and that, because of increased availability of raw jute, the jute industry was operating at full capacity. As regards the cotton textile industry, it was hoped that sufficient supplies of cotton would be available to sustain at least the level of production achieved in 1961/62. Commenting further on measures to maintain and accelerate economic development, notwithstanding the need for severely restricting imports, the representative of India said that after careful review of additional industrial capacity already licensed for the import of equipment in different industries in relation to plan targets, it had now been decided to give priority to twenty-one industries for licensing of capital goods against assistance. This list of industries was, however, not intended to be rigid and would be reviewed from time to time. Non-project imports required to sustain any new projects were a major consideration when scrutinizing applications for licences.

9. In concluding his opening statement, the representative of India stressed the importance of an increase in export earnings as a prerequisite for the success of India's development effort. To this end export promotion was being given high priority and a number of organizational steps had been taken by India in this direction. At the same time it had to be realized that many Indian exports continued to be handicapped by tariff and non-tariff barriers, some of which were in contravention of the General Agreement. He pointed out that India's task of increasing export earnings would be facilitated if other contracting parties provided a greater degree of access for the entry of Indian goods and it was the earnest hope of his delegation that in the course of this session, contracting parties would be able to report significant progress in eliminating barriers which continued to handicap exports from less-developed countries, as noted in the latest report of Committee III (L/1859).

#### Balance-of-payments position and prospects

10. The Committee thanked the representative of India for his comprehensive, yet concise, statement. They expressed understanding of the many difficult problems faced by India in providing for rapid economic development. The Committee noted that, notwithstanding the considerable progress in implementing the Third Five-Year Plan, the rate of economic expansion continued to be held back in certain instances by shortages of imported raw materials. The Committee noted that, as a result of a decline in India's gold and foreign exchange reserves since the last consultation, India had felt compelled substantially to intensify restrictions for many categories of imports. The Committee took note of the statement by the representative of India that during the current licensing period, it might be necessary to effect a further reduction in licence allocations in order to build up reserves from their present low level, equivalent to approximately three months imports, on the basis of 1961 imports. The Committee expressed the hope that the somewhat more favourable development of exports which had lately been noticed would continue and would thus help to lessen, if not altogether eliminate, the need for a further cut in import allocations, as at present envisaged by the Indian authorities.

11. Replying to questions on prospects for the expansion and diversification of exports, the representative of India explained that his country depended for the bulk of its export earnings on a few commodities. For instance, tea, jute manufactures and cotton textiles accounted for almost half India's total export earnings. As was known from the deliberations and findings of Committee III an expansion of exports of these items, as well as of other traditional Indian exports such as vegetable oils, coir manufactures, tobacco and coffee, continued to be hampered by various measures, having a restrictive effect on imports and consumption, imposed in a number of important foreign markets. While India earnestly hoped that the various restrictive measures in force in importing countries would soon be relaxed and eliminated, his Government recognized that the diversification of India's exports was of vital importance. Accordingly energetic steps were currently being undertaken, both on the organizational side and in providing the infrastructure essential for expanding production and exports.

12. Commenting more specifically on export prospects for major categories of products, the representative of India explained that prospects were favourable for an expansion of exports of ores, particularly iron ores, and of engineering products such as sewing machines, electric fans, electric pumps, certain transport equipment and machinery for the sugar and paper industries. Similarly, although India would for some time continue to be a net importer of machine tools, there appeared to be scope for exports of machine tools, particularly the less complex types. Similarly, there appeared to be possibilities for export of chemicals though these were less favourable than prospects for engineering goods. In regard to these products, as well as certain other manufactured items not yet entering significantly into exports, India had shown that it could supply quality products at competitive prices. Thus, provided there was adequate access to foreign markets, prospects for increased foreign exchange earnings from these types of exports appeared promising. At the same time it had to be pointed out, however, that the contribution of the newer types of production to export earnings was still rather small, so that even a considerable expansion of such exports could not be expected to make a significant contribution in the near future to total export receipts. In this connexion, the Indian representative pointed out that certain manufactured items for which India had export capacity continued to be faced with non-tariff restrictions in a number of countries, including certain industrialized countries. His Government hoped that contracting parties still maintaining such restrictions would soon dismantle them to give effect to the recommendations of Committee III, endorsed by the ministerial meeting held in Geneva in the autumn of 1961.

13. Commenting further on prospects for increasing export earnings, the representative of India pointed to the difficulties arising from the downward trend in recent years of prices of primary products, as compared with the price trend for manufactured products. As was shown in the GATT secretariat study International Trade 1961, prices of manufactured goods relative to prices of primary products exported by less-developed

countries had risen by nearly 20 per cent between 1956 and 1961. The fact that the efforts of the developing countries to increase their foreign exchange earnings by producing a larger surplus for export were largely nullified by a deterioration in their terms of trade was a matter of considerable concern to his Government.

14. In reply to questions on prospects for agricultural production, and consequently on import requirements and export availabilities during the current year, the representative of India explained that, as compared with last year, some increase in output of raw cotton and oil-seeds was expected. Output of jute was expected to be marginally smaller. The level of overall agricultural production was, however, not expected to show any significant change.

15. Referring to the important contribution which private foreign investment could make to India's economic development and to the fact that in 1961 there had been a net outflow of private long-term capital of approximately \$4 million, as compared with a net inflow of approximately \$23 million in 1960, members of the Committee enquired about prospects for private capital imports. The representative of India explained that, while he could not give a precise forecast of the development of private capital imports, indications were that net private foreign investment, rather than declining, would show some further increase reflecting both the large investment opportunities in India's expanding economy and the policy of his Government of encouraging private foreign investment in industries other than those reserved for the public sector.

#### Alternative measures to restore equilibrium

16. The Committee expressed satisfaction with the determined efforts of the Indian authorities to pursue economic development in a climate of price stability. In the discussion of fiscal and monetary measures adopted by the Indian Government in this connexion, the representative of India explained that his Government continued to attach the utmost importance to the avoidance of inflationary pressures in the economy. Appropriate measures were being taken to curb the pressure on prices in the consumer goods sector which had become apparent in recent months. Among the measures adopted by the Government for preventing an increase in the cost-of-living index had been the release of stocks of wheat and sugar. In reply to a related question, the representative of India explained that, apart from possible wage adjustments reflecting productivity increases, the Government did not expect any significant increase in the near future in salaries and wage payments.

17. In the further discussion of factors affecting price and wage developments, the representative of India explained that the availability of imports under commodity aid arrangements and under foreign development loan assistance, by increasing supplies in the market, had contributed significantly to price stability and consequently to India's competitiveness in export markets. In addition to the direct and immediate relief to the balance of payments, foreign

assistance also had an important and salutary, though indirect, effect on the country's exchange earning capacity, because of its effects on prices and more importantly by permitting a more rapid pace of economic development.

18. In the discussion of measures for increasing exports, the representative of India explained that the importance attached by his Government to the expansion of exports was reflected in its broad and many-sided approach to the problem of export promotion. Export controls and administrative impediments to exports had largely been eliminated. Technical advice and guidance as well as market intelligence was made available to industry. Special bodies had been set up for devising and implementing quality control measures. Considerable attention was being paid by the Government in its development planning to the provision of the necessary infrastructure such as handling and transport facilities, irrigation, essential for expanding production and exports. Similarly, in licensing imports, particular attention was paid to meeting the needs of the export industries.

19. Replying to a question by a member of the Committee concerning facilities for exporters' credits, the representative of India said that his Government endeavoured to facilitate exports on credit terms, where required, to enable Indian exporters to compete with other suppliers. For this purpose export credits were made available for various categories of goods for periods of one to five years. Longer-term credits might be arranged in certain cases, for instance in financing exports of equipment for complete installations of sugar or paper plants, a field in which India had been able to build up some exports. While India was endeavouring to assist its exporters to ship on credit terms where this was necessary and required in accordance with general trade practice, it had to be realized that, in the circumstances in which less-developed countries like India found themselves, there was little scope for exporting on credit terms, particularly where the exports concerned themselves incorporated a large import content. It would be helpful if assistance from developed countries were available to finance exports of equipment from one less-developed country to another.

#### System and methods of the restrictions

20. Commenting on the system of allocating licences to "Established Importers" on the basis of performance in a past period, members of the Committee enquired about possibilities for newcomers to engage in the import trade. The representative of India explained that, in order to make the best use of the country's scarce foreign exchange resources and to assure importers a fair share in the lower volume of trade, it had been necessary to rely on an objective criterion in allocating licences, such as the performance of the importer concerned in a representative previous period. The licensing authorities were aware, however, that this practice, if rigidly followed, might exclude newcomers. The requirement of a record of imports in the specified base period to qualify as an "Established Importer" was therefore interpreted in a flexible manner and applications for licence allocations by newcomers were examined on their merits. Once a new importer had been granted a licence allocation, provision for further licence allocations would normally be made as a result of moving the base period forward in each successive licensing period.

21. One member of the Committee pointed out that the successive reductions in licence allocations for many categories of goods during the past years and the consequent reduction in the size of licences allocated to individual importers had led, in some instances, to licence entitlements becoming uneconomically small, particularly where imports had to be effected from distant suppliers. He expressed the hope that the licensing authorities would keep this problem in mind when allocating licences, in order to avoid the disruption of established channels of trade. The representative of India pointed out that importers would have the possibility of effecting imports of the goods concerned by placing a single order against several licences. As far as he was aware, no representation on this point had been received, but any difficulty for foreign suppliers arising incidentally from the administration of the licensing controls which was brought to the notice of the licensing authorities would be given sympathetic consideration.

22. Commenting on the administration of India's licensing controls which had led to a drastic reduction in exports of cloves from Zanzibar, a traditional supplier to India, the representative of India advised the Committee that, although cloves were among the less essential imports, import facilities had nevertheless been enlarged to mitigate the effects of India's restrictions on Zanzibar's export economy.

23. In reply to a question regarding the period of validity of import licences for capital goods, which were normally issued with an initial validity of six months only, the representative of India explained that this practice had been adopted in order to ensure that licences would be utilized promptly. In cases where imports could not be effected within this period and where importers could show firm import orders, licences were revalidated without difficulty.

24. Replying to questions on the licensing of imports covered by foreign aid and the incidence of restrictions on different categories of imports, the representative of India explained that, although practically all imports were subject to licensing, restrictions were of course not applied to goods for which foreign aid had been negotiated, i.e. project imports under loans and imports under commodity aid arrangements. This implied that the restrictions which had to be enforced fell on such imports which had to be financed out of India's own foreign exchange earnings, as supplemented by foreign financial assistance not tied to particular projects. The considerable reduction in import allocations for many categories of goods, primarily maintenance imports, in recent licensing periods despite large-scale and generous foreign assistance was due mainly to the fact that it had not been possible for India to secure untied foreign assistance to the extent hoped for. While India sincerely appreciated foreign assistance made available in different forms for aiding India in its effort to speed economic development, the Indian Government had nevertheless repeatedly stressed the desirability of aid being available in a form making possible quick utilization in accordance with the requirements of the Plan.

25. One member of the Committee pointed out in this connexion that normal channels of trade might be impaired in instances involving imports which were effected almost exclusively under commodity aid arrangements or under tied loans. He appreciated that India **obviously** needed all the assistance she could get and

that the availability of import facilities under these arrangements had permitted foreign exchange resources to be applied to other imports. However, if India was to be in a position to choose the cheapest source of supply and if the minimum disruption was to be caused to established channels of trade, foreign financial assistance should as far as possible not be tied to particular sources of supply or to particular types of imports. Where aid was given in the form of commodities, the range of commodities covered by this assistance should be as wide as possible in order to avoid undesirable repercussions on regular trade.

26. Referring to trade conducted under bilateral arrangements, some members of the Committee stated that much as they understood the desire of India to increase her exports and consequently her ability to import, it appeared that in many instances the operation of bilateral agreements, rather than increasing total export opportunities, merely diverted trade, frequently to the disadvantage of Indian exporters. For example, it seemed that certain products exported under bilateral arrangements had subsequently been re-exported to India's traditional markets where they competed with India's direct exports and had a depressing effect on prices. It also appeared that imports under bilateral arrangements, particularly where payments were subject to bilateral settlement, often failed to meet the requirements of the Indian economy. These members of the Committee expressed the hope that India would soon find it possible to reduce her reliance on bilateral arrangements. The representative of India explained that imports under barter and link arrangements accounted for only 3 to 4 per cent of total imports, while imports under bilateral arrangements generally accounted for approximately 10 per cent of all imports. He added that his Government wished to conduct all its trade on a multilateral basis. Bilateral arrangements had been entered into solely to open up additional trading opportunities. It had to be remembered that goods exported under bilateral arrangements consisted largely of traditional goods exports, an increase of which to other destinations was often hampered by various restrictive measures in importing countries. Moreover, imports obtained in exchange for goods exported under bilateral arrangements consisted almost entirely of essentials, thus contributing significantly to India's ability to meet its import requirements.

27. In reply to a related question concerning the bilateral quota provisions in the trade agreement with Pakistan, the representative of India explained that the trade agreement with Pakistan was explicitly covered by the provisions of paragraph 11 of Article XXIV. However, only a small proportion of total trade between India and Pakistan was effected under the bilateral agreement.

28. Replying to a question concerning the breakdown of imports by major categories, the representative of India explained that, out of total licensing allocations of Rs. 9,430 million during the period April 1961 to March 1962, licences issued to "Established Importers" had amounted to Rs. 650 million.

During the same period licences issued to "Actual Users" had been as follows: raw materials for use of the engineering and chemical industries, Rs.1,630 million; iron and steel, Rs. 910 million; capital goods, Rs. 1,700 million; machine tools other than complete plant equipment, Rs. 450 million; heavy electrical equipment, Rs. 200 million; equipment and material for filling railroad contracts, Rs 150 million. The remaining licences of Rs. 4,020 million, included imports of petroleum, cotton, Government stores, imports under bilateral agreements, and a great number of smaller imports, falling under the heading "Other imports". As a rule, import licences allocated had been utilized up to their full value.

29. In clarifying information in the background document concerning the licensing of plant and machinery financed through foreign exchange loans secured by the prospective importer, the representative of India explained that the issue of licences was not dependent on foreign exchange loans having been secured through one of the three lending institutions referred to on page 3 of BOP/15 in connexion with the import licensing of capital goods. There were also other institutions providing foreign exchange loans against which import licences could be issued. In reply to another question regarding the licensing of imports of capital equipment and materials for industries not provided for under the Third Five-Year Plan, the representative of India explained that the Plan did not attempt to give an exhaustive listing of industries. Even if an industry was not specifically mentioned in the Plan licences could be issued and all import applications were considered strictly on their merits.

#### Effects of the restrictions

30. Members of the Committee pointed to the long-range disadvantage of permitting uneconomic industries to develop and urged India to follow policies that would keep uneconomic development to a minimum. Reference was made in this connexion to the practice of licensing imports of some items, mainly raw materials, machinery and equipment for certain industries, in accordance with the level of exports achieved by various industries concerned. The representative of India assured the Committee that the scheme was not intended or operated in a way which would provide an artificial stimulus to the establishment of uneconomic export industries and that in general his Government was trying to avoid the establishment of industries depending for their viability on restrictions.

#### General

31. The Committee thanked the representatives of India for the co-operative manner in which they had engaged in the consultation and expressed understanding of the considerable problems facing India in implementing its programme of rapid economic development. The Committee noted with regret that the continuing difficult balance-of-payments position had compelled the Indian authorities at various dates since the last consultation to intensify restrictions. The Committee noted the finding by the International Monetary Fund

that "the general level of restrictions of India which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves". The Committee also took note of the statement by the representative of India that it was expected that import allocations would have to be cut back further during the current licensing period, in order to raise reserves from their present low level, but that apart from unforeseen circumstances the reductions would not exceed 8 per cent. Any changes in the current licensing policy would promptly be notified to the CONTRACTING PARTIES. They urged that, in the event that a further cut in licence allocations could not be avoided, the Indian authorities should endeavour to limit any reduction in licence allocations to the minimum required for safeguarding the balance of payments. As regards India's import policy the Committee expressed the hope that it would be possible for India to reduce its reliance on bilateral arrangements and that, in administering the system of licensing controls, due attention would be given to the maintenance, as far as possible, of established channels of trade and to the avoidance of incidental protection.

32. The Committee noted that a rapid expansion of India's export earnings, both of primary products and of manufactures, was urgently necessary. It was hoped that other countries would reduce and eliminate the present barriers, which frequently contravened the General Agreement, to imports from India.

33. The representative of India thanked the Committee for the sympathetic attitude with which they had conducted the consultation. He assured the Committee that the comments and suggestions made during the course of the consultation would be given careful consideration by the Indian authorities.

List of Annexes

- I. Opening Statement by the Representative of India.
- II. IMF Executive Board Decision of 26 February 1962.

ANNEX I

OPENING STATEMENT BY THE REPRESENTATIVE OF INDIA

1. At the outset, I should like to express the gratitude of the Indian delegation to the CONTRACTING PARTIES for having agreed to the postponement of these consultations to a date convenient to India. We should like also to express our gratitude, which will be shared by all other delegations here, to the International Monetary Fund and the GATT secretariat for the careful and complete documentation provided.
2. This is the first consultation undertaken by India with the CONTRACTING PARTIES after the launching of the Third Five-Year Plan on 1 April 1961. Contracting parties are already familiar with the broad outlines of the Plan, as a result of the excellent report prepared by Committee III. That report was based on the draft outline of the Plan. In the final version, the export target for the five years, 1961-66, has been raised to \$7,773 million, which may be compared with actual earnings of \$6,414 million during the Second Plan period and the target of \$7,248 million in the draft outline. Studies subsequent to the publication of the draft outline had indicated that a higher level of export earnings was essential if the pattern of development was to be rational and not unduly biased in the direction of import saving.
3. The other main features of the Plan may be briefly recapitulated. The objective is to achieve self-sustained growth after about fifteen years. Over the five years of the Plan, national income is planned to rise by around 30 per cent, while population is expected to increase by about 12 per cent. Contrary to a commonly held impression, the Plan provides for a substantial increase of 30 per cent in agricultural output, to be achieved through extension of irrigation, intensive application of fertilizers and pesticides, and the introduction of improved seeds and implements. Industrial production is expected to expand by about two thirds, with an emphasis on greater production of fertilizers, steel and transport and industrial equipment. Requirements of imported materials and components would remain broadly unchanged but would sustain a much higher volume of production. In order to finance the investment programme, savings will need to rise from 8.5 per cent of the national income in 1960-61 to about 11.5 per cent in 1965-66, and tax revenues from 8.9 per cent to 11.4 per cent of the national income over the same years.
4. The Plan envisages project imports over the five years of \$3,992 million, component imports for the raising of production of capital goods of \$420 million, and other non-project imports of \$7,668 million. Debt repayments would amount to \$1,155 million, and there would be a net balance on invisibles. The external assistance required has been estimated at \$5,462 million, of which not more than \$3,992 million can be to finance equipment for projects. Further, as export earnings can be built up only gradually, the requirements of assistance for non-project purposes is higher in the initial years of the Plan.

5. It should be remembered that a substantial part of non-project imports enters directly into capital formation. India is perhaps in this respect somewhat different from many of the other underdeveloped countries, because it has already an industrial structure capable of producing investment goods on a substantial scale. Steel, non-ferrous metals and components of industrial and transport equipment can be converted at home into capital goods for manufacturing and transport industries and public utilities. Specific mention may be made of the substantial capacity that has been established, in many instances with foreign investment and collaboration, for the manufacture of cement, sugar, paper, cotton textile, jute textile, road transport and electrical generation, distribution and transmission equipment, as also of numerous items of equipment needed for chemical plants, steel plants, coal washeries, etc. The output of industrial, transport and electrical equipment last year was about \$500 million and substantial expansion is envisaged over the Third Plan period.

6. In the first year of the Third Plan, climatic conditions have been unfavourable in many parts of the country. Agricultural output as a whole showed little improvement, and there was a sharp drop in raw cotton production. Industrial production increased only by 6 to 7 per cent, largely because of restricted raw material supplies. The rise in the national income was hence only of the order of 2.2 per cent. Increase of more than 25 per cent in the output of steel and in electricity generated, however, helped to relieve serious bottlenecks in the economy. The general price level remained virtually unchanged. The increase in money supply was not disproportionate to the rise in output and activity, and the central budget for 1961-62 imposed substantial additional taxation to finance the Third Plan.

7. Export earnings during 1961-62 reached the level of \$1,401 million projected in the Plan document. Assistance actually utilized, was however substantially lower than anticipated. This was due partly to negotiation of project assistance and the arrival of equipment taking longer than anticipated, and total imports (other than against United States Public Law 480) amounted only to \$1,874 million against the Plan estimate of \$2,376 million. In addition, however, the availability of assistance for non-project purposes was less than expected. Also, the drawal of some non-project assistance has involved payment for imports in the first place from reserves and the securing of reimbursement later. Hence, though non-project imports were somewhat below the level projected in the Plan, there was a decline in the sterling balances of \$13 million, even after utilizing a net drawal of \$122 million from the International Monetary Fund.

8. An important event in 1961-62 was the promise by members of the Aid India Club of assistance for the first two years of the Third Five-Year Plan. Taking into account the carry-forward of assistance from the Second Plan and assistance offered by other countries, the funds available for commitment in the first two years amount to \$3,150 million for project imports and \$840 million for non-project requirements.

9. The import policy for 1962-63 was issued on an annual basis. It provided that, apart from licences against assistance, licences would, as a rule, be issued on an annual basis, with the proviso that ordering for the second six-months' requirements would be subject to confirmation and possible amendment of value. The policy was broadly the same as in the preceding period: it was reasoned that in spite of higher receipts against assistance and exports, a larger quantum of imports would not be feasible in view of debt repayments and a deterioration in earnings from invisibles. Small reductions were effected in the quotas for established importers in respect of about sixty-five products and only marginal reductions were proposed to be made in the licensing to actual users. The objective was to maintain the reserves at an unchanged level.
10. The sterling balances declined steeply, falling during April and May 1962 by \$57 million. This was partly because receipts from non-project assistance and exports were lower than anticipated. A stand-by credit of \$100 million had to be secured from the International Monetary Fund, and further import restrictions had to be imposed. These took the form of a cut of 50 per cent in the individual quotas of established importers, and of a reduction of 15 per cent on average in licences (other than against foreign assistance) to actual users.
11. Since June there has been little decline in the reserves, apart from use of a drawal of \$25 million from the IMF, as a result of the cuts in foreign exchange expenditure and somewhat improved export performance. On 12 October the sterling balances amounted to \$195 million. It will be necessary to raise the reserves to a higher level during the winter months, in order to meet the seasonal requirements during the summer. This entails a reduction in allocations for imports to be paid for in cash. Announcements regarding licensing during the six months October 1962 to March 1963 are proposed to be made shortly. It is expected that, apart from unforeseen circumstances, the reduction in import allocations will not exceed 8 per cent. The CONTRACTING PARTIES will, of course, be advised as soon as announcements are made.
12. Contracting parties are aware that appropriate fiscal and monetary measures have also been adopted. Further taxation was imposed in the central and State budgets for 1962-63, and a substantial part of the additional tax resources provided for in the Third Plan is now assured. The process of raising interest rates has been carried further; the new lending rate structure introduced by the Reserve Bank effective from 2 July 1962 meant a raising of the average lending rate of the Bank by  $\frac{1}{2}$  per cent or more. The terms of the new Central Government loans announced on 2 July were also fixed so as to raise their yields above the existing yields on securities of comparable maturity. Institutional lenders such as the Industrial Finance Corporation of India have raised lending rates by  $\frac{1}{2}$  per cent.

13. While reduced import allocations must inevitably have their impact on industrial production, these will not extend to all industries. Due to larger domestic availability of raw jute, the jute textile industry is operating at full capacity. It is hoped that adequate cotton will be available from domestic output, supplies under Public Law 480 and other imports already committed to at least sustain the level of production of last year. Many important industries such as sugar, cement, paper, and steel require no imported materials. There is, therefore, likely to be a rise in industrial production as a whole in 1962-63 of about the same order as in 1961-62, though the output of some industries will suffer a setback due to raw material shortages.

14. While the availability of foreign exchange for project imports has been substantial, the growth of different industries needs to be phased to secure balanced development. After careful review of the additional capacity already licensed for the import of equipment in different industries, in relation to the Plan targets, it has been decided to give priority at the present time to twenty-one groups of industries for licensing of capital goods against assistance. The list is not intended to be rigid and will be reviewed from time to time. The non-project imports required to sustain any new project are a major consideration when scrutinizing applications for licences.

15. In conclusion, I should like to reiterate the critical importance of an increase in export earnings for the success of India's development effort. Export promotion is being given the highest priority within India, and a number of organizational steps have already been taken. Abolition of a large number of export restrictions, increased excise duties on possible export items, additional credit facilities for exporters, and assured supplies of imported raw materials are among the measures adopted. Additional exports would be facilitated if other contracting parties provide larger access for the entry of Indian goods. In the report of the last consultations, it was noted that many Indian exports are handicapped by tariff and non-tariff barriers, some of which contravene the General Agreement. There has been no significant improvement since then. It is noted with regret that Committee III has now considered it appropriate to advise contracting parties of the gap still existing between intent and performance in the task of progressive reduction and elimination of barriers to exports of less-developed countries. The Indian delegation earnestly hopes that, in the course of this session, contracting parties will be able to report significant progress in eliminating these barriers.

ANNEX II

International Monetary Fund Executive Board  
Decision Taken at the Conclusion of the Fund's  
Consultation with India on 26 February 1962

1. The Government of India has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. In 1960-61 real national income increased by 6.5 per cent; both agricultural and industrial production set new records. Agricultural production in 1961-62 is expected to be at about the same level despite less favourable weather conditions. Industrial production continues to expand. Business confidence remains high and the response of foreign private investment continues to be encouraging.
3. Monetary expansion in 1960-61 was in closer balance with the increase in real income. The main expansionary factor in the last year was the increase in credit to the private sector. With a sizable decline in bank credit in the 1961 slack season, the seasonal contraction in money supply in 1961 was greater than in 1960. Prices have declined on balance since the last consultations and the outlook for 1962 is one of price stability. Interest rates have been hardening in the organized sector and official policy remains one of dearer and tighter credit.
4. The Third Plan which commenced in April 1961 envisages total public sector outlay of Rs.75 billion. The outlook for mobilizing adequate internal resources appears favourable, given the needed effort. The Fund notes that the Indian authorities are determined to limit the volume of deficit financing and generally to follow policies designed to maintain internal stability. The foreign exchange requirements of the Plan are large and its fulfilment will call for substantial external assistance.
5. Even with the more cautious credit policy recently pursued India's balance-of-payments position remains difficult. In 1960-61 the current account deficit was substantially larger than in 1959-60. The outlook in 1961-62 is for a still larger current account deficit. Despite a sizable increase in net use of the Fund's resources India's external reserves have declined slightly in the past year. Exports in 1961-62 are running slightly higher than in 1960-61. The Fund notes that the Indian authorities are striving to expand their exports and are keeping their policies to this end under review.
6. Restrictions on imports and import payments continued to be severe. During the past year there have been slight modifications in India's bilateral payments arrangements. The Fund again urges that the use of such arrangements should be reduced to the fullest extent possible.
7. In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by India.

